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 September 30, 2016

Commission File Number: 000-52607

Universal Biosensors, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**98-0424072**
(State or other jurisdiction of incorporation or organization)	**(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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: 176,205,084 shares of Common Stock, U.S.$0.0001 par value, outstanding as of October 20, 2016.

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").

Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	September 30, 2016 A$	December 31, 2015 A$
ASSETS		
Current assets:		
Cash and cash equivalents	21,640,490	14,350,307
Inventories, net	562,003	355,268
Accounts receivable	3,415,519	3,153,584
Prepayments	934,705	1,408,943
Other current assets	288,658	9,555,441
Total current assets	26,841,375	28,823,543
Non-current assets:		
Property, plant and equipment	36,090,271	35,563,364
Less accumulated depreciation	(24,639,351)	(22,655,162)
Property, plant and equipment - net	11,450,920	12,908,202
Other non-current assets	3,220,000	3,220,000
Total non-current assets	14,670,920	16,128,202
Total assets	41,512,295	44,951,745
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	886,409	894,677
Accrued expenses	1,279,691	1,905,724
Borrowings	0	324,459
Other liability	1,681,804	354,387
Employee entitlements provision	1,524,984	1,303,132
Total current liabilities	5,372,888	4,782,379
Non-current liabilities:		
Asset retirement obligations	2,600,000	2,600,000
Employee entitlements provision	150,979	172,574
Long term secured loan	19,185,361	19,868,560
Other liability	1,370,744	3,099,323
Deferred revenue	4,399,925	1,173,204
Total non-current liabilities	27,707,009	26,913,661
Total liabilities	33,079,897	31,696,040
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2016 (2015: nil)	0	0
Common stock, US$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 176,205,084 shares in 2016 (2015: 176,112,584)	17,621	17,611
Additional paid-in capital	92,951,391	94,419,308
Accumulated deficit	(80,882,902)	(74,306,486)
Current year loss	(3,355,400)	(6,576,416)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	8,432,398	13,255,705
Total liabilities and stockholders' equity	41,512,295	44,951,745

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Comprehensive Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Revenue				
Revenue from products	0	552,617	183,480	969,023
Revenue from services	3,287,296	5,445,093	13,602,548	12,489,493
Total revenue	3,287,296	5,997,710	13,786,028	13,458,516
Operating costs & expenses				
Cost of goods sold	31,899	458,644	272,468	798,810
Cost of services	0	48,751	0	239,704
Total cost of goods sold & services	31,899	507,395	272,468	1,038,514
Contribution from products & services	3,255,397	5,490,315	13,513,560	12,420,002
Other operating costs & expenses				
Research and development	3,947,392	4,987,015	11,825,549	14,881,731
General and administrative	1,408,212	1,529,799	3,940,376	4,656,097
Total operating costs & expenses	5,355,604	6,516,814	15,765,925	19,537,828
Loss from operations	(2,100,207)	(1,026,499)	(2,252,365)	(7,117,826)
Other income/(expense)				
Interest income	89,669	104,885	140,538	204,859
Interest expense	(2,812)	(4,250)	(8,436)	(14,168)
Financing costs	(716,088)	(778,102)	(2,167,521)	(2,558,214)
Other	567,155	1,541,108	932,384	5,194,898
Total other income/(expense)	(62,076)	863,641	(1,103,035)	2,827,375
Net loss before tax	(2,162,283)	(162,858)	(3,355,400)	(4,290,451)
Income tax benefit/(expense)	0	0	0	0
Net loss	(2,162,283)	(162,858)	(3,355,400)	(4,290,451)
Earnings per share				
Basic and diluted net loss per share	(0.01)	(0.00)	(0.02)	(0.02)
Other comprehensive gain, net of tax:				
Reclassification for (losses)/gains realised in net income	0	0	0	0
Other comprehensive (loss)/gain	0	0	0	0
Comprehensive loss	(2,162,283)	(162,858)	(3,355,400)	(4,290,451)

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

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

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
		A$	A$	A$	A$	A$
Balances at January 1, 2015	175,610,978	17,561	94,328,182	(74,306,486)	(298,312)	19,740,945
Net loss	0	0	0	(4,290,451)	0	(4,290,451)
Shares issued to employees	286,902	29	65,959	0	0	65,988
Stock option expense	0	0	(109,674)	0	0	(109,674)
Balances at September 30, 2015	175,897,880	17,590	94,284,467	(78,596,937)	(298,312)	15,406,808
Balances at January 1, 2016	176,112,584	17,611	94,419,308	(80,882,902)	(298,312)	13,255,705
Net loss	0	0	0	(3,355,400)	0	(3,355,400)
Exercise of stock options issued to employees	77,500	8	(8)	0	0	0
Shares issued to employees	15,000	2	5,998	0	0	6,000
Stock option expense	0	0	(1,473,907)	0	0	(1,473,907)
Balances at September 30, 2016	176,205,084	17,621	92,951,391	(84,238,302)	(298,312)	8,432,398

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	A$	A$
Cash flows from operating activities:		
Net loss	(3,355,400)	(4,290,451)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,987,375	2,023,042
Share based payments expense	(1,473,907)	(109,674)
Loss on fixed assets disposal	1,280	0
Unrealized foreign exchange losses/(gains)	(314,883)	1,281,106
Financing costs - amortization of warrants	164,895	161,856
Change in assets and liabilities:		
Inventory	(206,735)	(141,328)
Accounts receivables	(261,935)	(446,810)
Prepaid expenses and other current assets	9,254,126	1,755,010
Deferred revenue	3,226,721	(392,428)
Employee entitlements	206,256	299,299
Accounts payable and accrued expenses	(768,589)	1,986,572
Net cash provided by operating activities	8,459,204	2,126,194
Cash flows from investing activities:		
Purchases of property, plant and equipment	(311,351)	(1,080,837)
Net cash used in investing activities	(311,351)	(1,080,837)
Cash flows from financing activities:		
Proceeds from borrowings	0	0
Repayment of borrowings	(324,459)	(498,890)
Borrowing costs	0	(1,230,354)
Net cash used in financing activities	(324,459)	(1,729,244)
Net increase/(decrease) in cash and cash equivalents	7,823,394	(683,887)
Cash and cash equivalents at beginning of period	14,350,307	16,329,829
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(533,211)	1,706,705
Cash and cash equivalents at end of period	21,640,490	17,352,647

See accompanying notes to the financial statements

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. Key aspects of our strategy include:

- manufacturing products (test strips and analyzers) for our customers and future partners as required;
- undertaking research and development work for our customers and partners;
- providing post-market support services to our customers and partners;
- extending our electrochemical cell technology and demonstrating the broader application of our technology platform for markets with significant commercial potential;
- seeking 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.

Our plan of operations over the remainder of the fiscal year ending December 31, 2016 is to:

- manufacture products, undertake research and development work, and provide the necessary post-market support, for our customers and partners;
- demonstrate the broader application of our technology platform for markets with significant commercial potential, focusing initially on enzymatic, immunoassay and molecular diagnostic point-of-care tests;
- 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.

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHESS Depositary Interests ("CDIs") have been quoted on the Australian Securities Exchange ("ASX") since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, UBS, was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our manufacturing, research, development and support activities in Melbourne, Australia.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan, Inc. ("LifeScan") and other third party licensors. 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 are using our electrochemical cell technology platform to develop point-of-care testing systems for a number of different markets. Our current focus is as set out below:

- Coagulation testing market – we are working 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 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 two further tests still in development for Siemens. In April 2016 we put the development of our own Prothrombin Time International Normalized Ratio ("PT-INR") testing device on hold in response to proposed regulatory changes, market factors and our cash management initiatives. When we recommence development, we will incorporate the lessons we derive from the Siemens' product developments into our own products.
- Blood glucose – we provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement ("Master Services and Supply Agreement") and a development and research agreement ("Development and Research Agreement") with LifeScan.
- Other electrochemical-cell based tests – we are working on demonstrating the broader application of our technology platform, including its application to diagnostic tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any products or technologies arising from this work.

