Universal Biosensors, Inc.
ARBN 121 559 993

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Australia

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Universal Biosensors, Inc.

ASX Preliminary final report – December 31, 2009
Lodged with the ASX under Listing Rule 4.3A

Highlights

- Regulatory Approval
- First Production Lot Shipped
- Product Launched
- Strong Cash Position
- Year End Profit

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This report is to be read in conjunction with any public announcements made during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth) and the Listing Rules of the Australian Securities Exchange.

Contents

Universal Biosensors, Inc.
("Company")

1. **Reporting period: Year ended December 31, 2009**
   (Previous corresponding period: Year ended December 31, 2008)

2. **Results for announcement to the market**

				A$
Revenue from ordinary activities	Up	563%	to	20,705,445
Profit from ordinary activities after tax	Up	112%	to	1,430,463
Net profit for the year attributable to members	Up	112%	to	1,430,463

Dividends
The Company has not and does not propose to pay a dividend in the foreseeable future.

A brief explanation of the above figures is set out in section 14.

3. **Statement of comprehensive income**

   Refer to Schedule 1.

4. **Statement of financial position**

   Refer to Schedule 1.

5. **Statement of cash flows**

   Refer to Schedule 1.

6. **Dividends**

   There were no dividends declared during the year ended December 31, 2009 and the directors do not propose to pay a dividend in the foreseeable future.

7. **Dividend reinvestment plans**

   Not applicable.

8. **Statement of accumulated losses**

   Refer to Schedule 1.

9. **Net tangible asset backing**

	December, 31 2009	December 31, 2008
Net tangible asset per share	A$0.33	A$0.31

10. **Entities over which control has been gained or lost**

    Not applicable.

11. Associates and joint ventures

Not applicable.

12. Other significant information

Nil other than that already disclosed.

13. Foreign entities

The financial statements are presented in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

14. Commentary on results to December 31, 2009

Financial highlights

Revenue from Products

In November 2009, LifeScan received initial regulatory clearance to sell their blood glucose product which we have been assisting to develop. We commenced manufacture of the blood glucose test strips required for this product in our facility in Rowville, Melbourne, in December 2009, ahead of the January 2010 market launch in The Netherlands.

Pursuant to the Master Services and Supply 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. Currently, as we produced less than the specified quantity of test strips per quarter, we are considered to be in the "interim costing period". In the interim costing period, the Company is establishing its commercial scale manufacturing and therefore is not expected to generate any 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 to be profitable in the sale of blood glucose test strips.

Revenue from Services

During the year ended December 31, 2009, we performed various services for LifeScan based on their requirements. Different remuneration arrangement applied depending on the service provided. The major services provided to LifeScan during the 2009 financial year were:

- continuation of the research and development services commenced in prior years which assisted LifeScan secure regulatory approval to sell their blood glucose product. Revenue of A$17,722,641 was recognized from these services
- services to enable LifeScan to establish its own manufacturing line for blood glucose sensor strips
- various other minor services in the blood glucose field

Research and Development Income

We receive research and development income under the Development and Research Agreement with LifeScan. The Development and Research Agreement provides details of the amount to be charged to LifeScan each year for the research and development services carried out by us. The annual research and development income received from LifeScan is agreed with LifeScan from time to time and is subject to us continuing our research and development activities in the blood glucose area, the provision of quarterly reports and other obligations under the Development and Research Agreement. We have and continue to satisfy the requirements of the Development and Research Agreement.

Income is recognized when services have been performed, the amount of the payment can be reliably measured and collectability is reasonably assured. The recognition is not based on the completion of any milestones, or on a percentage of completion basis. The income derived from the Development and Research Agreement is recognized over the period in which the agreed upon research services are completed. Under the Development and Research Agreement, we are not matching the income to a specific expenditure but to a

specified period of research.

Research and development income for the fiscal years ended December 31, 2009, 2008 and 2007 were primarily derived from LifeScan under the Development and Research Agreement and totaled A$1,337,125, A$1,170,190 and A$1,192,015, respectively.

Research and Development Expenses

Our operating expenses to date have substantially been for research and development activities. All research and development costs, including those funded by an Australian research and development grant program, are expensed as incurred.

These expenses are related to developing our 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 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.

Research and development expenses for the fiscal years ended December 31, 2009, 2008, 2007 and for period from inception to December 31, 2009 are as follows:

	Period from inception to December 31, 2009	Years ended December 31,		
		2009	2008	2007
	A$	A$	A$	A$
Research and development expenses	46,180,154	14,898,072	11,885,871	8,029,729
Research grants received recognized against related research and development expenses	(2,366,063)	-	(300,613)	(872,513)
Research and development expenses as reported	43,814,091	14,898,072	11,585,258	7,157,216

We expect that our expenses will increase during 2010 as we expand our research and development programs and expand our organizations manufacturing capability.

We cannot predict what it will cost to complete our research and development programs or when or if they will be completed and 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 programs. In the event that third parties assume responsibility for certain research or development activities, the estimated completion dates of those activities will be under the control of the third party rather than with us. We cannot forecast with any certainty, which programs, if any, will be subject to future collaborative arrangements, in whole, or in part, and how such arrangements would affect our research and development plans or capital requirements.

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 were A$5,635,569, A$5,510,127 and A$4,226,757 in 2009, 2008 and 2007, respectively. We expect that our general and administrative expenses will increase as we expand our legal, accounting, marketing and sales staff, add infrastructure and incur additional costs related to operating as

a company whose shares in the form of CDIs are quoted on the ASX and compliance costs associated with being a domestic United States issuer subject to SEC reporting requirements.

Fair value of stock options issued to employees

As of January 1, 2006, we adopted ASC 718 (formerly Statement No. 123(R) - Share Based Payment). The impact of the change in accounting policy applied prospectively resulted in the stock option expense being A$1,078,771, A$961,108, A$617,715 and A$3,078,661 for the years ended December 31, 2009, 2008, 2007 and for the period from inception to December 31, 2009.

Segment reporting

The Company operates in one segment. The principal activities of the Company are 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 operates predominantly in one geographical area, being Australia.

15. Compliance Statement

This report is based on accounts which are in the process of being audited.

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Salesh Balak
Chief Financial Officer
February 24, 2010

Schedule 1

Universal Biosensors

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED BALANCE SHEET
(Unaudited)

	December 31, 2009	December 31, 2008
	A$	A$
ASSETS		
Current assets:		
Cash and cash equivalents	31,291,011	28,334,864
Inventories, net	305,124	-
Accrued income	118,305	118,305
Accounts receivables	415,397	31,657
Prepayments	2,289,149	3,730,246
Other current assets	364,339	535,000
Total current assets	34,783,325	32,750,072
Property, plant and equipment	27,898,099	23,522,706
Less accumulated depreciation	(6,597,956)	(3,767,457)
Property, plant and equipment - net	21,300,143	19,755,249
Total assets	56,083,468	52,505,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	434,207	630,977
Accrued expenses	1,201,893	838,697
Financial instruments	47,412	-
Deferred income	559,931	-
Employee entitlements provision	421,040	435,387
Total current liabilities	2,664,483	1,905,061
Non-current liabilities:		
Asset retirement obligations	1,842,547	1,699,133
Employee entitlements provision	262,436	197,897
Total non-current liabilities	2,104,983	1,897,030
Total liabilities	4,769,466	3,802,091
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2009 (2008: nil)		
Common stock, $0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 157,155,933 shares in 2009 (2008: 156,976,936)	15,716	15,698
Additional paid-in capital	74,566,698	73,338,995
Accumulated deficit	(24,353,151)	(12,357,265)
Current year earnings/(loss)	1,430,463	(11,995,886)
Accumulated other comprehensive income	(345,724)	(298,312)
Total stockholders' equity	51,314,002	48,703,230
Total liabilities and stockholders' equity	56,083,468	52,505,321

