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Universal Biosensors, Inc.

Q1 2020 Financial Results

Universal Biosensors, Inc. (ASX:UBI) (**UBI**) has today released its financial results for the quarter ending 31 March 2020 (**Q1 2020**).

For further information, please contact:

Salesh Balak
Chief Financial Officer
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2020

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)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 177,571,854 shares of Common Stock, U.S.$0.0001 par value, outstanding as of April 24, 2020.

UNIVERSAL BIOSENSORS, INC.

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

Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	March 31, 2020 A$	December 31, 2019 A$
ASSETS		
Current assets:		
Cash and cash equivalents	27,601,181	30,229,530
Inventories, net	986,292	1,078,064
Accounts receivable	95,309	116,626
Prepayments	589,699	135,764
Restricted cash	2,313,476	2,055,473
Other current assets	4,678,661	3,457,438
Total current assets	36,264,618	37,072,895
Non-current assets:		
Property, plant and equipment	29,071,481	29,021,868
Less accumulated depreciation	(24,495,696)	(24,271,802)
Property, plant and equipment - net	4,575,785	4,750,066
Intangible assets	16,371,996	16,371,996
Less amortization of intangible assets	(851,774)	(443,819)
Intangible assets - net	15,520,222	15,928,177
Right-of-use asset	4,374,684	0
Restricted cash	4,946,952	4,907,904
Total non-current assets	29,417,643	25,586,147
Total assets	65,682,261	62,659,042
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	368,194	615,377
Accrued expenses	964,655	1,015,251
Contingent consideration	2,429,150	2,141,022
Other liabilities	3,317,575	2,924,069
Deferred revenue	2,988,965	2,682,404
Lease liability	376,421	0
Employee entitlements liabilities	823,552	782,414
Total current liabilities	11,268,512	10,160,537
Non-current liabilities:		
Asset retirement obligations	2,619,099	2,600,000
Employee entitlements liabilities	19,854	32,443
Deferred income tax liability	3,050,837	3,050,837
Lease liability	4,023,484	0
Deferred revenue	778,998	1,421,680
Total non-current liabilities	10,492,272	7,104,960
Total liabilities	21,760,784	17,265,497
Commitments and contingencies	0	0
Stockholders' equity:		
Preferred stock, US$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil at March 31, 2020 (nil at December 31, 2019)		
Common stock, US$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 177,571,854 shares at March 31, 2020 (177,571,854 at December 31, 2019)	17,757	17,757
Additional paid-in capital	93,396,802	93,396,802
Accumulated deficit	(47,679,272)	(42,832,987)
Current year loss	(1,463,069)	(4,846,285)
Accumulated other comprehensive loss	(350,741)	(341,742)
Total stockholders' equity	43,921,477	45,393,545
Total liabilities and stockholders' equity	65,682,261	62,659,042

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

Universal Biosensors, Inc.

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Revenue		
Revenue from products	368,745	797,359
Revenue from services	148,085	1,069,831
Total revenue	516,830	1,867,190
Operating costs & expenses		
Cost of goods sold	415,518	494,924
Cost of services	219,213	221,676
Total cost of goods sold & services	634,731	716,600
Contribution from products & services	(117,901)	1,150,590
Other operating costs & expenses		
Product support	2,653	22,371
Depreciation and amortization	573,036	275,342
Research and development	1,235,095	2,149,349
General and administrative	1,373,733	2,000,081
Total operating costs & expenses	3,184,517	4,447,143
Loss from operations	(3,302,418)	(3,296,553)
Other income/(expense)		
Interest income	139,132	169,824
Research and development tax incentive income	595,305	847,062
Exchange gain/(loss)	456,378	(250,100)
Other	648,534	(11,131)
Total other income/(expense)	1,839,349	755,655
Net loss before tax	**(1,463,069)**	**(2,540,898)**
Income tax benefit/(expense)	0	0
Net loss	**(1,463,069)**	**(2,540,898)**
Earnings per share		
Basic net loss per share	(0.01)	(0.01)
Average weighted number of shares - basic	177,571,854	177,318,187
Diluted net loss per share	(0.01)	(0.01)
Average weighted number of shares - diluted	177,571,854	177,318,187
Other comprehensive gain/(loss), net of tax:		
Foreign currency translation reserve	(8,999)	(6,295)
Reclassification for gain/(loss) realized in net income	0	0
Other comprehensive loss	(8,999)	(6,295)
Comprehensive loss	(1,472,068)	(2,547,193)

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

Universal Biosensors, Inc.

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

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
		A$	A$	A$	A$	A$
Balances at January 1, 2019	177,243,520	17,724	93,815,185	(42,832,987)	(326,171)	50,673,751
Net income	0	0	0	(2,540,898)	0	(2,540,898)
Other comprehensive income	0	0	0	0	(6,295)	(6,295)
Shares issued to employees	210,000	21	(21)	0	0	0
Stock option expense	0	0	(423,560)	0	0	(423,560)
Balances at March 31, 2019	177,453,520	17,745	93,391,604	(45,373,885)	(332,466)	47,702,998
Balances at January 1, 2020	177,571,854	17,757	93,396,802	(47,679,272)	(341,742)	45,393,545
Net loss	0	0	0	(1,463,069)	0	(1,463,069)
Other comprehensive loss	0	0	0	0	(8,999)	(8,999)
Balances at March 31, 2020	177,571,854	17,757	93,396,802	(49,142,341)	(350,741)	43,921,477

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

Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Cash flows from operating activities:		
Net loss	(1,463,069)	(2,540,898)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization	630,232	372,600
Share based payments expense	0	(423,560)
Loss on fixed assets disposal	0	11,659
Unrealized foreign exchange gains	(838,560)	(420,050)
Change in assets and liabilities:		
Inventory	91,772	(164,733)
Accounts receivable	21,317	49,210,181
Prepayment and other assets	(1,675,158)	(1,449,431)
Income tax payable	0	(4,352,564)
Deferred revenue	(336,122)	(658,675)
Employee entitlements	28,549	(270,003)
Accounts payable and accrued expenses	207,001	430,922
Net cash provided by/(used in) operating activities	(3,334,038)	39,745,448
Cash flows from investing activities:		
Purchases of property, plant and equipment	(114,949)	(63,544)
Net cash used in investing activities	(114,949)	(63,544)
Cash flows from financing activities:		
Net cash used in financing activities	0	0
Net increase/(decrease) in cash, cash equivalents and restricted cash	(3,448,987)	39,681,904
Cash, cash equivalents and restricted cash at beginning of period	37,192,907	12,133,378
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	1,117,689	420,051
Cash, cash equivalents and restricted cash at end of period	34,861,609	52,235,333

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

We are specialists in design and development of electrochemical cells used in conjunction with point of use devices that are used in various industries such as healthcare, food and drink and agriculture. In addition, we own, manage and operate a hemostasis laboratory.

