

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, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-52607



Universal Biosensors, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0424072

(I.R.S. Employer Identification Number)

Universal Biosensors, Inc.
1 Corporate Avenue,
Rowville, 3178, Victoria
Australia

(Address of principal executive offices)

Not Applicable

(Zip Code)

Telephone: +61 3 9213 9000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 212,369,435 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of May 11, 2023.

UNIVERSAL BIOSENSORS, INC.

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Unless otherwise noted, references in 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"), its wholly owned US operating subsidiary, Universal Biosensors LLC ("UBS LLC") and UBS' wholly owned Canadian operating subsidiary, Hemostasis Reference Laboratory Inc. ("HRL") and wholly owned Dutch operating subsidiary, Universal Biosensors B.V. ("UBS BV"). 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\$", "CAD\$" and "€" are references to United States dollars, Canadian dollars and Euros respectively.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	March 31, 2023 A\$	December 31, 2022 A\$
ASSETS		
Current assets:		
Cash and cash equivalents	20,954,691	25,977,703
Inventories	2,985,586	3,142,181
Accounts receivable	1,433,490	974,323
Prepayments	1,203,406	489,800
Restricted cash	0	527,148
Research and development tax incentive income	5,264,384	4,736,106
Other current assets	900,482	824,870
Total current assets	32,742,039	36,672,131
Non-current assets:		
Property, plant and equipment	31,464,576	31,090,787
Less accumulated depreciation	(26,724,958)	(26,507,419)
Property, plant and equipment - net	4,739,618	4,583,368
Intangible assets	0	16,371,996
Less amortization of intangible assets	0	(5,357,211)
Less impairment of intangible assets	0	(11,014,785)
Intangible assets - net	0	0
Right-of-use asset - operating leases	4,279,569	4,422,303
Right-of-use asset - finance leases	56,084	58,421
Restricted cash	320,000	320,000
Other non-current assets	89,348	88,832
Total non-current assets	9,484,619	9,472,924
Total assets	42,226,658	46,145,055
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	276,791	268,074
Accrued expenses	5,028,220	5,888,380
Contingent consideration	2,234,803	2,214,022
Other liabilities	3,052,149	3,023,767
Contract liabilities	41,542	29,851
Lease liability - operating leases	776,689	755,125
Lease liability - finance leases	8,918	8,814
Employee entitlements liabilities	918,227	831,730
Short-term loan - secured	704,039	0
Short-term loan - unsecured	66,151	65,768
Total current liabilities	13,107,529	13,085,531
Non-current liabilities:		
Asset retirement obligations	2,967,490	2,920,630
Employee entitlements liabilities	45,016	48,273
Lease liability - operating leases	3,781,925	3,943,517
Lease liability - finance leases	53,365	55,633
Total non-current liabilities	6,847,796	6,968,053
Total liabilities	19,955,325	20,053,584
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, 2023 (nil at December 31, 2022)	21,237	21,184
Common stock, US\$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 212,369,435 shares at March 31, 2023 (211,844,435 at December 31, 2022)	119,089,616	119,040,784
Additional paid-in capital	(92,678,783)	(65,824,231)
Accumulated deficit	(3,788,788)	(26,854,552)
Current year loss	(371,949)	(291,714)
Accumulated other comprehensive loss	(371,949)	(291,714)
Total stockholders' equity	22,271,333	26,091,471
Total liabilities and stockholders' equity	42,226,658	46,145,055

See accompanying Notes to the Consolidated Condensed Financial Statements.

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

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Revenue		
Revenue from products	1,174,959	1,280,325
Revenue from services	120,505	442,888
Total revenue	1,295,464	1,723,213
Operating costs and expenses		
Cost of goods sold	369,971	663,861
Cost of services	48,717	640,505
Total cost of goods sold and services	418,688	1,304,366
Gross profit	876,776	418,847
Other operating costs and expenses		
Product support	24,722	11,144
Depreciation and amortization	218,223	543,700
Research and development	1,854,463	3,557,115
Selling, general and administrative	3,296,583	1,919,427
Total other operating costs and expenses	5,393,991	6,031,386
Loss from operations	(4,517,215)	(5,612,539)
Other income/(expense)		
Interest income	206,474	4,603
Interest expense	(7,752)	(7,462)
Financing costs	(46,860)	(31,907)
Research and development tax incentive income	528,278	1,117,192
Exchange gain/(loss)	(5,191)	(36,186)
Other income	53,478	35,742
Total other income	728,427	1,081,982
Net loss before tax	(3,788,788)	(4,530,557)
Income tax benefit/(expense)	0	0
Net loss	(3,788,788)	(4,530,557)
Loss per share		
Net loss per share - basic and diluted	(0.02)	(0.03)
Average weighted number of shares - basic and diluted	212,351,935	177,893,726
Other comprehensive gain/(loss), net of tax:		
Foreign currency translation reserve	(80,235)	31,409
Other comprehensive income/(loss)	(80,235)	31,409
Comprehensive loss	(3,869,023)	(4,499,148)

See accompanying Notes to the Consolidated Condensed Financial Statements.