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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2015, included in the Form 10-K of Universal Biosensors, Inc.

The year-end consolidated condensed balance sheets data as at December 31, 2015 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain prior year amounts in the consolidated condensed financial statements have been reclassified to conform to the current presentation.

Basis of Presentation

All amounts within these consolidated financial statements are expressed in Australian dollars ("AUD" or "A$") unless otherwise stated.

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 subsidiary, UBS. 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 carrying amount of property, plant and equipment, deferred income taxes, asset retirement obligations and obligations related to employee benefits. Actual results could differ from those estimates.

Cash & Cash Equivalents

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.

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 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.

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 September 30, 2016 and December 31, 2015, 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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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.

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.

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	A$	A$
Raw materials	236,619	270,683
Work in progress	325,384	52,841
Finished goods	0	31,744
	562,003	355,268

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 current year 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.

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	A$	A$
Accounts receivable	3,415,519	3,153,584
Allowance for doubtful debts	0	0
	3,415,519	3,153,584

Property, Plant, and Equipment

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 relevant periods are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Research	262,097	404,688	911,909	915,775
Development	3,685,295	4,582,327	10,913,640	13,965,956
Research and development expenses	3,947,392	4,987,015	11,825,549	14,881,731

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.

At December 31, 2015 the Company has A$32,032,988 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$5,800,672 of non-refundable R&D tax offset as at December 31, 2015. 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 US tax losses available for carry forward against future earnings of US$1,011,321 as of December 31, 2015.

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to and including the 2015 financial year have been filed. Internationally, consolidated income tax returns up to and including the 2015 financial year have been filed.

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Our overall ARO changed as follows:

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	A$	A$
Opening balance	2,600,000	2,600,000
Accretion expense	0	0
Ending balance	2,600,000	2,600,000

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)

Impairment of Long-Lived Assets

The Company reviews its capital assets, including patents and licenses, 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.

Australian Goods and Services Tax (GST)

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST 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 receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated condensed balance sheets.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Revenue Recognition

We recognize revenue from all sources based on the provisions of the U.S. SEC's Staff Accounting Bulletin No. 104 and ASC 605 Revenue Recognition.

The Company's revenue represents revenue from sales of products, provision of services and collaborative research and development agreements.

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership, assuming all other revenue recognition criteria have been met. Generally, this is at the time products are shipped to the customer.

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. Revenue recognition principles are assessed for each new contractual arrangement and the appropriate accounting is determined for each service.

Where our agreements contain multiple elements, or deliverables, such as the manufacture and sale of products, provision of services or research and development activities, they are assessed to determine whether separate delivery of the individual elements of such arrangements comprises more than one unit of accounting. Where an arrangement can be divided into separate units of accounting (each unit constituting a separate earnings process), the arrangement consideration is allocated amongst those varying units based on the relative selling price of the separate units of accounting and the applicable revenue recognition criteria applied to the separate units. Selling prices are determined using fair value as determined by either vendor specific objective evidence or third party evidence of the selling price, when available, or the Company's best estimate of selling price when fair value is not available for a given unit of accounting.

Under ASC 605-25, the delivered item(s) are separate units of accounting, provided (i) the delivered item(s) have value to a customer on a stand-alone basis, and (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in our control. Where the arrangement cannot be divided into separate units, the individual deliverables are combined as a single unit of accounting and the total arrangement consideration is recognized across other deliverables in the arrangement or over the estimated collaboration period. Payments under these arrangements typically include one or more of the following: non-refundable, upfront payments; funding of research and/or development efforts; and milestone payments.

We typically generate milestone payments from our customers pursuant to the various agreements we have with them. Non-refundable 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 upon the achievement of the specified milestone. If the non-refundable milestone payment is not substantive or stand-alone value, the non-refundable 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.

Management has concluded that the core operations of the Company are expected to be the research and development activities, commercial manufacture of approved medical or testing devices and the provision of services. The Company's ultimate goal is to utilize the underlying technology and skill base for the development of marketable products that the Company will manufacture. The Company considers revenue from the sales of products, revenue from services and the income received from milestone payments indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "revenues".

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

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restated in May 2009. The Company has 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 is 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 has been recognized as revenue when the regulatory approval was received. Revenues for contract manufacturing and ongoing efforts to enhance the product are recognized as revenue from products or revenue from services, respectively, when the four basic criteria for revenue recognition are 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, 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 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 September 30, 2016. The milestone achieved subsequent to January 1, 2015 is as follows:

- In July 2015, the Company delivered on its fourth milestone when Siemens made a premarket 510(k) submission to the FDA for regulatory clearance to sell the Xprecia Stride™ Coagulation Analyzer in the US. Of the total amount of A$1,955,340 (equivalent to US$1,428,571) recognized as revenue from services in July, A$1,368,738 (equivalent to US$1,000,000) relates to the achievement of the milestone whilst the balance relates to a portion of the deferred US$3 million up-front payment allocated to these milestones.

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 as follows:

(1) as a 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

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(2) as a non-refundable tax offset if aggregate turnover of the entity is more than A$20 million.

Historically, the Company has had aggregate turnover less than A$20 million and the Company's research and development 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. Research and development tax incentive income for the three months ended September 30, 2016 and 2015 were A$162,172 and A$2,425,052, respectively and A$162,172 and A$6,721,128, respectively for the nine months ended September 30, 2016 and 2015. Research and development tax incentive income recorded for the current financial period relates to under accrual of the receivable in the previous financial year. For the financial year ended December 31, 2015, we had recorded a receivable of $9,200,000 based on our original estimate. We however claimed and received an amount of A$9,362,172 from the Australian Government in September 2016 following a change in original estimate.

In the nine months ended September 30, 2016 there is no reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2016 will be less than A$20 million and accordingly for the current financial years research and development costs recovery, A$0 has been recorded as a research and development tax incentive income for the three and nine months ended September 30, 2016. The eligible R&D activities and expenditures are able to be claimed as part of the current year income tax computation and any amounts included as a tax asset will be subject to recognition rules under ASC 740 "Income Taxes".

Research and development expenses, net of research and development tax incentive income for the respective periods are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Research and development expenses	3,947,392	4,987,015	11,825,549	14,881,731
Research and development tax incentive income	(162,172)	(2,425,052)	(162,172)	(6,721,128)
	3,785,220	2,561,963	11,663,377	8,160,603

The Company would be eligible to recognize A$1.8 million and A$5.3 million, respectively as a refundable research and development tax incentive income for research and development costs incurred in the current financial year in respect of the three and nine months ended September 30, 2016 should there be reasonable assurance that the aggregate turnover for the year will be less than A$20 million. Currently, the primary factors that will influence whether our aggregate turnover for the year will be less than A$20 million are the value of quarterly service fees from LifeScan and exchange rate movements between USD and AUD. Although trends currently indicate that our aggregate turnover for the year will be slightly less than A$20 million, neither the LifeScan sales nor the exchange rates are under our control. Accordingly, we do not currently have a reasonable assurance that aggregate turnover will be less than A$20 million. 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.

The research and development tax incentive income is recorded under the caption "Other" in the consolidated condensed statements of comprehensive income.

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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 the Company and UBS is AUD or A$ for all years presented.

The consolidated 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 gains/(losses) of A$406,265 and (A$883,943) for the three months ended September 30, 2016 and 2015, respectively and A$769,257 and (A$1,526,228) for the nine months ended September 30, 2016 and 2015, respectively.