Key aspects of our strategy for increasing shareholder value include:

- executing on our business activities, including undertaking research and development activities, manufacturing products and providing development and support services including providing laboratory services;
- extending and demonstrating the broader application of our technology and seeking to enter into collaborative, strategic or distribution arrangements with industry participants with respect to specific tests or specific fields; and
- identifying and pursuing related opportunities for growth.

Our plan of operations over the remainder of the fiscal year ending December 2020 is to:

- seek to enter into collaborative, strategic or distribution arrangements with industry participants with respect to the development and commercialization of specific tests or specific fields;
- manufacture products;
- undertake research and development work;
- provide the necessary post-market support for our customers and partners;
- provide laboratory services for our customers and partners;
- demonstrate the broader application of our technology platform for markets with significant commercial potential; and
- identify, investigate and evaluate inorganic growth opportunities within the overall strategic initiatives.

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

We have worked with Siemens Healthcare Diagnostics, Inc. (“Siemens”) since 2012 in relation to a range of products for the point-of-care coagulation testing market, pursuant to a collaboration agreement with Siemens (the “Collaboration Agreement”). The first such product developed with Siemens, the Xprecia Stride™ Coagulation Analyzer, received CE mark approval on December 9, 2014 and US Food and Drug Administration (“FDA”) approval on October 4, 2016. The Xprecia Stride™ Coagulation Analyzer is now available in the United States, Europe, the Middle East, Africa, Asia Pacific, Latin America and Canada. Under the terms of a supply agreement with Siemens (the “Supply Agreement”), UBS is the manufacturer of test strips for this product for Siemens. The Collaboration Agreement was terminated on September 18, 2019. On September 9, 2019, we entered into certain binding term sheets with Siemens (the “Siemens Term Sheets”) and on September 18, 2019, we entered into a commercial and distribution agreement with Siemens (the “Siemens Distribution Agreement”) and a supply agreement with Siemens (the “Siemens Supply Agreement” and together with the Siemens Term Sheets and the Siemens Distribution Agreement the “2019 Siemens Agreements”). Pursuant to the 2019 Siemens Agreements the Company agreed to acquire certain assets of Siemens (the “Siemens Acquisition”). Pursuant to the terms of the 2019 Siemens Agreements, among other things:

- Siemens has committed to order a certain minimum amount of Xprecia Stride™ strips from UBI over the subsequent 42 months, subject to certain conditions; and
- The Company has the right to pursue partnership and distribution opportunities for point-of-care coagulation products outside of our arrangement with Siemens, which we believe may allow us to access new global markets and market segments, including the hospital point-of-care segment that was previously exclusive to Siemens under the Siemens Collaboration Agreement.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and footnotes thereto as of and for the year ended December 31, 2019, included in the Annual Report on Form 10-K of Universal Biosensors, Inc. filed with the U.S. Securities and Exchange Commission (the "SEC") on February 26, 2020 (the "Annual Report").

The year-end consolidated condensed balance sheets data as at December 31, 2019 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

Certain Uncertainties

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.

The Company is monitoring the potential impact of the novel coronavirus (COVID-19), if any, on the carrying value of certain assets. To date, as a direct result of COVID-19, the HRL operations were temporarily shut down on March 24, 2020. This has had a direct impact on our ability to produce Xprecia Stride™ strips for Siemens. We, however, are able to fulfill Siemens orders in the short term. The extent to which these events may impact the Company's business will depend on future developments, which are highly uncertain and cannot be predicted at this time. The duration and intensity of these impacts and resulting disruption to the Company's operations is uncertain and the Company will continue to assess the financial impact.

Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments. The Company maintains cash and restricted cash, which includes performance guarantee issued in favor of a customer, tenant security deposits and credit card security deposits. As of March 31, 2020, the Company has not realized any losses in such cash accounts and believes it is not exposed to any significant risk of loss.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Short-Term Investments (Held-to-maturity)

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

Concentration of Credit Risk and Other Risks and Uncertainties

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

Derivative Instruments and Hedging Activities

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. For periods ended March 31, 2020 and December 31, 2019, we did not have any assets or liabilities that utilize Level 3 inputs. The valuation of our foreign exchange derivatives are based on the market approach using observable market inputs, such as forward rates and incorporate non-performance risk (the credit standing of the counterparty when the derivative is in a net asset position, and the credit standing of the Company when the derivative is in a net liability position). Our derivative assets are categorized as Level 2. The fair value methodologies described as Level 2 and 3 inputs are defined elsewhere in these notes to the consolidated condensed financial statements.

Fair Value of Financial Instruments

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

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

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

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

Inventory

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to dispose. Inventories are principally determined under the average cost method which approximates cost. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts.

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Raw materials	346,809	411,233
Work in progress	156,601	213,080
Finished goods	482,882	453,751
	986,292	1,078,064

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Receivables

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

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Accounts receivable	95,309	116,626
Allowance for doubtful debts	0	0
	95,309	116,626

Property, Plant, and Equipment - net

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

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

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

Impairment of Long-Lived Assets

The Company reviews its capital assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, the Company estimates undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows. Impairment of long-lived-assets as at March 31, 2020 and December 31, 2019 were A$2,574,709.