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

Three Months Ended March 31, 2022

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Other comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
	A\$	A\$				
Balances at January 1, 2022	177,828,504	17,783	93,737,565	(65,824,231)	(323,288)	27,607,829
Net loss	0	0	0	(4,530,557)	0	(4,530,557)
Other comprehensive income	0	0	0	0	31,409	31,409
Exercise of stock options issued to employees	160,000	1	3,899	0	0	3,900
Stock-based compensation expense	0	0	74,639	0	0	74,639
Balances at March 31, 2022	177,988,504	17,784	93,816,103	(70,354,788)	(291,879)	23,187,220

Three Months Ended March 31, 2023

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Other comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount				
	A\$	A\$				
Balances at January 1, 2023	211,844,435	21,184	119,040,784	(92,678,783)	(291,714)	26,091,471
Net loss	0	0	0	(3,788,788)	0	(3,788,788)
Other comprehensive income	0	0	0	0	(80,235)	(80,235)
Performance awards and exercise of stock options issued to employees	525,000	53	(53)	0	0	0
Stock-based compensation expense	0	0	48,885	0	0	48,885
Balances at March 31, 2023	212,369,435	21,237	119,089,616	(96,467,571)	(371,949)	22,271,333

See accompanying Notes to the Consolidated Condensed Financial Statements.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Cash flows from operating activities:		
Net loss	(3,788,788)	(4,530,557)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	221,675	651,580
Stock-based compensation expense	48,885	74,639
Non-cash lease expense	21,675	98,337
Unrealized foreign exchange (gains)/losses	(62,680)	83,089
Change in assets and liabilities:		
Inventories	156,595	(264,393)
Accounts receivable	(459,167)	(783,793)
Prepayments and other assets	(1,484,826)	(1,890,505)
Other non-current assets	(517)	(37,421)
Contract liabilities	11,691	(9,028)
Employee entitlements	83,241	(24,495)
Accounts payable and accrued expenses	(558,989)	1,376,213
Net cash used in operating activities	(5,811,205)	(5,256,334)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(404,382)	(273,259)
Net cash used in investing activities	(404,382)	(273,259)
Cash flows from financing activities:		
Proceeds from borrowings	1,056,059	1,002,404
Repayment of borrowings	(351,637)	(445,513)
Other	(31,783)	3,900
Net cash provided by financing activities	672,639	560,791
Net decrease in cash, cash equivalents and restricted cash	(5,542,948)	(4,968,802)
Cash, cash equivalents and restricted cash at beginning of period	26,824,851	18,099,219
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(7,212)	(116,746)
Cash, cash equivalents and restricted cash at end of period	21,274,691	13,013,671

See accompanying Notes to the Consolidated Condensed Financial Statements.

Notes to Consolidated Condensed Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP” or “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 information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the consolidated condensed financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. Operating results for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. These consolidated condensed financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2022 (the “2021 Form 10-K” or “Annual Report”) filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 24, 2023. The year-end consolidated condensed balance sheets data as at December 31, 2022 was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

Principles of Consolidation

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

Use of Estimates

The preparation of the consolidated condensed 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 condensed financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include deferred income taxes, research and development tax incentive income, impairment of definite-lived intangible assets and stock-based compensation expenses. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Company assesses the adoption impacts of recently issued accounting standards by the Financial Accounting Standards Board on the Company’s financial statements as well as material updates to previous assessments, if any, from the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There were no new material accounting standards issued in 2023 that impacted the Company.

Net Loss per Share and Anti-dilutive Securities

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

Foreign Currency

Functional and Reporting Currency

Items included in the financial statements of each of the Company’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 A\$ for all years presented. The functional currencies of UBS LLC, HRL and UBS BV are US\$, CAD\$ and €, respectively, for all years presented.

The consolidated condensed financial statements are presented using a reporting currency of A\$.

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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated condensed statements of comprehensive income/(loss).

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

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

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

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).

Concentration of Credit Risk and Other Risks and Uncertainties

Cash, cash equivalents, restricted cash 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, cash equivalents and restricted cash 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, cash equivalents and restricted cash 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, cash equivalents and restricted cash. The Company has not identified any collectability issues with respect to receivables.

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.

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. The Company recognizes inventory on the consolidated condensed balance sheets when they have concluded that the substantial risks and rewards of ownership, as well as the control of the asset, have been transferred.

Receivables

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for credit losses 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 credit losses, if any, is recorded within selling, general and administrative expenses in the consolidated condensed statements of comprehensive income/(loss). Account balances are charged against the allowance when it is probable the receivable will not be recovered.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Prepayments

Prepaid expenses represent expenditures that have not yet been recorded by the Company as an expense but have been paid for in advance. The Company's prepayments are primarily represented by insurance premiums paid annually in advance.

Other Current Assets

The Company's other current assets are primarily represented by sundry receivables.

Property, Plant and Equipment

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

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment is three to ten 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 and include normal services and do not include items of a capital nature.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property, plant and equipment and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss is recognized when the undiscounted future cash flows expected to result from the use of the asset is less than the carrying amount of the asset. Accordingly, we recognize an impairment loss based on the excess of the carrying value amount over the fair value of the asset.

