



**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2019

Commission File Number: 000-52607

**Universal Biosensors, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
 (State or other jurisdiction of  
 incorporation or organization)

**98-0424072**  
 (I.R.S. Employer  
 Identification Number)

**Universal Biosensors, Inc.**  
**1 Corporate Avenue,**  
**Rowville, 3178, Victoria**  
**Australia**  
 (Address of principal executive offices)

**Not Applicable**  
 (Zip Code)

**Telephone: +61 3 9213 9000**  
 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 177,473,520 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of April 30, 2019.



**UNIVERSAL BIOSENSORS, INC.**

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Unless otherwise noted, references on this Form 10-Q to “Universal Biosensors”, the “Company,” “Group,” “we,” “our” or “us” means Universal Biosensors, Inc. (“UBI”) a Delaware corporation and, when applicable, its wholly owned Australian operating subsidiary, Universal Biosensors Pty Ltd (“UBS”) and UBS’ wholly owned Canadian operating subsidiary, Hemostasis Reference Laboratory Inc. (“HRL”). Unless otherwise noted, all references in this Form 10-Q to “\$”, “A\$” or “dollars” and dollar amounts are references to Australian dollars. References to “US\$” are references to United States dollars. References to “CAD\$” are references to Canadian dollars.



Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	March 31, 2019	December 31, 2018
	AS	AS
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	51,899,585	11,797,789
Inventories, net	909,199	744,466
Accounts receivable	1,012,520	50,209,561
Prepayments	618,962	158,492
Restricted cash	15,748	15,589
Other current assets	2,094,252	1,105,291
Total current assets	<u>56,550,266</u>	<u>64,031,188</u>
Non-current assets:		
Property, plant and equipment	29,126,364	29,101,932
Less accumulated depreciation	(23,841,721)	(23,475,544)
Property, plant and equipment - net	<u>5,284,643</u>	<u>5,626,388</u>
Restricted cash	320,000	320,000
Total non-current assets	<u>5,604,643</u>	<u>5,946,388</u>
Total assets	<u><u>62,154,909</u></u>	<u><u>69,977,576</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	818,101	695,405
Income taxes payable	0	4,352,564
Accrued expenses	2,008,856	1,696,644
Other liabilities	2,890,648	2,902,525
Deferred revenue	0	2,356,583
Employee entitlements liabilities	958,523	1,196,899
Total current liabilities	<u>6,676,128</u>	<u>13,200,620</u>
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,600,000
Employee entitlements liabilities	14,137	39,468
Deferred revenue	5,161,646	3,463,737
Total non-current liabilities	<u>7,775,783</u>	<u>6,103,205</u>
Total liabilities	<u><u>14,451,911</u></u>	<u><u>19,303,825</u></u>
Commitments and contingencies	<u>0</u>	<u>0</u>
Stockholders' equity:		
Preferred stock, US\$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil at March 31, 2019 (nil at December 31, 2018)		
Common stock, US\$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 177,453,520 shares at March 31, 2019 (177,243,520 at December 31, 2018)	17,745	17,724
Additional paid-in capital	93,391,604	93,815,185
Accumulated deficit	(42,832,987)	(80,397,343)
Current year income/(loss)	(2,540,898)	37,564,356
Accumulated other comprehensive loss	(332,466)	(326,171)
Total stockholders' equity	<u>47,702,998</u>	<u>50,673,751</u>
Total liabilities and stockholders' equity	<u><u>62,154,909</u></u>	<u><u>69,977,576</u></u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



Universal Biosensors, Inc.

Consolidated Condensed Statements of Comprehensive Income/(Loss) (Unaudited)

	Three Months Ended March 31,	
	2019	2018
	AS	AS
<b>Revenue</b>		
Revenue from products	797,359	451,820
Revenue from services	1,069,831	7,232,327
Total revenue	1,867,190	7,684,147
<b>Operating costs &amp; expenses</b>		
Cost of goods sold	494,924	451,162
Cost of services	221,676	261,068
Total cost of goods sold & services	716,600	712,230
<b>Contribution from products &amp; services</b>	1,150,590	6,971,917
<b>Other operating costs &amp; expenses</b>		
Product support	22,371	67,562
Depreciation	275,342	533,242
Research and development	2,149,349	3,865,924
General and administrative	2,000,081	1,790,071
Total operating costs & expenses	4,447,143	6,256,799
Profit/(loss) from operations	(3,296,553)	715,118
<b>Other income/(expense)</b>		
Interest income	169,824	44,811
Financing costs	0	(674,138)
Research and development tax incentive income	847,062	0
Exchange loss	(250,100)	(648)
Other	(11,131)	(1,322)
Total other income/(expense)	755,655	(631,297)
Net income/(loss) before tax	(2,540,898)	83,821
Income tax benefit/(expense)	0	0
Net income/(loss)	(2,540,898)	83,821
<b>Earnings per share</b>		
Basic net income/(loss) per share	(0.01)	0.00
Average weighted number of shares - basic	177,318,187	176,498,550
Diluted net income/(loss) per share	(0.01)	0.00
Average weighted number of shares - diluted	177,318,187	177,514,791
<b>Other comprehensive gain/(loss), net of tax:</b>		
Foreign currency translation reserve	(6,295)	4,622
Reclassification for gain/(loss) realized in net income	0	0
Other comprehensive income/(loss)	(6,295)	4,622
Comprehensive income/(loss)	(2,547,193)	88,443

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



Universal Biosensors, Inc.

Consolidated Condensed Statements of Changes in Stockholders' Equity and Comprehensive Income/(Loss) (Unaudited)

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount AS				
<b>Balances at January 1, 2018</b>	176,498,550	17,650	93,450,721	(80,397,343)	(301,709)	12,769,319
Net income	0	0	0	83,821	0	83,821
Other comprehensive income	0	0	0	0	4,622	4,622
Stock option expense	0	0	97,318	0	0	97,318
<b>Balances at March 31, 2018</b>	<u>176,498,550</u>	<u>17,650</u>	<u>93,548,039</u>	<u>(80,313,522)</u>	<u>(297,087)</u>	<u>12,955,080</u>
<b>Balances at January 1, 2019</b>	177,243,520	17,724	93,815,185	(42,832,987)	(326,171)	50,673,751
Net loss	0	0	0	(2,540,898)	0	(2,540,898)
Other comprehensive loss	0	0	0	0	(6,295)	(6,295)
Shares issued to employees	210,000	21	(21)	0	0	0
Stock option expense	0	0	(423,560)	0	0	(423,560)
<b>Balances at March 31, 2019</b>	<u>177,453,520</u>	<u>17,745</u>	<u>93,391,604</u>	<u>(45,373,885)</u>	<u>(332,466)</u>	<u>47,702,998</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



**Universal Biosensors, Inc.**

**Consolidated Condensed Statements of Cash Flows (Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>AS</b>	<b>AS</b>
<b>Cash flows from operating activities:</b>		
Net income/(loss)	(2,540,898)	83,821
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation and amortization	372,600	644,009
Share based payments expense	(423,560)	97,318
Loss on fixed assets disposal	11,659	1,322
Unrealized foreign exchange gains	(420,050)	(130,717)
Financing costs - amortization of warrants	0	33,011
Change in assets and liabilities:		
Inventory	(164,733)	(219,750)
Accounts receivable	49,210,181	(3,152,031)
Prepayment and other assets	(1,449,431)	(90,732)
Income tax payable	(4,352,564)	0
Deferred revenue	(658,675)	0
Employee entitlements	(270,003)	2,629
Accounts payable and accrued expenses	430,922	1,772,545
Net cash provided by/(used in) operating activities	<u>39,745,448</u>	<u>(958,575)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(63,544)	(234,134)
Net cash used in investing activities	<u>(63,544)</u>	<u>(234,134)</u>
<b>Cash flows from financing activities:</b>		
Borrowing costs	0	(256,410)
Net cash used in financing activities	<u>0</u>	<u>(256,410)</u>
Net increase/(decrease) in cash, cash equivalents and restricted cash	39,681,904	(1,449,119)
Cash, cash equivalents and restricted cash at beginning of period	12,133,378	29,495,227
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	420,051	466,626
<b>Cash, cash equivalents and restricted cash at end of period</b>	<u><u>52,235,333</u></u>	<u><u>28,512,734</u></u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

**Organization of the Company**

We are a specialist medical diagnostics company focused primarily on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. In addition, we own, manage and operate a hemostasis laboratory.

Key aspects of our strategy for increasing shareholder value include:

- executing on our existing business activities, including undertaking research and development activities for our customers and partners, manufacturing products and providing development and support services including providing laboratory services, to our customers and partners;
- extending and demonstrating the broader application of our technology and seeking to enter into collaborative, strategic or distribution arrangements with other life sciences companies or other industry participants with respect to specific tests or specific fields;
- participating in healthcare markets across the globe; and
- identifying and pursuing related opportunities for growth.

Our plan of operations over the remainder of the fiscal year ending December 2019 is to:

- seek to enter into collaborative, strategic or distribution arrangements with other life sciences companies or other industry participants with respect to the development and commercialization of specific tests or specific fields, particularly in light of the determination by LifeScan, Inc. (“LifeScan”) to exercise its right to buy out its obligation to pay us future quarterly service fees and our expectation that we will not continue to collaborate with LifeScan going forward;
- manufacture products;
- undertake research and development work;
- provide the necessary post-market support for our customers and partners;
- provide laboratory services for our customers and partners;
- demonstrate the broader application of our technology platform for markets with significant commercial potential; and
- identify, investigate and evaluate inorganic growth opportunities within the overall strategic initiatives.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan and other third party licensors. The Company’s first global strategic partnership was established with LifeScan in diabetes care. We developed a blood glucose product with LifeScan (“OneTouch Verio®”). During 2018, LifeScan gave notice and exercised its right to “convert” its obligation to pay quarterly service fees to UBS. Accordingly, we will not receive any further quarterly service fees beyond 2018 and we do not expect to receive any further revenues from LifeScan unless we enter into a new agreement with LifeScan in the future. In October 2018, Platinum Equity acquired LifeScan, Inc. from Johnson & Johnson. Unless otherwise noted, references to “LifeScan” in this document are references collectively or individually to LifeScan, Inc., and/or LifeScan Europe, a division of Cilag GmbH International, both affiliates of Johnson and Johnson.