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 September 30, 2016.

Patent and License Costs

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

We have an obligation to pay 50% of the patent fees paid by LifeScan in respect of the patents we license from LifeScan prior to the date of the first commercial sale of a non-glucose product that utilizes the technology licensed from LifeScan and 50% of the patent fees incurred by LifeScan in respect of such patents thereafter. This obligation was triggered with the first commercial sale of the Xprecia Stride™ Coagulation Analyzer by Siemens in December 2014 and an amount of US$517,831 was accrued at inception. The repayment of this amount to LifeScan, which commenced in November 2015, is being made over a 24 month period in equal monthly installments. The patent fees payable to LifeScan have been recorded as "Other liability" in consolidated condensed balance sheets.

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Marketing Support Payment

During 2009, LifeScan chose not to proceed with the registration of the then current product but to proceed with an enhanced product, called OneTouch® Verio®, and acknowledged that there would be a delay as a result. As a result of this change, LifeScan agreed to pay additional amounts per strip manufactured by us in 2010 and 2011 up to a specified volume limit ("manufacturing initiation payments"). At the same time, we agreed to pay LifeScan a marketing support payment in each of the two years following the first calendar year in which 1 billion strips are sold by LifeScan equal to 40% of the total manufacturing initiation payments made. LifeScan has sold just over 900 million strips in the 2015 financial year. Management has concluded that this loss contingency be accrued in 2015 as "Other liability" in consolidated balance sheets as it is both probable and the amount can be reliably estimated. The total amount of marketing support payments to be paid to LifeScan is US$2,048,602 (equivalent to A$2,684,931).

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 September 30, 2016 and December 31, 2015 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.

(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.

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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. The assumptions for these grants were:

	Grant Date			
	Apr-16	Dec-15	Jan-15	Jan-15
Exercise Price (A$)	0.50	0.45	0.00	0.23
Share Price at Grant Date (A$)	0.29	0.45	0.23	0.23
Volatility	70%	70%	72%	72%
Expected Life (years)	7	7	7	7
Risk Free Interest Rate	2.23%	2.56%	2.27%	2.27%
Fair Value of Option (A$)	0.08	0.26	0.23	0.14

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A$
Balance at December 31, 2015	9,709,661	0.99
Granted	9,035,000	0.50
Exercised	(77,500)	0.00
Lapsed	(2,658,992)	1.25
Balance at September 30, 2016	16,008,169	0.67

The number of options exercisable as at September 30, 2016 and September 30, 2015 was 8,746,124 and 8,303,483, respectively. The total stock compensation income/(expense) recognized in the consolidated condensed statements of comprehensive income was (A$231,818) and A$20,546 for the three months ended September 30, 2016 and 2015, respectively and A$1,473,907 and A$109,674 for the nine months ended September 30, 2016 and 2015, respectively.

As of September 30, 2016, there was A$352,382 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$
2016	155,855
2017	136,594
2018	59,933
	352,382

The aggregate intrinsic value for all options outstanding as at September 30, 2016 and 2015 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.

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All our employees are eligible for shares under the Employee Share Plan. The Company currently proposes to continue to issue A$1,000 worth of RSUs to employees of the Company on a recurring basis, 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.

The table below sets forth the RSUs issued by the Company since January 1, 2015:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued (A$)
January, 2015	282,555	64,988
July, 2015	4,347	1,000
December, 2015	142,208	63,994
February, 2016	15,000	6,000

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

	Number of shares	Weighted average issue price A$
Balance at December 31, 2015	542,816	0.35
Granted	15,000	0.40
Release of restricted shares	(51,836)	0.35
Balance at September 30, 2016	505,980	0.35

Employee Benefit Costs

The Company contributes 9.5% of each employee's salary to standard defined contribution superannuation funds on behalf of all 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 requirement age. Whilst the Company has a third party default superannuation fund, it permits 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.

Net Loss per Share and Anti-dilutive Securities

Basic and diluted net loss per share is presented in conformity with ASC 260 – Earnings per Share. Basic and diluted net loss per share has been computed using the weighted-average number of common shares outstanding during the period. Other than in a profit making year, the potentially dilutive options issued under the Universal Biosensors Employee Option Plan (refer to Note on "Stock-based Compensation" for details of options outstanding) were not considered in the computation of diluted net loss per share because they would be anti-dilutive given the Company's loss making position.

Total Comprehensive Income

The Company follows ASC 220 – Comprehensive Income. Comprehensive income 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.

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

	Before-Tax Amount A$	Tax (Expense)/ Benefit A$	Net-of-Tax Amount A$
Nine months ended September 30, 2015			
Unrealized gain on derivative instruments	0	0	0
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain	0	0	0
Nine months ended September 30, 2016			
Unrealized gain on derivative instruments	0	0	0
Reclassification for gains realized in net income	0	0	0
Other comprehensive gain	0	0	0

Reclassification

In March 2016, the Company identified an error in the 2015 quarterly consolidated condensed financial statements pertaining to the classification of interest payments within the Consolidated Condensed Statement of Cash Flows. As a result, the 2015 comparative cash flows have been revised to reclassify interest paid from financing to operating cash flows to conform to current year presentation. This results in a A$1,746,669 decrease in net cash provided by operating activities to A$2,126,194 as at September 30, 2015 and a corresponding change in cash flows from financing activities resulting in net cash used in financing activities of A$1,729,244 as at September 30, 2015. The Group concluded that this was not material to the consolidated condensed statements of cash flows for the quarter ended September 30, 2015 and there was no revision to the 2015 Consolidated Statement of Cash Flows nor any impact on pre-tax income, net income or earnings per share for the quarter ended September 30, 2015 and for the year ended December 31, 2015.

Recent Accounting Pronouncements

On May 28, 2014, the FASB issued ASU 2014-09 which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” In applying the revenue model to contracts within its scope, an entity will:

- Identify the contract(s) with a customer (step 1).
- Identify the performance obligations in the contract (step 2).
- Determine the transaction price (step 3).
- Allocate the transaction price to the performance obligations in the contract (step 4).
- Recognize revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU’s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities (e.g., sales of (1) property, plant, and equipment; (2) real estate; or (3) intangible assets). Existing accounting guidance applicable to these transfers (e.g., ASC 360-20) has been amended or superseded.

Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition.

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The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, for public entities. Early application is not permitted (however, early adoption is optional for entities reporting under IFRSs).

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU:

- Full retrospective application — Retrospective application would take into account the requirements in ASC 250 (with certain practical expedients).
- Modified retrospective application — Under the modified approach, an entity recognizes "the cumulative effect of initially applying the ASU as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application" (revenue in periods presented in the financial statements before that date is reported under guidance in effect before the change). Using this approach, an entity applies the guidance in the ASU to existing contracts (those for which the entity has remaining performance obligations) as of, and new contracts after, the date of initial application. The ASU is not applied to contracts that were completed before the effective date (i.e., an entity has no remaining performance obligations to fulfil). Entities that elect the modified approach must disclose an explanation of the impact of adopting the ASU, including the financial statement line items and respective amounts directly affected by the standard's application.

On May 9, 2016, the FASB issued ASU 2016-12 which amends certain aspects on the Board's new revenue standard, ASU 2014-09. The amendments include further clarifications on collectability, presentation of sales tax and other similar taxes collected from customers, non-cash consideration, contract modifications and completed contracts at transaction and transition technical correction.

On May 3, 2016, the FASB issued ASU 2016-11 which rescinds certain SEC guidance from the FASB Accounting Standards Codification in response to announcements made by the SEC at the EITF's March 3, 2016 meeting.