Australian Goods and Services Tax, Canadian Harmonized Sales Tax, US Sales Tax and European Value Added Tax, collectively "Sales Tax"

Revenues, expenses and assets are recognized net of the amount of associated Sales Tax, unless the Sales Tax 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 Sales Tax receivable or payable. The net amount of Sales Tax recoverable from, or payable to, the taxation authority is included with other current assets or accrued expenses in the consolidated condensed balance sheets dependent on whether the balance owed to the taxation authorities is in a net receivable or payable position.

Leases

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. 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 twelve 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 and finance lease liabilities are classified as lease liabilities in the Company's consolidated condensed balance sheets.

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 or finance lease right-of-use assets, net of accumulated amortization, on the Company’s consolidated condensed 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).

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.

Asset Retirement Obligations

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

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

Revenue Recognition

The Group recognizes revenue predominantly from the sale of analyzers and test strips and the provision of laboratory testing services based on the provisions of ASC 606 Revenue from Contracts with Customers. In accordance with this provision, to determine whether to recognize revenue, the Group follows a five-step process:

- a) Identifying the contract with a customer;
- b) Identifying the performance obligations within the customer contract;
- c) Determining the transaction price;
- d) Allocating the transaction price to the performance obligation; and
- e) Recognizing revenue when/as performance obligations are satisfied.

Nature of goods and services

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

<i>Products and services</i>	<i>Nature, timing of satisfaction of performance obligations and significant payment terms</i>
Coagulation testing products	<p>Our point-of-care coagulation testing products use electrochemical cell technology to measure Prothrombin Time (PT/INR), a test used to monitor the effect of the anticoagulant therapy warfarin.</p> <p>The performance obligation for the sale of these products is satisfied at a point-in-time when the Company transfers control of the products to its customer. The point of transfer of control of the products is dictated by individual terms contained within a customer agreement, as are the payment terms. The transaction price is fixed.</p>
Laboratory testing services	<p>HRL provides non-diagnostic laboratory services and performs these services on behalf of customers.</p> <p>The performance obligation for the services is satisfied when the testing has been finalized and results have been reported to the customer. In some cases, the performance obligations will be satisfied as predetermined milestones have been achieved by the Company.</p>
Wine testing products	<p>Our Sentia wine analyzer is used to measure Free SO₂, Malic Acid, Glucose, Fructose, Total Sugar and Acetic Acid levels in wine.</p> <p>The performance obligation for the sale of this product is satisfied at a point-in-time when the Company transfers control of the products to its customer. The point of transfer of control of the products is dictated by the individual terms contained within a customer agreement, as are the individual payment terms. The transaction price is fixed.</p>

See Note 9 to the Consolidated Condensed Financial Statements for a disaggregation of revenue.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Interest Income

Interest income is recognized as it accrues, taking into account the effective yield and consists of interest earned on cash, cash equivalents and restricted cash in interest-bearing accounts.

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. Subject to meeting a number of conditions, an entity involved in eligible research and development ("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.

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 R&D 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.

The Company has recorded research and development tax incentive income of A\$528,278 and A\$1,117,192 for the three months ended March 31, 2023 and 2022, respectively. In the three months ended March 31, 2023 there is reasonable assurance that the aggregate turnover of the Company for the year ended December 31, 2023 will be less than A\$20,000,000.

Federal and State Government Subsidies

In response to the COVID-19 pandemic, governments in the countries in which we operate implemented government assistance measures to assist in mitigating some of the impact of the pandemic on our results and liquidity. To the extent appropriate, we applied for such government grants in Australia and Canada and recognize the grants at their fair value as other income when there is reasonable assurance that we have complied with all conditions attached to them.

Research and Development Expenditure

R&D expenses consist of costs incurred to further the Company'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. R&D costs are expensed as incurred as they fall in the scope of ASC 730 'Research and Development'.

Clinical Trial Expenses

Clinical trial costs are a component of R&D 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.

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 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.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Employee Benefit Costs

The Company contributes a portion of each employee's salary to standard defined contribution superannuation funds on behalf of all eligible UBS employees in line with legislative requirements. The contribution rate increased from 9.50% to 10.0% for the period commencing July 1, 2021 and increased to 10.5% on July 1, 2022. Superannuation is an Australian compulsory savings program plan for retirement 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/(loss) as the expense is incurred.

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 RRSP. 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.

401k Plan

The Company acts as a plan sponsor for a 401K plan for eligible UBS LLC employees. A 401K plan is a US-based defined-contribution pension account into which the employees can elect to have a percentage of their salary deducted and contributed to the plan. Their contributions are matched by the Company up to a maximum of 10% of their salary.

Income Taxes

We are subject to income taxes in Australia, Canada, the Netherlands and the United States. 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 U.S. tax reform rules, UBI is subject to regulations addressing Global Intangible Low-Taxed Income ("GILTI"). The GILTI rules are 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.

2. Cash, cash equivalents and 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.

	March 31, 2023	December 31, 2022
	A\$	A\$
Cash and cash equivalents	20,954,691	25,977,703
Restricted cash – current assets	0	527,148
Restricted cash – non-current assets	320,000	320,000
	<u>21,274,691</u>	<u>26,824,851</u>

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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

	March 31, 2023	December 31, 2022
	A\$	A\$
Performance guarantee (a) - current assets	0	527,148
Collateral for facilities (b) - non-current assets	320,000	320,000
	<u>320,000</u>	<u>847,148</u>

- (a) The performance guarantee expired in March 2023 and represented letter of credit issued in favour of Siemens pursuant to the 2019 Siemens Agreements.
- (b) Collateral for facilities 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, 2023 and 2022 was A\$7,808 and A\$1,710 respectively.