We have, since 2012 worked with Siemens Healthcare Diagnostics, Inc. (“Siemens”) in relation to a range of products for the point-of-care coagulation testing market, pursuant to a Collaboration Agreement with Siemens (“Collaboration Agreement”). The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and US Food and Drug Administration (“FDA”) approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available in the United States, Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. Under the terms of a supply agreement with Siemens (“Supply Agreement”), UBS is the manufacturer of test strips for this product and further tests still in development for Siemens.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

**Interim Financial Statements**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and footnotes thereto as of and for the year ended December 31, 2018, included in the Annual Report on Form 10-K of Universal Biosensors, Inc. filed with the U.S. Securities and Exchange Commission (the "SEC") on February 22, 2019 (the "Annual Report").

The year-end consolidated condensed balance sheets data as at December 31, 2018 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

**Basis of Presentation**

The Company's consolidated condensed financial statements have been prepared assuming the Company will continue as a going concern. We rely largely on our existing cash and cash equivalents balance and operating cash flow to provide for the working capital needs of our operations. We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months. However, in the event our financing needs for the foreseeable future are not able to be met by our existing cash and cash equivalents balance and operating cash flow, we would seek to raise funds through public or private equity offerings, debt financings, and through other means to meet the financing requirements. There is no assurance that funding would be available at acceptable terms, if at all.

**Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, UBS and HRL. All intercompany balances and transactions have been eliminated on consolidation.

*Use of Estimates*

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the recognition of revenue, carrying amount of property, plant and equipment, income tax expense, deferred income taxes, asset retirement obligations, liabilities related to employee benefits, warrants and research and development tax incentive income. Actual results could differ from those estimates.

*Cash, Cash Equivalents and Restricted Cash*

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments. The Company maintains cash and restricted cash, which includes tenant security deposits and credit card security deposits. As of March 31, 2019, the Company has not realized any losses in such cash accounts and believes it is not exposed to any significant risk of loss.





**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

***Short-Term Investments (Held-to-maturity)***

Short-term investments constitute all highly liquid investments with term to maturity from three months to twelve months. The carrying amount of short-term investments is equivalent to their fair value.

***Concentration of Credit Risk and Other Risks and Uncertainties***

Cash and cash equivalents and accounts receivable consist of financial instruments that potentially subject the Company to concentration of credit risk to the extent of the amount recorded on the consolidated condensed balance sheets. The Company's cash and cash equivalents are primarily invested with one of Australia's largest banks. The Company is exposed to credit risk in the event of default by the banks holding the cash or cash equivalents to the extent of the amount recorded on the consolidated condensed balance sheets. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company has not identified any collectability issues with respect to receivables.

***Derivative Instruments and Hedging Activities***

*Derivative financial instruments*

The Company may use derivative financial instruments to hedge its exposure to foreign exchange arising from operating, investing and financing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

*Cash flow hedges*

Exposure to foreign exchange risks arises in the normal course of the Company's business and it is the Company's policy to use forward exchange contracts to hedge anticipated sales and purchases in foreign currencies. The amount of forward cover taken is in accordance with approved policy and internal forecasts.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction, the effective part of any unrealized gain or loss on the derivative financial instrument is recognized directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in the consolidated condensed statements of comprehensive income in the same period or periods during which the hedged forecast transaction affects the consolidated condensed statements of comprehensive income and on the same line item as that hedged forecast transaction. The ineffective part of any gain or loss is recognized immediately in the consolidated condensed statements of comprehensive income.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still probable to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealized gain or loss recognized in equity is recognized immediately in the consolidated condensed statements of comprehensive income.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. For periods ended March 31, 2019 and December 31, 2018, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives are based on the market approach using observable market inputs, such as forward rates and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2. The fair value methodologies described as Level 2 and 3 inputs are defined elsewhere in these notes to the consolidated condensed financial statements.

Fair Value of Financial Instruments

The carrying value of all current assets and current liabilities approximates fair value because of their short-term nature. The estimated fair value of all other amounts has been determined, depending on the nature and complexity of the assets or the liability, by using one or all of the following approaches:

- Market approach – based on market prices and other information from market transactions involving identical or comparable assets or liabilities.
- Cost approach – based on the cost to acquire or construct comparable assets less an allowance for functional and/or economic obsolescence.
- Income approach – based on the present value of a future stream of net cash flows.

These fair value methodologies depend on the following types of inputs:

- Quoted prices for identical assets or liabilities in active markets (Level 1 inputs).
- Quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable (Level 2 inputs).
- Unobservable inputs that reflect estimates and assumptions (Level 3 inputs).

Inventory

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to dispose. Inventories are principally determined under the average cost method which approximates cost. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost also includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs of purchased inventory are determined after deducting rebates and discounts.

	<u>Three Months Ended March 31,</u> <u>2019</u>	<u>Year Ended December 31,</u> <u>2018</u>
	AS	AS
Raw materials	236,340	302,056
Work in progress	625,753	442,410
Finished goods	47,106	0
	<u>909,199</u>	<u>744,466</u>



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

**Receivables**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is determined based on a review of individual accounts for collectability, generally focusing on those accounts that are past due. The expense to adjust the allowance for doubtful accounts, if any, is recorded within general and administrative expenses in the consolidated condensed statements of comprehensive income. Account balances are charged against the allowance when it is probable the receivable will not be recovered.

	<u>Three Months</u> <u>Ended March 31,</u>	<u>Year Ended</u> <u>December 31,</u>
	<u>2019</u>	<u>2018</u>
	<u>AS</u>	<u>AS</u>
Accounts receivable	1,012,520	50,209,561
Allowance for doubtful debts	0	0
	<u>1,012,520</u>	<u>50,209,561</u>

**Property, Plant, and Equipment - net**

Property, plant, and equipment are recorded at acquisition cost, less accumulated depreciation.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment is 3 to 10 years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Maintenance and repairs are charged to operations as incurred, include normal services, and do not include items of a capital nature.

The Company receives Commonwealth of Australia grant monies under grant agreements to support its development activities (refer section on “Government grants”), including in connection with the purchase of plant and equipment. Plant and equipment is presented net of the government grant. The grant monies are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased.

**Impairment of Long-Lived Assets**

The Company reviews its capital assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, the Company estimates undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows. Impairment of long-lived-assets as at March 31, 2019 was nil (December 31, 2018: A\$2,574,709).

**Government grants**

UBS was awarded a grant from the Commonwealth of Australia under the Next Generation Manufacturing Investment Programme up to a maximum grant amount of A\$575,000 payable over a three year period commencing from January 1, 2017. The grants are paid upon achievement of pre-agreed milestones. The milestones generally relate to UBS placing purchase orders, commissioning upgrades and validating the equipment. Amongst other reasons, the Commonwealth of Australia may terminate the grant agreement for breach of the agreement by UBS or for failure to undertake the required programme. Under these circumstances, the Commonwealth of Australia may require UBS to repay some or the entire grant. The Company continues to undertake the project funded by the Commonwealth of Australia.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

An amount of A\$271,318 and A\$89,500 were received under this grant in November 2017 and June 2018, respectively. UBS believes that the likelihood of being required to repay grant funding is remote because the Company continues to comply with the grant agreement.

**Other Liabilities**

Other liabilities represent marketing support payment due to one of our partners and is payable in US currency. The total amount of marketing support payment to be paid by the Company is US\$2,048,602. These amounts will be paid once supporting documentation has been provided to the Company.

**Research and Development**

Research and development expenses consist of costs incurred to further the Group’s research and product development activities and include salaries and related employee benefits, costs associated with clinical trial and preclinical development, regulatory activities, research-related overhead expenses, costs associated with the manufacture of clinical trial material, costs associated with developing a commercial manufacturing process, costs for consultants and related contract research, facility costs and depreciation. Research and development costs are expensed as incurred.

Research and development expenses for the respective periods are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>A\$</b>	<b>A\$</b>
Research and development expenses	<u>2,149,349</u>	<u>3,865,924</u>

**Income Taxes**

The Company applies ASC 740 - Income Taxes which establishes financial accounting and reporting standards for the effects of income taxes that result from a company’s activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Where it is more likely than not that some portion or all of the deferred tax assets will not be realized, the deferred tax assets are reduced by a valuation allowance. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Pursuant to the new U.S. tax reform rules, UBI is subject to regulations addressing Global Intangible Low-Taxed Income (“GILTI”) effective in 2018. The GILTI rules are new provisions of the U.S. tax code enacted as a part of tax reform legislation in the U.S. passed in December 2017. Mechanically, the GILTI rule functions as a global minimum tax for all U.S. shareholders of controlled foreign corporations (“CFCs”) and applies broadly to certain income generated by a CFC. The Company can make an accounting policy election to either: (1) treat GILTI as a period cost if and when incurred; or (2) recognize deferred taxes for basis differences that are expected to reverse as GILTI in future years. The Company has elected to treat GILTI as a period cost.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

At December 31, 2018 the Company has nil (A\$11,637,669 at December 31, 2017) of accumulated tax losses available for carry forward against future earnings, which under Australian tax laws do not expire but may not be available under certain circumstances. The Company also has A\$3,459,966 (A\$10,963,961 at December 31, 2017) of non-refundable R&D tax offset as at December 31, 2018. The R&D Tax offset is a non-refundable tax offset, which assists to reduce a company's tax liability. Once the liability has been reduced to zero, any excess offset may be carried forward into future income years. UBI has U.S. tax losses available for carry forward against future earnings of nil as at December 31, 2018 (US\$1,011,321 as of December 31, 2017). Pursuant to the U.S. Federal Tax Reform, the effective tax rate of UBI has been reduced from 34% to 21%. The deferred tax benefit based on this new rate for UBI is nil. HRL has Canadian tax losses available for carry forward against future earnings of CAD\$709,191 and CAD\$676,899 as at December 31, 2018 and 2017, respectively.