Government grants

From 2017 to 2019, the Company was entitled to receive Commonwealth of Australia grant monies under grant agreements to support its development activities, including in connection with the purchase of plant and equipment. This grant was terminated by mutual consent on December 19, 2019. Plant and equipment is presented net of the government grant of A$360,818 for the year ended December 31, 2019 (2018: A$360,818). The grants are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased. Grants received in advance of the relevant expenditure are treated as deferred income and included in Current Liabilities on the balance sheet as the Company does not control the monies until the relevant expenditure has been incurred. Grants due to the Company under research agreements are recorded as Currents Assets on the balance sheet.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Other Liabilities

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

Research and Development

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

Income Taxes

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

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

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

At December 31, 2019 the Company had A$15,020,955 (nil as at December 31, 2018) 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. A valuation allowance against these losses has been established, as realization of assets is not more likely than not in the foreseeable future. The Company also had A$3,374,776 (A$3,374,776 at December 31, 2018) of non-refundable R&D tax offset as at December 31, 2019. The R&D Tax offset is a non-refundable tax offset, which assists to reduce a company's tax liability. Once the liability has been reduced to zero, any excess offset may be carried forward into future income years. UBI has U.S. tax losses available for carry forward against future earnings of nil as at December 31, 2019 and 2018. Pursuant to the U.S. Federal Tax Reform, the effective tax rate of UBI has been reduced from 34% to 21%. The deferred tax benefit based on this new rate for UBI is nil. HRL has Canadian tax losses available for carry forward against future earnings of CAD$401,743 and CAD$738,848 as at December 31, 2019 and 2018, respectively.

We are subject to income taxes in the United States, Canada and Australia. Tax returns up to and including the 2018 financial year has been filed in all these jurisdictions.

Asset Retirement Obligations

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

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

ARO for the period ended March 31, 2020 and December 31, 2019 were A$2,619,099 and A$2,600,000, respectively.

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

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

Revenue Recognition

Revenue from products and services

A. Significant accounting policy

We recognize revenue from all sources based on the provisions of ASC 606 Revenue from Contracts with Customers.

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

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

B. Nature of goods and services

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

Products and services	*Nature, timing of satisfaction of performance obligations, and significant payment terms*
Point-of-care coagulation test devices	The Company recognizes revenue from sales of products at the time title of goods passes to the customer and the customer assumes the risks and rewards of ownership. The performance obligation is satisfied at a point in time when the products are shipped to the customer. The customer generally pays the Company within 60 days from receipt of invoice. The transaction price is fixed.
Coagulation testing services	These are services performed by HRL. Revenue is recognized when the testing services undertaken on behalf of the customer have been completed by HRL. The performance obligation is satisfied at a point in time when the tests are completed and the results are forwarded to the customer. The customer pays HRL generally within 30 days from receipt of invoice. The transaction price is fixed.

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C. Disaggregation of revenue

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Major product/service lines		
Xprecia Stride™ strips	368,745	797,359
Coagulation testing services	148,085	411,156
Contract research and development	0	658,675
	516,830	1,867,190
Timing of revenue recognition		
Products and services transferred at a point in time	516,830	1,867,190
Services transferred over time	0	0
	516,830	1,867,190

D. Contract balances

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Receivables	95,309	1,012,520
Contract assets	0	0
Contract liabilities:		
- Current	2,988,965	0
- Non-current	778,998	5,161,646

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represents amounts invoiced and revenue recognized prior to invoicing when we have satisfied our performance obligation and have the unconditional right to payment. A contract asset is an entity's right to payment for goods and services already transferred to a customer but that right to payment is conditional on something other than the passage of time. The contract assets are transferred to the receivables when the rights become unconditional. The contract liabilities primarily relates to the Company's obligation to transfer Xprecia Stride™ strips to Siemens for which the Company has received consideration from Siemens but the transfer has not yet been completed.

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Contract Assets		
Opening balance	0	0
Closing balance	0	0
Increase/(decrease)	0	0
Contract Liabilities - Current		
Opening balance	2,682,404	2,356,583
Closing balance	2,988,965	0
Increase/(decrease)	306,561	(2,356,583)
Contract Liabilities - Non-Current		
Opening balance	1,421,680	3,463,737
Closing balance	778,998	5,161,646
Increase/(decrease)	(642,682)	1,697,909

The opening balance of the contract liabilities as at March 31, 2019 relates to prepayment of milestones by Siemens pursuant to the Siemens Collaboration Agreement. A sum of A$658,675 was recognized as revenue in January 2019 as the Company met one of its milestones whilst the remainder of the milestones consideration previously received but deferred was repaid in September 2019 when the Siemens Collaboration Agreement was terminated.

Contract liabilities as at March 31, 2020 relates to a prepayment of US$4,000,000 towards future strip sales by Siemens on November 1, 2019. The balance of the Siemens prepayment account as at March 31, 2020 is US$2,601,778 (A$3,767,963), reducing by US$232,092 during Q1 2020 as the Company supplied strips to Siemens

E. Transaction price allocated to the remaining performance obligations

There was a prepayment of US$4,000,000 towards future strip sales by Siemens on November 1, 2019. US$232,092 has been recognized as revenue during Q1 2020 as the Company supplied strips to Siemens. The balance of the Siemens prepayment account as at March 31, 2020 is US$2,601,778 (A$3,767,963).

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, an entity which is an R&D entity involved in eligible R&D activities may claim research and development tax incentive income as follows:

(1) as a 43.5% refundable tax offset if aggregate turnover (which generally means an entity's total income that it derives in the ordinary course of carrying on a business, subject to certain exclusions) of the entity is less than A$20,000,000, or

(2) as a 38.5% non-refundable tax offset if aggregate turnover of the entity is more than A$20,000,000.

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

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

In the three months ended March 31, 2020 there is reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2020 will be less than A$20,000,000 and accordingly A$595,305 has been recorded as a research and development tax incentive income for the three months ended March 31, 2020. 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.

Other Income

Other income is recognized when there is reasonable assurance that the income will be received and the consideration can be reliably measured.

