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 June 30, 2011

Universal Biosensors, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**98-0424072**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
Universal Biosensors, Inc. **1 Corporate Avenue,** **Rowville, 3178, Victoria** **Australia** *(Address of principal executive offices)*	**Not Applicable** *(Zip Code)*

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 159,025,161 shares of Common Stock, U.S.$0.0001 par value, outstanding as of August 8, 2011.

UNIVERSAL BIOSENSORS, INC.

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Universal Biosensors, Inc.

Item 1 Financial Statements

Consolidated Condensed Balance Sheets (Unaudited)

	June 30, 2011 A$	December 31, 2010 A$
ASSETS		
Current assets:		
Cash and cash equivalents	17,487,750	23,271,766
Inventories, net	3,236,675	3,191,093
Accounts receivable	1,204,686	3,588,798
Prepayments	415,745	303,181
Other receivables	717,172	46,196
Total current assets	23,062,028	30,401,034
Non-current assets:		
Property, plant and equipment	32,927,380	32,713,280
Less accumulated depreciation	(11,277,353)	(9,586,365)
Property, plant and equipment — net	21,650,027	23,126,915
Other receivables	310,000	310,000
Total non-current assets	21,960,027	23,436,915
Total assets	45,022,055	53,837,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	286,104	1,764,364
Accrued expenses	1,359,739	2,099,477
Employee entitlements provision	768,495	596,294
Total current liabilities	2,414,338	4,460,135
Non-current liabilities:		
Asset retirement obligations	2,082,373	1,998,060
Employee entitlements provision	165,855	160,675
Total non-current liabilities	2,248,228	2,158,735
Total liabilities	4,662,566	6,618,870
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2011 (2010: nil)		
Common stock, $0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 159,017,161 shares in 2011 (2010: 158,871,495)	15,902	15,887
Additional paid-in capital	78,132,152	77,034,717
Accumulated deficit	(29,533,213)	(22,922,688)
Current year loss	(7,957,040)	(6,610,525)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	40,359,489	47,219,079
Total liabilities and stockholders' equity	45,022,055	53,837,949

See accompanying notes to the financial statements

Universal Biosensors, Inc.

Consolidated Condensed Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Revenue				
Revenue from products	$ 2,267,766	$ 1,359,584	$ 5,587,167	$ 2,884,397
Revenue from services	476,129	1,403,779	722,049	3,296,912
Total revenue	2,743,895	2,763,363	6,309,216	6,181,309
Operating costs & expenses				
Cost of goods sold (1)	2,694,792	1,936,716	6,186,844	3,475,152
Cost of services	140,987	247,190	204,506	493,254
Research and development (2)	2,969,982	1,799,551	4,717,489	3,353,778
General and administrative (3)	1,800,900	1,788,984	3,206,258	3,258,593
Total operating costs & expenses	7,606,661	5,772,441	14,315,097	10,580,777
Loss from operations	(4,862,766)	(3,009,078)	(8,005,881)	(4,399,468)
Other income/(expense)				
Interest income	179,444	327,949	404,319	632,968
Other	(226,486)	153,984	(355,478)	143,693
Total other income/(expense)	(47,042)	481,933	48,841	776,661
Net loss before tax	(4,909,808)	(2,527,145)	(7,957,040)	(3,622,807)
Income tax benefit/(expense)	—	—	—	—
Net loss	$ (4,909,808)	$ (2,527,145)	$ (7,957,040)	$ (3,622,807)
Basic and diluted net loss per share	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.02)
Average weighted number of shares used as denominator	159,012,414	157,307,199	158,982,657	157,268,327
Notes:				
1 Includes non-cash compensation expense (cost of goods sold)	$ 71,114	$ 45,051	$ 91,542	$ 85,739
2 Includes non-cash compensation expense (research and development)	$ 345,063	$ 272,343	$ 444,177	$ 518,311
3 Includes non-cash compensation expense (general and administrative)	$ 415,362	$ 219,029	$ 488,745	$ 391,159

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

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

	Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
	Shares	Amount				
		A$	A$	A$	A$	A$
Balances at January 1, 2010	157,155,933	15,716	74,566,698	(22,922,688)	(345,724)	51,314,002
Comprehensive income						
Loss on derivatives and hedges, net of tax	—	—	—	—	38,530	38,530
Net loss	—	—	—	(3,622,807)	—	(3,622,807)
Total comprehensive loss						(3,584,277)
Exercise of stock options issued to employees	184,745	18	89,659	—	—	89,677
Shares issued to employees	581	—	999	—	—	999
Stock option expense	—	—	995,209	—	—	995,209
Balances at June 30, 2010	157,341,259	15,734	75,652,565	(26,545,495)	(307,194)	48,815,610
Balances at January 1, 2011	158,871,495	15,887	77,034,717	(29,533,213)	(298,312)	47,219,079
Comprehensive income						
Net loss	—	—	—	(7,957,040)	—	(7,957,040)
Total comprehensive loss						(7,957,040)
Exercise of stock options issued to employees	145,666	15	72,971	—	—	72,986
Stock option expense	—	—	1,024,464	—	—	1,024,464
Balances at June 30, 2011	159,017,161	15,902	78,132,152	(37,490,253)	(298,312)	40,359,489

See accompanying notes to the financial statements.