Universal Biosensors

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Period from inception (September 14, 2001) to December 31, 2009	Years ended December 31,		
		2009	2008	2007
	A$	A$	A$	A$
Revenue				
Revenue from products	$ 132,733	$ 132,733	$ -	$ -
Revenue from services	23,694,466	20,572,712	3,121,754	-
Total revenue from ordinary activities	23,827,199	20,705,445	3,121,754	-
Costs of revenues				
Cost of goods sold (1)	458,162	458,162	-	-
Cost of services	3,290,995	169,241	3,121,754	-
Total costs of revenues	3,749,157	627,403	3,121,754	-
Gross profit	20,078,042	20,078,042	-	-
Operating expenses				
Research and development (2 and 3)	43,814,091	14,898,072	11,585,258	7,157,216
General and administrative (4)	19,998,333	5,635,569	5,510,127	4,226,757
Total operating expenses	63,812,424	20,533,641	17,095,385	11,383,973
Research and development income	14,415,089	1,337,125	1,170,190	1,192,015
Profit/(loss) from operations	(29,319,293)	881,526	(15,925,195)	(10,191,958)
Other income/(expense)				
Interest income	5,408,492	809,459	2,542,060	1,440,102
Interest expense	(19,125)	(9,636)	(9,489)	-
Fee income	1,131,222	-	1,131,222	-
Other	(106,190)	(250,886)	265,310	(210,382)
Total other income/(expense)	6,414,399	548,937	3,929,103	1,229,720
Net profit/(loss) before tax	(22,904,894)	1,430,463	(11,996,092)	(8,962,238)
Income tax benefit/(expense)	(17,794)	-	206	145,000
Net profit/(loss)	($ 22,922,688)	$ 1,430,463	($ 11,995,886)	($ 8,817,238)
Basic net profit/(loss) per share	($ 0.28)	$ 0.01	($ 0.08)	($ 0.07)
Average weighted number of shares used as denominator in calculating basic net profit/(loss) per share	80,967,756	157,013,578	156,970,679	129,637,286
Diluted net profit/(loss) per share	($ 0.28)	$ 0.01	($ 0.08)	($ 0.07)
Average weighted number of shares used as denominator in calculating diluted net profit/(loss) per share	80,967,756	161,354,802	156,970,679	129,637,286

Notes:

1 Includes non-cash compensation expense (cost of goods sold)	$ 21,207	$ 21,207	$ -	$ -
2 Net of research grant income in these amounts	$ 2,366,063	$ -	$ 300,613	$ 872,513
3 Includes non-cash compensation expense (research and development)	$ 1,802,226	$ 653,474	$ 661,497	$ 339,882
4 Includes non-cash compensation expense (general and administrative)	$ 1,255,228	$ 404,090	$ 299,611	$ 277,833

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(Unaudited)

	Preference Shares		Ordinary shares		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount A$	Shares	Amount A$	A$	A$	A$	A$
Balances at December 31, 2006	-	-	127,999,976	12,800	39,107,466	(3,540,027)	(298,312)	35,281,927
Issuance of ordinary shares at A$1.20 per share, net of issuance costs	-	-	28,538,362	2,854	32,515,938	-	-	32,518,792
Comprehensive Income								
Net loss	-	-	-	-	-	(8,817,238)	-	(8,817,238)
Foreign currency translation reserve	-	-	-	-	-	-	-	-
Total Comprehensive Income								(8,817,238)
Exercise of stock options issued to employees	-	-	420,474	42	148,386	-	-	148,428
Stock option expense	-	-	-	-	617,715	-	-	617,715
Balances at December 31, 2007			156,958,812	15,696	72,389,505	(12,357,265)	(298,312)	59,749,624
Transaction costs on shares issued in 2007	-	-	-	-	(16,663)	-	-	(16,663)
Comprehensive Income								
Net loss	-	-	-	-	-	(11,995,886)	-	(11,995,886)
Foreign currency translation reserve	-	-	-	-	-	-	-	-
Total Comprehensive Income								(11,995,886)
Exercise of stock options issued to employees	-	-	18,124	2	5,045	-	-	5,047
Stock option expense	-	-	-	-	-	-	-	-
Balances at December 31, 2008	-	-	156,976,936	15,698	72,377,887	(24,353,151)	(298,312)	47,742,122
Comprehensive Income								
Net profit	-	-	-	-	-	1,430,463	-	1,430,463
Loss on derivatives and hedges	-	-	-	-	-	-	(47,412)	(47,412)
Total Comprehensive Income								1,383,051
Exercise of stock options issued to employees	-	-	138,327	14	78,984	-	-	78,998
Shares issued to employees	-	-	40,670	4	69,948	-	-	69,952
Stock option expense	-	-	-	-	1,078,771	-	-	1,078,771
Balances at December 31, 2009	-	-	157,155,933	15,716	73,605,590	(22,922,688)	(345,724)	50,352,894

Note Common stock has a par value of US$0.0001.

All share and per share amounts from inception to December 31, 2006 presented have been retroactively adjusted to give effect to a stock split undertaken in 2006. The par value of common stock was altered after the share split

Universal Biosensors

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENTS OF CASHFLOWS
(Unaudited)

	Period from Inception to December 31, 2009	Years Ended December 31, 2009	2008	2007
	A$	A$	A$	A$
Cash flows from operating activities provided by/(used in):				
Net profit/(loss)	(22,922,688)	1,430,463	(11,995,886)	(8,817,238)
Adjustments to reconcile net profit/(loss) to net cash provided by/(used in) operating activities:				
Net exchange difference	1,102,572	-	-	983,991
Depreciation and impairment of plant & equipment	7,132,568	2,851,285	2,266,847	708,699
Share based payments expense	3,078,661	1,078,771	961,108	617,715
Loss on fixed assets disposal	211,343	60,658	34,207	116,478
Change in assets and liabilities:				
Inventory	(305,124)	(305,124)	486,633	(486,633)
Accounts receivables	(1,053,698)	(114,713)	439,691	(931,864)
Prepaid expenses and other current assets	333,059	141,331	191,728	-
Accrued income	(108,855)	-	(38,494)	31,786
Income tax payable	-	-	(18,000)	(145,000)
Deferred revenue	290,904	290,904	-	-
Employee entitlements	683,476	50,192	264,286	5,835
Accounts payable and accrued expenses	1,875,921	383,389	267,494	146,957
Net cash provided by/(used in) operating activities	(9,681,861)	5,867,156	(7,140,386)	(7,769,274)
Cash flows from investing activities:				
Proceeds/(purchases) from sale of investment securities	-	-	3,123,501	(3,123,501)
Instalment payments to acquire plant and equipment	(5,762,043)	(2,145,808)	(3,616,235)	-
Purchases of property, plant and equipment	(21,588,097)	(844,199)	(5,978,685)	(9,058,265)
Net cash provided by/(used in) investing activities	(27,350,140)	(2,990,007)	(6,471,419)	(12,181,766)
Cash flows from financing activities:				
Gross proceeds from share issue	73,517,472	-	-	34,246,043
Transaction costs on share issue	(4,099,870)	-	(16,663)	(1,727,251)
Proceeds from borrowings	479,673	479,673	-	-
Repayment of borrowings	(479,673)	(479,673)	-	-
Proceeds from stock options exercised	263,043	78,998	5,047	148,428
Net cash provided by/(used in) financing activities	69,680,645	78,998	(11,616)	32,667,220
Net increase/(decrease) in cash and cash equivalents	32,648,644	2,956,147	(13,623,421)	12,716,180
Cash and cash equivalent at beginning of period	-	28,334,864	41,958,285	30,184,756
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(1,357,633)	-	-	(942,651)
Cash and cash equivalents at end of period	31,291,011	31,291,011	28,334,864	41,958,285