Included in other income is an amount of A$600,000 which is expected to be received from our insurer as partial reimbursement of our defense legal costs which was incurred during mediation with Siemens. This amount is included in "Other current-assets" in the consolidated condensed balance sheets.

Foreign Currency

Functional and reporting currency

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

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

Transactions and balances

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

The Company has recorded foreign currency transaction gains/(losses) of A$456,378 and (A$250,100) for the three months ended March 31, 2020 and 2019, 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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. These were nil as at March 31, 2020 and December 31, 2019. Purchase commitments contracted for as at March 31, 2020 and December 31, 2019 were A$1,080,902 and A$220,569, respectively. Contingent consideration as at March 31, 2020 and December 31, 2019 were A$2,429,150 (equivalent to US$1,500,000) and (A$2,141,022 (equivalent to US$1,500,000), respectively. Pursuant to the Siemens Acquisition, the Company has agreed to pay US$1,500,000 to Siemens within five days of Siemens achieving a pre-defined milestone. The Company has the discretion of advising Siemens when the milestone is to be achieved but from the date notification is sent by the Company, Siemens has 90 days to fulfill this milestone. Once the milestone is achieved, it will enable UBI to use Siemens proprietary reagent which will allow UBI to access markets in certain jurisdictions.

Patent and License Costs

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

Clinical Trial Expenses

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

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

Leases

On January 1, 2020, the Company adopted the requirements of Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)” (“ASU No. 2016-02”), using the modified retrospective method and used the effective date as the date of initial application. As a result of this adoption, the following accounting policies were implemented or changed.

At contract inception, the Company determines if the new contractual arrangement is a lease or contains a leasing arrangement. If a contract contains a lease, the Company evaluates whether it should be classified as an operating or a finance lease. Currently, all of the Company’s leases have been classified as operating leases. Upon modification of the contract, the Company will reassess to determine if a contract is or contains a leasing arrangement.

The Company records lease liabilities based on the future estimated cash payments discounted over the lease term, defined as the non-cancellable time period of the lease, together with all the following:

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise the extension option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise the termination option.

Leases may also include options to terminate the arrangement or options to purchase the underlying lease property. The Company does not separate lease and non-lease components of contracts. Lease components provide the Company with the right to use an identified asset, which consist of the Company’s real estate properties and office equipment. Non-lease components consist primarily of maintenance services.

As an implicit discount rate is not readily determinable in the Company’s lease agreements, the Company uses its estimated secured incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future lease payments. For certain leases with original terms of 12 months or less, the Company recognizes lease expense as incurred and does not recognize any lease liabilities. Short-term and long-term portions of operating lease liabilities are classified as lease liabilities in the Company’s consolidated condensed balance sheets.

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Notes to Consolidated Condensed Financial Statements (Unaudited)

A right-of-use ("ROU") asset is measured as the amount of the lease liability with adjustments, if applicable, for lease incentives, initial direct costs incurred by the Company, and lease prepayments made prior to or at lease commencement. ROU assets are classified as operating lease right-of-use assets, net of accumulated amortization, on the company's condensed consolidated balance sheets. The Company evaluates the carrying value of ROU assets if there are indicators of potential impairment, and performs the analysis concurrent with the review of the recoverability of the related asset group. If the carrying value of the asset group is determined to not be fully recoverable and is in excess of its estimated fair value, the Company will record an impairment loss in its consolidated condensed statements of income and comprehensive income/(loss). The Company did not recognize an impairment loss during the three months ended March 31, 2020.

Lease payments may be fixed or variable, however, only fixed payments or in-substance fixed payments are included in the Company's lease liability calculation. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments are incurred.

As part of the adoption of ASU No. 2016-02, the Company elected the following practical expedients: 1) lease vs. non-lease components relating to the real estate asset class; 2) the short-term lease exemption; and 3) the package of practical expedients, which permits the Company to not reassess prior conclusions about lease identification, lease classification, and initial direct costs under the new standard. In addition, the Company elected not to adopt the practical expedient related to hindsight.

The Company's lease portfolio consists primarily of operating leases for office space and equipment and has remaining terms from two years up to three years, with contractual terms expiring from 2022 to 2023. Lease contracts may include one or more renewal options that allow the Company to extend the lease term, typically from three years per each renewal option. The exercise of lease options is generally at the discretion of the Company. None of the Company's leases contain residual value guarantees, substantial restrictions, or covenants. All the leases are substantially within Australia.

Supplemental balance sheet information related to the Company's leases was as follows:

	Three Months Ended March 31, 2020 A$
Operating lease right-of-use assets:	
Current	0
Non-current	4,374,684
Operating lease liabilities:	
Current	376,421
Non-current	4,023,484
Weighted average remaining lease terms (in years)	8.0
Weighted average discount rate	6.0%

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

The components of lease income/expense were as follows:

	Three Months Ended March 31, 2020 A$
Fixed payment operating lease expense	179,938
Variable payment operating lease expense	0
Short-term lease expense	25,972
Sub-lease income	48,539

Supplemental cash flow information related to the Company's leases was as follows:

	Three Months Ended March 31, 2020 A$
Cash paid for amounts included in the measurement of liabilities	0
Operating cash flows from operating leases	154,717
ROU assets obtained in exchange for new operating lease liabilities	0

Future lease payments are as follows:

	As at March 31, 2020 A$
2020	480,132
2021	656,700
2022	679,310
2023	692,834
2024	716,229
Thereafter	2,502,852
Total future lease payments	5,728,057
Less: imputed interest	1,328,152
Total operating lease liabilities	4,399,905
Current	376,421
Non-current	4,023,484

As of March 31, 2020, the Company has not entered into any lease agreements that have not yet commenced.

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.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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.

