



Universal Biosensors

Universal Biosensors, Inc.

ARBN 121 559 993

Audit and Compliance Committee Charter

1. Charter

- a) This charter was adopted in March 2007 by Universal Biosensors, Inc. (**Company**) following a recommendation from the audit and compliance committee (**Audit Committee**).
- b) This charter sets out the:
 - i) objectives of the Audit Committee;
 - ii) composition, structure and membership requirements of the Audit Committee;
 - iii) regulation of meetings of the Audit Committee; and
 - iv) Audit Committee's roles and responsibilities.
- c) The Audit Committee charter will be made publicly available on the Universal Biosensors, Inc. website.
- d) The Audit Committee will reassess the charter on a regular basis and obtain approval for any changes from the Board of Directors

2. Composition of Audit Committee at the Date of this Charter

- a) At the date of adoption of this charter, the Audit Committee is composed of:
 - i) Dr Jane Wilson (chairperson) – non executive director of the Company;
 - ii) Mr Andrew Denver – non executive chairman of the Company;
 - iii) Mr Denis Hanley – non executive director of the Company; and
 - iv) Mr Charles Kiefel – non executive director of the Company.

3. Audit Committee Objectives

- a) The Audit Committee has been established to review the integrity of the Company's financial reports.
- b) The primary objective of the Audit Committee is to assist the Board to fulfil its responsibilities relating to accounting and reporting practices of the Company with respect to the regulations of the US Securities Exchange Commission (**SEC**), the Delaware General Corporation Law, the Sarbanes-Oxley Act of 2002, the Listing Rules of the Australian Securities Exchange (**ASX**) and the Corporations Act 2001 (Cth).
- c) The Audit Committee is also responsible for:
 - i) reviewing the Company's internal controls and management of risk;
 - ii) reviewing the integrity of the Company's financial reporting systems;
 - iii) reviewing the internal and external audit process, including overseeing, co-ordinating and appraising the audits conducted by the Company's external auditors;
 - iv) reviewing the Company's process for monitoring compliance with applicable laws and regulations and the Company's internal policies; and

- v) reviewing related party transactions.
- d) The Audit Committee must report to the Board and provide appropriate advice and recommendations on matters relevant to this charter in order to facilitate decision making by the Board.

4. Membership

- a) The Audit Committee will comprise:
 - i) only non executive directors;
 - ii) an independent chairperson who is not the chairperson of the Company; and
 - iii) at least three members.
- b) Members of the Audit Committee must have an appropriate mix of skills, experience and other applicable qualities. At least one member of the Audit Committee must have financial expertise and other members must be financially literate.
- c) The Board will determine the composition of the Audit Committee and will formally approve all appointments, changes to composition of the Audit Committee and the remuneration of the Audit Committee. Members may be removed by the Board at any time and cease to be members if they cease to be directors of the Company.
- d) The chairperson of the Audit Committee will be appointed by the Board from time to time. The chairperson of the Board should not be the chairperson of the Audit Committee.
- e) Composition of the Audit Committee is to be recommended by the Company's Remuneration and Nomination Committee.

5. Authority

- a) The Audit Committee is authorised by the Board to carry out any activity within its terms of reference.
- b) The Audit Committee is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Audit Committee.
- c) Subject to the requirements of the Delaware General Corporation Law, the Sarbanes-Oxley Act, the Corporations Act and the SEC regulations, the Audit Committee is authorised by the Board to recommend the approval of the appointment, removal and remuneration of the external auditor.
- d) The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the assistance of outsiders with relevant experience and expertise if it considers this necessary, after consultation with the chairperson of the Board.
- e) The Audit Committee shall have unlimited access to the external auditors and to senior management of the Company.
- f) The Audit Committee is authorised to also approve non audit services of the auditor.