The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's condensed consolidated financial statements.

On August 12, 2015 the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 by one year. For public entities, the standard will be effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption will be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods).

On January 9, 2015, the FASB issued ASU 2015-01 to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item.

ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Entities may apply the guidance prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted if the guidance is applied as of the beginning of the annual period of adoption. The adoption of this guidance has not had a material impact on the Company's financial statements.

On April 7, 2015, the FASB issued ASU 2015-03 as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public business entities, the guidance in the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is allowed for all entities for financial statements that have not been previously issued. Entities should apply the new guidance retrospectively to all prior periods (i.e., the balance sheet for each period should be adjusted). The adoption of this guidance has not had a material impact on the Company's financial statements.

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On July 22, 2015, the FASB issued ASU 2015-11, which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The ASU does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. For public business entities, the ASU is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The Company has adopted this guidance and it has not had a material impact on the Company's financial statements.

On November 20, 2015, the FASB issued ASU 2015-17 as part of its simplification initiative (i.e., FASB's effort to reduce the cost and complexity of certain aspects of U.S. GAAP). The ASU requires entities to present deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as non-current in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or non-current in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. For public business entities, the ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The adoption of this guidance has not had a material impact on the Company's financial statements.

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. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB's new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU 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 is currently evaluating the impact the adoption of ASU 2016-02 will have on the Company's condensed consolidated financial statements.

On March 17, 2016, the FASB issued ASU 2016-08, which amends the principal-versus agent implementation guidance and illustrations in the Board's new revenue standard (ASU 2014-09). The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle.

Among other things, the ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. As defined in the ASU, a specified good or service is "a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer." Therefore, for contracts involving more than one specified good or service, the entity may be the principal for one or more specified goods or services and the agent for others.

The ASU has the same effective date as the new revenue standard (as amended by the one-year deferral and the early adoption provisions in ASU 2015-14). In addition, entities are required to adopt the ASU by using the same transition method they used to adopt the new revenue standard. The Company is currently evaluating the impact the adoption of ASU 2016-08 will have on the Company's condensed consolidated financial statements.

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On August 26, 2016, the FASB issued ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

For public business entities, the guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. The Company has adopted this guidance and it has not had a material impact on the Company's financial statements.

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.

In August 2013, we entered into a consulting agreement with SpeeDx pursuant to which we provided certain services relating to the establishment and maintenance of a quality management system at SpeeDx. Consulting fees received under this agreement in 2014 were A$77,758. In addition, a success fee of A$50,000 was paid by SpeeDx in 2014 as the criteria for successful completion of the engagement was met.

Mr. Denver is a director of the Company and SpeeDx. Talu Ventures Pty Ltd, of which Mr. Jane is a director, is a fund manager of a fund which holds approximately 33% of the issued shares in SpeeDx. Mr. Jane resigned as a director of the Company in March 2015. Until September 27, 2013, PFM Cornerstone Limited held approximately 6% of our shares (PFM Cornerstone Limited no longer holds any of our shares), and until June 2016, PFM Cornerstone Limited also held approximately 33% of the issued shares in SpeeDx. Messrs Denver and Hanley are directors of the Company and until June 28, 2016 were directors of PFM Cornerstone Limited. Mr. Hanley is now a director of Biotech Investment Holdings 1 Pty Ltd and Biotech Investment Holdings 2 Pty Ltd which each respectively own approximately 14% of the issued share capital of SpeeDx.

Mr. Coleman is a director of the Company and Executive Chairman of Viburnum Funds which holds a 14% interest in the Company.

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Notes to Consolidated Condensed Financial Statements (Unaudited)

Borrowings

Future maturities, interest and other payments under the Company's long term secured loan pursuant to the credit agreement (described below) as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016		December 31, 2015	
	US$	A$	US$	A$
2016	442,750		1,761,375	
2017	1,756,563		1,756,563	
2018	16,694,000		16,694,000	
Thereafter	0		0	
Total minimum payments	18,893,313		20,211,938	
Less amount representing interest and other fees	(3,893,313)		(5,211,938)	
Gross balance of long term debt	15,000,000		15,000,000	
Less fair value of warrants recorded within loan (a)	(815,655)		(815,655)	
Plus interest accretion	454,085		331,625	
Total carrying value	14,638,430	19,185,361	14,515,970	19,868,560
Less current portion	0	0	0	0
Total carrying value, non-current portion	14,638,430	19,185,361	14,515,970	19,868,560

The carrying value of the borrowings approximates its fair value. The fair value is estimated by discounting future cash flows at the currently offered rates for borrowings of similar remaining maturities.

(a) The warrants issued in December 2013 had a fair value of US$815,655 as of September 30, 2016 and December 31, 2015, and are included in long term debt carrying value.

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.

Whilst UBS met the commercial conditions required under the Credit Agreement to draw down an additional US$10 million, it decided not to take up the additional debt funding.

The term loan has a maturity date of December 19, 2018 ("Maturity Date") and bears interest at 10.5% per annum payable in cash quarterly in arrears over the five year term, and as otherwise described in the Credit Agreement. A default interest rate of 13% per annum shall apply during the existence of a default under the Credit Agreement. Other than as summarized below, UBS is not required to make payments of principal for amounts outstanding under the term loan until maturity, December 19, 2018. The term loan under the Credit Agreement is secured by substantially all of UBI and UBS' assets. UBI (together with any future subsidiaries) guarantees all of UBS's obligations under the term loan.

Voluntary prepayments of the term loans are 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 can make voluntary repayments in minimum principal amounts of US$2,500,000 together with interest, plus the premium described below. UBS must make mandatory prepayments in certain prescribed circumstances, including in the event of raising additional debt financing, a sale or transfer of assets other than in certain circumstances and in the event of other specified

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Notes to Consolidated Condensed Financial Statements (Unaudited)

extraordinary receipts. Extraordinary receipts include cash received or paid other than in the ordinary course of business, such as tax refunds (other than GST and R&D tax rebates), LifeScan lump sum fee payments and Siemens termination fees. In such events, UBS must prepay to the Lenders 100% of the net cash proceeds received up to the outstanding principal amount of the loans drawn down, together with all accrued and unpaid interest thereon and all other obligations. In the event of any prepayment on or prior to the second anniversary of the Closing Date with respect to any obligations under the Credit Agreement, UBS must also pay a prepayment premium of 20% of the principal of such prepayment due and payable on the applicable date. In the event of any prepayment after the second anniversary of the Closing Date with respect to any obligations under the Credit Agreement, UBS must pay 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.

Unless the facility is otherwise terminated earlier pursuant to the terms of the Credit Agreement, UBS (as the borrower) is required to repay the outstanding principal amount of the loans drawn down, together with all accrued and unpaid interest thereon and all other obligations on Maturity Date.

UBS paid a non-refundable fee of US$625,000 to the Lenders on the Closing Date (being 2.5% of the aggregate credit facility) and a non-refundable fee of US$200,000 to the Lenders in connection with the January 2015 amendment to the Credit Agreement. A 2% commitment fee based on any available unused borrowing commitment was paid by UBS under the Credit Agreement until July 31, 2015. The Lenders are also entitled to receive 30% of the net proceeds of milestone payments paid under the Collaboration Agreement by and among UBS, UBI and Siemens, up to a maximum of US$600,000 in the aggregate, of which US$300,000 was paid in February 2015 and the balance of US$300,000 was paid in August 2015 (upon receipt of two further milestone payments). UBS has also agreed to pay certain taxes arising in connection with the Credit Agreement and other Loan Documents, including withholding taxes. UBS has also agreed to pay certain reasonable out-of-pocket expenses incurred by the Lenders in connection with the loan documents, including the January 2015 amendment, or as may be incurred in connection with the enforcement or protection of their rights.