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

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

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

Stock option activity during the current period is as follows:

	Number of shares	Weighted average exercise price A$
Balance at December 31, 2019	1,911,450	0.46
Granted	0	0.00
Exercised	0	0.00
Lapsed	(12,000)	0.79
Balance at March 31, 2020	1,899,450	0.46

The number of options exercisable as at March 31, 2020 and 2019 was 1,899,450 and 6,616,222, respectively. The total stock compensation income/(expense) recognized in the consolidated condensed statements of comprehensive income/(expense) was A$Nil and A$423,560 for the three months ended March 31, 2020 and 2019, respectively.

As of March 31, 2020, there was nil unrecognized compensation expense.

The aggregate intrinsic value for all options outstanding as at March 31, 2020 and 2019 was zero.

(b) Restricted Share Plan

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

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Notes to Consolidated Condensed Financial Statements (Unaudited)

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

	Number of shares	Weighted average issue price A$
Balance at December 31, 2019	120,814	0.24
Granted	0	0.00
Release of restricted shares	(8,332)	0.24
Balance at March 31, 2020	112,482	0.24

Employee Benefit Costs

The Company contributes 9.50% of each employee's salary to standard defined contribution superannuation funds on behalf of all UBS employees. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee's remuneration to an approved superannuation fund that the employee is typically not able to access until they have reached the statutory retirement age. Whilst the Company has a third party default superannuation fund, it permits UBS employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the consolidated condensed statements of comprehensive income as they become payable.

Registered Retirement Savings Plan and Deferred Sharing Profit Plan

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

Benefit Plan

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

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

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

Total Comprehensive Income/(Loss)

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

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The tax effect allocated to each component of other comprehensive income/(loss) is as follows:

	Before-Tax Amount A$	Tax (Expense)/ Benefit A$	Net-of-Tax Amount A$
Three Months Ended March 31, 2020			
Foreign currency translation reserve	(8,999)	0	(8,999)
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	(8,999)	0	(8,999)
Three Months Ended March 31, 2019			
Foreign currency translation reserve	(6,295)	0	(6,295)
Reclassification for gains realised in net income	0	0	0
Other comprehensive loss	(6,295)	0	(6,295)

Business combinations

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

Recent Accounting Pronouncements

(a) Recent issued accounting standards not yet adopted

ASU No. 2019-12, "Income Taxes"

In December 2019, the FASB issued ASU No. 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." ASU No. 2019-12 is intended to simplify various aspects related to accounting for income taxes, eliminates certain exceptions to the general principles in ASC Topic 740 related to intra-period tax allocation, simplifies when companies recognize deferred taxes in an interim period, and clarifies certain aspects of the current guidance to promote consistent application. This guidance is effective for public entities for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years, with early adoption permitted. This guidance is applicable to the Company's fiscal year beginning June 1, 2021. The Company is currently evaluating the potential effects of this guidance on its consolidated financial statements.

(b) Recently adopted accounting pronouncements

ASU No.2016-02, "Leases"

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

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

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Notes to Consolidated Condensed Financial Statements (Unaudited)

On January 1, 2020 the Company adopted the new accounting pronouncement ASU 2016-02. The adoption of ASU No. 2016-02 resulted in ROU asset and lease liability balances of A$4,486,745 on the Company's consolidated condensed balance sheets as of January 1, 2020. The Company has updated its control framework for new internal controls and made changes to existing internal controls related to the new standard.

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

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

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

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:

Mr. Coleman is a Non-Executive Chairman of the Company and Executive Chairman of Viburnum Funds Pty Ltd. Viburnum Funds Pty Ltd, as an investment manager for its associated funds, holds a beneficial interest and voting power over approximately 21% of our shares.

An employee of Viburnum Funds Pty Ltd has on occasions been seconded to Universal Biosensors to assist the Company on strategic matters. During these periods Viburnum Funds Pty Ltd continues to pay all the salary entitlements of the seconded person. Universal Biosensors is solely responsible for the reimbursement of certain expenditures such as travel and rental whilst the employee is on secondment. The total expenditure reimbursed by the Company to Viburnum Funds Pty Ltd for the three months ended March 31, 2020 and 2019 was A$1,281 and A$7,245, respectively.

There were no other related party transactions as at March 31, 2020 other than as disclosed above.

Warrants

On December 19, 2013, 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 US$15,000,000, which was amended on January 30, 2015 and December 29, 2017 ("Credit Agreement"). The term loan was voluntary prepaid in November 2018 and a Deed of Release was executed in December 2018 releasing all the Transaction Parties securities and obligations under the term loan. Pursuant to the Credit Agreement, UBI issued to the Lenders warrants entitling the holder to purchase up to an aggregate total of 4,500,000 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share (the "Exercise Price"), which represents a 117% premium over the closing price of UBI's common stock on December 19, 2013. The warrants are immediately exercisable and have a term of seven years.

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

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

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

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

Restricted Cash

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

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Cash and cash equivalents	27,601,181	30,229,530
Restricted cash - current assets	2,313,476	2,055,473
Restricted cash - non-current assets	4,946,952	4,907,904
	34,861,609	37,192,907

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

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Collateral for facilities (a) - current assets	0	16,404
Performance guarantee (b) - current assets	2,313,476	2,039,069
Collateral for facilities (c) - non-current assets	320,000	320,000
Performance guarantee (b) - non-current assets	4,626,952	4,587,904
	7,260,428	6,963,377

(a) Represents bank guarantee of CDN$15,000 as security deposit on HRL's credit card. This facility is no longer required

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

(b) Performance guarantee represents letter of credit issued in favour of Siemens pursuant to the 2019 Siemens Agreements. The performance guarantee was initially issued for US$5,000,000 and the same reduces in equal quarterly amounts over the 42 months with effect from September 18, 2019

(c) Represents bank guarantee of A$250,000 for commercial lease of UBS' premises and security deposit on Company's credit cards of A$70,000

Interest earned on the restricted cash for the three months ended March 31, 2020 and 2019 were A$38,356 and A$1,874, respectively.

Acquisition of Assets from Siemens

On September 18, 2019 we entered into certain definitive agreements with Siemens modifying our commercial relationship relating to coagulation products. As part of this arrangement, we agreed on a total consideration of US$13,000,000 of which US$11,000,000 was paid on September 23, 2019. The consideration paid relates primarily to the settlement of the prepaid milestones and acquisition of intangible assets. The transaction did not involve any liabilities being assumed and we have allocated the cost of the assets on the basis of their relative fair values.