(1) Organization of the Company

Universal Biosensors, Inc. (the "Company") was incorporated on September 14, 2001 in the United States, and its wholly owned subsidiary and operating vehicle, Universal Biosensors Pty Ltd, was incorporated in Australia on September 21, 2001. Collectively, the Company and its wholly owned subsidiary Universal Biosensors Pty Ltd are referred to as "Universal Biosensors" or the "Group". The Company's shares of common stock in the form of CHESS Depositary Interests ("CDIs") were quoted on the Australian Securities Exchange ("ASX") on December 13, 2006 following the initial public offering in Australia of the Company's shares of common stock. Our securities are not currently traded on any other public market.

The Company is a specialist medical diagnostics company focused on the research and development, manufacture and commercialization of a range of in vitro diagnostic tests 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 or near to or at the site of 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.

Universal Biosensors has rights to an extensive patent portfolio comprising certain patent applications owned by its wholly owned Australian subsidiary, Universal Biosensors Pty Ltd, and a large number of patents and patent applications licensed to us by LifeScan, Inc. ("LifeScan"), an affiliate of Johnson & Johnson Corporation.

Universal Biosensors has developed a blood glucose test (used in the management of diabetes) with LifeScan which was launched by LifeScan in The Netherlands in January 2010. Subject to mutually agreed terms, we intend to develop other tests in the field of diabetes and blood glucose management generally, for LifeScan. On October 29, 2007 Universal Biosensors entered into a Master Services and Supply Agreement 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 an original version of the initial blood glucose test strips we developed for LifeScan ("Master Services and Supply Agreement"). On December 11, 2008, Universal Biosensors entered into an additional services addendum to provide manufacturing process support to assist LifeScan to establish LifeScan's own manufacturing line for blood glucose test strips at a location of its choosing. On December 11, 2008, the Master Services and Supply Agreement was amended to reflect certain definitional matters in the document. On May 15, 2009, the agreement was amended and restated to incorporate the amendments made in December 2008 and to update the commercial terms of the agreement to reflect a change from the original version of the initial blood glucose test strip to an enhanced version of the initial blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and the Company to enter into a series of additional arrangements for the supply by the Company of additional services and products in the field of blood glucose monitoring. The Company commenced manufacture of the initial blood glucose test strips in its facility in Corporate Avenue, Rowville, Melbourne, in December 2009.

Additionally, the Group continues to provide research and development services to LifeScan in the area of diabetes management to extend and develop the glucose sensor technology owned by LifeScan under a development and research agreement ("Development and Research Agreement").

The Company uses its technology base to develop other electrochemical-cell based tests. The Company does not currently intend to establish its own sales and marketing force to commercialize any of the non-blood glucose products which it develops. Rather, the Company's efforts are focused on establishing collaborative partnerships for the tests derived from the platform. The Company is developing a C-reactive protein test on its dry immunoassay platform to assist in the diagnosis and management of inflammatory conditions. The Company is also developing a D-dimer test for 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). The Company has also 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. The Company has successfully taken the prothrombin time test to a point where the Company considers it has been significantly technically de-risked. The Company does not currently propose to complete the remaining development steps for this test until the path to commercialization for this product is assured and the partnering efforts for the test have been successful.

All business operations and research and development activities are undertaken in Melbourne, Australia by the Company's wholly owned subsidiary, Universal Biosensors Pty Ltd, under the Master Services and Supply Agreement and a research and development sub-contract and sub-license agreement between Universal Biosensors Pty Ltd and the Company.

The Group is considered a development stage enterprise as it is not generating positive cash flows from its commercial manufacturing operations.

(2) 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. The Company made a net profit of A$1,430,463 for the year ended December 31, 2009. The Company recognized a net loss of A$8,817,238 and A$11,995,886 in the years ended December 31, 2007 and 2008, respectively. The Company's accumulated losses from inception to December 31, 2009 are A$22,922,688. The Company's ability to generate future profits is dependant on its ability to generate sufficient revenues under the Master Services and Supply Agreement and/ or from the sale of any of its own products.

(3) 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.

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 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.

Product candidates developed by the Company may require approvals or clearances from the U.S. Food and Drug Administration or other international regulatory agencies prior to commercialized sales. There can be no assurance that the Company's product candidates will receive any of the required approvals or clearances. If the Company was denied approval or clearance of such approval was delayed, it may have a material adverse impact on the Company.

Derivative Instruments and Hedging Activities

Derivative financial instruments

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

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

Cash flow hedges

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

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction, the effective part of any 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 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 market value. Inventories are principally determined under the average cost method.

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, less accumulated depreciation.

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

The Company receives Victorian government grant monies under a grant agreement to support the establishment of a medical diagnostic manufacturing facility in Victoria through the purchase of plant and equipment. Plant and equipment is presented net of the government grant. The grant monies are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased. Grant monies 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 the grant agreement are recorded as "Currents Assets" on the balance sheet.

Research and Development

Research and development expenses consists 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.

The Group receives Australian Commonwealth government grant funding under an R&D Start Grant Agreement as compensation for expenses incurred in respect of certain research activities into dry chemistry immunosensors. Such grants reduce the related research and development expenses as and when the relevant research expenses are incurred. Grants received in advance of incurring the relevant expenditure are treated as deferred research grants and included in "Current Liabilities" on the balance sheet as the Group has not earned these amounts until the relevant expenditure has been incurred. Grants due to the Group under research agreements are included in "Current Assets" as accrued income on the balance sheet.

Research and development expenses for years ended December 31, 2009, 2008, 2007 and for period from inception to December 31, 2009 are as follows:

	Period from inception to December 31, 2009	Years ended December 31,		
	2009	2009	2008	2007
	A$	A$	A$	A$
Research and development expenses	46,180,154	14,898,072	11,885,871	8,029,729
Research grants received recognized against related research and development expenses	(2,366,063)	-	(300,613)	(872,513)
Research and development expenses as reported	43,814,091	14,898,072	11,585,258	7,157,216

Income Taxes

The Company applies ASC 740 - Income Taxes (formerly Statement of Financial Accounting Standards No. 109 – Accounting for 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.

The Company adopted ASC 740 - Income Taxes (formerly FASB Interpretation FIN No. 48 - Accounting for Uncertainty in Income Taxes) effective January 1, 2007 which has not had a material impact on the Company's consolidated financial statements.

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to the 2008 financial year have been lodged. Internationally, consolidated income tax returns up to the 2008 financial year have been lodged.

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 (formerly SFAS No. 143 - Accounting for Asset Retirement 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 wherein 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:

Movement in ARO

	Years ended December 31,	
	2009	**2008**
	A$	**A$**
Opening balance at January 1	1,699,133	1,566,892
New obligations	-	-
Accretion expense	143,414	132,241
Ending balance at December 31	1,842,547	1,699,133

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 by using available market information and appropriate valuation methodologies.