Universal Biosensors, Inc.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2011	2010
	A$	A$
Cash flows from operating activities:		
Net loss	(7,957,040)	(3,622,807)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and impairment of plant & equipment	1,694,331	1,452,664
Share based payments expense	1,024,464	995,209
Loss on fixed assets disposal	4,669	—
Change in assets and liabilities:		
Inventory	(45,582)	(446,082)
Accounts receivables	2,384,112	(1,006,270)
Prepaid expenses and other current assets	(929,158)	(338,932)
Accrued income	—	118,305
Employee entitlements	177,381	151,952
Accounts payable and accrued expenses	(1,407,580)	(335,232)
Net cash used in operating activities	(5,054,403)	(3,031,193)
Cash flows from investing activities:		
Instalment payments to acquire plant and equipment	—	(831,321)
Purchases of property, plant and equipment	(802,599)	(355,076)
Net cash used in investing activities	(802,599)	(1,186,397)
Cash flows from financing activities:		
Proceeds from stock options exercised	72,986	90,676
Net cash provided by financing activities	72,986	90,676
Net decrease in cash and cash equivalents	(5,784,016)	(4,126,914)
Cash and cash equivalent at beginning of period	23,271,766	31,291,011
Cash and cash equivalents at end of period	17,487,750	27,164,097

See accompanying notes to the financial statement

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Organization of the Company

We were incorporated as a corporation in the State of Delaware pursuant to the Delaware General Corporation Law on September 14, 2001. Our wholly owned subsidiary and primary operating vehicle, Universal Biosensors Pty Ltd ACN 098 234 309, was incorporated as a proprietary limited company in Australia under the Corporations Act 2001 (*Commonwealth of Australia*) on September 21, 2001. Our research, development and manufacturing activities are undertaken in Melbourne, Australia, by Universal Biosensors Pty Ltd. Our shares of common stock in the form of CHESS Depositary Interests ("CDIs") were quoted on the Australian Securities Exchange ("ASX") on December 13, 2006 and continue to be quoted on that exchange. Our securities are not currently traded on any other public market.

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. The blood test devices we are developing comprise a novel disposable test strip and a reusable meter. These simple to use portable test devices require a finger prick of blood and are designed to be used by the patient (at the "point-of-care") to provide accurate and quick results to enable new treatment or an existing treatment to be immediately reviewed.

We have rights to an extensive patent portfolio comprising patent applications owned by our wholly owned Australian subsidiary, Universal Biosensors Pty Ltd, and a large number of patents and patent applications licensed to us by LifeScan, Inc. ("LifeScan US"), an affiliate of Johnson & Johnson. LifeScan US has granted us a worldwide, royalty free, exclusive license, with a right to sub-license certain electrochemical cell technologies in all fields of use excluding the field of diabetes and blood glucose management generally, the rights to which are retained by LifeScan US pursuant to a license agreement with us ("License Agreement"). We are also parties to a Development and Research Agreement with LifeScan pursuant to which we undertake contract research and development for LifeScan in the area of diabetes management and the development of a blood glucose test for diabetics ("Development and Research Agreement"). We are also parties to a Master Services and Supply Agreement with LifeScan which contains the terms pursuant to which Universal Biosensors Pty Ltd provides certain services in the field of blood glucose monitoring and acts as a non-exclusive manufacturer of the blood glucose test strips we developed. Unless otherwise noted, references to "LifeScan" in this document are references to either LifeScan, Inc. or its affiliates.

We use our technology base to develop a range of electrochemical-cell based tests.

We have developed a blood glucose test (used in the management of diabetes) with LifeScan. We commenced manufacture of the blood glucose test strips for this test in our facility in Corporate Avenue, Rowville, Melbourne, in December 2009. This test was initially launched by LifeScan in the Netherlands in January 2010 under the trade name "One Touch Verio®". Since then, the test has been launched in territories accounting for approximately 90% of the European Self Monitoring Blood Glucose market and in Australia. We act as a non-exclusive manufacturer of the blood glucose test strips. In the future, we expect that LifeScan is likely to manufacture all or a large proportion of its own requirements. Depending on the proportion of strip manufacturing LifeScan undertakes, our revenue from contract manufacturing will reduce. We may need to restructure our business if we do not undertake some level of contract manufacturing of the blood glucose strips or any future blood glucose strips. Subject to mutually agreed terms, we intend to develop other tests for LifeScan in the field of diabetes and blood glucose management.

We are working on a prothrombin time test for monitoring the therapeutic range of the anticoagulant warfarin based on measuring activity of the enzyme thrombin. We are developing a D-dimer test on our immunoassay platform for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). We do not currently intend to establish our own sales and marketing force to commercialize any of the non-blood glucose products which we develop. Rather, our efforts are focused on establishing collaborative partnerships for the tests derived from the platform. In the second half of 2009 we commenced business development efforts to establish partnerships for our tests outside the fields of blood glucose and diabetes. To date we have not secured a partnership outside of blood glucose and diabetes and cannot predict with any certainty when or whether our efforts may be successful. We use third party contractors to assist us in securing partners.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Interim Financial Statements

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2010, included in the Form 10-K of Universal Biosensors, Inc.