(a) Acquisition related costs

These were nil. Legal expense incurred during the period is mainly relating to the settlement of the dispute between the Company and Siemens rather than asset acquisition and as such have been expensed.

(b) Contingent consideration

Pursuant to the Siemens Acquisition, the Company has agreed to pay US$1,500,000 to Siemens within five days of Siemens achieving a pre-defined milestone. The Company has the discretion of advising Siemens when the deadline by which the milestone is to be achieved, and from the date notification is sent by the Company, Siemens has 90 days to fulfil this milestone. Once the milestone is achieved, it will enable UBI to use Siemens proprietary reagent which will allow UBI to access markets in certain jurisdictions. A further US$500,000 will be payable by January 1, 2026 if an intermediate product of the Siemens proprietary reagent is supplied by Siemens and if UBI chooses to use this intermediate product.

(c) Identifiable assets acquired

Total identifiable assets acquired at the acquisition date are as follows:

	A$
Intangible assets - distribution rights[1]	12,013,658
Inventory	368,840
Total identifiable assets acquired	12,382,498
Deferred income tax liability on intangible assets[1]	4,358,338
	16,740,836
Less: Deferred income tax liability on intangible assets	4,358,338
Contingent consideration	2,213,042
Consideration paid in September 2019	10,169,456

1. Total intangible assets recognized in the balance sheet A$16,371,996 including the effect of the deferred tax.

(d) Measurement of fair values

The fair value of the distribution rights acquired has been based on the amount paid. Inventory has been valued at net realizable value.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Intangible Assets

The intangible assets, having finite useful lives, are amortized over their estimated useful lives. Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. The intangible assets comprise of distribution rights and are amortized on a straight-line basis over 10 years. The amortization expense of the intangible assets was A$407,955 for the quarter ended March 31, 2020.

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Intangible assets - gross	16,371,996	16,371,996
Less accumulated amortization	(851,774)	(443,819)
Total intangible assets - net	15,520,222	15,928,177

Impairment of Intangible Assets

Intangible assets with an indefinite life are tested for impairment at least annually and when there is an indication of impairment.

Subsequent Events

There were no subsequent events after the date of the balance sheet that would have an impact on the consolidated condensed financial statements as at March 31, 2020.

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

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

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

Results of Operations

Analysis of Consolidated Revenue

Our total revenue decreased by 72% compared to the same period in the previous financial year as a result of decline in the orders placed by Siemens for the Xprecia Stride™ strips and the decline in HRL's revenues as a direct result of COVID-19.

On September 9, 2019, we entered into binding term sheets, and on September 18, 2019, we entered into certain definitive agreements, in each case with Siemens and including the Distribution Agreement, modifying our commercial relationship relating to coagulation products (the term sheets together with the definitive agreements, the "Agreements"). The Agreements restore our commercial relationship and provide for cooperation between UBI and Siemens to retain and grow the incumbent user base on a non-exclusive basis. Siemens will support this with a minimum Xprecia Stride™ Strip purchase guarantee over 42 months on favorable payment terms, and manufacturing assistance which will enable a reduction in manufacturing costs. The Agreements further enable us to pursue partnership and distribution opportunities for our products outside of our agreements with Siemens, which we believe may allow us to access new global markets and market segments, including the hospital point-of-care segment that was previously exclusive to Siemens. The Agreements also provide UBI with increased control over the pricing for the analyzers and strips it sells. The Agreements further provide UBI with ongoing access to Siemens' proprietary reagent necessary for strip manufacturing (at UBI's discretion and subject to conditions being fulfilled by Siemens), across certain global markets and market segments and now including patient self-test (with the exception of any product that comprises lapidated recombinant human tissue factor which is useful for automated prothrombin time based testing and is marketed or sold (i) in multi-test packages, or (ii) single test packages, and which is not a single test PT product). Finally, the Agreements preserve value created from UBI and Siemens' previous development spending for UBI's sole benefit while ceasing UBI's development spending obligations with respect to Siemens, providing us with control over our development activities.

Revenue from Products

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Revenue from products	368,745	797,359
Cost of goods sold	(415,518)	(494,924)
	(46,773)	302,435
Production contribution margin (%)	(13%)	38%

The movement in revenues is primarily volume driven. Management is of the view that revenues decreased by 54% compared to the same periods in the previous financial year as a result of Siemens purchase order volatility during the period. The production margin from the sale of our PT-INR strips has declined with lower throughput.

Revenue from Services

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

- Contract research and development – we undertake contract research and development on behalf of our customers and partners;
- Other services – coagulation testing services provided by HRL and other ad-hoc services provided on an agreed basis according to our customers and partners requirements.

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Revenue from services:		
Contract research and development	0	658,675
Coagulation testing services	148,085	411,156
	148,085	1,069,831
Cost of services	(219,213)	(221,676)
Net margin	(71,128)	848,155

Contract research and development - a sum of A$658,675 was recognized as revenue in January 2019 as the Company met one of its milestones pursuant to the Siemens Collaboration Agreement.

Coagulation testing services – these services are performed by HRL. Typically, HRL collects blood samples from donors located at hospital clinics and community blood collection sites. These blood samples are used for calibration and testing services. COVID-19 has impacted HRL as their operations, which are located at a hospital have been shut down since March 24, 2020. In addition, local government orders have restricted normal business operations and access to the hospital and community collection sites. Although many laboratory services are deemed to be essential, blood collection has declined severely as patients are advised to not visit blood collection sites or clinics. The lack of appropriate donors and the fact that HRL staff are restricted from accessing their facility and the collection sites have made operations temporarily impossible and the timing of when HRL operations will recommence is unknown at this point in time.