The Credit Agreement also contains certain covenants, including among other things, covenants: (i) relating to the delivery of financial and other information and certificates, notices of defaults, litigation and other material events; payment of taxes and other obligations; maintenance of insurance; (ii) which limit or restrict the incurrence of liens; the making of investments; the incurrence of certain indebtedness; mergers, dispositions, liquidations, or consolidations and significant asset sales; restricted payments; transactions with affiliates other than on normal and arms-length terms; burdensome agreements; prepayment of other indebtedness; ownership of subsidiaries; and (iii) which require UBS to maintain unrestricted cash of not less than US$2,000,000 in a specified bank account at any time.

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.

Other

In December 2014, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2015 insurance premium. The total amount financed was A$498,890 at inception which in September 2015 was fully repaid. Interest was charged at a fixed rate of 2.84% per annum. In December 2015, UBS entered into an arrangement with Elantis Premium Funding Ltd to fund the Group's 2016 insurance premium. The total amount financed was A$360,510 at inception and the short-term borrowing was fully repaid in September 2016. Interest was being charged at a fixed rate of 2.60% per annum. The short-term borrowing was secured by the insurance premium refund.

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.

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Notes to Consolidated Condensed Financial Statements (Unaudited)

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.

Restricted Cash

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

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	A$	A$
Financial covenant pursuant to the Credit Agreement	2,900,000	2,900,000
Collateral for facilities	320,000	320,000
	3,220,000	3,220,000

Financial covenant pursuant to the credit agreement and collateral for facilities is recorded under the caption "Other non-current assets" in the consolidated condensed balance sheets.

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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 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, 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.

Our Business

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. Key aspects of our strategy include:

- manufacturing products (test strips and analyzers) for our customers and future partners as required;
- undertaking research and development work for our customers and partners;
- providing post-market support services to our customers and partners;
- extending our electrochemical cell technology and demonstrating the broader application of our technology platform for markets with significant commercial potential;
- seeking 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.

Our plan of operations over the remainder of the fiscal year ending December 2016 is to:

- manufacture products, undertake research and development work, and provide the necessary post-market support, for our customers and partners;
- demonstrate the broader application of our technology platform for markets with significant commercial potential, focusing initially on enzymatic, immunoassay and molecular diagnostic point-of-care tests;
- 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.

We were incorporated in the State of Delaware on September 14, 2001 and our shares of common stock in the form of CHESS Depositary Interests have been quoted on the ASX since December 13, 2006. Our securities are not currently traded on any other public market. Our wholly owned subsidiary and primary operating vehicle, UBS, was incorporated as a proprietary limited company in Australia on September 21, 2001. UBS conducts our research, development and manufacturing activities in Melbourne, Australia.

We have rights to an extensive patent portfolio, with certain patents owned by UBS and a number licensed to UBS by LifeScan, Inc. and other third party licensors.

Universal Biosensors, Inc.

We are using our electrochemical cell technology platform to develop point-of-care testing systems for a number of different markets. Our current focus is as set out below:

- Coagulation testing market – we are working with Siemens in relation to a range of products for the point-of-care coagulation testing market pursuant to a Collaboration Agreement. 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 in Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. Under the terms of a Supply Agreement with Siemens, UBS is the manufacturer of test strips for this product and two further tests still in development for Siemens. In April 2016 we put the development of our own Prothrombin Time International Normalized Ratio ("PT-INR") self-testing device on hold in response to proposed regulatory changes, market factors and our cash management initiatives. When we recommence development, we will incorporate the lessons we derive from the Siemens' product developments into our own products.
- Blood glucose – we provide services to LifeScan as required from time to time, pursuant to a Master Services and Supply Agreement and a Development and Research Agreement with LifeScan.
- Other electrochemical-cell based tests – we are working on demonstrating the broader application of our technology platform, including its application to diagnostic tests based on enzymatic, immunoassay and molecular diagnostic methods. We may seek to enter into collaborative arrangements, strategic alliances or distribution agreements with respect to any products or technologies arising from this work.

Results of Operations

Analysis of Consolidated Revenue

As discussed in more detail below, the quarter ending September 30, 2016 was impacted by a number of factors including:

- the per-strip service fees we receive from LifeScan on the sales of OneTouch Verio® strips are based on volume. Per-strip fees are US$1.25 per strip for all strips in a year below 500 million and reduce to US$0.75 per strip once sales exceed 500 million strips in any given year. Strong sales of the OneTouch Verio® strips this year meant that the lower per-strip fees have applied since the second quarter of 2016. In 2015, the 500 million volume threshold was only achieved in the third quarter. A combination of both the higher and lower strip fee rate applied in the third quarter of 2015. Accordingly, notwithstanding the volume of strips sold being higher in the third quarter of 2016 than in the same quarter in 2015, our revenue from service fees in the third quarter of 2016 declined when compared to the corresponding quarter in 2015;
- Siemens continue to sell inventory purchased from us in prior quarters. Accordingly, there was a lack of revenue from manufacturing revenue from Siemens in the current quarter. We have only generated manufacturing revenue from Siemens in the first quarter of 2016;
- none of the three remaining Siemens development milestones payments were achieved or recognized during the quarter. By comparison, during the third quarter of 2015, we recognized $1.96 million as contract research and development revenue from the achievement of development milestones; and
- we have determined not to recognize R&D tax credits in the quarter because we do not have a reasonable assurance that we will achieve the eligibility criteria of having aggregated turnover of less than A$20 million per annum.

Our total revenue decreased by 45% to A$3,287,296 during the quarter ended September 30, 2016 compared to the same quarter in the previous financial year. However our overall total revenue increased by 2% to A$13,786,028, for the nine months ended September 30, 2016 when compared to the same period in the previous financial year.

Universal Biosensors, Inc.

Revenue from Products

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Revenue from products	0	552,617	183,480	969,023
Cost of goods sold	(31,899)	(458,644)	(272,468)	(798,810)
Production margin	(31,899)	93,973	(88,988)	170,213

We commenced manufacture of the PT-INR test strips for Siemens during the third quarter of 2014. The volumes and production margin from the sale of our PT-INR strips is low, reflecting early stage production. We expect product revenues continuing to be low and volatile in the short term which is representative of a new product entrant within our industry.

There were no PT-INR test strips sold to Siemens during the third quarter of 2016. Strips have however been ordered by Siemens and are currently being manufactured for delivery within the next 3 to 6 months.

The current quarter's cost of goods sold represents allocation of fixed overheads.

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 which falls within a valid claim of certain licensed patents sold by LifeScan is payable to us as an ongoing reward for our services and efforts to enhance the product;
- Contract research and development – we undertake contract research and development on behalf of our customers and partners;
- Other services – 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Revenue from services:				
Quarterly service fee	3,287,296	3,357,922	13,602,548	9,882,581
Contract research and development	0	1,955,340	0	1,955,340
Other services	0	131,831	0	651,572
	3,287,296	5,445,093	13,602,548	12,489,493
Cost of services	0	(48,751)	0	(239,704)
Net margin	3,287,296	5,396,342	13,602,548	12,249,789

Quarterly service fee - The quarterly service fee paid by LifeScan decreased by 2% during the three months ended September 30, 2016 when compared to the corresponding quarter. The quarterly service fee paid by LifeScan increased by 38% during nine months ended September 30, 2016 compared to the same period in the previous financial year, reflecting ongoing market penetration and growth. Despite significant growth in volume during the above periods, quarterly service fee revenue decreased as a result of a lower per-strip fees used for calculating quarterly service fees in the third quarter of 2016 when compared to the same period in 2015. The higher quarterly service fee per strip applied until part of the way through the third quarter of 2015 whereas, by virtue of stronger sales, the lower quarterly service fee per strip has applied since the second quarter of 2016. Quarterly service fees are invoiced and received in USD. Accordingly, quarterly service fees were impacted by the weakening of the AUD against the USD over the periods covered above.