Impairment of Long-Lived Assets

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

of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

Australian Goods and Services Tax (GST)

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

Borrowings

In March 2009, Universal Biosensors Pty Ltd entered into an arrangement with Pacific Premium Funding Pty Limited to fund the Group's insurance premium. The total amount financed was A$479,673 at inception. Interest was charged at a rate of 2% per annum and the short-term borrowing was repayable over an eight month period. The short-term borrowing was secured by the insurance premium refund. The borrowing was fully repaid in August 2009.

Revenue Recognition

Revenue from products and services

The revenue from products and the research and development services are part of an arrangement with multiple deliverables. On October 29, 2007 Universal Biosensors entered into a Master Services and Supply Agreement 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 an original version of the initial blood glucose test strips we developed for LifeScan. On May 15, 2009, the agreement was amended and restated to incorporate certain amendments made in December 2008 and to update the commercial terms of the agreement to reflect a change to an enhanced version of the blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and us to enter into a series of additional arrangements for the supply by us of additional services and products in the field of blood glucose monitoring.

The Master Services and Supply Agreement may be terminated as a result of a party defaulting on its material obligations, a party becoming insolvent, at LifeScan's option after paying a lump sum service fee, 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 ASU No. 2009-13, 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 ASU No. 2009-13 in fiscal 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, there is no impact on previously filed financial statements during the year.

The deliverables under the arrangement described above are as follows:

- research and development services. As compensation for these services, the Company received a fee for services performed of A$17,722,641 triggered by the first grant to LifeScan of regulatory clearance to sell the blood glucose product;
- 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. As we produced less than the specified quantity of test strips per quarter, we are considered to be in the "interim costing period". In the interim costing period, the Company is establishing its commercial scale manufacturing and therefore is not expected to generate any profit, but is expected to recover most of its glucose manufacturing costs. As

volumes increase beyond the specified quantity of blood glucose test strips sold per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect to be profitable in the sale of blood glucose test strips.

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

Research and development 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 developed by us via our research and development efforts, 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 our efforts over a number of years to assist LifeScan to achieve the agreed research and development deliverable

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.

The ongoing efforts to enhance the product is 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 contractual terms.

As all consideration within the contract is contingent, revenue for each deliverable will be recognized as each contingency is met and the consideration becomes fixed and determinable. The fee for research and development services performed is considered to be a substantive payment and the entire amount has been recognized as revenue when the regulatory approval was received. The regulatory approval to market the initial blood glucose product was received on November 4, 2009. Revenue for contract manufacturing is recognised in accordance with generally accepted accounting principles as outlined in ASC 605-10-S99 (formerly Staff Accounting Bulletin No. 104 - Revenue Recognition), 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 recognised in 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 research and development efforts, 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" per Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements and SEC Regulation S-X Article 5-03.

We perform other services for LifeScan 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 Company 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 Company had unmitigated general inventory risk;
- the Company had credit risk; and
- pricing was not fixed but determined by the level of activity.

The transaction with LifeScan satisfies the revenue recognition criteria outlined in ASC 605 (formerly Staff Accounting Bulletin 101/104). The principles of revenue recognition in ASC 605 have all been satisfied; services were performed by us which 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 Company has been providing services to LifeScan to enable LifeScan to establish its own manufacturing line for the blood glucose sensor strips. The proportional performance method has been used to recognize revenue. We believe this method 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.

Research and development income

On April 1, 2002, the Company and LifeScan entered into a Development and Research Agreement pursuant to which the Company agreed to undertake contract research and development for LifeScan in the area of diabetes management to extend and develop the glucose sensor technology owned by LifeScan. The research and development activities are supervised by a steering committee comprised of representatives from both the Company and LifeScan. In consideration of us undertaking the research and development activities, LifeScan makes quarterly payments to the Company. The Development and Research Agreement automatically renews for successive one year periods on the same terms and conditions unless either LifeScan or the Company gives written notice of termination not less than nine months prior to the end of the relevant one year period (in which case the agreement terminates at the end of the relevant one year period), or the Development and Research Agreement is otherwise terminated in accordance with its terms. LifeScan owns all intellectual property developed by the Group under the Development and Research Agreement and the Group receives a license to such intellectual property outside of the LifeScan Field.

The Development and Research Agreement provides details of the amount to be charged to LifeScan each year for the provision of research and development services. Income is recognized ratably over the period to which it relates and when the amount of the payment can be reliably measured and collectibility is reasonably assured. For fiscal 2009, LifeScan paid the Company US$250,000 per quarter under the Development and Research Agreement. For fiscal 2010, the Development and Research Agreement sets out a range of values that the Company or Universal Biosensors Pty Ltd will be paid depending on the level of research and development services required by LifeScan. In subsequent years, the steering committee will recommend the level of funding consistent with LifeScan's requirements.

The income derived from the Development and Research Agreement is recognized over the period in which the agreed upon research services are completed. The Company recognizes income for accounting purposes ratably over the annual grant period. Under the Development and Research Agreement, the Company is not matching the income to a specific expenditure but instead to a specified period of research. The annual research and development income received from LifeScan is agreed upon with LifeScan from time to time and is subject to the Company continuing its research and development activities in the blood glucose area, the provision of quarterly reports and

other obligations under the Development and Research Agreement. The Company has and continues to satisfy the requirements of the Development and Research Agreement.

The Company considers the income received currently under the Development and Research Agreement with estimated costs that do not include all fixed charges on a full absorption basis not to be indicative of its core operating activities or revenue producing goals of the Company, and as such account for this income as "other operating income" per SEC Regulation S-X Article 5-03. The Company is of the view that presenting the income from the Development and Research Agreement as top line revenue with estimated costs that do not include all fixed charges on a full "absorption" basis would not provide the reader of the financial statements with a true indication of future operating margins.

Income recognized pursuant to the Development and Research Agreement has all been received in the financial years stated. No upfront payments have been received from LifeScan. There are no claw backs or repayment obligations relating to the Development and Research Agreement.

Fee Income

Pursuant to the agreement with LifeScan, consideration of A$1,131,222 was paid by LifeScan in consideration of the grant of rights by us. The grant of rights to LifeScan included a detailed written description of the Company's process for the manufacture of the initial blood glucose product, including all underlying know-how relevant to the process. There are no other activities related to this deliverable and there is objective and reliable evidence of the fair value of the undelivered items. The fair value of the rights as determined by management was based on estimated market value of labour hours consumed in writing up the documents relating to the rights. There are no general rights of return of the delivered items. These rights were internally generated and were carried at zero value within our financial statements. The rights were transferred and the consideration received in January 2008 at which time the service requirements (granting of the rights) had been fully satisfied.

The Company considers the income received for the grant of rights is not indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "non-operating income" per Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements and SEC Regulation S-X Article 5-03.

Interest revenue

Interest revenue is recognized as it accrues, taking into account the effective yield on the financial asset.

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 related statements and corresponding notes for and prior to December 31, 2007 have been revised to reflect Australian Dollars as the reporting currency for comparison to the financial results for the years ended December 31, 2008 and 2009. 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.

The functional currency of the Company for financial years up to December 31, 2005 was determined by management to be USD. This was based on the facts that the denomination of a significant proportion of transactions and the major source of finance were in USD.

In 2006, the Company expanded significantly its Australian based research activities. At this time, all of the Company's directors became residents in Australia. Currently, with the exception of one director, all the other

directors are Australian residents. Most of the Company's expenditure on research and development is Australian dollar denominated. It also began planning for and successfully accomplished a capital raising in Australian dollars and listed on the Australian Stock Exchange. The majority of cash and other monetary assets now held by the Company are denominated in Australian dollars.