3. Inventories

	March 31, 2023	December 31, 2022
	A\$	A\$
Raw materials	1,355,848	1,758,073
Work in progress	567,223	646,161
Finished goods	1,062,515	737,947
	<u>2,985,586</u>	<u>3,142,181</u>

4. Receivables

	March 31, 2023	December 31, 2022
	A\$	A\$
Accounts receivables	1,433,490	974,323
Allowance for credit losses	0	0
	<u>1,433,490</u>	<u>974,323</u>

5. Leases

The Company's lease portfolio consists primarily of operating leases for office space and equipment with contractual terms expiring from December 2022 to February 2032. Lease contracts may include one or more renewal options that allow the Company to extend the lease term. 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. The Company's leases are substantially within Australia and Canada.

Operating Leases

	March 31, 2023	December 31, 2022
	A\$	A\$
Operating lease right-of-use assets:		
Non-current	4,279,569	4,422,303
Operating lease liabilities:		
Current	776,689	755,125
Non-current	3,781,925	3,943,517
Weighted average remaining lease terms (in years)	6.7	6.9
Weighted average discount rate	4.8%	4.8%

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

The components of lease income/expense were as follows:

	Three Months ended March 31,	
	2023	2022
	A\$	A\$
Fixed payment operating lease expense	241,523	241,394
Short-term lease expense	0	3,574
Sub-lease income	33,478	35,561

The sub-lease income is deemed an operating lease.

The components of the fixed payment operating and short-term lease expense as classified in the consolidated condensed statements of comprehensive income/(loss) are as follows:

	Three Months ended March 31,	
	2023	2022
	A\$	A\$
Cost of goods sold	0	24,594
Cost of services	9,644	96,204
Research and development	51,773	64,930
Selling, general and administrative	180,106	59,240
	241,523	244,968

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

	Three Months ended March 31	
	2023	2022
	A\$	A\$
Operating cash outflows from operating leases	240,291	146,218

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

	Three Months ended March 31,	
	2023	2022
	A\$	A\$
Right-of-use assets obtained in exchange for lease liabilities	28,353	3,035,194
Right-of-use asset modifications	0	0

Future lease payments are as follows:

	March 31,		December 31, 2022	
	2023			
	A\$		A\$	
2023	730,216		963,323	
2024	995,460		986,482	
2025	1,019,227		1,010,199	
2026	404,321		395,242	
2027	413,266		404,135	
Thereafter	1,793,856		1,783,435	
Total future lease payments	5,356,346		5,542,816	
Less: imputed interest	(797,732)		(844,174)	
Total operating lease liabilities	4,558,614		4,698,642	
Current	776,689		755,125	
Non-current	3,781,925		3,943,517	

On October 22, 2021, UBS entered into a lease arrangement to install solar panels and inverters ("panels"). The lease commenced in January 2022 upon installation of the panels. The panels were installed at the Company's 1 Corporate Avenue premises. The lease has a term of seven years and an option to buy at the end of the term.

As of March 31, 2023, the Company has not entered into any operating or finance lease agreements that have not yet commenced.

Notes to Consolidated Condensed Financial Statements (Unaudited)

6. Contingent Consideration

Pursuant to the Siemens Acquisition and the agreement dated September 2019, 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. Notification has not yet been issued to Siemens. Once the milestone is achieved, it will enable the Company to use Siemens proprietary reagent which will allow the Company to access markets in certain jurisdictions.

7. Other Liabilities

Other liabilities represent a marketing support payment due to one of our partners and is payable in US dollars. The balance will be paid once supporting documentation has been provided to the Company.

8. Borrowings

The unsecured loan is a government guaranteed loan called Canada Emergency Business Account (CEBA) of CAD\$60,000 to help eligible businesses with operating costs. CAD\$40,000 was received by the Company in 2020 and CAD\$20,000 in 2021. This is among the business support measures introduced in the Canadian Federal Government's COVID-19 Economic Response Plan, with the following terms:

- the loan is interest-free, and no principal repayment is required before December 31, 2023;
- if the Company chooses to repay at least CAD\$40,000 of the loan by December 31, 2023, the remaining balance will be forgiven;
- if the loan is not repaid by the above-mentioned date, it will be converted into a 2-year term loan and will be charged an interest rate of 5% per annum. Interest-only payments are required each month; and
- at the end of the 2-year term, the entire balance of the loan is due for repayment by December 31, 2025.

The secured loan is a short-term loan facility the Company entered into with BOQF Cashflow Finance Pty Ltd to finance its 2023 insurance premium. The total amount financed was A\$1,056,059 at inception and has the following terms:

- the facility is repayable in 9 monthly instalments which commenced in January 2023;
- interest is being charged at an effective annual interest rate of 1.99%; and
- The short-term borrowing is secured by proceeds of or payable under any insurance including proceeds or refunds from the cancellation or termination of any insurance.