We are subject to income taxes in the United States, Canada and Australia. Tax returns up to and including the 2017 financial year have been filed in all these jurisdictions.

***Asset Retirement Obligations***

Asset retirement obligations ("ARO") are legal obligations associated with the retirement and removal of long-lived assets. ASC 410 – Asset Retirement and Environmental Obligations requires entities to record the fair value of a liability for an asset retirement obligation when it is incurred. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amounts of the related property, plant and equipment. Over time, the liability increases for the change in its present value, while the capitalized cost depreciates over the useful life of the asset. The Company derecognizes ARO liabilities when the related obligations are settled.

The ARO is in relation to our premises where in accordance with the terms of the lease, the lessee has to restore part of the building upon vacating the premises.

ARO for the years ended March 31, 2019 and December 31, 2018 was A\$2,600,000.

***Australian Goods and Services Tax (GST) and Canadian Harmonized Sales Tax (HST)***

Revenues, expenses and assets are recognized net of the amount of associated GST and HST, unless the GST and HST incurred is not recoverable from the taxation authority. In this case it is recognized as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST and HST receivable or payable. The net amount of GST and HST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated condensed balance sheets.

***Revenue Recognition***

***A. Significant accounting policy***

We recognize revenue from all sources, other than those received from LifeScan as outlined below, based on the provisions of ASC 606 Revenue from Contracts with Customers.

Revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

The modified retrospective method has been used in adopting the guidance of ASC 606. There has been no change in accounting principle and the financial statements have not been affected by the application of the guidance in ASC 606.

During the 2018 financial year, LifeScan gave notice and exercised its right to "convert" its obligation to pay quarterly service fees to Universal Biosensors. As a result of this, beyond the 2018 financial year, Universal Biosensors will no longer receive any quarterly service fees from LifeScan. Since we will no longer be receiving any substantial revenues from LifeScan beyond the 2018 financial year, the LifeScan contract is deemed to be completed hence ASC 606 is not applied to revenues from LifeScan.

In relation to revenues from LifeScan, we recognized revenues from all sources based on the provisions of the U.S. SEC's Staff Accounting Bulletin No. 104 and ASC 605 Revenue Recognition.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

The Company’s LifeScan revenue represented provision of services.

Revenue from services is recognized when a persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

**B. Nature of goods and services**

The following is a description of products and services from which the Company generates its revenue.

*Nature, timing of satisfaction of performance obligations, and significant payment terms*

*Products and services*

Xprecia Stride™ strips	The Company recognizes revenue from sales of products at the time title of goods passes to the customer, Siemens Healthcare Diagnostics, Inc. (“Siemens”), and the customer assumes the risks and rewards of ownership. The performance obligation is satisfied at a point in time when the products are shipped to the customer. The customer pays the Company within 60 days from receipt of invoice. The transaction price is fixed.
Contract research and development	The Company undertakes contract research and development on behalf of its customers and partners and is generally remunerated by way of milestone payments. Milestone payments which represent the achievement of a significant technical/regulatory hurdle in the research and development process pursuant to collaborative agreements, and are deemed to be substantive, are recognized as revenue at a point in time upon the achievement of the specified milestone. If the milestone payment is not substantive or stand-alone value, the milestone payment is deferred and recognized as revenue either over the estimated performance period stipulated in the agreement or across other deliverables in the arrangement. Siemens pays the milestone payments to the Company within 30 days of receipt of invoice. The transaction price is fixed.
Quarterly service fees	Quarterly service fee are based on the number of strips sold by LifeScan which falls within a valid claim of certain LifeScan patents. It is payable to us as an ongoing reward for our services and efforts to enhance the product. Revenue from quarterly services fees is recognized as revenue from services when the four basic criteria for revenue recognition are met. Quarterly service fees is billed on a quarterly basis and paid within 45 days of receipt of invoice. The transaction price is fixed. As further discussed herein, during the 2018 financial year, LifeScan gave notice and exercised its right to “convert” its obligation to pay quarterly service fees to Universal Biosensors. As a result of this, beyond the 2018 financial year, Universal Biosensors will no longer receive any quarterly service fees from LifeScan.

**C. Disaggregation of revenue**

In the following table, revenue is disaggregated by major product and service line, and timing of revenue recognition.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

	Three Months Ended March 31,	
	2019	2018
	AS	AS
<b>Major product/service lines</b>		
Xprecia Stride™ strips	797,359	451,820
Quarterly service fees	0	6,939,024
Other services	1,069,831	293,303
	<u>1,867,190</u>	<u>7,684,147</u>
<b>Timing of revenue recognition</b>		
Products and services transferred at a point in time	1,867,190	7,684,147
Services transferred over time	0	0
	<u>1,867,190</u>	<u>7,684,147</u>

D. Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Receivables	1,012,520	7,549,299
Contract assets	0	0
Contract liabilities:		
- Current	0	2,356,583
- Non-current	5,161,646	3,463,737

Receivables represent the Company’s right to consideration that is unconditional. The contract assets primarily relate to the Company’s right to consideration for work completed but not billed at the reporting date. The contract assets are transferred to the receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from Siemens for contract research and development, for which transfer of control occurs, and therefore revenue is recognized when the deliverables are met.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows.

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Contract assets	0	0
Contract liabilities		
- Current	0	2,356,583
- Non-current	5,161,646	3,463,737
	<u>5,161,646</u>	<u>5,820,320</u>

The movement in contract liabilities is explained as follows:

- the Company met one of its milestones in January 2019 therefore revenue of A\$658,674 was recognized in Q1 2019 when this deliverable was met



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

- an amount of A\$1,697,909 was reclassified from current to non-current as the milestone to which this revenue relates are unlikely to be met within the next 12 months

**E. Transaction price allocated to the remaining performance obligations**

On February 8, 2019, we entered into a Term Sheet Agreement with Siemens pursuant to which we have agreed to negotiate with Siemens in good faith for a period of time ending June 8, 2019 (subject to extension if mutually agreed) to possible modifications to our commercial relationship, including the Collaboration Agreement and Supply Agreements. Under the Term Sheet Agreement, amongst other things, our obligations, as well as those of Siemens, to apply commercially reasonable efforts and to apply reasonably necessary resource to certain research and development activities under the Collaboration Agreement has been suspended pending the outcome of the negotiation. As such, at this point in time and until the outcome of the negotiations are known, we are not in a position to estimate revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

*Master Services and Supply Agreement*

In October 2007, the Company and LifeScan entered into a Master Services and Supply Agreement, under which the Company would provide certain services to LifeScan in the field of blood glucose monitoring and act as a non-exclusive manufacturer of blood glucose test strips. The Master Services and Supply Agreement was subsequently amended and restated in May 2009. The Company concluded the Master Services and Supply Agreement should be accounted for as three separate units of accounting: 1) research and development to assist LifeScan in receiving regulatory clearance to sell the blood glucose product (milestone payment), 2) contract manufacturing of the blood glucose test strips (contract manufacturing) which ceased in December 2013, and 3) ongoing services and efforts to enhance the product (product enhancement).

All consideration within the Master Services and Supply Agreement was contingent. The Company concluded the undelivered items were not priced at a significant incremental discount to the delivered items and revenue for each deliverable will be recognized as each contingency is met and the consideration becomes fixed and determinable. The milestone payment was considered to be a substantive payment and the entire amount was recognized as revenue when the regulatory approval was received. Revenues for contract manufacturing and ongoing efforts to enhance the product were recognized as revenue from products or revenue from services, respectively, when the four basic criteria for revenue recognition were met.

*Collaboration Agreement*

On September 9, 2011 the Company entered into a Collaboration Agreement with Siemens to develop coagulation related products for hospital point-of-care and ambulatory care coagulation markets. In addition to an up-front, non-refundable payment of A\$2,961,245 (equivalent to US\$3 million), the Collaboration Agreement (as amended) contains a further seven payments from Siemens upon the achievement of certain defined milestones. These seven milestones, which have been prepaid, to a large extent relate to feasibility, regulatory submissions and the launch of the products to be developed. The Company has concluded that the up-front payment is not a separate unit of accounting and recorded the amount as deferred revenue to be recognized as revenue across other deliverables in the arrangement with Siemens based upon the Company's best estimate of selling price. The deliverables related to each of the seven milestone are considered substantive and are not priced at a significant incremental discount to the other deliverables. As the achievement of the milestones is contingent upon a future event, the revenue for each deliverable will be recognized as the contingencies are met and the consideration becomes fixed and determinable.

Of the seven milestones, the Company has delivered on four as of March 31, 2019. The last milestone delivered was in July 2015.





**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

*Interest income*

Interest income is recognized as it accrues, taking into account the effective yield on the cash and cash equivalents.

*Research and development tax incentive income*

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured.