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LifeScan has the ability to terminate the obligation to pay quarterly service fees to us in certain situations set out in the Master Services and Supply Agreement or with the agreement of Universal Biosensors. LifeScan has the option to give notice to convert the quarterly service fees, which it may only do so once it has paid cumulative quarterly service fees of US$45 million. As of September 30, 2016, LifeScan had paid cumulative quarterly service fees of US$31.7 million. Where it gives such notice, LifeScan is required to continue to pay the quarterly service fees for the remainder of the year in which notice is given, and at the end of that year, LifeScan must pay a one-time lump sum fee. This fee is calculated by multiplying the sum of all quarterly service fees for the relevant year in which notice is given by a multiplier (on a sliding scale from 2.4x if notice is given in 2016 to 2x if notice is given in 2018 and beyond). Following the payment of this one-time fee, LifeScan would have no further obligation to pay quarterly service fees to Universal Biosensors.

By way of illustration only, if the growth trend in quarterly service fees continues, there is a scenario in which cumulative quarterly service fees could reach US$45 million at September 30, 2017. Assume under this scenario, LifeScan gives notice to Universal Biosensors on October 1, 2017 that it is exercising its option to convert the quarterly service fees. If quarterly service fees for the financial year 2017 total US$17.5 million (with US$4 million from October 1 to December 31, 2017) and LifeScan elects to pay the one-time lump sum fee at the earliest possible date being January 1, 2018, we would receive US$59.4 million (equivalent to A$77.8 million) in payments under the Master Services and Supply Agreement from October 1, 2016. These payments would be calculated as follows:

- *US$16.9 million (equivalent to A$22.1 million) quarterly service fees from October 1, 2016 to September 30, 2017, (being quarterly service fees remaining which LifeScan would pay from October 1, 2016 until cumulative quarterly service fees reaches US$45 million); plus*
- *US$4.0 million (equivalent to A$5.2 million) in quarterly service fees from October 1, 2017 to December 31, 2017 (being the remainder of the year in which notice is given); plus*
- *US$38.5 million (equivalent to A$50.5 million) in one-time lump sum fee, equal to 2.2 multiplier (which is the applicable multiplier for 2017) by 2017 total quarterly service fees of US$17.5 million.*

The above scenario and calculation is an illustration only and there can be no assurance that sales of OneTouch Verio® strips by LifeScan will be achieved (in the manner described in the illustration above or otherwise) or such quarterly service fees will be paid to Universal Biosensors or that LifeScan will exercise its option to make the one-time lump sum fee when it is entitled to do so.

LifeScan may also terminate the obligation to pay quarterly service fees if certain other factors detailed in the Master Services and Supply Agreement arise, including LifeScan ceasing to sell the product, termination for breach, insolvency and bankruptcy, change of control and regulatory termination.

Contract research and development – The nature and scope of contract research and development is determined by our customers and partners based upon their requirements and therefore our revenues and margins tend to fluctuate. We did not perform or generate any revenue from contract research and development during the nine months ended September 30, 2016. The revenue in 2015 represents the fourth milestone paid to the Company under the Collaboration Agreement when Siemens made a premarket 510 (k) submission to the FDA for regulatory clearance to sell the Xprecia Stride™ Coagulation Analyzer in the US. The Company received a payment of A$1,368,738 (equivalent to US$1.0 million) as consideration for this milestone in July 2015. A sum of A$1,955,340 (equivalent to US$1,428,571) has been recognized as revenue from services.

Other services - We generated revenues principally from Siemens based on work undertaken for them.

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Contribution from Products & Services

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Quarterly service fee	3,287,296	3,357,922	13,602,548	9,882,581
Manufacturing contribution	(31,899)	93,973	(88,988)	170,213
Contract research and development	0	1,955,340	0	1,955,340
Other services	0	83,080	0	411,868
Contribution from products & services	3,255,397	5,490,315	13,513,560	12,420,002

The increase in year to date total contributions from products and services reflected in the table above is primarily represented by the growth in the quarterly service fee which has a 100% margin. The current quarter's contribution from products and services has declined as a result of lower per-strip fees used for calculating quarterly service fees in the third quarter of 2016 when compared to the same period in 2015 despite volumes increasing and weakening of the AUD against the USD. There were no contract research and development work undertaken for the nine months ended September 30, 2016 whilst we recognized a milestone in July 2015.

The manufacturing contribution represents margins on the PT-INR strips for Siemens. Sales volumes and margins are low and the margins tend to fluctuate with low volumes, reflecting early stage production. We expect product revenues continuing to be low and volatile in the short term which is representative of a new product launch within our industry. Contribution from other services fluctuated over the period due to our partners R&D services requirements.

Research and Development Expenses

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, salary 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 activities can be described as follows:

(a) 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 is available for sale in Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. The Xprecia Stride™ Coagulation Analyzer received FDA approval on October 4, 2016. In 2012, we entered into a Supply Agreement with Siemens which was amended in March 2016 under which we manufacture and supply the test strips for this product and will manufacture and supply the test strips for two further tests still in development with Siemens. In April 2016 we put the development of our own Prothrombin Time International Normalized Ratio ("PT-INR") self-testing device on hold in response to proposed regulatory changes, market factors and our cash management initiatives. When we recommence development, we will incorporate the lessons we derive from the Siemens' product developments into our own products.

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(b) Immunoassay

We are continuing to develop our immunoassay platform targeting a broad range of potential assays. Our vision is to target a single analyzer and consumable design that can detect analytes across a wide range of sensitivities creating a broad-based multi-test solution while minimizing the incremental research and development effort required for each new test. As well as a wide range of immunoassay based tests, it is intended that this platform will incorporate the ability to perform D-Dimer and C Reactive Protein tests and leverage past research work on these assays.

This work is currently in the feasibility phase.

(c) DNA/RNA

We have undertaken some early stage feasibility work assessing the possibility of using DNA binding chemistries to build a low-cost test for DNA, RNA and as a possible alternative method for improving the sensitivity of protein assays. This concept work is at an early stage and may not yield any positive results. To enable us to access certain molecular diagnostic technology, we entered into a license with SpeeDx. SpeeDx is an Australian technology company focused on the development of catalytic nucleic acid enzymes for medical diagnostics and other applications.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Research	262,097	404,688	911,909	915,775
Development	3,685,295	4,582,327	10,913,640	13,965,956
Research and development expenses	3,947,392	4,987,015	11,825,549	14,881,731

Depending on the scope of research and development activities we undertake and the stages of development of each of these activities, our research and development expenditure will fluctuate.

In converting an idea or a concept into a commercial product, a number of development stages are required. As an idea or concept is developed into a commercial-ready product, technical risk reduces, but the effort and cost expended increases. In our research and development program, the first phase is conducting exploratory research and feasibility studies. In this phase, the idea is investigated by a small focused team to establish the viability of the concept as the base for a product. Once this hurdle has been passed, the project enters the development phases, which include building prototype strips and instruments, finalizing the product design, carrying out extensive testing, creating the required documentation and developing or validating the product manufacturing processes. This requires a larger group of people and a higher use of materials compared to the research phase, so is typically more expensive, but necessary to be able to commercialize a product.