Due to these changes in circumstance, management are of the view that the functional currency of the Company changed in 2006 to Australian dollars. This change was effective from December 1, 2006. The difference in the foreign exchange movements recognized in 2006 as a result of the change in functional currency was A$44,430.

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 gains/(losses) of A$228,517, A$265,310, (A$210,382) and A$374,251 for each of the years ended December 31, 2009, 2008 and 2007 and the period from inception to December 31, 2009, respectively.

Group companies

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 Foreign Currency Translation Reserve ("FCTR").

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.

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 Group's leases for the years ended December 31, 2007, 2008 and 2009 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

Prior to January 1, 2006, the Company applied ASC 718 – Compensation – Stock Compensation (formerly Accounting Principles Board (APB) Opinion No. 25 - Accounting for Stock Issued to Employees) and related interpretations, in accounting for its fixed-plan stock options. For periods prior to January 1, 2006, the Company complied with the disclosure only provisions of ASC 718 (formerly FASB Statement No.123 - Accounting for Stock-Based Compensation, or SFAS 123). No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant (or within permitted discounted prices as it pertains to the Employee Option Plan). Results for periods before January 1, 2006 have not been restated to reflect, and do not include the impact of, ASC 718 (formerly FASB Statement No. 123(R) - Share Based Payment, or SFAS 123(R)).

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 (formerly SFAS No. 148 - Accounting for Stock-Based Compensation Transition and Disclosure). 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.

Pension Costs

Universal Biosensors Pty Ltd 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 (formerly Statement of Financial Accounting Standards No. 128 – 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. All periods presented in these financial statements have been retroactively adjusted to give effect to the stock split in December 2006 (note 11). 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 Group's loss making position.

Total Comprehensive Income

The Company follows ASC 220 – Comprehensive Income (formerly SFAS No. 130 - Reporting Comprehensive Income (Loss)). 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 March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The Company adopted ASC 815 - Derivative and Hedging (formerly SFAS No. 161) effective January 1, 2009 which has not had a material impact on the Company's consolidated financial statements.

In January, 2009, the company adopted ASC 808 – Collaborative Arrangements (formerly EITF Issue 07-01: "Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property"). This issue addresses the income statement classification of payments made between parties in a collaborative arrangement. ASC 808 has not had a material impact on the Company's consolidated financial statements.

On July 1, 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles", also known as FASB Accounting Standards Codification ("ASC") 105, "Generally Accepted Accounting Principles" ("ASC 105") (the Codification"). ASC 105 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification will supersede all existing non-SEC accounting and reporting standards. For convenience, we have provided references to the Codification throughout this report in addition to the current GAAP source reference.

In April 2009, the FASB issued ASC 825 – Financial Instruments (formerly Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments"). ASC 825 amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" to require disclosures about fair value of financial instruments in interim reporting periods. These disclosures were previously only required in annual financial statements. The adoption of ASC 825 did not have a material impact on our consolidated financial statements as this only requires additional disclosures.

In May 2009, the FASB issued ASC 855 – Subsequent Events (formerly SFAS No. 165 - Subsequent Events), which is effective for interim and annual periods ending after June 15, 2009. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU No. 2009-13"). ASU No. 2009-13 amends guidance included within ASC Topic 605-25 to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU No. 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance. ASU No. 2009-13 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 ASU No. 2009-13 in fiscal 2009.

(4) Commitments and Contingent Liabilities

Operating Leases

Universal Biosensors Pty Ltd entered into a lease with respect to premises at 1 Corporate Avenue, Rowville Victoria which commenced on November 1, 2006 for an initial period of seven years and five months, with two options to renew the lease for successive five-year periods. The Group's primary bank has issued a bank guarantee of A$250,000 in relation to a rental bond to secure the payments under the lease. This bank guarantee is secured by a security deposit held at the bank.

In accordance with the terms of the lease, the lessee has to restore part of the building upon vacating the premises.

The Company has also entered into a lease with respect to certain office equipment. The lease is for a period of 60 months which commenced in December 2007.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2009 are:

	A$
2010	519,598
2011	537,526
2012	556,082
2013	567,931
2014 and thereafter	146,312
Total minimum lease payments	2,327,449

Rent expense was A$533,749, A$514,984, A$482,805 and A$2,352,303 for the fiscal years ended December 31, 2009, 2008 and 2007 and for the period from inception to December 31, 2009, respectively.

Government research grants

Universal Biosensors Pty Ltd received a research grant from the Commonwealth of Australia under the R&D START Program up to a maximum grant amount of A$2,366,063 payable over the period from January 1, 2005 to September 30, 2007. The grant was previously to expire on September 30, 2007. However, the term of the grant was extended to September 30, 2009. The Commonwealth of Australia may terminate the grant agreement for breach of the agreement by Universal Biosensors Pty Ltd, for failure to undertake the required research, if there is a change in control of Universal Biosensors Pty Ltd, or on the grounds of insolvency. In certain limited circumstances where Universal Biosensors Pty Ltd fails to use its best endeavors to commercialize the project within a reasonable time of completion or upon termination of the grant due to breach or insolvency, the Commonwealth of Australia may require Universal Biosensors Pty Ltd to repay some or the entire grant. The Company continues the development of the project funded by the R&D Start Program.

The Company believes that the likelihood of being required to repay grant funding is remote because the Company continues to act in good faith with respect to the grant. Research and development start grant advances of nil (2008: A$262,119) were received during 2009 and income of nil (2008: A$300,613, 2007: A$872,513, and period from inception to December 31, 2009: A$2,366,063) was recognized with A$118,305 recorded as accrued income at December 31, 2009 (2008: A$118,305).

On October 28, 2006, Universal Biosensors Pty Ltd was awarded a grant by the State of Victoria to support the establishment of a medical diagnostic manufacturing facility in Victoria, Australia for the manufacture of new technologies for disease monitoring and to increase support of local and export markets. These payments are subject to the achievement of milestones which include capital expenditure by Universal Biosensors Pty Ltd of predetermined minimum amounts. The State of Victoria may require Universal Biosensors Pty Ltd to refund any amounts paid under the grant together with interest should Universal Biosensors Pty Ltd commit a breach of its obligations under the grant agreement. The State of Victoria may also withhold, suspend, cancel or terminate any payment or payments upon a failure to comply with obligations or if Universal Biosensors Pty Ltd chooses not to proceed with these initiatives or it becomes insolvent. The total amount received under the Victorian State Government Grant at December 31, 2009 was A$130,000 (2007: A$130,000, 2008: A$150,000 and period from inception to December 31, 2008: A$410,000). This grant has been recognized against the acquisition cost of the related plant and equipment.

Guarantees

There are cross guarantees given by Universal Biosensors, Inc. and Universal Biosensors Pty Ltd as described in note 17. No deficiencies of assets exist in any of these companies. No liability was recognized by the parent entity or the consolidated entity in relation to this guarantee, as the fair value of the guarantees is immaterial.

(5) Income Taxes

The Company is subject to income tax in Australia and is required to pay taxes on its Australian profits. As provided under the Australian income tax laws, the Company and its wholly owned resident subsidiary have formed a tax-consolidated group. Universal Biosensors, Inc. is required to lodge U.S. federal income tax returns. It currently is in a tax loss situation.