The research and development tax incentive is one of the key elements of the Australian Government's support for Australia's innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met. Generally speaking, entities which are an R&D entity involved in eligible R&D activities may claim research and development tax incentive income as follows:

- (1) as a 43.5% refundable tax offset if aggregate turnover (which generally means an entity's total income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) of the entity is less than A\$20 million, or
- (2) as a 38.5% non-refundable tax offset if aggregate turnover of the entity is more than A\$20 million.

In accordance with SEC Regulation S-X Article 5-03, the Company's research and development tax incentive income has been recognized as non-operating income as it is not indicative of the core operating activities or revenue producing goals of the Company.

Management has assessed the Company's research and development activities and expenditures to determine which activities and expenditures are likely to be eligible under the tax incentive regime described above. At each period end management estimates the refundable tax offset available to the Company based on available information at the time. This estimate is also reviewed by external tax advisors on an annual basis.

In the three months ended March 31, 2019 there is reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2019 will be less than A\$20 million and accordingly A\$847,062 has been recorded as a research and development tax incentive income for the three months ended March 31, 2019. The Company will review its forecasted aggregate turnover on a quarterly basis to determine if the R&D tax offsets are refundable or captured as part of the current year income tax computation.

***Foreign Currency***

*Functional and reporting currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of UBI and UBS is AUD or A\$ for all years presented. The functional currency of HRL is CAD\$.

The consolidated condensed financial statements are presented using a reporting currency of Australian dollars.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated condensed statements of comprehensive income.

The Company has recorded foreign currency transaction losses of A\$250,100 and A\$648 for the three months ended March 31, 2019 and 2018, respectively.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

The results and financial position of all the Group entities that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities for each balance sheet item reported are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement item reported are translated at average exchange rates (unless this is not a reasonable approximation of the effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to the Accumulated Other Comprehensive Income.

***Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. These were nil as at March 31, 2019 and December 31, 2018. Purchase commitments contracted for as at March 31, 2019 is A\$532,155 (December 31, 2018 : A\$941,864).

***Patent and License Costs***

Legal and maintenance fees incurred for patent application costs have been charged to expense and reported in general and administrative expense.

***Clinical Trial Expenses***

Clinical trial costs are a component of research and development expenses. These expenses include fees paid to participating hospitals and other service providers, which conduct certain testing activities on behalf of the Company. Depending on the timing of payments to the service providers and the level of service provided, the Company records prepaid or accrued expenses relating to these costs.

These prepaid or accrued expenses are based on estimates of the work performed under service agreements.

***Leased Assets***

All of the Company's leases for the periods ending March 31, 2019 and December 31, 2018 are considered operating leases. The costs of operating leases are charged to the consolidated condensed statements of comprehensive income on a straight-line basis over the lease term.

***Stock-based Compensation***

We measure stock-based compensation at grant date, based on the estimated fair value of the award, and recognize the cost as an expense on a straight-line basis over the vesting period of the award. We estimate the fair value of stock options using the Trinomial Lattice model. We also grant our employees Restricted Stock Units ("RSUs") and Zero Priced Employee Options ("ZEPOs"). RSUs are stock awards granted to employees that entitle the holder to shares of common stock as the award vests. ZEPOs are stock options granted to employees that entitle the holder to shares of common stock as the award vests. The value of RSUs are determined and fixed on the grant date based on the Company's stock price. The exercise price of ZEPOs is nil.

We record deferred tax assets for awards that will result in deductions on our income tax returns, based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported in our income tax return are recorded in expense or in capital in excess of par value if the tax deduction exceeds the deferred tax assets or to the extent that previously recognized credits to paid-in-capital are still available if the tax deduction is less than the deferred tax asset.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

(a) Stock Option Plan

In 2004, the Company adopted an employee option plan ("Plan"). Options may be granted pursuant to the Plan to any person considered by the board to be employed by the Group on a permanent basis (whether full time, part time or on a long term casual basis). Each option gives the holder the right to subscribe for one share of common stock. The total number of options that may be issued under the Plan is such maximum amount permitted by law and the Listing Rules of the ASX. The exercise price and any exercise conditions are determined by the board at the time of grant of the options. Any exercise conditions must be satisfied before the options vest and become capable of exercise. The options lapse on such date determined by the board at the time of grant or earlier in accordance with the Plan. Options granted to date have had a term up to 10 years and generally vest in equal tranches over three years.

An option holder is not permitted to participate in a bonus issue or new issue of securities in respect of an option held prior to the issue of shares to the option holder pursuant to the exercise of an option. If the Company changes the number of issued shares through, or as a result of, any consolidation, subdivision, or similar reconstruction of the issued capital of the Company, the total number of options and the exercise price of the options (as applicable) will likewise be adjusted.

In accordance with ASC 718, the fair value of the option grants was estimated on the date of each grant using the Trinomial Lattice model.

No options have been issued by the Company since January 1, 2018.

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A\$
Balance at December 31, 2018	15,153,884	0.63
Granted	0	0.00
Exercised	(210,000)	0.00
Lapsed	(8,288,832)	0.66
Balance at March 31, 2019	<u>6,655,052</u>	<u>0.61</u>

The number of options exercisable as at March 31, 2019 and 2018 was 6,616,222 and 10,063,372, respectively. The total stock compensation income/(expense) recognized in the consolidated condensed statements of comprehensive income was A\$423,560 and (A\$97,318) for the three months ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, there was A\$2,125 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized over the vesting years as follows:

Fiscal Year	A\$
2019	2,125
2020	0
2021	0
	<u>2,125</u>



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

The aggregate intrinsic value for all options outstanding as at March 31, 2019 and 2018 was zero.

*(b) Restricted Share Plan*

Our Employee Share Plan was adopted by the Board of Directors in 2009. The Employee Share Plan permits our Board to grant shares of our common stock to our employees and directors (although our Board has determined not to issue equity to non-executive directors). The number of shares able to be granted is limited to the amount permitted to be granted at law, the ASX Listing Rules and by the limits on our authorized share capital in our certificate of incorporation. All our employees are eligible for shares under the Employee Share Plan. The Company has in the past issued AS\$1,000 worth of restricted shares of common stock to employees of the Company but no more frequently than annually. The restricted shares have the same terms of issue as our existing shares of common stock but are not able to be traded until the earlier of three years from the date on which the shares are issued or the date the relevant employee ceases to be an employee of the Company or any of its associated group of companies.

Restricted stock awards activity during the current period is as follows:

	Number of shares	Weighted average issue price AS
Balance at December 31, 2018	311,246	0.28
Granted	0	0.00
Release of restricted shares	(69,234)	0.29
Balance at March 31, 2019	<u>242,012</u>	<u>0.27</u>

**Employee Benefit Costs**

The Company contributes 9.5% of each employee’s salary to standard defined contribution superannuation funds on behalf of all UBS employees. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee’s remuneration to an approved superannuation fund that the employee is typically not able to access until they have reached the statutory retirement age. Whilst the Company has a third party default superannuation fund, it permits UBS employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the consolidated condensed statements of comprehensive income as they become payable.

**Registered Retirement Savings Plan and Deferred Sharing Profit Plan**

The Company provides eligible HRL employees a retirement plan. The retirement plan includes a Registered Retirement Savings Plan (“RRSP”) and Deferred Profit Sharing Plan (“DPSP”). The RRSP is voluntary and the employee contributions are matched by the Company up to a maximum of 5% based on their continuous years of service and placed into the DPSP. The Company contributes 1% to 2% of the employee’s base earnings towards the DPSP. The DPSP contributions are vested immediately.

**Benefit Plan**

The Company provides eligible HRL employees a Benefit Plan. In general, the Benefit Plan includes extended health care, dental care, basic life insurance, basic accidental death and dismemberment, and disability insurance.

**Net Income/(Loss) per Share and Anti-dilutive Securities**

Basic and diluted net income/(loss) per share is presented in conformity with ASC 260 – Earnings per Share. Basic and diluted net income/(loss) per share has been computed using the weighted-average number of common shares outstanding during the period. Diluted net income/(loss) per share is calculated by adjusting the basic net income/(loss) per share by assuming all dilutive potential ordinary shares are converted.



Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Total Comprehensive Income/(Loss)

The Company follows ASC 220 – Comprehensive Income. Comprehensive income/(loss) is defined as the total change in shareholders’ equity during the period other than from transactions with shareholders, and for the Company, includes net income/(loss).

The tax effect allocated to each component of other comprehensive loss is as follows:

	Before-Tax Amount AS	Tax (Expense)/ Benefit AS	Net-of-Tax Amount AS
<b>Three Months Ended March 31, 2019</b>			
Foreign currency translation reserve	(6,295)	0	(6,295)
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	<u>(6,295)</u>	<u>0</u>	<u>(6,295)</u>
<b>Three Months Ended March 31, 2018</b>			
Foreign currency translation reserve	4,622	0	4,622
Reclassification for gains realised in net income	0	0	0
Other comprehensive income	<u>4,622</u>	<u>0</u>	<u>4,622</u>

Business combinations

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition related costs are expensed as incurred (except for those costs arising on the issue of equity instruments which are recognized directly in equity). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous UBI equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

Recent Accounting Pronouncements

(a) Recent issued accounting standards not yet adopted

ASU No.2016-02, ‘Leases’

On February 25, 2016, the FASB issued ASU 2016-02, its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet and eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The standard also requires lessors to increase the transparency of their exposure to changes in value of their residual assets and how they manage that exposure.

The new guidance will be effective for public business entities for annual periods beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company has deferred the adoption of this standard as is allowable for an Emerging Growth Company.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities"

On August 28, 2017, the FASB issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC 815.2. The FASB's objectives in issuing the ASU are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods therein; however, early adoption by all entities is permitted upon its issuance. The Company has deferred the adoption of this standard as is allowable for an Emerging Growth Company.