The year-end consolidated condensed balance sheet data as at December 31, 2010 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Certain prior year amounts in the consolidated condensed financial statements have been reclassified to conform to the current presentation.

Basis of Presentation

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All amounts are expressed in Australian dollars ("AUD" or "A$") unless otherwise stated.

The Company's 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.

During 2010, the Company and its wholly owned subsidiary Universal Biosensors Pty Ltd (collectively referred to as "Universal Biosensors" or "the Group") ceased to be a development stage enterprise as it has established its commercial scale manufacturing and is generating revenue from its manufacturing operations.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary Universal Biosensors Pty Ltd. All intercompany balances and transactions have been eliminated on consolidation.

Use of Estimates

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Cash & Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments.

Short-Term Investments (Held-to-maturity)

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

Concentration of Credit Risk and Other Risks and Uncertainties

Cash and cash equivalents and accounts receivables consists of financial instruments that potentially subject the Company to concentration of credit risk to the extent of the amount recorded on the balance sheet. The Company's cash and cash equivalents are invested with two of Australia's four 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 balance sheets. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company has not identified any collectability issues with respect to receivables.

Derivative Instruments and Hedging Activities

Derivative financial instruments

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

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

Cash flow hedges

Exposure to foreign exchange risks arises in the normal course of the Company's business and it is generally 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 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. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognized directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

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 income statement in the same period or periods during which the hedged forecast transaction affects the income statement and on the same line item as that hedged forecast transaction. The ineffective part of any gain or loss is recognized immediately in the income statement.

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

transaction is no longer expected to take place, then the cumulative unrealized gain or loss recognized in equity is recognized immediately in the income statement.

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 make the sale. Inventories are principally determined under the average cost method which approximates cost. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost also includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. Costs of purchased inventory are determined after deducting rebates and discounts.

	June 30, 2011	December 31, 2010
	A$	A$
Raw materials — at cost	3,191,663	2,798,045
Work in progress — at cost	45,012	188,629
Finished goods — at cost	—	204,419
	3,236,675	3,191,093

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 collectibility, generally focusing on those accounts that are past due. The current year expense to adjust the allowance for doubtful accounts, if any, is recorded within general and administrative expenses in the consolidated statements of operations. Account balances are charged against the allowance when it is probable the receivable will not be recovered.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at acquisition cost.

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

	June 30, 2011	December, 31 2010
	A$	A$
Plant and equipment	18,561,880	15,110,554
Leasehold improvements	8,831,002	8,810,036
Capital work in process	5,534,498	8,792,690
	32,927,380	32,713,280
Accumulated depreciation	(11,277,353)	(9,586,365)
Property, plant & equipment, net	21,650,027	23,126,915

Capital work in process relates to assets under construction and comprises primarily of specialized manufacturing

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

equipment. Legal right to the assets under construction rests with the Company. The amounts capitalized for capital work in process represents the percentage of expenditure that has been completed, and once the assets are placed into service the Company begins depreciating the respective assets. The accumulated amortisation of capitalised leasehold improvements for the six month period ended June 30, 2011 and for fiscal year ended December 31, 2010 was A$4,815,385 and A$4,090,724, respectively.

The Group receives Victorian government grants under certain research agreements to purchase plant and equipment. Plant and equipment is presented net of the government grant of A$680,221 at June 30, 2011 and A$449,875 at December 31, 2010. 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.

Depreciation expense was A$872,671 and A$727,264 for the three months ended June 30, 2011 and 2010, respectively and A$1,694,331 and A$1,452,664 for the six months ended June 30, 2011 and 2010, respectively.

Research and Development

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

Research and development expenses for the three and six months ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Research and development expenses	2,969,982	1,799,551	4,717,489	3,353,778

Income Taxes

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

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

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to the 2009 financial year have been filed. Internationally, consolidated income tax returns up to the 2010 financial year have been filed.

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

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.

Our overall ARO changed as follows:

	Six Months Ended June 30, 2011 A$	Year Ended December 31, 2010 A$
Opening balance	1,998,060	1,842,547
Accretion expense	84,313	155,513
Ending balance	2,082,373	1,998,060

Fair Value of Financial Instruments

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

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

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

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

Impairment of Long-Lived Assets

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

Universal Biosensors, Inc.

Notes to Consolidated Condensed Financial Statements (Unaudited)

Australian Goods and Services Tax (GST)

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognized as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis.

Revenue Recognition

Revenue from products and services and milestone payment

The revenue from products and the milestone payment are part of an arrangement with multiple deliverables. Universal Biosensors and LifeScan are parties to a Master Services and Supply Agreement which was originally entered into in October 29, 2007 and which contains the terms pursuant to which Universal Biosensors Pty Ltd would provide certain services in the field of blood glucose monitoring to LifeScan and would generally act as a non-exclusive manufacturer of blood glucose test strips. On May 15, 2009, the agreement was amended and restated.