9. Revenue

Disaggregation of Revenue

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

	Three Months ended March 31	
	2023	2022
	A\$	A\$
Major product/service lines		
Coagulation testing products	580,559	964,589
Laboratory testing services	120,505	442,888
Wine testing products	594,400	315,736
	<u>1,295,464</u>	<u>1,723,213</u>
Timing of revenue recognition		
Products and services transferred at a point in time	1,295,464	1,723,213
	<u>1,295,464</u>	<u>1,723,213</u>

Notes to Consolidated Condensed Financial Statements (Unaudited)

Contract Balances

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

	March 31,	
	2023	2022
	A\$	A\$
Receivables	1,433,490	1,259,957
Contract liabilities	41,542	29,402

The Company's contract liabilities represent the Company's obligation to transfer products to customers for which the Company has received consideration from customers, but the transfer has not yet been completed.

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

	Three Months ended March 31,	
	2023	2022
	A\$	A\$
Contract Liabilities - Current		
Opening balance	29,851	38,431
Closing balance	41,542	29,402
Net increase/(decrease)	11,691	(9,029)

The Company expects all of the Company's contract liabilities to be realized by December 31, 2023.

10. Other Income

Other income is recognized when there is reasonable assurance that the income will be received, and the consideration can be reliably measured. Other income is as follows for the relevant periods:

	Three Months Ended March 31	
	2023	2022
	A\$	A\$
Federal and state government subsidies	20,000	0
Rental income	33,478	35,561
Other income	0	181
	53,478	35,742

11. Total Comprehensive Income/(Loss)

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

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

	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
	A\$	A\$	A\$
Three Months Ended March 31, 2023			
Foreign currency translation reserve	(80,235)	0	(80,235)
Reclassification for gains realized in net income/(loss)	0	0	0
Other comprehensive loss	0	0	0
Other comprehensive loss	(80,235)	0	(80,235)
Three Months Ended March 31, 2022			
Foreign currency translation reserve	31,409	0	31,409
Reclassification for gains realized in net income/(loss)	0	0	0
Other comprehensive income	0	0	0
Other comprehensive income	31,409	0	31,409

Notes to Consolidated Condensed Financial Statements (Unaudited)

12. 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 Director of the Company and Executive Chairman and Associate of Viburnum Funds Pty Ltd ("Viburnum"). Viburnum, as an investment manager for its associated funds, holds a beneficial interest and voting power over approximately 26% of UBI's shares.

On April 20, 2022, the Company announced a fully underwritten non-renounceable rights issue of new CHESS depositary interests over fully paid ordinary shares in UBI ("New CDIs") to raise approximately A\$20.00 million ("Entitlement Offer") at a ratio of 1 New CDI for every 6.85 existing CDIs held at the record date, being April 27, 2022.

In connection with the Entitlement Offer, on April 19, 2022, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Viburnum (the "Underwriter"). Pursuant to the terms of the Underwriting Agreement, the Underwriter agreed to take up its full entitlement under the Entitlement Offer and fully underwrite the Entitlement Offer, which meant that the Underwriter agreed to subscribe for or procure others to subscribe for all securities (if any) not subscribed for by the Company's eligible securityholders under the Entitlement Offer. Following the close of the Entitlement Offer, 25.9 million New CDIs were issued to Viburnum on May 27, 2022, which raised approximately A\$19.94 million.

The Company also agreed, subject to the approval of the stockholders of the Company, to issue to the Underwriter (or its nominee) unlisted options to purchase up to 3,840,000 ordinary shares, in two tranches, as its underwriting fee (the "Underwriter Options") in lieu of cash compensation. The Underwriter Options vested upon issue on May 27, 2022 and have an expiry date of 3 years from their date of issue. The exercise price in respect of half of the Underwriter Options is an amount equal to 120% of the Offer Price, or A\$0.92. The second half of the Underwriter Options have an exercise price equal to 130% of the Offer Price, or A\$1.00. The stockholders of the Company approved the issuance of the Underwriter Options at a special meeting of stockholders held on May 23, 2022.

On May 27, 2022, Viburnum acquired from a member of management, unlisted options to purchase up to 1,000,000 ordinary shares. The options fully vested on March 25, 2020, have an exercise price of \$A0.20 and have an expiry date of March 24, 2024.

There were no material related party transactions or balances as at March 31, 2023 other than as disclosed above.

13. 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, 2023 and December 31, 2022. Purchase commitments are entered into with various parties to purchase products and services such as equipment, technology and consumables used in R&D and commercial activities. Purchase commitments contracted for as at March 31, 2023 and December 31, 2022 were A\$6,697,594 and A\$6,581,876, respectively.

Refer to note 6 for details of the Company's Contingent Consideration.

14. Segment Information

We operate in one segment. We are a specialist biosensors Company focused on the development, manufacture and commercialization of a range of point of use devices for measuring different analytes across different industries.

Our operations are in Australia, US, Europe and Canada. The chief operating decision maker of the Company is the Chief Executive Officer.

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

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 "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "future", "illustration", "intends", "may", "plans", "predicts", "will", "would" 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. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Our Business

We are a specialist biosensors company focused on commercializing a range of biosensors in oenology (wine industry), human health including oncology, coagulation, COVID-19, women's health and fertility, non-human and environmental testing using our patented platform technology and hand-held point-of-use devices.