EBITDA

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

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

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Net income/(loss)	(1,463,069)	(2,540,898)
Interest income	(139,132)	(169,824)
Depreciation - cost of goods sold & services	57,196	97,258
Depreciation and amortization - other operating costs & expenses	573,036	275,342
EBITDA	(971,969)	(2,338,122)

The improvement in EBITDA for all periods is primarily as a result of the Company's lower operating costs and expenses.

Product Support

Product support relates to post-market technical support provided by us to Siemens for the Xprecia Stride™ Coagulation Analyzer. We expect product support expenditure to decrease over time.

Depreciation and Amortization Expenses

	Three Months Ended March 31,	
	2020	2019
	A$	A$
Depreciation:		
Charged to cost of goods sold & services	57,196	97,258
Charged to other operating costs & expenses	165,081	275,342
	222,277	372,600
Amortization	407,955	0
Total depreciation and amortization	630,232	372,600
Depreciation - other operating costs & expenses		
Research and development	133,423	231,141
General and administrative	31,658	44,152
Product support	0	49
	165,081	275,342
Amortization	407,955	0
Depreciation and amortization - other operating costs & expenses	573,036	275,342

Depreciation of fixed assets is based on a straight line basis over the useful life of property, plant and equipment. Depreciation is allocated to cost of goods sold and research and development based on output. The decline in depreciation for all periods is due to certain fixed assets being fully written off.

Amortization expense represents intangible assets amortized over their estimated useful lives. These intangible assets were acquired in September 2019 pursuant to the Siemens Acquisition.

Research and Development Expenses

Research and development expenditure principally reflects the effort required in product development of the tests we are developing. Our primary focus currently is the research and development activities in the wine platform. Research and development expenditure decreased by 43% during the three months ended March 31, 2020 compared to the same period in the previous financial year.

For the three month period ended March 31, 2019, we were carrying out research and development activities in the coagulation platform pursuant to the Siemens Collaboration Agreement. Our priority has currently shifted this year wherein our focus is on the testing services for the wine platform. We believe that the wine platform has a faster and cheaper development cycle compared to medical devices hence the decrease in year-to-date research and development expenses.

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

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party may direct the research and development activities and may contribute towards all or part of the cost of these activities, both of which will influence our research and development expenditure. With the termination of the Collaboration Agreement with Siemens, we no longer undertake any research and development activities for Siemens.

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 products and represents the majority of the Company's research and development expenses.

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

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

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 repairs and maintenance, insurance, facility costs not otherwise included in research and development expenses, consultancy fees and professional fees for legal including legal services and maintenance fees incurred for patent applications, audit and accounting services. General and administrative expenses decreased by 31% for the three months ended March 31, 2020 compared to the same period in the previous financial year.

The decrease was primarily due to legal and consultant fees incurred as part of contract negotiations supporting customer relationship management and partner development during the three months ended March 31, 2019. This matter was resolved when we entered into certain definitive agreements with Siemens on September 18, 2019.

Interest Income

Interest income decreased by 18% during the three months ended March 31, 2020 when 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.

Research and development tax incentive income

In the three months ended March 31, 2020 there is reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2020 will be less than A$20,000,000 and accordingly A$595,305 has been recorded as a research and development tax incentive income for the three months ended March 31, 2020.

Research and development tax incentive income is generally in line with the level of research and development expenses.

Research and development tax incentive income for the 2019 financial year has not yet been received and as such is recorded in "Other current assets" in the consolidated balance sheets.

Exchange gain/(loss)

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

Other

Included in other income is a sum of A$600,000 which is expected to be received from our insurer as partial reimbursement of our defense legal costs which was incurred during mediation with Siemens.

Certain Uncertainties

The Company is monitoring the potential impact of the novel coronavirus (COVID-19), if any, on the carrying value of certain assets. To date, as a direct result of COVID-19, the HRL operations were temporarily shut down on March 24, 2020. This has had a direct impact on our ability to produce Xprecia StrideTM strips for Siemens. We, however, are able to fulfill Siemens orders in the short term. The extent to which these events may impact the Company's business will depend on future developments, which are highly uncertain and cannot be predicted at this time. The duration and intensity of these impacts and resulting disruption to the Company's operations is uncertain and the Company will continue to assess the financial impact.

Critical Accounting Estimates and Judgments

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

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

(a) Revenue Recognition

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

(b) Stock-Based Compensation

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

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

Share Price and Exercise Price at Valuation Date

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

Volatility

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

Time to Expiry

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

Risk Free Rate

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

(c) Income Taxes

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

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

(d) Impairment of Long-Lived Assets

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

(e) Warrants

In connection with our US$15,000,000 loan facility, we issued to the Lenders (Athyrium Opportunities Fund (A) LP and Athyrium Opportunities Fund (B) LP) warrants entitling the holder to purchase up to an aggregate total of 4,500,000 million shares of UBI's common stock in the form of CDIs at a price of A$1.00 per share. The fair value of the warrants to purchase common stock is estimated using the Trinomial Lattice model. Each of the inputs to the Trinomial Lattice model is discussed below.

Exercise Price at Valuation Date

The exercise price of the warrants has been determined as stated in the Credit Agreement.

Volatility

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

Time to Expiry

The warrants have a term of seven years.

Risk Free Rate

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

(f) Research and development tax incentive income

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

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

(g) Acquisition Accounting

Accounting for assets on acquisition requires an assessment of the existence, fair value and expected useful economic lives of separate intangible assets at the date of acquisition. The value attributed together with the assessment of useful economic lives determines future amortization charges.

Accounting for deferred contingent acquisition consideration is based on estimates of future performance of the acquired assets over the contractual period. If the future results of these assets differs from the forecast used for these calculations, there may be a material change in the value of these deferred liabilities which would be recorded in the consolidated statements of comprehensive income/(loss).

(h) Carrying value of Intangible Assets

The Company assesses the carrying value of intangible assets annually, or whenever there is an indication of impairment. Identifying indicators or impairment requires judgments to be made as to the prospects and value drivers of the individual assets.

(i) Lease Obligations

The Company assesses the term of the lease including whether the options for renewal will be taken up and the incremental borrowing rate.