The Master Services and Supply Agreement may be terminated as a result of a party defaulting on its material obligations and failing to remedy that breach after notice requiring it to do so,, a party becoming insolvent, at LifeScan's option if there is a change of control of the Company before LifeScan establishes its own manufacturing capability, at LifeScan's option once it has paid the Company a certain level of service fees (the Company does not expect this level of service fees will be achieved until worldwide sales volumes have increased significantly and have been sustained for a period of time) after paying a lump sum service fee calculated in accordance with the Master Services and Supply Agreement, , or as a result of other factors detailed in the Master Services and Supply Agreement.

Revenue received under the Master Services and Supply Agreement was recognised in accordance with ASC 605-25 which was issued by the FASB in October 2009 and is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company elected to early adopt the provisions of ASC 605-25 as of January 1, 2009 as there was a material modification to the Master Services and Supply Agreement in May 2009. Since there were no amounts recognized in the financial statements relating to the deliverables under the arrangement for the previous three quarters in 2009, there was no impact on previously filed financial statements during that year.

Revenue is earned under the arrangement described above as follows:

- milestone payment. The Company received a milestone payment in December 2009.

The milestone payment is considered a separate unit of accounting as it has stand-alone value to LifeScan on the basis that subsequent to receiving regulatory approval to market this product, LifeScan can manufacture and sell the product on an ongoing basis without involving us. There are no other activities related to this deliverable and consideration is contingent upon regulatory approval. The best estimate of selling price is commensurate with the efforts expended over a number of years plus a reasonable margin to assist LifeScan to achieve the agreed deliverable.

- contract manufacturing. One of two pricing methodologies will apply depending on whether we are manufacturing above or below a specified quantity of blood glucose tests strips in a quarter. If less than the specified quantity of test strips is produced within a quarter, we are considered to be in the "interim costing period". In the interim costing period, the Company is not expected to generate manufacturing profit, but is expected to recover most of its glucose manufacturing costs. As manufactured volumes increase beyond the specified quantity of blood glucose test strips per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect our blood glucose manufacturing operations to be profitable. We were in the interim costing period during the first and second quarter of 2011.

Contract manufacturing of the strip by us is considered a separate unit of accounting as it has stand-alone value to LifeScan as these will be on-sold by LifeScan to its customers. We generally act only as a non-exclusive manufacturer of the blood glucose test strips we developed for LifeScan. There are no general rights of return of the delivered item. There are no other activities related to this deliverable. Consideration is contingent upon receiving firm purchase orders from LifeScan. The best estimate of selling price for contract manufacturing and ongoing efforts to enhance the product has been based on expected costs plus a reasonable margin at normalized volumes.

- product enhancement. A service fee based on the number of strips sold by LifeScan is payable to us as an ongoing reward for our services and efforts to enhance the product.

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The ongoing efforts to enhance the product are considered a separate unit of accounting as it has stand-alone value to LifeScan as it increases the marketability of the product. There are no general rights of return of the delivered item. There are no other activities related to this deliverable. Consideration is contingent upon the sale of the strips by LifeScan. The best estimate of selling price for this deliverable is based on the expected efforts required to achieve this deliverable plus a reasonable margin.

All consideration within the contract is contingent. The remaining undelivered items are not priced at a significant incremental discount to the delivered items. Revenue for each deliverable will be recognized as each contingency is met and the consideration becomes fixed and determinable. Revenue for contract manufacturing is recognised in accordance with generally accepted accounting principles as outlined in ASC 605-10-S99, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. Revenue for ongoing efforts to enhance the product is also recognised in accordance with ASC 605-10-S99 when the final product is sold by LifeScan.

Management has concluded that the core operations of the Company are expected to be the research and development activities, commercial manufacture of approved medical or testing devices and the provision of services such as those specified under the Master Services and Supply Agreement including contract research work. The Company's ultimate goal is to utilize the underlying technology and skill base for the development of a marketable product that the Company will manufacture. The Company considers the income received from the milestone payment, contract manufacturing and the ongoing efforts to enhance the product indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "Net sales and gross revenues".

We perform other services for LifeScan from time to time based on their requirements. There are different arrangements for each service being provided. Revenue recognition principles are assessed for each new contractual arrangement and the appropriate accounting is determined for each service. Revenues received in advance of performing the services are treated as deferred income and included in liabilities on the balance sheet as the Group has not earned these amounts until the relevant services have been performed. We recognize revenue from these services, other than as already detailed above, on the following basis:

(1) as we perform the services

Under the terms of our arrangement with LifeScan, we provide certain services relating to the blood glucose field. In accordance with ASC 605 — Revenue Recognition (formerly Emerging Issues Task Force ("EITF") Issue 99-19), revenue has been recognized on a gross basis as the Company has earned revenue from the provision of services. Other factors which management considered, which support the gross basis of revenue recognition are as follows:

- the Group was responsible for providing the service and was also the primary obligor with respect to purchasing goods and services from third party suppliers which in turn were used to provide services to LifeScan;
- the Group had unmitigated general inventory risk;
- the Group had credit risk; and
- pricing was not fixed but determined by the level of activity.