Key developments from the beginning of the first quarter of 2023 include:

- Revenue from wine testing products increased by 88%
- Revenue from coagulation sales was lower during the period because Siemens purchased A\$732,105 of stock in the prior period (March 2022). Pursuant to our agreement with Siemens, it must cease to sell coagulation products as at March 31, 2023
- UBI direct sales to coagulation customers grew 150%
- Revenue from laboratory services fell during the period
- Gross profit increased 109% during the period
- Completion of Xprecia Prime clinical trials and submission of 510K application to the US Food and Drug Administration
- Global launch of Sentia's Fructose, Acetic Acid and Titratable Acidity tests
- Global launch of the Petrackr blood glucose product
- First sales of next generation Xprecia prime in Europe
- The continuing development and use of aptamer sensing technology on our hand-held platform device
- The Company invested A\$0.28 million in the manufacturing scale-up project which will add approximately 35 million strips annually
- The company incurred A\$1.85 million in the development of new products. A\$0.51 million relates to the following non-recurring products:
 - o A\$0.41 million was incurred in the development of Xprecia Prime
 - o A\$0.10 million was incurred in the development of the Petrackr blood glucose product

Results of Operations

Consolidated Revenue

- Revenue from wine testing products increased by 88%
- Revenue from coagulation sales was lower during the period because Siemens purchased A\$732,105 of stock in the prior period (March 2022). Pursuant to our agreement with Siemens, it must cease to sell coagulation products as at March 31, 2023
- UBI direct sales to coagulation customers grew 150%
- Revenue from laboratory services fell during the period

Revenue from Products

The financial results of the coagulation and wine testing products we sold during the respective periods are as follows:

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Revenue from products	1,174,959	1,280,325
Cost of goods sold	(369,971)	(663,861)
Gross profit	804,988	616,464

Our total revenue from products decreased by 8% during the three months ended March 31, 2023, compared to the same period in the previous financial year but gross profit increased by 31% to A\$804,988 during the same period.

Whilst our revenue from the wine testing products increased by 88% during the three months ended March 31, 2023, compared to the previous financial year, revenues from coagulation testing products declined by 40% during the three months ended March 31, 2023, compared to the same period in the previous financial year.

The increase in revenue from wine testing products is primarily due to the number of test products available for sale in this platform. During the three months ended March 31, 2022, our revenues from wine testing products were primarily from the sale of Sentia analyzers and Free SO₂ test strips. In addition to this, during the three months ended March 31, 2023, we are also generating revenues from the sale of the following additional tests – Malic Acid, Fructose, Glucose and Acetic Acid levels in wine.

Revenue from coagulation testing services during the current period was impacted by the inventory build-up order from Siemens of A\$732,105 during the three months ended March 31, 2022.

Revenue from Services

The financial results of the laboratory testing services we provided during the respective periods are as follows:

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Laboratory testing services	120,505	442,888
Cost of services	(48,717)	(640,505)
Gross profit/(loss)	71,788	(197,617)

Revenue from laboratory testing services decreased by 73% during the three months ended March 31, 2023, compared to the same period in the previous financial year due to the early conclusion of a significant contract from a major customer in the 2022 financial year.

Adjusted EBITDA

We define adjusted EBITDA as net income/(loss) before interest, taxes, depreciation, amortization, accretion of asset retirement obligations, impairment of intangible assets and stock-based compensation expense. Adjusted EBITDA is a non-GAAP measurement. Management uses adjusted 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, U.S. GAAP. Consolidated adjusted EBITDA should not be considered in isolation or as a substitution for analysis of our results as reported under GAAP.

The following table provides a reconciliation of net income/(loss) to adjusted EBITDA.

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Net loss	(3,788,788)	(4,530,557)
Interest income	(206,474)	(4,603)
Interest expense	7,752	7,462
Depreciation and amortization	219,337	651,580
Accretion expense	46,860	31,907
Stock-based compensation expense	48,885	74,639
Adjusted EBITDA	<u>(3,672,428)</u>	<u>(3,769,572)</u>

Improvement in Adjusted EBITDA during the three months ended March 31, 2023, compared to the same period in the previous financial year primarily as a result of decline in our operating losses.

Product Support

Product support relates to post-market technical support provided by us for our products in the market. Product support has increased by A\$13,578 during the three months ended March 31, 2023 compared to the same period in the previous financial year as a result of the launch of new wine testing products.

Depreciation and Amortization Expenses

	Three Months Ended March 31,	
	2023	2022
	A\$	A\$
Depreciation	219,337	245,771
Amortization	2,338	405,809
Total depreciation and amortization	<u>221,675</u>	<u>651,580</u>

Depreciation of fixed assets is calculated on a straight-line basis over the useful life of property, plant and equipment. Although our property, plant and equipment has increased, the decline in depreciation during the three months ended March 31, 2023, compared to the same period in the previous financial year is due certain assets not being currently depreciated as they are not available for use.

Amortization expense for the three months ended March 31, 2023 represents the Company's finance lease liabilities. Amortization expense has declined during the three months period ended March 31, 2023 compared to the same period in the previous financial year as the intangibles assets which were acquired in September 2019 pursuant to the Siemens acquisition were impaired and fully written off as at December 31, 2022.