(6) Employee incentive schemes

(a) Stock Option Plan

All share and option amounts from inception to December 31, 2006 have been retroactively adjusted to give effect to the share split described in note 11. In 2004, the Company adopted an employee option plan ("Plan"). Options may be granted pursuant to the Plan to any person considered by the board to be employed by the Group on a permanent basis (whether full time, part time or on a long term casual basis). Each option gives the holder the right to subscribe for one share of common stock. The total number of options that may be issued under the Plan is such maximum amount permitted by law and the Listing Rules of the ASX. The exercise price and any exercise conditions are determined by the board at the time of grant of the options. Any exercise conditions must be satisfied before the options vest and become capable of exercise. The options lapse on such date determined by the board at the time of grant or earlier in accordance with the Plan. Options granted to date have had a ten year term and generally vest in equal tranches over three years.

An option holder is not permitted to participate in a bonus issue or new issue of securities in respect of an option held prior to the issue of shares to the option holder pursuant to the exercise of an option. If Universal Biosensors changes the number of issued shares through or as a result of any consolidation, subdivision, or similar reconstruction of the issued capital of the Company, the total number of options and the exercise price of the options (as applicable) will likewise be adjusted. Options granted in 2007, 2008 and 2009 were 1,608,000 and 1,553,000 and 4,164,200, respectively.

In accordance with ASC 718, the fair value of the option grants was estimated on the date of each grant using the Trinomial Lattice model. The assumptions for these grants were:

	Grant Date									
	Nov-09	Jun-09	Jun-09	May-09	Feb-09	Aug-08	Mar-08	Oct-07	Sep-07	Mar-07
Exercise Price (A$)	$1.72	Nil	$0.94	Nil	$0.50	$0.70	$0.89	$1.13	$1.20	$1.18
Share Price at Grant Date (A$)	$1.73	$0.95	$0.95	$1.18	$0.43	$0.71	$0.91	$1.19	$1.21	$1.21
Volatility	78%	80%	80%	81%	77%	71%	76%	76%	72%	74%
Expected Life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Risk Free Interest Rate	5.63%	5.49%	5.49%	4.87%	4.26%	5.85%	5.87%	6.13%	5.99%	5.86%
Fair Value of Option (A$)	$1.13	$0.95	$0.62	$1.04	$0.28	$0.45	$0.59	$0.78	$0.78	$0.79

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

Share price at valuation date

In order to value options over shares of common stock which we granted in 2003 and 2006, by virtue of the fact that our securities were not traded at that time on any public exchange, we have valued our options consistent with the shares that were issued in certain private capital raisings undertaken by the Company around the respective valuation dates of the options, as these prices are most indicative of the fair value of the Company's equity in the market to a willing participant at and around the applicable valuation date of the options. Although we raised capital by issuing preferred shares, for the purposes of valuing our options we regarded our ordinary and preferred shares as being equivalent in relevant economic aspects and therefore the capital raisings served as a suitable valuation point with respect to the valuation of our options. In this regard we note that the preference shares carried the right to convert to ordinary basis on a one to one basis, and all were converted during 2006 in conjunction with our initial public offering.

We consider that value of the shares we issued in the capital raisings undertaken by us in 2003 and 2006 (as applicable) most accurately represent the value of our common stock for valuation purposes at the time of those capital raisings. We summarize the per-share subscription value of the relevant shares issued by us below.

Date of capital raising	Value per preferred stock A$ (post stock split described in note 11)
December 2003	0.39
June 2006	0.45
August 2006	0.45

Based on these valuation points, we applied an assumed per share price of A$0.39 with respect to the options we granted in 2003 and A$0.45 for the options we granted in 2006.

The value of the options granted post 2007 have 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.

On December 12, 2007 as a result of the impact of the closing of the rights offering, the exercise prices of each option granted by the Company prior to November 19, 2007 was reduced by a maximum of A$0.10 in accordance with the terms of the options and a formula set out in the Listing Rules of the ASX. The table below reflects the changes to the exercise price and the fair value of option as a result of the rights offering:

	Pre rights offering		Post rights offering	
Grant date of option	Exercise price A$	Fair value of option A$	Exercise price A$	Fair value of option A$
Dec-03	$0.39	$0.11	$0.30	$0.11
Jan-06	$0.45	$0.30	$0.35	$0.27
Mar-07	$1.25	$0.78	$1.18	$0.79
Sep-07	$1.27	$0.77	$1.20	$0.78
Oct-07	$1.20	$0.77	$1.13	$0.78

Volatility

With respect to the options granted in 2003 and 2006, we had insufficient available share price data to accurately estimate the volatility of our shares of common stock. As a result, we examined and based our volatility for these options by reference to the annual volatilities of a number of ASX listed companies of a similar size and with similar operations to us, over a range of historic estimation periods. Based on our analysis we selected an annual volatility of 40%-45% for the options granted in 2003 and 55% for the options granted in 2006. These figures were within the range of observed volatilities for comparable listed companies.

With respect to the options granted post 2007, 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. Our shares in the form of CDIs were first quoted on ASX on December 13, 2006 with an initial offering price of A$0.50.

Consequently, the high level and varying movement on our shares was the key driver for the volatility increasing from 55% at December 31, 2006 to volatility in the 70% - 80% range for options issued subsequent to December 2006.

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.

Stock option activity during the period indicated is as follows:

	Number of shares	Weighted average exercise price A$
Balance at December 31, 2008	6,373,284	0.66
Granted	4,164,200	1.16
Exercised	(138,327)	0.60
Lapsed	(359,671)	0.95
Balance at December 31, 2009	10,039,486	0.85

At December 31, 2009, the number of options exercisable was 5,808,324 (2008: 4,324,915 and 2007: 2,851,609).

The following table represents information relating to stock options outstanding under the plans as of December 31, 2009:

		Options Outstanding		Options Exercisable
	Exercise Price A$	Shares	Weighted average remaining life in years	Shares
2009	$0.30	1,594,894	4.00	1,594,894
	$0.35	1,638,395	6.00	1,638,395
	$1.18	745,332	7.20	745,332
	$1.20	620,332	7.70	415,326
	$1.13	-	-	-
	$0.89	1,112,333	8.20	742,641
	$0.70	326,000	8.60	106,000
	$0.50	124,000	9.10	41,330
	Nil	100,000	9.40	33,333
	$0.94	1,473,200	9.50	491,073
	Nil	420,000	9.50	-
	$1.72	1,885,000	9.90	-

The table below sets forth the number of employee stock options exercised and the number of shares issued in the period from December 31, 2006. We issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Period Ending	Number of Options Exercised and Corresponding Number of Shares Issued	Weighted Average Exercise Price A$	Proceeds Received A$
2007	420,474	0.32	148,428
2008	18,124	0.35	5,047
2009	138,327	0.60	78,998
Total	576,925		232,473

(b) Restricted Share Plan

Our Employee Share Plan was adopted by the Board of Directors in 2009. The Employee Share Plan permits our Board to grant shares of our common stock to our employees and directors. The number of shares able to be granted is limited to the amount permitted to be granted at law, the ASX Listing Rules and by the limits on our

authorized share capital in our certificate of incorporation. All our employees are eligible for shares under the Employee Plan. The Company currently proposes to issue A$1,000 worth of restricted shares of common stock to all employees of the Company on a recurring basis, but no more frequently than annually. The restricted shares have the same terms of issue as our existing shares of common stock but are not able to be traded until the earlier of three years from the date on which the shares are issued or the date the relevant employee ceases to be an employee of the Company or any of its associated group of companies.