The principles of revenue recognition in ASC 605 have all been satisfied; services were performed by us which

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were supported by purchase orders issued by LifeScan on a regular basis, collection was assured, delivery of the services had occurred and the amount was objectively determined.

(2) on a proportional performance basis where revenues is related to costs incurred in providing the services required under the contract

The proportional performance method used to recognize revenue is appropriate as the contract amount was determined prior to the commencement of the service, LifeScan receives value as the services are performed and LifeScan need not re-perform the services that it has already received from the Company should the service arrangement be terminated.

Interest income

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

Foreign Currency

Functional and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and Universal Biosensors Pty Ltd is AUD for all years presented.

The consolidated financial statements are presented using a reporting currency of Australian dollars. Effective October 2008, the Company changed its reporting currency from U.S. Dollars (USD) to AUD. Prior to October 2008, the Company reported its consolidated balance sheet, statement of operations and stockholder's equity and cash flows in USD. The change in reporting currency is to better reflect the Company's performance and to improve investor's ability to compare the Company's financial results.

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 Statement of Operations.

The Company has recorded foreign currency transaction (losses)/gains of A$(256,576) and A$169,498 for the three months ended June 30, 2011 and 2010, respectively and A$(367,679) and A$140,030 for the six months ended June 30, 2011 and 2010, 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 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.

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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 June 30, 2011 and December 31, 2010.

Patent and License Costs

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

Clinical Trial Expenses

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

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

Leased Assets

All of the Company's leases are considered operating leases. The costs of operating leases are charged to the statement of operations on a straight-line basis over the lease term.

Stock-based Compensation

As of January 1, 2006, the Company adopted ASC 718, using the modified prospective method, which requires measurement of compensation expense of all stock-based awards at fair value on the date of grant and amortization of the fair value over the vesting period of the award. The Company has elected to use the straight-line method of amortization. Under the modified prospective method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of ASC 718 shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Trinomial Lattice model, which is consistent with valuation techniques previously utilized for options in footnote disclosures required under ASC 718, as amended by ASC 718. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under ASC 718. There were no transitional adjustments on adoption of ASC 718.

In accordance with ASC 718, the fair value of the option grants was estimated on the date of each grant using the Trinomial Lattice model. The assumptions for these option grants issued during the 2010 financial year and for the six month period ended June 30, 2011 were:

	Grant Date				
	Mar-11	Feb-11	Nov-10	Nov-10	Feb-10
Exercise Price (A$)	1.37	1.38	Nil	1.58	1.60
Share Price at Grant Date (A$)	1.37	1.38	1.58	1.58	1.60
Volatility	70%	71%	72%	72%	77%
Expected Life (years)	7	7	7	7	7
Risk Free Interest Rate	5.36%	5.45%	5.27%	5.27%	5.34%
Fair Value of Option (A$)	0.83	0.83	1.58	0.96	0.99

Stock option activity during the current period is as follows:

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	Number of shares	Weighted average exercise price A$
Balance at December 31, 2010	8,539,704	0.93
Granted	2,667,000	1.38
Exercised	(145,666)	0.52
Lapsed	(165,000)	1.31
Balance at June 30, 2011	10,896,038	1.04

The number of options exercisable as at June 30, 2011 and December 31, 2010 was 5,757,551 and 5,908,214, respectively.

As of June 30, 2011, there was A$2,616,505 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized as follows:

Fiscal Year	A$
2011 — remaining periods	1,423,003
2012	924,597
2013	259,709
2014	9,196
	2,616,505

Employee Benefit Costs

The Group contributes to standard defined contribution superannuation funds on behalf of all employees at nine percent of each such employee's salary. 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 are retired. The Company permits employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the statement of operations as they become payable.

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

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

Total Comprehensive Income

The Company follows ASC 220 — Comprehensive Income. Comprehensive income is defined as the total change in shareholders' equity during the period other than from transactions with shareholders, and for the Company, includes net income and cumulative translation adjustments.

Recent Accounting Pronouncements

In April 2010, the FASB issued ASU 2010-13, "Compensation—Stock Compensation (Topic 718): Effect of

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Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades," or ASU 2010-13. This ASU provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of ASU 2010-13 did not have a material impact on the Company's consolidated financial statements.

Related Party Transactions

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

Based on the latest Amendment to Schedule 13G filed on February 10, 2011, Johnson and Johnson Development Corporation (a venture capital subsidiary of Johnson & Johnson) beneficially held 18,207,030 shares in the Company as at December 31, 2010. Third party independent analyst reports indicate that during the six months ended June 30, 2011, Johnson and Johnson Development Corporation reduced their shareholding to 17,231,030 shares in the Company.

The following transactions occurred with LifeScan, a wholly owned subsidiary of Johnson & Johnson:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Current Receivables				
Sale of products			962,997	667
Sale of services			241,689	943,820
			1,204,686	944,487
Revenue				
Revenue from products	2,267,766	1,359,584	5,587,167	2,884,397
Revenue from services	476,129	1,403,779	722,049	3,296,912
	2,743,895	2,763,363	6,309,216	6,181,309

Universal Biosensors, Inc.