Research and Development Expenses

The primary focus of the R&D activities during the three months ended March 31, 2023 were developing the Company's:

- Sentia wine testing platform (Fructose, Acetic Acid and Titratable Acidity tests) including further enhancement of certain Sentia tests that has already been launched;
- Xprecia Prime next generation PT-INR Coagulation platform including U.S. Food and Drug Administration ("FDA") Clinical Trial programs. The submission to FDA was made in March 2023;
- Petrackr biosensor strip and meter to be used for the detection and monitoring of diabetes in non-humans;
- Oncology platform Tn Antigen biosensor used for the detection, staging and monitoring of cancer; and
- Aptamer based sensing platform including COVID-19 and female fertility testing.

As we finalise the development of our products, obtain the necessary regulatory approval required for those products and subsequently launch the same, our R&D expenditure is expected to decline. During the current quarter, we finalized the development of and launched the Sentia Fructose and Acetic Acid tests. The Titratable Acidity test was launched in April 2023. We submitted to the FDA our Xprecia Prime clinical trial results. Once approved by the FDA, we will be able to launch this product in the United States. We launched our Petrackr product in May 2023. As a result of these activities our R&D expenditure declined by 48% during the three months ended March 31, 2023, compared to the same period in the previous financial year.

The timing and cost of any development program is dependent upon a number of factors including achieving technical objectives, which are inherently uncertain and subsequent regulatory approvals. We 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 decision making.

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

- consultant and employee related expenses, which include consulting fees, salaries and benefits;
- materials and consumables acquired for the research and development activities;
- verification and validation work on the various R&D projects including clinical trials;
- 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.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist principally of salaries and related costs, including stock-based compensation expense for certain personnel. Other selling, general and administrative expenses include sales and marketing costs to support our products in the market, shipping and handling costs incurred when fulfilling customer orders, repairs and maintenance, insurance, facility costs not otherwise included in R&D expenses, consultancy fees and professional fees including legal services and maintenance fees incurred for patent applications, audit and taxation services.

Selling, general and administrative expenses increased by 72% during the three months ended March 31, 2023, compared to the same period in the previous financial year primarily due to an investment in the Company's sales and marketing efforts. The Company has now multiple products in the market compared to the same period in the previous financial year and these products are supported by various marketing campaigns and awareness including sales personnel to support our pipeline of products.

Interest Income

Interest income increased by A\$201,871 during the three months ended March 31, 2023, compared to the same period in the previous financial year. The increase in interest income is attributable to the higher amount of funds available for investment and higher interest rates.

Interest Expense

Interest expense relates to interest being charged on the secured short-term borrowing initiated by the Company for the 2023 financial year and the interest expense on finance lease liabilities.

Financing Costs

Disclosed in this account is accretion expense which is associated with the Company's asset retirement obligations ("ARO"). Increase in financing costs is as a result of increase in the discount rate used.

Research and Development Tax Incentive Income

As at March 31, 2023 there is reasonable assurance that the aggregate turnover of the Company for the year ending December 31, 2023 will be less than A\$20,000,000 and accordingly an estimated A\$806,691 has been recorded as research and development tax incentive income for the three months ended March 31, 2023. Offset against was this an overstatement of research and development tax incentive income of \$278,413 for the year ended December 31, 2022 and as a result the aggregate amount recognized as income is A\$528,278. The decrease period on period is driven by the decrease in eligible research and development expenditure incurred in the three months ended March 31, 2023 as compared to the same period in 2022.

Research and development tax incentive income for the 2022 financial year has not yet been received and as such is recorded in "Research and development tax incentive income" in the consolidated condensed balance sheet.

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 Income

Other income is as follows for the relevant periods:

	Three Months Ended March 31	
	2023	2022
	A\$	A\$
Federal and state government subsidies	20,000	0
Rental income	33,478	35,561
Other income	0	181
	<u>53,478</u>	<u>35,742</u>

Critical Accounting Estimates and Judgments

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported. Significant items subject to such estimates and assumptions include impairment of intangible assets, deferred income taxes, research and development tax incentive income and stock-based compensation expenses:

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property and equipment and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss is recognized when the undiscounted future cash flows expected to result from the use of the asset is less than the carrying amount of the asset. Accordingly, we recognise an impairment loss based on the excess of the carrying amount over the fair value of the asset.

Deferred Income Taxes

We compute our deferred income taxes based on the statutory tax rates, future forecasts and tax planning opportunities. Judgement is required in determining our future forecasts and evaluating our tax positions and whether it is probable that our tax losses will be utilised.

Our estimates are made based on the best available information at the time we prepare our consolidated condensed financial statements. In making our estimates, we consider the impact of legislative and judicial developments. As these developments evolve, we update our estimates, which, in turn, may result in adjustments to our effective tax rate.

We anticipate realization of a significant portion of our deferred tax assets through the reversal of existing deferred tax liabilities. Although realization is not assured, management believes it is more likely than not that our deferred tax assets, net of valuation allowances, will be realized.

Uncertain tax positions taken or expected to be taken in a tax return are recognized (or derecognized) in the financial statements when it is more likely than not that the position would be sustained on its technical merits upon examination by tax authorities, taking into account available administrative remedies and litigation. Assessment of uncertain tax positions requires significant judgments relating to the amounts, timing and likelihood of resolution.