Financial Condition, Liquidity and Capital Resources

Net Financial Assets

Our net financial assets position is shown below:

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Financial assets:		
Cash and cash equivalents	27,601,181	30,229,530
Accounts receivables	95,309	116,626
Total financial assets	27,696,490	30,346,156
Debt:		
Short and long term debt/loan	0	0
Total debt	0	0
Net financial assets	27,696,490	30,346,156

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

The decline in our net financial assets position is primarily a result of working capital maintenance generally.

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

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

We regularly review all our financial assets for impairment. There were no impairments recognized as at March 31, 2020 or for the year ended December 31, 2019.

Given the uncertainty in the rapidly changing market and economic conditions related to the COVID-19 outbreak, we will continue to evaluate the nature and extent of the impact to our business and financial position.

Derivative Instruments and Hedging Activities

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider our own and counterparty credit risk. At March 31, 2020 and December 31, 2019, 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).

We had no derivatives or outstanding contracts in place through the period ended March 31, 2020 and for the year ended December 31, 2019.

Measures of Liquidity and Capital Resources

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

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Cash and cash equivalents	27,601,181	30,229,530
Working capital	24,996,106	26,912,358
Ratio of current assets to current liabilities	3.22 : 1	3.65 : 1
Shareholders' equity per common share	0.25	0.26

The movement in cash and cash equivalents and working capital during the above periods was primarily due to working capital maintenance.

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

Summary of Cash Flows

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
	A$	A$
Cash provided by/(used in):		
Operating activities	(3,334,038)	33,239,631
Investing activities	(114,949)	(10,281,242)
Financing activities	0	3,400
Net increase/(decrease) in cash, cash equivalents and restricted cash	(3,448,987)	22,961,789

Our net cash provided by operating activities for all periods represents receipts offset by payments for our research and development projects including efforts involved in establishing and maintaining our manufacturing operations and general and administrative expenditure. Cash outflows from operating activities represent working capital maintenance generally. An increase in operating cash flows during 2019 primarily resulted from the receipt of the lump sum service fee of US$ 31,503,880 from LifeScan pursuant to the LifeScan Conversion on February 18, 2019, prepayment of US$4,000,000 towards future strip sales by Siemens on November 1, 2019, offset by working capital maintenance generally.

Our net cash used in investing activities for all periods is primarily for the purchase of various equipment and for the various continuous improvement programs we are undertaking. Additionally, during September 2019, the Company acquired certain assets from Siemens pursuant to the Siemens Acquisition.

Off-Balance Sheet Arrangement

As of March 31, 2020 and December 31, 2019, we did not have any off-balance sheet arrangements, as such term is defined under Item 303 of Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Segments

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

We operate predominantly in one geographical area, being Australia.

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended March 31, 2020, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above in this Item 4 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

The following risk factors supplement and, to the extent inconsistent, supersede the risks discussed in Part I, Item 1A – "Risk Factors" in our Annual Report. Investing in our shares or CDIs involves a high degree of risk. Before you invest in our shares or CDIs, you should understand the high degree of risk involved. You should carefully consider the following risks and other information in this Form 10-Q and the risks discussed in Part I, Item 1A – "Risk Factors" in the Annual Report and the other information in the Annual Report, including our financial statements and related notes appearing in this Form 10-Q and in the Annual Report, before you decide to invest in our shares or CDIs. If any of the events described herein or therein actually occurs, our business, financial condition and operating results could be harmed. In such an event, the market price of our CDIs would likely decline and you could lose part or all of your investment.

COVID-19 has disrupted our operations.

The COVID-19 pandemic has disrupted the operations of our wholly owned Canadian operating subsidiary, Hemostasis Reference Laboratory Inc. ("HRL"). Typically, HRL collects blood samples from donors located at hospital clinics and community blood collection sites. As a direct result of COVID-19, HRL's operations were temporarily shut down on March 24, 2020. In addition, local government orders have restricted normal business operations and access to the hospital and community collection sites. Although many laboratory services are deemed to be essential, blood collection has declined severely as patients are advised to not visit blood collection sites or clinics. The lack of appropriate donors and the fact that the HRL staff are restricted from accessing their facility and the collection sites have made operations of HRL currently impossible. This has had a direct impact on our ability to produce Xprecia StrideTM strips for Siemens. We are able to fulfill Siemens orders in the short term; however, a continued shutdown of HRL could impact our ability to fulfill Siemens orders in the long term, which could materially and adversely impact our business, results of operations and financial condition.

Our business, results of operations, and our financial condition may be further impacted by the outbreak of COVID-19 and such impact could be materially adverse.

The global spread of COVID-19 has created significant volatility, uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations, and financial results is uncertain and will depend on numerous evolving factors that we may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individual actions taken in response to the pandemic and the impact of those actions on global economic activity;
- the actions taken in response to economic disruption;
- the impact of business disruptions;
- the increase in business failures that we may utilize to source our supplies from and the customers we may serve;
- uncertainty as to the impact or staff availability during and post the pandemic; and
- our ability to provide our services, including as a result of our employees or our customers and suppliers working remotely and/or closures of offices and facilities.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

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 March 31, 2020 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Comprehensive Income/(Loss), (iii) the Consolidated Condensed Statements of Changes in Stockholders' Equity and Comprehensive Income/(Loss), (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements	Filed herewith

SIGNATURES

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

UNIVERSAL BIOSENSORS, INC.
(Registrant)

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

Date: April 24, 2020

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

Date: April 24, 2020

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, Salesh Balak, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 24, 2020

/s/ Salesh Balak
Salesh Balak
Principal Executive Officer
Universal Biosensors, Inc.

Exhibit 31.2

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

I, Salesh Balak, certify that:

1. I have reviewed this report on Form 10-Q of Universal Biosensors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 24, 2020

/s/ Salesh Balak
Salesh Balak
Principal Financial Officer
Universal Biosensors, Inc.

Exhibit 32

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

In connection with the quarterly report of Universal Biosensors, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020, 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 24th day of April, 2020.

/s/ Salesh Balak
Salesh Balak
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.