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 Form 10-K filed with the United States Securities and Exchange Commission ("SEC"). This Form 10-Q contains, including this discussion and analysis, certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward looking statements, including statements relating to future events and our future financial performance. Those statements in this Form 10-Q containing the words "believes", "anticipates", "plans", "expects", and similar expressions constitute forward looking statements, although not all forward looking statements contain such identifying words.

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

Our Business

We are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. The blood test devices we are developing comprise a novel disposable test strip and a reusable meter. These simple to use portable test devices require a finger prick of blood and are designed to be used by the patient (at the "point-of-care") to provide accurate and quick results to enable a new treatment or an existing treatment to be immediately reviewed.

We use our technology base to develop electrochemical-cell based tests.

We have developed a blood glucose test (used in the management of diabetes) with LifeScan. We commenced manufacture of the blood glucose test strips for this test in our facility in Corporate Avenue, Rowville, Melbourne, in December 2009. This test was initially launched by LifeScan in the Netherlands in January 2010 under the trade name "One Touch Verio®". Since then, the test has been launched in territories accounting for approximately 90% of the European Self Monitoring Blood Glucose market and in Australia. We act as a non-exclusive manufacturer of the blood glucose test strips. LifeScan will establish their own manufacturing capability and, in the future, are likely to manufacture all or a large proportion of their own requirements. Depending on the proportion of strip manufacturing LifeScan undertakes, our revenue from contract manufacturing will reduce. We may need to restructure our business if we do not undertake some level of contract manufacturing of the blood glucose strips or any future blood glucose strips. Subject to mutually agreed terms, we intend to develop other tests for LifeScan in the field of diabetes and blood glucose management. References to "LifeScan" in this document are references to either LifeScan, Inc. or one of its affiliates.

We are working on a prothrombin time test for monitoring the therapeutic range of the anticoagulant warfarin based on measuring activity of the enzyme thrombin. We are developing a D-dimer test on our immunoassay platform for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). We are also developing other tests using the electrochemical cell technology. We do not currently intend to establish our own sales and marketing force to commercialize any of the non-blood glucose products which we develop. Rather, our efforts are focused on establishing collaborative partnerships for the tests derived from the platform. In the second half of 2009 we commenced business development efforts to establish partnerships in fields outside the area of blood glucose and diabetes. To date we have not secured a partnership and cannot predict with any certainty if or when our efforts might be successful.

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Results of Operations

Manufacture of Products

In November 2009, LifeScan received initial regulatory clearance to sell their blood glucose product which we developed with them. We commenced manufacture of the blood glucose test strips required for this product in our facility in Rowville, Melbourne, in December 2009. This test was launched by LifeScan initially in the Netherlands in January 2010 and has subsequently been launched in territories accounting for approximately 90% of the European Self Monitoring Blood Glucose market and in Australia under the trade name "One Touch Verio®". The manufacturing results of the blood glucose test strips during the respective periods are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Revenue from products	2,267,766	1,359,584	5,587,167	2,884,397
Cost of goods sold	(2,694,792)	(1,936,716)	(6,186,844)	(3,475,152)
	(427,026)	(577,132)	(599,677)	(590,755)

Pursuant to the agreement we have with LifeScan, one of two pricing methodologies will apply depending on whether we are manufacturing above or below a specified quantity of blood glucose tests strips in a quarter. If less than the specified quantity of test strips is produced within a quarter, we are considered to be in the "interim costing period". In the interim costing period, the Company is not expected to generate any profit from the manufacture of test strips, but is expected to recover most of its glucose manufacturing costs. As manufactured volumes increase beyond the specified quantity of blood glucose test strips per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect our blood glucose manufacturing operations to be profitable. We were in the interim costing period during the three and six months period ended June 30, 2011 and 2010. Revenue from product sales increased during the three and six months ended June 30, 2011 compared to the same period previous financial year because of increase in volumes as required by LifeScan.

Services Performed

We provide various services to LifeScan. The revenue is grouped into the following categories:

- Contract research and development — we undertake contract research and development in the area of diabetes management for LifeScan;
- Product enhancement — a service fee based on the number of strips sold by LifeScan is payable to us as an ongoing reward for our services and efforts to enhance the product;
- Other services — ad-hoc services provided on an agreed basis based on LifeScan's requirements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Revenue from services	476,129	1,403,779	722,049	3,296,912
Cost of services	(140,987)	(247,190)	(204,506)	(493,254)
	335,142	1,156,589	517,543	2,803,658

The net contribution during the three and six months ended June 30, 2011 has decreased by 71% and 82%, respectively compared to the same period in the previous financial year. Revenue from services has declined as a number of projects with our partner reached conclusion. Revenue from services can rise and fall as programs end and new initiatives start. The nature and scope of the services is determined by our partner.