6. Meetings

- a) The Audit Committee will hold at least four meetings per year.
- b) A simple majority of Audit Committee members will constitute a quorum.
- c) Regular meetings will be held to review the:
 - i) plan for the external audits including fees paid to the external auditors;
 - ii) proposed periodic and continuous filings required by the regulations of the SEC;
 - iii) quarterly cash flow statements to ASX (as applicable);
 - iv) proposed half yearly financial results;
 - v) proposed preliminary annual financial statements;
 - vi) annual financial statements prior to the Board approving the annual report; and

- vii) internal control and risk management policies and procedures including, but not limited to the provisions of Section 404 of the Sarbanes-Oxley Act of 2002.
- d) Any member may call a meeting as they consider necessary for the Audit Committee to fulfil its duties. In addition, the chairperson must call a meeting when requested by the company secretary, chief financial officer or the Company's external auditors.
- e) The Company Secretary will be appointed secretary to the Audit Committee and is responsible for drawing up the agenda for Audit Committee meetings. The secretary will also be responsible for keeping and circulating minutes. The minutes of meetings will be approved by the committee and signed by the chairperson. Copies of the minutes are to be forwarded to the full Board.
- f) It is expected that the chief financial officer of the Company will be invited to attend portions of each Audit Committee meeting, amongst other things, to ensure that the Audit Committee is directly briefed by management.
- g) Representatives of the external auditor will also attend Audit Committee meetings at the discretion of the Audit Committee. It is expected that a part of each meeting will be set aside for discussion between the external auditors and the Audit Committee without the presence of the chief financial officer.
- h) The Audit Committee will meet at least twice annually with the external auditors, in the absence of management, and on any occasion during the year as requested by either the Audit Committee or the external auditors.

7. Responsibilities

The Audit Committee is responsible for the following:-

- a) Overview
 - i) recommending the appointment and reviewing the performance of the external auditors of the Company;
 - ii) monitoring compliance with the US and Australian Accounting Standards, Delaware General Corporation Law, the regulations of the SEC, the Sarbanes-Oxley Act, the Corporations Act, the Listing Rules of ASX, and other legal and regulatory requirements;
 - iii) reviewing external audit reports and evaluating the adequacy of internal controls and management responses;
 - iv) reviewing and monitoring internal risk management practices; and
 - v) such other matters referred to it by the Board.
- b) External Audit
 - i) recommending to the Board the appointment of the external auditors and their fee;
 - ii) reviewing the audit plan and scope of engagement of the external auditors;
 - iii) reviewing the performance of the external audit at least annually and in any event prior to the annual general meeting of the Company;
 - iv) discussing issues arising before the interim and final results, and any matters the external auditor may wish to discuss;
 - v) reviewing reports prepared by external audit and management's response;
 - vi) reviewing all representation letters signed by management and external service providers and be satisfied that the information provided is complete and appropriate;
 - vii) periodically assessing the external auditor's independence;
 - viii) requiring the external auditors to confirm in writing that they have complied with all professional and regulatory requirements relating to auditor independence prior to the announcement of the results for each period; and

- ix) considering permitted non-audit services.
- c) Internal Controls
- i) evaluating the adequacy and effectiveness of the reporting and accounting controls of the Company through active communication with management and the external auditors;
 - ii) evaluating the adequacy of the Company's management information and accounting control system by reviewing written reports from the external auditors, and monitor management's actions to correct any noted deficiencies;
 - iii) requiring reports from management and external auditors on any significant proposed legal, regulatory, accounting or reporting issues, to assess the potential impact upon the Company's financial reporting process and/or financial reports;
 - iv) evaluating whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities.
 - v) reviewing the Company's compliance with the relevant tax laws and other tax obligations; and
 - vi) reviewing the adequacy of the security of computer systems, and the contingency plans for processing financial information in the event of a systems breakdown.
- d) Risk Management
- i) overseeing the effective operation of the financial risk management policies of the Company. If specifically required by the Board this risk management oversight function may be expanded to also include the business risk management policies of the Company more generally;
 - ii) evaluating the adequacy of the Company's risk management policies and monitor management's responses and actions to correct any noted deficiencies
 - iii) monitoring potential conflicts of interest;
 - iv) evaluating the Company's exposure to fraud;
 - v) gaining an understanding of the current areas of greatest financial risk and how management is managing these effectively; and
 - vi) reviewing significant transactions outside the Company's normal business.
- e) Reporting
- i) reviewing all financial reports and any correspondence regarding the Company's financial reporting or related matters prior to their public release including the annual, half year and quarterly financial statements, with particular reference to:
 - (1) the nature and impact of any changes to accounting policies and practices;
 - (2) major judgemental areas;
 - (3) outstanding contingent liabilities, including existing and potential legal actions against the Company or the Board;
 - (4) significant adjustments resulting from the audit;
 - (5) compliance with accounting standards, Delaware General Corporation Law, the regulations of the SEC, the Sarbanes-Oxley Act, the Corporations Act, the Listing Rules of ASX and other legislative and regulatory reporting requirements;
 - ii) reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- iii) reviewing the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Company and its operations.
- f) Other Responsibilities of the Audit Committee
 - i) performing other oversight functions as requested by the Board;
 - ii) identifying and directing any special projects or investigations; and
 - iii) reviewing policies of the Company.