(b) Recently adopted accounting pronouncements

ASU No. 2016-18, "Restricted Cash"

On November 17, 2016, the FASB issued ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted for all entities. The Company has adopted this guidance from January 1, 2018 and it has not had a material impact on the Company's consolidated financial statements.

ASU No. 2018-05, "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118."

On March 13, 2018, the FASB issued ASU 2018-05. This Financial Reporting Alert contains responses to frequently asked questions about how an entity should account for the tax effects of the new tax reform legislation in accordance with ASC 740, Income Taxes. This ASU is effective upon issuance and the adoption of this guidance has not had a material impact on the Company's consolidated financial statements.

ASU No. 2018-09, "Codification Improvements"

The FASB issued ASU 2018-09 on July 16, 2018. The ASU's amendments "clarify, correct errors in, or make minor improvements to the Codification." This ASU is effective upon issuance and the adoption of this guidance has not had a material impact on the Company's consolidated financial statements.

ASU No. 2014-09, "Revenue from Contracts with Customers"

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are two permitted transition methods under the new standard, the full retrospective method or the modified retrospective method. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Company has adopted this guidance from January 1, 2019 and it has not had a material impact on the Company's consolidated financial statements.

UBI has selected the modified retrospective method where the effect of applying the standard is recognized at the date of initial application, without restating previous years.



**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

***Related Party Transactions***

Details of related party transactions material to the operations of the Group other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business, are set out below:

In September 2011, we entered into a non-exclusive license agreement with Speedx Pty Ltd (“Speedx”) pursuant to which Speedx granted us a license to use its proprietary MNAzyme technology in the field of molecular diagnostics. Under the agreement we make milestone payments totaling A\$500,000 to Speedx if certain specified targets are achieved, and royalty payments ranging from 5% to 15% of that portion of our sales and licensing revenues arising from Speedx technology or products incorporating Speedx technology.

The license agreement and the obligation to pay royalties continues until Speedx’s patent rights have expired, lapsed, are found to be invalid or are rejected. The agreement will terminate by mutual agreement or by one party for breach or insolvency of the other. Speedx may also terminate the license agreement if the research and development on a first licensed product is not completed by UBS within 7 years (subject to certain exceptions), and UBS may terminate if it determines that it does not wish to proceed with further commercialization of Speedx’s technology.

Mr. Denver is a director of Speedx and up until August 7, 2017 was a director of the Company. Mr. Denver continued to provide services to the Company in an advisory capacity between October 1, 2017 and June 30, 2018.

The agreement with Speedx was terminated without costs borne by either party by mutual agreement of both the parties on March 29, 2019.

Mr. Coleman is a Non-Executive Chairman of the Company and Executive Chairman of Viburnum Funds Pty Ltd. Viburnum Funds Pty Ltd, as an investment manager for its associated funds holds a beneficial interest and voting power over approximately 18% of our shares.

An employee of Viburnum Funds Pty Ltd has on occasions been seconded to Universal Biosensors to assist the Company on strategic matters. During this period Viburnum Funds Pty Ltd continue to pay all the salary entitlements of the seconded person. Universal Biosensors is solely responsible for the reimbursement of certain expenditure such as travel and rental whilst the employee is on secondment. The total expenditure reimbursed by the Company to Viburnum Funds Pty Ltd as at March 31, 2019 and 2018 was A\$7,245 and A\$4,284, respectively.

***Borrowings***

The Company repaid its borrowings in November 2018.

***Athyrium Credit Agreement***

On December 19, 2013 (“Closing Date”), UBI and its wholly owned subsidiary, UBS (together UBI and UBS, the “Transaction Parties”) entered into a credit agreement with Athyrium Opportunities Fund (A) LP (“Athyrium A”), as administrative agent (the “Administrative Agent”) and as a lender, and Athyrium Opportunities Fund (B) LP (“Athyrium B”) as a lender (Athyrium A and Athyrium B together with any other lenders party thereto from time to time, the “Lenders”) for a secured term loan of up to US\$25 million, which was amended on January 30, 2015 (“Credit Agreement”). Of this amount, US\$15 million had been drawn at December 31, 2013 with a further US\$10 million available to be drawn down on or before July 31, 2015, if UBS satisfied certain conditions precedent relating to product revenues.

The credit agreement was amended again on December 29, 2017 (“Amendment”). Subject to the terms of the Amendment, the Amendment modified the Credit Agreement to (i) extend the maturity date to July 1, 2019 (“Maturity Date”), (ii) add the Borrower’s wholly owned subsidiary, Hemostasis Reference Laboratory, Inc. (“HRL”), as a guarantor of the Borrower’s obligations under the Credit Agreement and (iii) subject to the prior written consent of the Lenders in their sole discretion, permit UBI to repurchase shares in an aggregate amount up to US\$2,000,000 within 12 months after the date Lenders provide any such consent. In connection with the Amendment, UBI agreed to pay a fee of US \$200,000 to the Lenders and to reimburse certain expenses of the Lenders incurred in connection with the Amendment. The fee of US\$200,000 was paid in January 2018.





**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

The term loan was voluntarily prepaid in November 2018 and a Deed of Release was executed in December 2018 releasing all the Transaction Parties securities and obligations under the term loan. The term loan bore interest at 10.5% per annum payable in cash quarterly in arrears over the term, and as otherwise described in the Credit Agreement. A default interest rate of 13% per annum applied during the existence of a default under the Credit Agreement. The term loan under the Credit Agreement was secured by substantially all of UBI, UBS' and HRL's assets. UBI and HRL (together with any future subsidiaries) guaranteed all of UBS's obligations under the term loan.

Voluntary prepayments of the term loans were not permitted prior to the second anniversary of the Closing Date, except in the event of a change of control of a Transaction Party. After the second anniversary, UBS could make voluntary repayments in minimum principal amounts of US\$2,500,000 together with interest, plus a prepayment premium commencing at 15% of the principal of such prepayment due and payable on the applicable date and reducing pro-rata on a monthly basis until the Maturity Date. Since UBS repaid the loan prior to its Maturity Date, it paid a prepayment premium of US\$62,500.

As further described below, pursuant to the Credit Agreement, UBI issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A\$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

***Warrants***

Pursuant to the Credit Agreement, UBI issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI's common stock in the form of CDIs at a price of A\$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

The warrants may be exercised at any time until December 19, 2020, in whole or in part in minimum multiples of 500,000 shares of common stock. The holder of the warrants can pay the Exercise Price in cash or it has the right to pay all or a portion of the Exercise Price by making a cashless exercise, therefore reducing the number of shares of common stock the holder would otherwise be issued.

The warrant is subject to adjustments in the event of certain issuances by UBI, such as bonus issues, pro rata (rights) issues and reorganizations (e.g., consolidation, subdivision).

The Company assessed that the warrants are not liabilities within scope of ASC 480-10-25. The warrants are legally detachable from the loan and separately exercisable and as such meet the definition of a freestanding derivative instrument pursuant to ASC 815.

However, the scope exception in accordance with ASC 815-10-15-74 applies to warrants and it meets the requirements of ASC 815 that would be classified in stockholders' equity. Therefore, the warrants were initially accounted for within stockholders' equity, and subsequent changes in fair value will not be recorded. The fair value of the warrant was estimated using the Trinomial Lattice model.

The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan pursuant to ASC 835-30-35-2.

The warrants issued in December 2013 had a grant fair value of US\$815,655 and are included in equity.

***Restricted Cash***

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated condensed balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.





**Universal Biosensors, Inc.**

**Notes to Consolidated Condensed Financial Statements (Unaudited)**

	<u>Three Months</u> <u>Ended March 31,</u> <u>2019</u>	<u>Year Ended</u> <u>December 31,</u> <u>2018</u>
	AS	AS
Cash and cash equivalents	51,899,585	11,797,789
Restricted cash - current assets	15,748	15,589
Restricted cash - non-current assets	320,000	320,000
	<u>52,235,333</u>	<u>12,133,378</u>

Restricted cash maintained by the Company in the form of term deposits is as follows:

	<u>Three Months</u> <u>Ended March 31,</u> <u>2019</u>	<u>Year Ended</u> <u>December 31,</u> <u>2018</u>
	AS	AS
Collateral for facilities (a) - current assets	15,748	15,589
Collateral for facilities (b) - non-current assets	320,000	320,000
	<u>335,748</u>	<u>335,589</u>

- (a) Represents bank guarantee of CDN\$15,000 as security deposit on HRL's credit card
- (b) Represents bank guarantee of A\$250,000 for commercial lease of UBS' premises and security deposit on Company's credit cards of A\$70,000

Interest earned on the restricted cash for the three months ended March 31, 2019 and 2018 were A\$1,874 and A\$17,133, respectively.



**Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition. You should read this analysis in conjunction with our audited consolidated financial statements and related footnotes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (“SEC”). This Form 10-Q contains, including this discussion and analysis, certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including statements relating to future events and our future financial performance. Those statements in this Form 10-Q containing the words “believes”, “anticipates”, “plans”, “expects”, “intends”, “may”, “assumes”, “illustration”, and similar expressions constitute forward-looking statements, although not all forward-looking statements contain such identifying words.

The forward-looking statements contained in this Form 10-Q are based on our current expectations, assumptions, estimates and projections about the Company and its businesses. All such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those results expressed or implied by these forward-looking statements, including those set forth in this Quarterly Report on Form 10-Q.

**Results of Operations**

*Analysis of Consolidated Revenue*

During 2018, LifeScan gave notice and exercised its right to “convert” its obligation to pay quarterly service fees to UBS. Accordingly, we will not receive any further quarterly service fees beyond 2018 and we do not expect to receive any further revenues from LifeScan unless we enter into a new agreement with LifeScan in the future. As a result of this and despite sales of the Xprecia Stride™ strips increasing, our total revenue decreased by 76% compared to the same period in the previous financial year.