Research and development expenditure principally reflects the effort required in product development of the tests we are developing. Research and development expenditure decreased by 21% for the three and nine months ended September 30, 2016, respectively compared to the same period in the previous financial year. Undertaking research and development activities in a targeted manner, cost containment and reversal of options expense for departing employees have led to the reduction in research and development expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Research and development expenses	3,947,392	4,987,015	11,825,549	14,881,731
Research and development tax incentive income	(162,172)	(2,425,052)	(162,172)	(6,721,128)
	3,785,220	2,561,963	11,663,377	8,160,603

Universal Biosensors, Inc.

The non-cash components of depreciation and share based payments expense included in the research and development expenditure are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Depreciation	564,000	592,458	1,836,399	1,758,102
Share based payments	175,350	(15,424)	(1,114,877)	(82,337)
	739,350	577,034	721,522	1,675,765

While we have a degree of control as to how much we spend on research and development activities in the future, we cannot predict 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 achieving technical objectives, which are inherently uncertain.

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 September 30, 2016 and 2015 were A$1,451,788 and A$1,981,141, respectively and A$5,550,750 and A$6,746,436 for the nine months ended September 30, 2016 and 2015, respectively.

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, audit and accounting services. Decrease in general and administrative expenses occurred as a result of reversal of options for departing employees and also reflect management's ongoing efforts to restrict spending on non-core activities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
General and administrative expenses	1,408,212	1,529,799	3,940,376	4,656,097

The non-cash components of depreciation and share based payments expense included in the general and administrative expenditure are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Depreciation	31,327	31,638	82,724	95,476
Share based payments	56,468	(5,122)	(359,030)	(27,337)
	87,795	26,516	(276,306)	68,139

Interest Income

Interest income decreased by 15% and 31% during the three and nine months ended September 30, 2016 compared to the same period in the previous financial year. The decrease in interest income is generally attributable to the lower amount of funds available for investment in Australian currency and lower interest rates on offer. A large portion of our funds is held in US denominated currency which currently does not produce any investment interest.

Universal Biosensors, Inc.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Interest income	89,669	104,885	140,538	204,859

Interest Expense

Interest expense relates to interest being charged on a short-term borrowing initiated by the Company each year. These short-term loans are taken out every year to fund our insurance premiums and are repaid during the financial year. Decrease in interest expense is in line with the insurance premium for the financial year and the interest rate charged to us every year. The insurance premiums at inception were A$360,510 and A$498,890 for the financial years 2016 and 2015, respectively. The interest rates were 2.60% and 2.84% for the financial years 2016 and 2015, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Interest expense	2,812	4,250	8,436	14,168

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 breakdown of the financing costs is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Interest expense	532,819	562,885	1,614,138	1,584,398
Warrants expense	54,431	57,502	164,895	161,856
Other debt issuance costs	128,838	157,715	388,488	811,960
	716,088	778,102	2,167,521	2,558,214

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.

Decreases in financing costs is primarily a result of the costs incurred during the first quarter of 2015 in extending UBI's option to draw down a further US$10 million until July 31, 2015. This has been recorded as "Other debt issuance costs" and includes a one-time fee of US$200,000 and a commitment fee of 2% of the unused borrowing commitment under the Credit Agreement. The commitment fee ceased to be charged as at July 31, 2015. As the loan is denominated in USD, interest expense on the loan is subject to variation with movements in exchange rates.

Other

Recorded under this caption are primarily research and development tax incentive income and foreign exchange movements. Research and development tax incentive income for the three months ended September 30, 2016 and 2015 were A$162,172 and A$2,425,052, respectively and A$162,172 and A$6,721,128, respectively for the nine months ended September 30, 2016 and 2015. The balance is primarily represented by foreign exchange movements arising from the settlement of foreign denominated transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

Research and development tax incentive income recorded for the current financial period relates to under accrual of the receivable in the previous financial year. For the financial year ended December 31, 2015, we had recorded a receivable of $9,200,000 based on our original estimate. We however claimed and received an amount of A$9,362,172 from the Australian Government in September 2016 following a change in original estimate.

Universal Biosensors, Inc.

The research and development tax incentive receivable has been recorded as "Other current assets" in the consolidated condensed balance sheets.

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. Generally speaking, entities which are an R&D entity involved in eligible R&D activities may claim research and development tax incentive as follows:

(1) a 45% refundable tax offset for entities with an aggregated turnover of less than A$20 million per annum (the legislative rate for tax year commencing 1 July 2016 will be reduced to 43.5%), or

(2) a 40%% non-refundable tax offset for all other entities (the legislative rate for tax year commencing 1 July 2016 will be reduced to 38.5%).

Historically, the Company has had aggregate turnover less than A$20 million and the Company's research and development 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 nine months ended September 30, 2016 there is no reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2016 will be less than A$20 million and accordingly for the current financial years research and development costs recovery, A$0 has been recorded as a research and development tax incentive income for the three and nine months ended September 30, 2016. The eligible R&D activities and expenditures are able to be claimed as part of the current year income tax computation and any amounts included as a tax asset will be subject to recognition rules under ASC 740 "Income Taxes".

Research and development expenses, net of research and development tax incentive income for the respective periods are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	A$	A$	A$	A$
Research and development expenses	3,947,392	4,987,015	11,825,549	14,881,731
Research and development tax incentive income	(162,172)	(2,425,052)	(162,172)	(6,721,128)
	3,785,220	2,561,963	11,663,377	8,160,603

The Company would be eligible to recognize A$1.8 million and A$5.3 million, respectively as a refundable research and development tax incentive income for research and development costs incurred in the current financial year in respect of the three and nine months ended September 30, 2016 should there be reasonable assurance that the aggregate turnover for the year is less than A$20 million. 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.

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

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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

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is reasonably assured. Product is considered delivered to the customer once it has been shipped and title and risk of loss have been transferred.

In addition, the Company enters into arrangements, which contain multiple revenue generating activities. The revenue for these arrangements is recognized as each activity is performed or delivered, based on the relative fair value and the allocation of revenue to all deliverables based on their relative selling price. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocation of revenue to deliverables, vendor-specific objective evidence, third-party evidence of selling price and the Company's best estimate of selling price. The Company's process for determining its best estimate of selling price for deliverables without vendor-specific objective evidence or third-party evidence of selling price involves management's judgment. The Company's process considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable.

(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

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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.

Share Price and Exercise Price at Valuation Date

The share price of the warrants granted has been determined using the closing price of our common stock trading in the form of CDIs on ASX at the time of entering in to the loan facility. The ASX is the only recognized international exchange on which our securities are quoted. The exercise price 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.

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Financial Condition, Liquidity and Capital Resources

Net Financial Assets/(Liabilities)

Our net financial assets/(liabilities) position is shown below:

	Nine Months Ended September 30, 2016 A$	Year Ended December 31, 2015 A$
Financial assets:		
Cash and cash equivalents	21,640,490	14,350,307
Accounts receivables	3,415,519	3,153,584
Total financial assets	25,056,009	17,503,891
Debt:		
Short term borrowings	0	324,459
Long term secured loan	19,185,361	19,868,560
Total debt	19,185,361	20,193,019
Net financial assets/(liabilities)	5,870,648	(2,689,128)

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), revenue from services and product sales, and the loan discussed below.

On December 19, 2013 we entered into the Credit Agreement which was subsequently amended in January 2015 with Lenders for a US$25 million secured term loan. The term loan has a maturity date of December 19, 2018 and bears interest at 10.5% per annum. Interest payments are due quarterly over the five-year term of the term loan and, other than as described elsewhere herein, we are 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 is 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*.

To a large extent, receipt of the research and development tax incentive income of A$9,362,172 in September 2016 has resulted in an improvement to our net financial asset position. Note a major portion of our net financial assets/(liabilities) is denominated in USD, including the long term secured loan hence is subject to variation with movements in exchange rates.

We believe we have sufficient cash and cash equivalents to fund our operations for at least the next twelve months.