Research and Development Expenses

Research and development expenses are related to developing electrochemical cell platform technologies. Research

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

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

Our research and development activities can be described as follows:

(a) Blood glucose

In 2009, we completed the research and development efforts relating to the first blood glucose test which we undertook for LifeScan.

There are other blood glucose research and development activities undertaken by us from time to time on behalf of LifeScan. These are recorded under the caption “Cost of Services” as these are specifically funded by LifeScan, the revenue for which is recorded under “Revenue from Services”.

(b) Blood coagulation

Since 2005, we have undertaken development work on a prothrombin time test for monitoring the therapeutic range of the anticoagulant, warfarin, based on measuring activity of the enzyme thrombin. A working prototype has been developed. We expect product validation for this test during 2011.

(c) Immunoassay

We are continuing to develop on our immunoassay platform. We are developing a D-dimer test for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). Development work on this project has been undertaken since early 2008.

This test illustrates the ability for the electrochemical cell platform technology to be expanded to a range of immunoassay tests.

(d) DNA/RNA

We have undertaken some early stage feasibility work assessing the possibility of using DNA binding chemistries to build a strip test for DNA, RNA and as a possible alternative method for improving the sensitivity of protein assays. This concept work is at an early stage and may not yield any positive results. In the event the feasibility shows promise, we would need to negotiate suitable licence terms to access the technology.

We do not currently intend to establish our own sales and marketing force to commercialize any of the non-blood glucose products which we develop. Rather, our strategy is focused on establishing collaborative partnerships for our platform with major multinationals whose ambition is to lead in key clinical and market segments. We have commenced business development efforts to establish partnerships in fields outside the area of blood glucose and diabetes.

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
Research and development expenses	2,969,982	1,799,551	4,717,489	3,353,778

Research and development expenditure increased by 65% and 41% during the three and six months ended June 30, 2011 compared to the same period previous financial year and reflects the development stage of one of our research and development projects being undertaken this financial year. The prothrombin time test project is in the final development phase and is targeted to be ready for submissions for regulatory approval in 2012. Additional costs are incurred in the final stages of the development phase of any research and development activity, including the prothrombin time test, as validation and testing of the test product increases. None of our research and development projects were in an advanced stage during the same period previous financial year.

While it is entirely within our control as to how much we spend on research and development activities in the future, we cannot predict what it will cost to complete our individual research and development programs successfully or when or if they will be commercialized. The timing and cost of any program is dependent upon achieving technical objectives, which are inherently uncertain.

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our non-blood glucose programs. In the event that we are successful in securing such third party collaborative arrangements, the third party will have an important role in directing and potentially funding the research and development activities.

General and Administrative Expenses

General and administrative expenses currently consist principally of salaries and related costs, including stock option expense, for personnel in executive, finance, accounting, information technology and human resources functions. Other general and administrative expenses include depreciation, repairs and maintenance, insurance, facility costs not otherwise included in research and development expenses, consultancy fees and professional fees for legal, audit and accounting services.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	A$	A$	A$	A$
General and administrative expenses	1,800,900	1,788,984	3,206,258	3,258,593

There were no material movements in the general and administrative expenses during the three and six months ended June 30, 2011 compared to the same period previous financial year.

Interest Income

Interest income decreased by 45% and 36% during the three and six months ended June 30, 2011 compared to the same period previous financial year. The decrease in interest income is attributable to the lower amount of funds available for investment.

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.

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

(a) Revenue Recognition

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

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

(b) Stock-Based Compensation

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

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

Share Price at Valuation Date

The value of the options granted in 2008 and 2009 have been determined using the average closing price of the Company's common stock on the ASX on the five days on which the Company's common stock has traded prior to the approval of grant. The value of the options granted since 2010 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 ASX is the only exchange upon which our securities are quoted.

Volatility

We applied an annual volatility determined partially by reference to the annual volatilities of a number of ASX listed companies of a similar size and with similar operations but also having regard to the volatility on the trading data 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) Research and Development Expenditure

We receive grant funding under state and government research grant agreements to undertake work on the applicable grant programs. In order to receive the grant funding, our existing grant agreements require us to incur specified eligible

expenditure in the conduct of the applicable grant program. There are circumstances where grant funding may not be payable and there are certain limited circumstances, such as when we fail to use our best endeavors to commercialize the program within a reasonable time of completion of the program or upon termination of a grant due to our breach of the agreement or our insolvency, where we may be required to repay some or all of the research grants. To date we have not been requested to repay any of our grant monies. The grants are recognized against the related research and development expenses as and when the relevant research expenditure is incurred.

(d) 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.

(e) Impairment of Long-Lived Assets

We review our capital assets, including patents and licenses, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, 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.

Financial Condition, Liquidity and Capital Resources

Net Financial Assets/(Liabilities)

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

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
	A$	A$
Financial assets:		
Cash and cash equivalents	17,487,750	23,271,766
Accounts receivables	1,204,686	3,588,798
Total financial assets	18,692,436	26,860,564
Debt:		
Short and long term debt/borrowings	—	—
Total debt	—	—
Net financial assets	18,692,436	26,860,564

We rely largely on our existing cash and cash equivalents 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 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.