On February 8, 2019, we entered into a Term Sheet Agreement with Siemens pursuant to which we have agreed to negotiate with Siemens in good faith for a period of time ending June 8, 2019 (subject to extension if mutually agreed) possible modifications to our commercial relationship, including the Collaboration Agreement and Supply Agreements. Under the Term Sheet Agreement, our obligations, as well as those of Siemens, to apply commercially reasonable efforts and to apply reasonably necessary resources to certain research and development activities under the Collaboration Agreement have been suspended pending the outcome of the negotiation. Under the Term Sheet Agreement, we have also agreed to not make any dividend payments or similar distributions, or engage in M&A transactions (subject to an exception which would allow us to enter into M&A transactions where the directors of either company determine, in good faith, that not proceeding with such a transaction would be inconsistent with their fiduciary duties).

*Revenue from Products*

The financial results of the PT-INR test strips for the Xprecia Stride™ Coagulation Analyzer we manufactured and sold to Siemens during the respective periods are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	AS	AS
Revenue from products	797,359	451,820
Cost of goods sold	(494,924)	(451,162)
Production margin	<u>302,435</u>	<u>658</u>



The movement in revenues is primarily volume driven. Management is of the view that revenues increased by 76% during the quarter ended March 31, 2019 compared to the same period in the previous financial year as a result of market penetration by Siemens. The production margin from the sale of our PT-INR strips has improved with higher throughput.

*Revenue from Services*

We provide various services to our customers and partners. The revenue is grouped into the following categories:

- Product enhancement – a quarterly service fee based on the number of strips sold by LifeScan which falls within a valid claim of certain LifeScan patents is payable to us as an ongoing reward for our services and efforts to enhance the product (as noted elsewhere herein, commencing in the 2019 financial year, UBI will no longer receive these quarterly service fees from LifeScan);
- Contract research and development – we undertake contract research and development on behalf of our customers and partners;
- Lump sum service fees – this one-off fee is calculated by multiplying the LifeScan quarterly service fees for the 2018 financial year by two;
- Other services – calibration services provided by HRL and other ad-hoc services provided on an agreed basis according to our customers and partners requirements.

There are different arrangements for each service being provided. The net margin during the respective periods in relation to the provision of services is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>A\$</b>	<b>A\$</b>
<b>Revenue from services:</b>		
Quarterly service fee	0	6,939,024
Other services	<u>1,069,831</u>	<u>293,303</u>
	1,069,831	7,232,327
<b>Cost of services</b>	<u>(221,676)</u>	<u>(261,068)</u>
<b>Net margin</b>	<u><u>848,155</u></u>	<u><u>6,971,259</u></u>

*Quarterly service fee* - We no longer receive the quarterly service fees as in 2018 LifeScan exercised its right to convert its obligation to pay quarterly service fees to us by paying us a one time lump sum service fee.

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>Millions</b>	<b>Millions</b>
<b>No. of strips sold</b>	0.00	425.50
<b>Quarterly service fees - USD</b>	0.00	5.32
<b>Quarterly service fees - AUD</b>	0.00	6.94

*Other services*

Other services represents coagulation testing services performed by HRL, Siemens related research and development milestone achieved during the quarter and other ad hoc services undertaken for our partners.



	Three Months Ended March 31,	
	2019	2018
	AS	AS
Coagulation testing services	411,156	185,214
Contract research and development	658,675	0
Other	0	108,089
	<u>1,069,831</u>	<u>293,303</u>

Increase in coagulation testing services as a result of aggressive marketing initiative undertaken by HRL. During the current quarter we delivered on a milestone and recognized revenue of US\$500,000 (equivalent to A\$658,675).

*Contribution from Products & Services*

The net contribution from our products and services is as follows:

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Quarterly service fees	0	6,939,024
Manufacturing contribution	302,435	658
Other services	848,155	32,235
Contribution from products & services	<u>1,150,590</u>	<u>6,971,917</u>

The decrease in period to period total contributions from products and services reflected in the table above is primarily represented by the Company not receiving any further quarterly service fees from LifeScan as in 2018 LifeScan exercised its right to convert its obligation to pay quarterly service to us by paying us a one time lump sum service fee.

The manufacturing contribution has increased due to increased sales of PT-INR strips and as a result of our investment in scale up projects which has improved efficiency and yields. Manufacturing operation has the flexibility to expand in order to support volume increases on the Siemens contract.

Contribution from other services increased over the period primarily as a result of increase in revenue generated by HRL and achievement of a milestone.

*EBITDA*

EBITDA is essentially earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP measurement. Management uses EBITDA because it believes that such measurements are widely accepted financial indicators used by investors and analysts to analyze and compare companies on the basis of operating performance and that these measurements may be used by investors to make informed investment decisions, including our ability to generate earnings sufficient to service our debt, and enhances our understanding of our financial performance and highlights operational trends. These measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States (GAAP). The most comparable GAAP measure is net earnings from continuing operations. Consolidated EBITDA should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP.



EBITDA for the respective periods and a reconciliation of net income to EBITDA is as follows:

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Net income/(loss)	(2,540,898)	83,821
Interest income	(169,824)	(44,811)
Interest expense	0	552,367
Depreciation - cost of goods sold & services	97,258	110,767
Depreciation - other operating costs & expenses	275,342	533,242
EBITDA	(2,338,122)	1,235,386

Decrease in EBITDA primarily was a result of the Company not receiving any further quarterly service fees from LifeScan as in 2018 LifeScan exercised its right to convert its obligation to pay quarterly service to us by paying us a one time lump sum service fee.

*Product Support*

Product support relates to post-market technical support provided by us to Siemens for the Xprecia Stride™ Coagulation Analyzer.

Product support for the respective periods are as follows:

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Product support	22,371	67,562

We expect product support expenditure to decrease over time.

*Depreciation*

Depreciation of fixed assets is based on a straight line basis over the useful life of property, plant and equipment. Depreciation is allocated to cost of goods sold and research and development based on output. The decline in depreciation is due to fixed assets with a written down value of A\$2,574,709 being written off as December 31, 2018 as its carrying value was no longer supported by future revenues streams.

Depreciation for the respective periods charged to other operating costs and expenses is as follows:

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Research and development depreciation	231,141	488,673
General and administrative depreciation	44,152	43,852
Product support depreciation	49	717
Depreciation	275,342	533,242



*Research and Development Expenses*

Total research and development expenses for the respective periods are as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>A\$</u>	<u>A\$</u>
Research and development expenses	<u>2,149,349</u>	<u>3,865,924</u>

Research and development expenditure principally reflects the effort required in product development of the tests we are developing. Research and development expenditure decreased by 44% for the quarter ended March 31, 2019 compared to the same period in the previous financial year.

The decrease in year-to-date research and development expenses was a result of all proprietary coagulation product research and development spending being suspended in 4Q FY18 and scale back of research and development obligations relating to Siemens projects during March 2019 pursuant to the Term Sheet Agreement we executed with Siemens on February 8, 2019.

Research and development expenditure also include separation payments made to certain staff during the current quarter as part of management initiative to reduce expenditures. Whilst this represented a cost during the current quarter, the overall research and development expenditure for the year ended December 31, 2019 is expected to decrease as a result of the decline in headcount.

While we have a degree of control as to how much we spend on research and development activities in the future, we cannot predict with certainty what it will cost to complete our individual research and development programs successfully or when or if they will be commercialized. The timing and cost of any program is dependent upon a number of factors including achieving technical objectives, which are inherently uncertain, and subsequent regulatory approvals. We do however have project plans in place for all our development programs which we use to plan, manage and assess our projects. As part of this procedure, we also undertake commercial assessments of such projects to optimize outcomes and make go no-go decisions.

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards all or part of the cost of these activities, both of which will influence our research and development expenditure. Research and development activities undertaken on behalf of our customers and partners for the three months ended March 31, 2019 and 2018 were A\$1,381,953 and A\$2,348,044, respectively.

Research and development expenses are related to the development of new technologies and products based on the electrochemical cell platform.

The Company conducts research and development activities to build an expanding portfolio of product-based revenues and cash flows and increase the value of UBI's core technology assets. Research is focused on demonstrating technical feasibility of new technology applications. Development activity is focused on turning these technology platforms into commercial-ready product and represents the majority of the Company's research and development expenses.

Research and development expenses consist of costs associated with research activities, as well as costs associated with our product development efforts, including pilot manufacturing costs. Research and development expenses include:

- consultant and employee related expenses, which include consulting fees, salaries and benefits;
- materials and consumables acquired for the research and development activities;
- external research and development expenses incurred under agreements with third party organizations and universities; and
- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment and laboratory and other supplies.

Our principal research and development activity is in blood coagulation testing.



In September 2011 we entered into a Collaboration Agreement with Siemens which was amended in September 2012 and March 2016, pursuant to which we will develop a range of test strips and reader products for the hospital point-of-care and alternative site coagulation testing markets. The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and FDA approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available for sale in North America, Latin America, Europe, the Middle East, Africa and Asia Pacific. In 2012, we entered into a Supply Agreement with Siemens under which we manufacture and supply the test strips for this product and will manufacture and supply the test strips for further tests still in development with Siemens. In addition, UBS is engaged in point-of-care coagulation product development for the consumer, home testing market which could be distributed globally.

*General and Administrative Expenses*

General and administrative expenses currently consist principally of salaries and related costs, including stock option expense, for personnel in executive, business development, finance, accounting, information technology and human resources functions. Other general and administrative expenses include depreciation, repairs and maintenance, insurance, facility costs not otherwise included in research and development expenses, consultancy fees and professional fees for legal including legal and maintenance fees incurred for patent applications, audit and accounting services. General and administrative expenses increased by 12% for the three months ended March 31, 2019 compared to the same period in the previous financial year.