The carrying value of the cash and cash equivalents and the accounts receivable 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 September 30, 2016 or for the year ended December 31, 2015.

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 September 30, 2016 and December 31, 2015, 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 outstanding contracts as at September 30, 2016 and December 31, 2015. We recognized gains of nil for the periods ended September 30, 2016 and December 31, 2015. No amount of ineffectiveness was recorded in earnings for these designated cash flow hedges for the periods ended September 30, 2016 and December 31, 2015. For further details, see Notes to Consolidated Financial Statements – *Summary of Significant Accounting Policies.*

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Measures of Liquidity and Capital Resources

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

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
	A$	A$
Cash and cash equivalents	21,640,490	14,350,307
Working capital	21,468,487	24,041,164
Ratio of current assets to current liabilities	5.00 : 1	6.03 : 1
Shareholders' equity per common share	0.05	0.08

The movement in cash and cash equivalents and working capital during the above periods was primarily due to receipts in the ordinary course of business, outflows arising from the effort required to complete the development of the new products, servicing of the secured loan and the timing of payments and accruals in the ordinary course of business. The increased cash inflows are primarily a result of increased quarterly service fees from LifeScan, prepayment of a milestone of US$2.5 million in April 2016 from Siemens and the receipt of the research and development tax incentive income of A$9,362,172 received by the Company in September 2016.

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

Summary of Cash Flows

	Nine Months Ended September 30,	
	2016	2015
	A$	A$
Cash provided by/(used in):		
Operating activities	8,459,204	2,126,194
Investing activities	(311,351)	(1,080,837)
Financing activities	(324,459)	(1,729,244)
Net decrease in cash and cash equivalents	7,823,394	(683,887)

Our net cash used in 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, interest on our long term secured loan and general and administrative expenditure. An improved operating position is reflected for the nine month period ended September 30, 2016 due to increased quarterly service fees, prepayment of US$2.5 million milestone payment from Siemens, receipt of the research and development tax incentive income of A$9,362,172 and managements effort to contain costs and reduce wastage.

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 programs we are undertaking.

Our net cash used in financing activities for the current period represents repayment of our short-term borrowings which relates to the financing of our insurance premiums. Likewise, a sum of A$498,890 included with our financing activities for the nine months ended September 30, 2015 represents repayment of such borrowings. The balance is represented by debt issuance costs pursuant to the Credit Agreement and includes a one-off cost of US$200,000 incurred during the first quarter of 2015 in extending UBI's option to draw down a further US$10 million until 31 July, 2015 and US$300,000, being 30% of the net proceeds of the milestone payment received from Siemens, paid to the lenders in the first quarter of 2015. Pursuant to the Athyrium Credit Agreement, the lenders are entitled to be paid a maximum of US$600,000 in the aggregate from milestones received from Siemens.

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Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016 are:

	A$
Less than 1 year	582,965
1 – 3 years	902,877
3 – 5 years	0
More than 5 years	0
Total minimum lease payments	1,485,842

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

Contractual Obligations

Our future contractual obligations at September 30, 2016 were as follows:

	Payments Due By Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
	A$	A$	A$	A$	A$
Asset Retirement Obligations (1)	2,600,000	0	2,600,000	0	0
Operating Lease Obligations (2)	1,485,842	582,965	902,877	0	0
Purchase Obligations (3)	1,678,768	1,678,768	0	0	0
Long term secured loan (4)	19,185,361	0	19,185,361	0	0
Financing costs (5)	5,102,638	2,302,180	2,800,458	0	0
Other liability (6)	3,052,548	1,681,804	1,370,744	0	0
Other Long-Term Liabilities on Balance Sheet (7)	150,979	0	134,917	15,375	687
Total	33,256,136	6,245,717	26,994,357	15,375	687

(1) Represents legal obligations associated with the retirement and removal of long-lived assets.
(2) Our operating lease obligations relate primarily to the lease of our premises.
(3) Represents outstanding purchase orders
(4) US$15 million payable to the lenders on maturity date pursuant to the Credit Agreement
(5) Interest and other debt issuance costs payable to the lenders pursuant to the Credit Agreement
(6) Represents patent fees and marketing support fees payable to LifeScan
(7) Represents long service leave owing to the employees.

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 and continue to derive significant revenues from LifeScan.

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

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management

The overall objective of our financial risk management program is to seek to minimize the impact of foreign exchange rate movements and interest rate movements on our earnings. We manage these financial exposures through operational means and by using financial instruments. These practices may change as economic conditions change.

Foreign Currency Market Risk

We transact business in various foreign currencies, including U.S. dollars and Euros. We have established a foreign currency hedging program using forward contracts to hedge the net projected exposure for each currency and the anticipated sales and purchases in U.S. dollars and Euros. The goal of this hedging program is to economically guarantee or lock-in the exchange rates on our foreign exchange exposures. 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.

Although the Company has a hedging program, as at balance sheet date there were no open derivatives that would need to be disclosed.

Specifically, in relation to the secured term loan, we have established a program to reduce or even eliminate the impact of any foreign exchange exposure. The secured term loan is denominated in USD and the bullet repayment of US$15 million in December 2018 is to be made in USD as well. The goal is to build our USD cash reserves which will reduce our foreign exchange exposure until the cash reserves reach US$15 million at which time the foreign exchange exposure will be eliminated. We expect to build our USD cash reserves from our US receipts to US$15 million before the secured term loan is repaid. On this basis, during the interim period, our foreign exchange exposure will only be to translation losses and there should not be any realised losses when the secured term loan is repaid.

The Company has recorded foreign currency transaction gains/(losses) of A$406,265 and (A$883,943) for the three months ended September 30, 2016 and 2015, respectively and A$769,257 and (A$1,526,228) for the nine months ended September 30, 2016 and 2015, respectively. For further details, see Notes to Consolidated Financial Statements - *Summary of Significant Accounting Policies – Foreign Currency*.

Interest Rate Risk

Since the majority of our investments are in cash and cash equivalents in U.S. or Australian dollars, our interest income is not materially affected by changes in the general level of U.S. and Australian interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Our investment portfolio is subject to interest rate risk but due to the short duration of our investment portfolio, we believe an immediate 10% change in interest rates would not be material to our financial condition or results of operations.

Inflation

Our business is subject to the general risks of inflation. Our results of operations depend on our ability to anticipate and react to changes in the price of raw materials and other related costs over which we may have little control. Our inability to anticipate and respond effectively to an adverse change in the price could have a significant adverse effect on our results of operations. In the face of increasing costs, the Company strives to maintain its profit margins through cost reduction programs, productivity improvements and periodic price increases.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures. At the end of the period covered by this report, the Company evaluated the effectiveness 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. Andrew Denver, Chief Executive Officer, and Salesh Balak, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Denver 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 September 30, 2016, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Universal Biosensors, Inc.

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 2015 Annual Report on Form 10-K filed with the SEC on March 15, 2016 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 2015 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, 2015.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibits

Exhibit No	Description	Location
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32	Section 1350 Certificate	Furnished herewith
101	The following materials from the Universal Biosensors, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements text	Filed herewith

Universal Biosensors, Inc.

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)

By: /s/ Andrew Denver
Andrew Denver
Principal Executive Officer

Date: October 20, 2016

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

Date: October 20, 2016

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated October 20, 2016

Exhibit No	Description	Location
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32	Section 1350 Certificate	Furnished herewith
101	The following materials from the Universal Biosensors, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements	Filed herewith

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, Andrew Denver, 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: October 20, 2016

/s/ Andrew Denver
Andrew Denver
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: October 20, 2016

/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 September 30, 2016, 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 20th day of October, 2016.

/s/ Andrew Denver
Andrew Denver
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.