Stock-based Compensation Expenses

Probability of attaining vesting conditions and the fair value of the stock-based compensation is highly subjective and requires judgement, and results could change materially if different estimates and assumptions were used. The probability assumptions are critically examined by management each reporting period and reviewed by the board of directors for reasonableness.

Research and Development Tax Incentive Income

The refundable tax offset is one of the key elements of the Australian Government's support for Australia's innovation system and if eligible, provides the recipient with cash based upon its eligible research and development activities and expenditures. The calculation of the refundable tax offset requires judgement as to what is eligible research and development activity and expenditure and the outcome will change if different assumptions were used.

Note 1, "Summary of Significant Accounting Policies" in Item 1 of this Form 10-Q and Note 1, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of the 2022 Form 10-K describes in further detail the significant accounting policies and methods used in the preparation of the Company's consolidated condensed financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recognition of revenue and expenses. Actual results may differ from these estimates.

Financial Condition, Liquidity and Capital Resources

Net Cash/(Debt)

Our net cash position is shown below:

	March 31, 2023	December 31, 2022
	A\$	A\$
Cash and cash equivalents		
Cash and cash equivalents	20,954,691	25,977,703
Total cash and cash equivalents	20,954,691	25,977,703
Debt		
Short and long term-debt	770,190	65,768
Net cash	20,184,501	25,911,935

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 loan.

The decline in our net financial assets position is primarily a result of ongoing investment in our R&D activities and the general operations of the Company in particular our sales and marketing initiatives to support our business.

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 of Directors ("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.

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. A financial asset is a non-physical asset whose value is derived from a contractual claim and in our case includes cash and cash equivalents. There were no impairments recognized as at March 31, 2023 or for the year ended December 31, 2022.

The Company is continuing to monitor the potential impact of COVID-19, if any, on the Company's business and financial position.

Measures of Liquidity and Capital Resources

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

	March 31, 2023	December 31, 2022
	A\$	A\$
Cash and cash equivalents	20,954,691	25,977,703
Working capital	19,634,510	23,586,600
Ratio of current assets to current liabilities	2.50	2.80
Shareholders' equity per common share	0.10	0.12

The movement in cash and cash equivalents and working capital (calculated as current assets less current liabilities) during the above periods was primarily the result of ongoing investment in our R&D activities and the general operations of the Company.

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

Summary of Cash Flows

	Three Months ended March 31, 2023	Year Ended December 31, 2022
	A\$	A\$
Cash provided by/ (used in):		
Operating activities	(5,811,205)	(14,702,153)
Investing activities	(404,382)	(1,565,144)
Financing activities	672,639	25,011,276
Net increases/(decrease) in cash, cash equivalents and restricted cash	<u>(5,542,948)</u>	<u>8,743,979</u>

Our net cash used in operating activities for all periods represents receipts offset by payments for our R&D projects including efforts involved in establishing and maintaining our manufacturing operations and selling, general and administrative expenditure. Cash outflows from operating activities primarily represent the ongoing investment in our R&D activities and the general operations of the Company. As we continue launching products, we expect our inflows from the receipt from our customers to eventually exceed the cash outflows from operating activities.

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. Since 2022, we have also made investments in our manufacturing scale-up project and we expect finalization of the same during the first half of 2023.

Our net cash increase in financing activities for the year ended December 31, 2022 is primarily the result of A\$26 million raised pursuant to a A\$20 million fully underwritten rights issue and a A\$6 million placement which occurred in May 2022. Our net cash increase in financing activities for the three months ended March 31, 2023 primarily represents proceeds received in the form of a short-term loan to finance our 2023 insurance program and repayment of the same.

Off-Balance Sheet Arrangement

As of March 31, 2023 and December 31, 2022, 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.

Segment Operating Performance

We operate in one segment. We are a specialist biosensors Company focused on the development, manufacture and commercialization of a range of point of use devices for measuring different analytes across different industries.

Our operations are in Australia, US, Europe and Canada.

The Company's material long-lived assets are predominantly 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 (as defined in Rules 13a-15(e) or 15d-15(e)). 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. John Sharman, Principal Executive Officer and Sales Balak, Principal Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Sharman and Balak concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting.

During the fiscal quarter ended March 31, 2023, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of the 2022 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price. There have been no material changes to the Company's risk factors since the 2022 Form 10-K.

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

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
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, 2023 formatted in Inline 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	As provided in Rule 406T of Regulation S-T, this information is furnished herewith and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.
104	Cover page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)	

SIGNATURES

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

UNIVERSAL BIOSENSORS, INC.
(Registrant)

Date: May 11, 2023

By: /s/ John Sharman
John Sharman
Principal Executive Officer

Date: May 11, 2023

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

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

I, John Sharman, 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: May 11, 2023

/s/ John Sharman

John Sharman
Principal Executive Officer
Universal Biosensors, Inc.

**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: May 11, 2023

/s/ Salesh Balak

Salesh Balak
Principal Financial Officer
Universal Biosensors, Inc.

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, 2023, 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 11th day of May 2023.

/s/ John Sharman
John Sharman
Principal Executive Officer

/s/ Satesh Balak
Satesh 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.