The increase was primarily due to legal and consultant fees incurred as part of contract negotiations supporting customer relationship management and partner development.

General and administrative expenses for the respective periods are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>AS</b>	<b>AS</b>
General and administrative expenses	<u>2,000,081</u>	<u>1,790,071</u>

*Interest Income*

Interest income increased by 279% during the three months ended March 31, 2019 when compared to the same period in the previous financial year. The increase in interest income is generally attributable to the higher amount of funds available for investment.

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>AS</b>	<b>AS</b>
Interest income	<u>169,824</u>	<u>44,811</u>

*Financing Costs*

In December 2013, UBS accessed new capital via a US\$25,000,000 loan facility of which US\$15,000,000 was drawn in December 2013. The term loan was fully repaid in November 2018. The breakdown of the financing costs is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>AS</b>	<b>AS</b>
Interest expense	0	552,367
Warrants expense	0	33,011
Other debt issuance costs	0	88,760
	<u>0</u>	<u>674,138</u>



Interest expense relates to applicable interest of 10.5% levied on the loan. The debt issuance costs were recorded as deferred issuance costs and are amortized as interest expense, using the effective interest method, over the term of the loan.

*Research and development tax incentive income*

In the three months ended March 31, 2019 there is reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2019 will be less than A\$20 million and accordingly A\$847,062 has been recorded as a research and development tax incentive income for the three months ended March 31, 2019.

*Exchange loss*

Exchange loss for the respective periods are as follows:

	Three Months Ended March 31,	
	2019	2018
	A\$	A\$
Exchange loss	250,100	648

Foreign exchange gains and losses arise from the settlement of foreign currency transactions that are translated into the functional currency using the exchange rates prevailing at the dates of the transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

**Critical Accounting Estimates and Judgments**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

We believe that of our significant accounting policies, which are described in the notes to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

(a) Revenue Recognition

Revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

(b) Stock-Based Compensation

We account for stock-based employee compensation arrangements using the modified prospective method as prescribed in accordance with the provisions of ASC 718 – Compensation – Stock Compensation.

Each of the inputs to the Trinomial Lattice model is discussed below.

*Share Price and Exercise Price at Valuation Date*

With the exception of ZEPOs, the exercise price of the options granted has been determined using the closing price of our common stock trading in the form of CDIs on ASX at the time of grant of the options. The exercise price of ZEPOs is nil. The ASX is the only exchange upon which our securities are quoted.





*Volatility*

We applied volatility having regard to the historical price change of our shares in the form of CDIs available from the ASX.

*Time to Expiry*

All options granted under our share option plan have a maximum 10 year term and are non-transferable.

*Risk Free Rate*

The risk free rate which we applied is equivalent to the yield on an Australian government bond with a time to expiry approximately equal to the expected time to expiry on the options being valued.

(c) *Income Taxes*

We apply ASC 740 – Income Taxes which establishes financial accounting and reporting standards for the effects of income taxes that result from a company’s activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Where it is more likely than not that some portion or all of the deferred tax assets will not be realized, the deferred tax assets are reduced by a valuation allowance. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized.

(d) *Impairment of Long-Lived Assets*

We review our capital assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, we estimate undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

(e) *Warrants*

In connection with our US\$15 million loan facility, we issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4.5 million shares of UBI’s common stock in the form of CDIs at a price of A\$1.00 per share. The fair value of the warrants to purchase common stock is estimated using the Trinomial Lattice model. Each of the inputs to the Trinomial Lattice model is discussed below.

*Exercise Price at Valuation Date*

The exercise price of the warrants has been determined as stated in the Credit Agreement. For further details, see Notes to Consolidated Condensed Financial Statements - *Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement*.

*Volatility*

We applied volatility having regard to the historical price change of our shares in the form of CDIs available from the ASX.



*Time to Expiry*

The warrants have a term of seven years.

*Risk Free Rate*

The risk free rate which we applied is equivalent to the yield on an Australian government bond with a time to expiry approximately equal to the expected time to expiry on the warrants to purchase common stock being valued.

(f) Research and development tax incentive income

Research and development tax incentive income is recognized when there is reasonable assurance that the income will be received, the relevant expenditure has been incurred, and the consideration can be reliably measured. The research and development tax incentive is one of the key elements of the Australian Government’s support for Australia’s innovation system and is supported by legislative law primarily in the form of the Australian Income Tax Assessment Act 1997 as long as eligibility criteria are met.

Management has assessed the Company’s research and development activities and expenditures to determine which activities and expenditures are likely to be eligible under the tax incentive regime described above. At each period end management reviews the aggregate turnover of the Company to determine if the research and development tax incentive income should be recorded and based on this information and other available information at the time estimates the refundable tax offset available to the Company. This estimate is also reviewed by external tax advisors on an annual basis.

**Financial Condition, Liquidity and Capital Resources**

*Net Financial Assets*

Our net financial assets position is shown below:

	Three Months Ended March 31, 2019 AS	Year Ended December 31, 2018 AS
<b>Financial assets:</b>		
Cash and cash equivalents	51,899,585	11,797,789
Accounts receivables	1,012,520	50,209,561
Total financial assets	<u>52,912,105</u>	<u>62,007,350</u>
<b>Debt:</b>		
Short and long term debt/loan	0	0
Total debt	<u>0</u>	<u>0</u>
Net financial assets	<u>52,912,105</u>	<u>62,007,350</u>

Since inception, we have financed our business primarily through the issuance of equity securities, funding from strategic partners, government grants and rebates (including the research and development tax incentive income), cash flows generated from operations, and the loan discussed below.

On December 19, 2013 we entered into the Credit Agreement which was amended in January 2015 and on December 29, 2017 with Lenders for a US\$25 million secured term loan. A first tranche loan of US\$15,000,000 was drawn on December 2013 and we elected not to draw down the additional US\$10,000,000. The term loan was repaid in November 2018. The term loan had a maturity date of July 1, 2019 and bore interest at 10.5% per annum. Interest payments were due quarterly over the term of the term loan and, other than as described elsewhere herein, we were not required to make payments of principal for amounts outstanding under the term loan until the Maturity Date. Subject to certain exceptions, the term loan was secured by substantially all of our assets, including our intellectual property. For further details, see Notes to Consolidated Financial Statements - *Summary of Significant Accounting Policies – Borrowings – Athyrium Credit Agreement*.



The decline in our net financial assets position is primarily as a result of the payment of GILTI taxes, legal and specialist consultant fees incurred as part of contract negotiations and the separation payments made to our staff.

We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months. Liquidity risk is the risk that the Company may encounter difficulty meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The purpose of liquidity management is to ensure that there is sufficient cash to meet all the financial commitments and obligations of the Company as they come due. In managing the Company’s capital, management estimates future cash requirements by preparing a budget and a multi-year plan for review and approval by the Board. The budget is reviewed and updated periodically and establishes the approved activities for the next twelve months and estimates the costs associated with those activities. The multi-year plan estimates future activity along with the potential cash requirements and is based upon management’s assessment of current progress along with the expected results from the coming years’ activity. Budget to actual variances are prepared and reviewed by management and are presented on a regular basis to the Board of Directors.

The carrying value of the cash and cash equivalents and the accounts receivables approximates fair value because of their short-term nature.

We regularly review all our financial assets for impairment. There were no impairments recognized as at March 31, 2019 or for the year ended December 31, 2018.

*Derivative Instruments and Hedging Activities*

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. At March 31, 2019 and December 31, 2018, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives is based on the market approach using observable market inputs, such as forward rates, and incorporates non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2.

We had no derivatives or outstanding contracts in place through the period ended March 31, 2019 and for the year ended December 31, 2018.

*Measures of Liquidity and Capital Resources*

The following table provides certain relevant measures of liquidity and capital resources:

	<u>Three Months Ended</u> <u>March 31,</u> <u>2019</u>	<u>Year Ended</u> <u>December 31,</u> <u>2018</u>
	AS	AS
Cash and cash equivalents	51,899,585	11,797,789
Working capital (current assets less current liabilities)	49,874,138	50,830,568
Ratio of current assets to current liabilities	8.47 : 1	4.85 : 1
Shareholders’ equity per common share	0.27	0.29

The movement in cash and cash equivalents and working capital during the above periods was primarily due to the receipt of the lump sum service fee of US\$ 31,503,880 from LifeScan on February 18, 2019.



We have not identified any collection issues with respect to receivables.

Summary of Cash Flows

	Three Months Ended March 31,	
	2019	2018
	AS	AS
Cash provided by/(used in):		
Operating activities	39,745,448	(958,575)
Investing activities	(63,544)	(234,134)
Financing activities	0	(256,410)
Net increase/(decrease) in cash, cash equivalents and restricted cash	39,681,904	(1,449,119)

Our net cash provided by operating activities for all periods represents receipts offset by payments for our research and development projects including efforts involved in establishing and maintaining our manufacturing operations and general and administrative expenditure. We also serviced our long term secured loan during 2018 prior to it being fully repaid in November 2018. An increase in operating cash flows primarily as a result of the receipt of the lump sum service fee of US\$ 31,503,880 from LifeScan on February 18, 2019.

Our net cash used in investing activities for all periods is primarily for the purchase of various plant and equipment and for the various continuous improvement program we are undertaking.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2019 are:

	AS
Less than 1 year	698,003
1 – 3 years	1,246,039
3 – 5 years	0
More than 5 years	0
Total minimum lease payments	1,944,042

The above relates to our operating lease obligations in relation to the lease of our premises and certain office equipment.