The table below sets forth the restricted shares issued by the Company:

	Number of Restricted Shares Issued	Market Value of Restricted Shares Issued
November 10, 2009	40,670	A$69,952

(7) Economic Dependency

The Company has entered into the following agreements with LifeScan.

LifeScan License and Research and Development Agreement

Since April 2002 the Company has undertaken contracted research and development activities for LifeScan pursuant to a Development and Research Agreement. The Development and Research Agreement has historically been an important source of revenue for the Company. If the Development and Research Agreement was terminated, we would lose a source of income.

The Company also currently holds a license from LifeScan to a range of patents, patent applications and know-how, pursuant to a License Agreement. If the Company were to breach the License Agreement, which the Group does not intend to do, LifeScan might validly terminate the License Agreement. This would seriously restrict or eliminate the Company's development and commercialization activities.

Master Services and Supply Agreement

On October 29, 2007 Universal Biosensors entered into a Master Services and Supply Agreement 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 an original version of the blood glucose test strips we developed for LifeScan. On December 11, 2008, we entered into an additional services addendum to provide manufacturing process support to assist LifeScan to establish LifeScan's own manufacturing line for blood glucose test strips at a location of its choosing. On December 11, 2008, the Master Services and Supply Agreement was amended to reflect certain definitional matters in the document. On May 15, 2009, the agreement was amended and restated to incorporate the amendments made in December 2008 and to update the commercial terms of the agreement to reflect a change from the original version of the blood glucose test strip to an enhanced version of the blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and us to enter into a series of additional arrangements for the supply by us of additional services and products in the field of blood glucose monitoring.

The Master Services and Supply Agreement may be terminated as a result of a party defaulting on its material obligations, a party becoming insolvent, at LifeScan's option after paying a lump sum service fee, or as a result of other factors detailed in the Master Services and Supply Agreement, Universal Biosensors Pty Ltd will lose rights to receiving some or all revenues from the sale of blood glucose strips and provision of additional services, which would have a material adverse effect on our business and financial condition.

We commenced manufacture of the blood glucose test strips in our facility in Corporate Avenue, Rowville, Melbourne, in December 2009. Our ability to maintain profitability in the future will be adversely affected if the blood glucose product and any of the other products we develop with LifeScan in the future fail to achieve or maintain market acceptance.

(8) 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:

Johnson & Johnson Development Corporation, a wholly owned subsidiary of Johnson and Johnson, owns approximately 12% of the Company's shares.

LifeScan, a wholly owned subsidiary of Johnson & Johnson, makes payments to the Company through the research and development agreement, Master Services and Supply Agreement and issuance of purchase orders to the Company to undertake additional services in the field of blood glucose monitoring. The terms of the arrangements are mentioned in note 7.

The following transactions occurred with LifeScan:

	As of December, 31	
	2009	**2008**
	A$	**A$**
Current Receivables		
Reimbursement of expenses	-	31,919
Sale of goods	396,378	-
Sale of services	19,019	-
	415,397	31,919
Sale of Goods and Services		
Revenue from products	132,733	-
Revenue from services	20,572,712	3,121,754
	20,705,445	3,121,754
Purchases of Goods and Services		
Support services provided by LifeScan	-	1,064,736

Other transactions with LifeScan are detailed as follows:

- the Company received research and development revenue of A$1,337,125 in 2009 (2008: A$1,170,190) under the Development and Research Agreement with LifeScan
- the Company received an initial non-refundable fee of A$1,131,222 in 2008 in consideration for the grant of certain rights to LifeScan pursuant to the Master Services and Supply Agreement
- the Company was reimbursed A$477,898 in 2008 for certain expenditure incurred on behalf of LifeScan

Messrs Denis Hanley, Andrew Denver and Dr. Colin Adam are shareholders and directors of the Company and of PFM Cornerstone Ltd which was paid a total of A$450,000 in the year ended December 31, 2007 from Wilson HTM Corporate Finance Ltd as sub-underwriting fee in connection with the renounceable rights issue. Mr. Cameron Billingsley is the company secretary and a stockholder of PFM Cornerstone Ltd. Mr. Charles Kiefel, who ceased to be a director of the Company in January 2010, is also a director and shareholder of PFM Cornerstone Ltd.

Dr. Elizabeth (Jane) Wilson is the spouse of Mr. Steven Wilson who is a substantial stockholder and officer of the parent company of Wilson HTM Corporate Finance Pty Ltd, the underwriter of the renounceable rights issue in 2007. Wilson HTM Corporate Finance Pty Ltd was paid A$1,626,687 in connection with the Company's renounceable rights issue.

(9) Property, Plant and Equipment

	As of December, 31	
	2009	2008
	A$	A$
Plant and equipment	13,271,715	13,003,248
Leasehold improvements	8,328,270	8,123,925
Capital work in process	6,298,114	2,395,533
	27,898,099	23,522,706
Accumulated depreciation	(6,597,956)	(3,767,457)
Property, plant & equipment, net	21,300,143	19,755,249

Capital work in process relates to assets under construction and comprises primarily of specialized manufacturing 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 fiscal years ended December 31, 2009, 2008 and 2007 was A$2,770,434, A$1,501,516 and A$300,213, respectively.

The Company 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$410,000 for the year ended December 31, 2009 (2008: A$280,000). 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$2,851,285, A$2,266,847, A$708,699 and A$7,132,568 for the fiscal years ended December 31, 2009, 2008 and 2007 and for the period from inception to December 31, 2009, respectively.

The movement in accumulated depreciation for the 2008 and 2009 financial year is agreed to depreciation expense as follows:

	As of December, 31	
	2009	2008
	A$	A$
Movement in accumulated depreciation	2,830,499	2,195,236
Accumulated depreciation of fixed assets disposed	20,786	71,611
Depreciation expense for the financial year	2,851,285	2,266,847

(10) Accrued Expenses

Accrued expenses consist of the following:

	As of December, 31	
	2009	2008
	A$	A$
Legal, tax and accounting fees	176,000	346,000
Salary and related on-costs	327,665	460,761
Research and development materials	698,228	-
Other	-	31,936
	1,201,893	838,697

(11) Stockholders' Equity - Common Stock

In fiscal year 2006, in connection with an initial public offering in Australia in the form of an offer of new shares of common stock in the capital of the Company ("Public Offer") and a concurrent separate offer of shares of common stock in the US to certain US Persons (as that term is defined in Regulation S promulgated under the US Securities Act of 1933) ("US Private Placement"), shareholders approved: a) the conversion of all series A convertible preferred stock into common stock; b) the adoption of a new certificate of incorporation which was filed with the State of Delaware on December 5, 2006; c) a subdivision of existing common stock by 3,624.7518771; and d) an issue and allotment of common stock to subscribers under the Public Offer and US Private Placement.

As noted in note 12, during fiscal year 2006 the Company also issued 30,176,036 series A convertible preferred stock in two separate private placements to institutional and sophisticated investors in both the US and Australia. This series A convertible preferred stock was subsequently converted into common stock on December 6, 2006. Before the stock split by 3,624.7518771, the Company had on issue 12,032 shares of common stock and 11,142 series A convertible preferred stock. After the conversion of all series A convertible preferred stock into shares of common stock, there were 23,174 shares of common stock on issue. Immediately following the subdivision on December 6, 2006, there were 83,999,976 shares on issue. All share and per share amounts from the period from inception to December 31, 2006 presented in the accompanying financial statements have been retroactively adjusted to give effect to the stock split.

The Company completed its Public Offer of 36,000,000 shares of common stock and concurrent US Private Placement of 8,000,000 shares in the US to institutional and accredited investors, raising A$22 million in aggregate before costs. The Company listed on ASX on December 13, 2006.