8. Reporting

- a) The Audit Committee reports to the Board.
- b) The Audit Committee must:
 - i) regularly update the Board about Audit Committee activities and make appropriate recommendations;
 - ii) ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the business; and
 - iii) provide the Board with a copy of the minutes from each of its meetings.
- c) The Audit Committee's reports should contain all matters relevant to the Audit Committee's role and responsibilities, including:
 - i) an assessment of whether the external reporting is consistent with the committee members' information and knowledge and is adequate for shareholder needs;
 - ii) an assessment of the management of processes supporting external reporting;
 - iii) procedures for the selection and appoint of the external auditor and the rotation of external audit engagement partners;
 - iv) recommendations for the appointment or removal of an auditor;
 - v) an assessment of the performance and independence of the external auditor and whether the Audit Committee is satisfied that independence of this function has been maintained having regard to the provision of any non audit services;
 - vi) an assessment of the performance and objectivity of the internal audit function;
 - vii) the results of its review of risk management and internal compliance and control systems.
- d) Disclose the fees received by the external auditor, including an analysis of non-audit services
- e) Disclose that the external auditor has not participated in the preparation of the financial statements of the Company during the previous three years

9. Relationship with external auditors

- a) The external auditors have an unrestricted right to discuss any issues they deem necessary with the Audit Committee, or if deemed appropriate by the external auditors, with the Board.
- b) The Audit Committee will require the external auditors to confirm, in writing, that they have complied with professional and regulatory requirements relating to auditor independence prior to the completion of each year's accounts.
- c) There will be a mandatory period of two years following resignation from an audit firm before a former partner who was directly involved in the audit of the Company can become a Director or take a position with the Company involving responsibility for fundamental management decisions.
- d) The Audit Committee will monitor the number of former employees of the external auditor currently employed in senior positions in the Company and assess whether this impairs (or appears to impair) the auditor's judgment or independence in respect of the Company.

- e) The lead audit partner will be required to rotate off the audit after their involvement for a maximum of five years and there will be a period of at least two years before that partner can again be involved in the Company's audit.
- f) It is the responsibility of the Audit Committee to periodically review the external auditor's actual or perceived lack of independence.
- g) Any outsourced internal audit functions will be provided by a firm other than the external audit firm.
- h) The external auditors may be permitted to provide non-audit services where their detailed knowledge of the Company's activities could permit cost and output efficiencies, provided stringent independence requirements are satisfied. The external auditors shall not provide services which are considered to be in conflict with the role of the statutory auditor or legal requirements.

10. Self Assessment

- a) The Audit Committee will institute a process to review their performance against the content of this charter annually.

11. Non-Audit Services

- a) Permitted non-audit services include US compliance and advisory work, tax compliance, tax planning and tax advice and grant audit work.
- b) Prohibited non-audit services include bookkeeping or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, fairness opinions etc, actuarial services and internal audit outsourcing activities.