This off-balance sheet arrangement is not reasonably likely to have a material impact on financial condition, changes in financial condition, results of operations, or liquidity.

Segments

We operate in one segment. Our principal activities are research and development, commercial manufacture of approved medical or testing devices and the provision of services including contract research work.

We operate predominantly in one geographical area, being Australia.

The Company’s material long-lived assets are all based in Australia.



**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

As a “smaller reporting company”, we are not required to provide the information called for by this Item.



**Item 4. Controls and Procedures**

*Disclosure Controls and Procedures.* At the end of the period covered by this report, the Company and management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Rick Legleiter, Chief Executive Officer, and Sales Balak, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Legleiter and Balak concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

*Changes in Internal Control over Financial Reporting.* During the fiscal quarter ended March 31, 2019, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above in this Item 4 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**PART II**

**Item 1 Legal Proceedings**

None.

**Item 1A Risk Factors**

In addition to the other information discussed in this report, the factors described in Part I, Item 1A. "Risk Factors" in our 2018 Annual Report on Form 10-K filed with the SEC on February 22, 2019 should be considered as they could materially affect our business, financial condition or future results. There have not been any significant changes with respect to the risks described in our 2018 Form 10-K, but these are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

There has been no sale of equity securities by the Company or purchase of equity securities by the Company, or by an affiliated purchaser on behalf of the Company, since December 31, 2018.

**Item 3 Defaults Upon Senior Securities**

None.

**Item 4 Mine Safety Disclosures**

Not applicable.

**Item 5 Other Information**

None.

**Item 6 Exhibits**

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
10.22	<a href="#"><u>Term Sheet Agreement entered into by Siemens Healthcare Diagnostics Inc., Universal Biosensors, Inc. and Universal Biosensors Pty Ltd on February 8, 2019.</u></a>	Filed herewith
31.1	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)</u></a>	Filed herewith
31.2	<a href="#"><u>Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)</u></a>	Filed herewith
32	<a href="#"><u>Section 1350 Certificate</u></a>	Furnished herewith
101	The following materials from the Universal Biosensors, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income/(Loss), (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity and Comprehensive Income/(Loss), (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements	Filed herewith



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSAL BIOSENSORS, INC.  
(Registrant)

Date: April 30, 2019

By: /s/ Rick Legleiter  
Rick Legleiter  
Principal Executive Officer

Date: April 30, 2019

By: /s/ Satesh Balak  
Satesh Balak  
Principal Financial Officer





**Exhibit 10.22**

CONFIDENTIAL SETTLEMENT MATERIAL SUBJECT TO FRE 408

SETTLEMENT TERM SHEET

Confidentiality

Standard confidentiality provision

Inadmissibility of Settlement Negotiations

All discussions, communications, and materials exchanged in the course of the party's negotiation pursuant to and agreed upon through this term sheet shall be protected by Federal Rule of Evidence 408 and all equivalent state and other local rules.

Time Frame for:

1. 120 days from date of execution.

1. Negotiated Agreement

Period can be extended or shortened by mutual agreement.

2. Term Sheet

Parties have tentatively agreed to meet on the following dates to initiate the negotiation and will in good faith schedule further meetings thereafter:

- Call: February 13
- Meeting: March 11 (China)
- Meeting: March 19 (NY)
- Meeting: May 14-16 (NY)
- Meeting: June 17-18 (NY)

Parties have agreed to reinstate biweekly calls between the parties.

Covenant re: special distributions

UBI will covenant not to make dividend payments, distribute or otherwise encumber LifeScan lump sum or engage in M&A transactions (subject to a "fiduciary out" with respect to M&A transactions) during the period determined for negotiated agreement. (See Rider)

This covenant will be subject to extension by mutual agreement.



Service of Existing Customers and Commercialization of New Customers

The Collaboration and Supply Agreements and all obligations thereunder continue during the period determined for the negotiated agreement.

Obligations of Siemens to apply Commercially Reasonable efforts and to apply reasonably necessary resources are suspended for the parties' agreements during the period determined for the negotiated agreement.

Ongoing Work Regarding Prime

The Collaboration Agreement and all obligations thereunder continue during the period determined for the negotiated agreement.

Obligations of UBI to apply Commercially Reasonable efforts and to apply reasonably necessary resources are suspended during the period determined for the negotiated agreement.

Freeze of Section 14.1 ADR Provision and Preservation of All Parties' Rights

Freeze period ends ten days prior to period determined for the negotiated agreement.

Negotiation Obligation

Parties agree to negotiate in good faith regarding the business options as discussed in the mediation. (See "Business Proposals" sheet provided by UBI at Mediation).



CONFIDENTIAL SETTLEMENT MATERIAL SUBJECT TO FRE 408

Rider A

1. For the period determined for the negotiated agreement (the “Negotiation Period”), UBI and its parents, affiliates or subsidiaries, and any successors and/or assigns (the “Company”):
  - a. Shall not declare, set aside or pay any dividends on, make any other distributions, or in any other way encumber (whether in cash, securities or other property) in respect of any of the Company’s capital stock and/or any other assets, including, but not limited to, the LifeScan lump sum; redeem, repurchase or otherwise reacquire, split, reduce, return, combine or reclassify its capital stock or otherwise change the capital structure of the Company (except with respect to employees’ exercise of their options or vesting of their restricted shares); prepay in any form any loans to any of its parents, affiliates or subsidiaries; advance any loans to any of its parents, affiliates or subsidiaries (other than in the ordinary course with respect to HRL); engage in any transaction with its shareholders or related parties, including the sale of a substantial asset to a substantial holder;<sup>1</sup> reduce capital stock; engage in any share buy-backs; or otherwise encumber any material assets or stock of the Company.
  - b. Shall not directly or indirectly, acquire or invest in or otherwise combine with in whole or in part (whether by merger, consolidation, business combination, purchase, joint venture, partnership or any purchase of material assets outside the ordinary course, disposition of material assets or stock of the Company, or any similar transaction), or enter into any binding agreement to effect any of the foregoing;
  - c. Shall not make capital expenditures and/or any operating distributions in an aggregate amount exceeding US \$4,000,000, approved by a proposal with consent by Siemens not to be unreasonably withheld (together with Paragraphs A and B above, the “Restricted Activities”), inclusive of on-going HRL recapitalization;
  - d. Shall provide written notice to Siemens when LifeScan lump sum is received within twenty-four hours of receipt of payment;
  - e. Shall ensure that the LifeScan lump sum is held in a segregated bank account, confirmed in writing to Siemens within thirty-six hours after the LifeScan lump sum is received in Australia, and a copy of the Covenant is provided to the financial institution;

<sup>1</sup> An employee of Viburnum Funds Pty Ltd has on occasions been seconded to Universal Biosensors to assist the Company on strategic matters. During this period Viburnum Funds Pty Ltd continue to pay all the salary entitlements of the seconded person. Universal Biosensors is solely responsible for the reimbursement of certain expenditure such as travel and rental whilst the employee is on secondment. The total expenditure reimbursed by the Company to Viburnum Funds Pty Ltd as at December 31, 2018 was A\$21,716.



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**UNIVERSAL BIOSENSORS**

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2. Fiduciary Out.

- a. For the avoidance of doubt, nothing in the agreement will prevent UBI's board of directors from considering or engaging in any M&A sales transaction referenced in 1.b. if the UBI's board of directors determines, in good faith, that not taking such action would be inconsistent with the board of director's fiduciary duties under applicable law.



CONFIDENTIAL SETTLEMENT MATERIAL SUBJECT TO FRE 408

3. Injunctive Relief and Specific Performance.

- a. The parties hereto agree that irreparable damage would occur and that the parties would not have any adequate remedy at law in the event that any of the provisions of this Covenant were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties hereto shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to seek to enforce specifically the terms and provisions of this Agreement, and the Company will waive jurisdictional defenses.

4. Potential Negotiated Agreement Discussion Points — Non-Binding

Innovin	Subject to approval of Licensor, the parties will agree to substantially the same terms as the draft agreement provided by Siemens.
	Payment will be in the form of a license fee and royalties.
Service of Existing Customers	Siemens to continue selling to existing customers. (Manufacturing will continue.)
Consideration	TBD



This term sheet is effective as of the date of the last signatory below.

Universal Biosensors, Inc.

/s/ Rick Legleiter

By: Rick Legleiter

/s/ Craig Coleman

By: Board Chairman

Date: 8 Feb 2019

Siemens Healthcare Diagnostics Inc.

/s/ Christoph Pedain

By: Christoph Pedain

Date: 8 Feb 2019

Siemens Healthcare Diagnostics Inc.

/s/ VIVEK MEHROTRA

By: VIVEK MEHROTRA

Date: Feb 8, 2019

Universal Biosensors Pty Ltd.

/s/ Rick Legleiter

By: Rick Legleiter

/s/ Craig Coleman

By: Board Chairman

Date: 8 Feb 2019



**Exhibit 31.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rick Legleiter, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2019

/s/ Rick Legleiter

Rick Legleiter  
Principal Executive Officer  
Universal Biosensors, Inc.



**Exhibit 31.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Salesh Balak, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2019

/s/ Salesh Balak

Salesh Balak  
Principal Financial Officer  
Universal Biosensors, Inc.





**Exhibit 32**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 \***

In connection with the quarterly report of Universal Biosensors, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The undersigned have executed this Certificate as of the 30<sup>th</sup> day of April, 2019.

/s/ Rick Legleiter  
Rick Legleiter  
Principal Executive Officer

/s/ Salesh Balak  
Salesh Balak  
Principal Financial Officer

\* This certification is being furnished as required by Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent such certification is explicitly incorporated by reference in such filing.