Measures of Liquidity and Capital Resources

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

	Six Months Ended June 30, 2011	Year Ended December 31, 2010
	A$	A$
Cash and cash equivalents	17,487,750	23,271,766
Working capital	20,647,690	26,250,899
Ratio of current assets to current liabilities	9.55 : 1	6.89 : 1
Shareholders' equity per common share	0.25	0.30

The changes in cash and cash equivalents and working capital from December 31, 2010 to June 30, 2011 was primarily due to the timing of cash receipts, payments, sales and accruals in the ordinary course of business. We have not identified any collectability issues with respect to receivables.

Summary of Cash Flows

	Six Months Ended June 30,	
	2011	2010
	A$	A$
Cash provided by/(used in):		
Operating activities	(5,054,403)	(3,031,193)
Investing activities	(802,599)	(1,186,397)
Financing activities	72,986	90,676
Net decrease in cash and cash equivalents	(5,784,016)	(4,126,914)

Our net cash used in operating activities during the six months ended June 30, 2011 and 2010 was primarily for our research and development projects.

Our net cash used in investing activities for all years is primarily for the purchase of various plant and equipment and fit out of our facilities.

Our net cash provided by financing activities is primarily proceeds received from employees exercising their options.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2011 are:

Universal Biosensors, Inc.

	A$
Less than 1 year	546,764
1 — 3 years	987,897
3 — 5 years	—
More than 5 years	—
Total minimum lease payments	1,534,661

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

Contractual Obligations

Our future contractual obligations at June 30, 2011 were as follows:

	Payments Due By Period				
	Total	Less than 1	1 - 3 years	3 - 5 years	More than 5
	A$	A$	A$	A$	A$
Long-Term Debt Obligations	—	—	—	—	—
Asset Retirement Obligations (1)	2,082,373	—	2,082,373	—	—
Operating Lease Obligations (2)	1,534,661	546,764	987,897	—	—
Purchase Obligations (3)	2,808,526	2,808,526	—	—	—
Other Long-Term Liabilities on Balance Sheet under GAAP (4)	165,855	—	100,542	61,674	3,939
Total	6,591,715	3,355,290	3,170,812	61,674	3,939

(1) Represents legal obligations associated with the retirement and removal of long-lived assets.

(2) Our operating lease obligations relate primarily to the lease of our premises.

(3) Represents outstanding purchase orders and contractual obligations that are payable on the achievement of certain milestones

(4) Represents long service leave owing to the employees.

Segments

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

Universal Biosensors, Inc.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Financial Risk Management

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

Foreign Currency Market Risk

We transact business in various foreign currencies, including U.S. dollars and Euros. We have established a foreign currency hedging program using forward contracts to hedge the net projected exposure for each currency and the anticipated sales and purchases in U.S. dollars and Euros. The goal of this hedging program is to economically guarantee or lock-in the exchange rates on our foreign exchange exposures. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

As at balance sheet date, there were no open derivatives.

Interest Rate Risk

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

Universal Biosensors, Inc.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. At the end of the period covered by this report, the Company evaluated the effectiveness of 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. Paul Wright, Chief Executive Officer, and Salesh Balak, Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Wright 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 June 30 , 2011, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such 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.

Universal Biosensors, Inc.

PART II

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

None.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

With the exception of the issuance of shares of Common Stock upon the exercise of stock options issued to employees, there has been no sale of new equity securities by the Company since December 31, 2010. The table below sets forth the number of employee stock options exercised and the number of shares issued in the six month period ended June 30, 2011. The Company issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Exercise Date	Number of Options Exercised and Corresponding Number of Shares Issued	Option Exercise Price	Proceeds Received (A$)
January	50,000	A $0.89	44,500
January	26,667	Nil	—
January	13,333	A $0.50	6,667
January	6,666	A $0.94	6,266
March	40,000	US $0.22	8,693
May	6,667	A $0.70	4,667
May	2,333	A $0.94	2,193
	145,666		72,986

The funds raised will be used for working capital requirements including the continued development of our existing pipeline and point-of-care tests and to identify and develop additional tests.

Item 3 Defaults Upon Senior Securities

None.

Item 4 [Removed and Reserved]

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 June 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the	As provided in Rule 406T of Regulation S-T, this information is furnished herewith and not filed

Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity and Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements tagged as blocks of text for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934

Universal Biosensors, Inc.

SIGNATURES

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

UNIVERSAL BIOSENSORS, INC.
(Registrant)

Date: August 8, 2011

By: /s/ PAUL WRIGHT
Paul Wright
Principal Executive Officer

Date: August 8, 2011

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

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated August 8, 2011

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 June 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Condensed Balance Sheets, (ii) the Consolidated Condensed Statements of Operations, (iii) the Consolidated Condensed Statements of Changes in Stockholder's Equity and Comprehensive Income, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements tagged as blocks of text	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

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, Paul Wright, 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: August 8, 2011

/s/ Paul Wright
Paul Wright
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: August 8, 2011

/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 June 30, 2011, 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 8th day of August 2011.

/s/ Paul Wright
Paul Wright
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.