In December 2007, we closed the renounceable rights issue of new ordinary shares by issuing 28,538,362 shares of common stock in which we raised A$34,246,043.

Holders of common stock are generally entitled to one vote per share held on all matters submitted to a vote of the holders of common stock. At any meeting of the shareholders, the presence, in person or by proxy, of the majority of the outstanding stock entitled to vote shall constitute a quorum. Except where a greater percentage is required by the Company's Amended and Restated Certificate of Incorporation or By-laws, the affirmative vote of the holders of a majority of the shares of common stock then represented at the meeting and entitled to vote at the meeting shall be sufficient to pass a resolution. Holders of common stock are not entitled to cumulative voting rights with respect to the election of directors, and the common stock does not have pre-emptive rights.

Trading in our shares of common stock on ASX is undertaken using CHESS Depositary Interests ("CDIs"). Each CDI represents beneficial ownership in one underlying share. Legal title to the shares underlying CDIs is held by CHESS Depositary Nominees Pty Ltd ("CDN"), a wholly owned subsidiary of ASX.

Holders of CDIs have the same economic benefits of holding the shares, such as dividends (if any), bonus issues or rights issues as though they were holders of the legal title. Holders of CDIs are not permitted to vote but are entitled to direct CDN how to vote. Subject to Delaware General Corporation Law, dividends may be declared by the Board and holders of common stock may be entitled to participate in such dividends from time to time.

(12) Convertible preferred stock

Up until the time of the Company's Australian initial public offering, the Company had on issue 40,386,962 Series A convertible preferred stock. The Company issued 3,758,844, series A convertible preferred stock on June

15, 2006 and 26,417,192 series A convertible preferred stock on August 30, 2006, raising a total of A$12,624,795 before costs associated with the issues. Immediately prior to the issue of shares in connection with the Public Offer and the U.S. Private Placement, all the Company's convertible preference shares were converted into common stock (refer note 11).

The rights and obligations attaching to the series A convertible preferred stock were derived by a combination of an Investor Rights Agreement (which was terminated in connection with the close of the Public Offer), the By-laws and Amended and Restated Certificate of Incorporation of the Company. Without limitation, the terms of issue of the series A convertible preferred stock were as follows:

- the right to receive notices of general meetings and to attend and vote at general meetings of the Company;
- each preferred share entitled the stockholder to such number of votes at a general meeting equal to the number of shares of common stock that the preferred stock would have converted into (whether or not it had been converted);
- rights of conversion into common stock;
- may participate in dividends declared in respect of that class of share at the discretion of the Board, the rights to which may not be similar to the rights of the holders of common stock;
- anti-dilution protection in certain circumstances; and
- a liquidation preference over common stockholders in the event of liquidation or a capital reduction of the Company.

The series A convertible preferred stock was convertible by the holders into shares of common stock at any time or could be compulsorily converted at the time of an initial public offering, subject to certain conditions. The conversion ratio was one share of common stock per convertible preference share, subject to variation for capital reconstructions and share dilutions.

In the event of a return of assets on liquidation or capital reduction or otherwise, the assets of the Company remaining after payment of its liabilities were applied first in paying the preferred stockholders an amount equal to the issue price of such preferred stock adjusted as necessary for capital reconstructions and secondly, to the common stockholders an amount equal to the relevant issue price. Thirdly an amount per preferred share equal to the amount of interest that would have accrued on the amount subscribed for by the preference stockholder if interest had accrued daily at a rate of 10% per annum from the date of issue. Finally, the balance of assets remaining (if any) was to have been distributed among the holders of preferred and common stock pari passu as if they constituted one class of shares.

(13) Retirement Benefits

Universal Biosensors Pty Ltd contributes to standard defined contributions superannuation funds on behalf of all employees at an amount up to nine percent of employee salary. The Company permits employees to choose the superannuation fund into which the contributions are paid, provided the fund is appropriately registered.

Universal Biosensors Pty Ltd contributed A$698,919, A$587,885, A$507,270 and A$2,473,101 for the fiscal years ended December 31, 2009, 2008 and 2007, and the period from inception to December 31, 2009, respectively.

(14) Net Profit/(Loss) per Share

Basic net profit/(loss) per ordinary share was computed by dividing the net profit/(loss) applicable to common stock by the weighted-average number of common stock outstanding during the period. All periods presented in the financial statements have been retroactively adjusted to give effect to the share split described in note 11. Options granted to employees under the Universal Biosensors Employee Option Plan are considered to be potential ordinary shares for the purpose of calculating diluted net profit/(loss) per share. However, all these were not included in the calculation of diluted net profit/(loss) per share in the year when the Group made a net loss as the effect of including them is anti-dilutive.

	Period from inception to December 31, 2009	Year ended December 31, 2009	2008	2007
Weighted average number of ordinary shares used as denominator in calculating:				
Basic net profit/(loss) per share	80,967,756	157,013,578	156,970,679	129,637,286
Diluted net profit/(loss) per share	80,967,756	161,354,802	156,970,679	129,637,286

(15) Guarantees and Indemnifications

The certificate of incorporation and amended and restated by-laws of the Company provide that the Company will indemnify officers and directors and former officers and directors in certain circumstances, including for expenses, judgments, fines and settlement amounts incurred by them in connection with their services as an officer or director of the Company or its subsidiaries, provided that such person acted in good faith and in a manner such person reasonably believed to be in the best interests of the Company.

In addition to the indemnities provided in the certificate of incorporation and amended and restated by-laws, the Company has entered into indemnification agreements with certain of its officers and each of its directors. Subject to the relevant limitations imposed by applicable law, the indemnification agreements, among other things:

- indemnify the relevant officers and directors for certain expenses, judgments, fines and settlement amounts incurred by them in connection with their services as an officer or director of the Company or its subsidiaries; and
- require the Company to make a good faith determination whether or not it is practicable to maintain liability insurance for officers and directors or to ensure the Company's performance of its indemnification obligations under the agreements.

No liability has arisen under these indemnities as at December 31, 2009.

(16) Segments

The Company operates in one segment. The principal activities of the Company are 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 operates predominantly in one geographical area, being Australia.

(17) Deed of Cross Guarantee

Universal Biosensors, Inc. and its wholly owned subsidiary, Universal Biosensors Pty Ltd, are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, the wholly-owned entity has been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Universal Biosensors, Inc., they also represent the "Extended Closed Group".

The consolidated financial statements presented within this report comprise that of Universal Biosensors, Inc. and its wholly owned subsidiary, Universal Biosensors Pty Ltd. These two entities also represent the "Closed Group" and the "Extended Closed Group".

(18) Subsequent Events

On January 11, 2010, there was a change in the Company's board of directors with the appointment of Marshall Heinberg and the retirement of Charles Keifel.

On January 28, 2010, the Company announced that LifeScan's new product incorporating technology developed by the Company has been made available for sale in Netherlands under the One Touch "Verio" brand.

On February 11, 2010, the Company granted 62,000 options to its new employees under the Company's Employee Option Plan.

The following options were exercised by employees under the Company's Employee Option Plan"

Exercise Date	Options Exercised	Type of Options
February 1, 2010	40,000	Market price employee options
February 10, 2010	33,333	Zero exercise price options
February 15, 2010	4,000	Market price employee options
February 22, 2010	34,789	Market price employee options

With the exception of the above, there has not arisen in the interval between the end of the financial year through the issuance of these financial statements on February 24, 2010 any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.