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Universal Biosensors, Inc.

ASX Preliminary final report – December 31, 2008
Lodged with the ASX under Listing Rule 4.3A

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

Universal Biosensors, Inc.

("Company")

1. **Reporting period: Year ended December 31, 2008**
   (Previous corresponding period: Year ended December 31, 2007)

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

				A$
Revenue from ordinary activities	Up	100%	to	3,121,754
Profit/(loss) from ordinary activities after tax	Up	36%	to	($11,995,886)
Net profit/(loss) for the year attributable to members	Up	36%	to	($11,995,886)

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 financial performance**

   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, 2008 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 2008	December 31, 2007
Net tangible asset per share	AU$0.31	AU$0.38

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, 2008

Financial highlights

Gross Profit on Services Performed

Under the terms of our arrangement with LifeScan, during 2008 we have provided certain services relating to the development and scale up of the production of a blood glucose sensor strip. Production scale up includes activities such as producing strips and testing strips. Under this arrangement, no margin was earned as the costs of providing the services were equal to the revenue recognized.

Amounts billed to LifeScan have been recorded under the caption "Revenue from services" in the consolidated statements of operations. Research and development expenditure attributable to services performed on behalf of LifeScan have been recorded separately under the caption "Cost of services" in the consolidated condensed statements of operations.

No such services were provided in 2007.

Research and development expenses

Research and development expenses increased to A$11,585,258 in 2008 from A$7,157,216 in 2007. Our operating expenses to date have substantially been for research and development activities. 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. All research and development costs, including those funded by an Australian research and development grant program, are expensed as incurred. Included in the research and development expenses are Australian research grants of A$872,513 and A$300,613 received for the R&D Start Grant Program for 2007 and 2008, respectively.

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 expenditure attributable to services performed on behalf of LifeScan have been recorded separately under the caption "Cost of services" in the consolidated condensed statements of operations. Our aggregate expenses (cost of services and operating expenses) have increased significantly during 2008 compared to the 2007 financial year. These expenses are expected to continue to increase significantly throughout the balance of 2009 as we expand our research and development programs; expand our organization; and work on our commercial manufacturing capability for a first blood glucose sensor strip. We currently have three non-glucose development programs, including two programs to develop immunoassay based tests (one immunoassay test being a test for C-reactive protein and the other being a test for D-dimer) and a prothrombin time test. While the C-reactive protein, D-dimer and the prothrombin time test still have a high degree of technical development risk, if the research and development efforts progress as anticipated, we expect to be in a position to commence the formal validation phase in 2009 for C-reactive protein and prothrombin time test and 2010 for D-dimer, a process requiring approximately one year, following which, we will commence the process of seeking regulatory clearance for the tests.

General and administrative expenses

General and administrative expenses increased to A$5,510,127 in 2008 from A$4,226,757 in 2007. General and administrative expenses 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. This increase in expenses reflects growth in the size and complexity of our operations, as well as the incremental costs of having our shares in the form of CDIs quoted on the ASX and compliance costs associated with having our shares registered with the United States Securities Exchange. 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, including directors' and officers' insurance, investor relations programs, increased director fees and increased professional fees.

Research and development income

Our research and development income for 2007 and 2008 was A$1,192,015 and A$1,170,190, respectively recognized pursuant to the Development and Research Agreement.

Interest income

Interest income increased from A$1,440,102 in 2007 to A$2,542,060 in 2008. The increase in interest income is attributable to the greater level of funds invested during the year. We commenced the 2007 financial year with A$41,958,285 in cash and short-term investments. Of this A$34,246,043 was raised by way of a renounceable rights issue in November and December 2007. The cash and bank balance at the end of the 2008 financial year was A$28,334,864.

Fee Income

The Company received an initial non-refundable fee of A$1,131,222 in January 2008 in consideration for the grant of certain rights to LifeScan pursuant to the Master Services and Supply Agreement. This revenue is recorded under the caption "Other income" in the consolidated statements of operations.

Fair value of stock options issued to employees

The non-cash compensation expense increased by 56% from 2007 to 2008 as a result of options granted to employees each year since 2006.

Income tax benefit

Income tax benefit during the 2007 and 2008 year relates to the reversal of provision for income tax.

Net loss

Net loss increased from A$8,817,238 in 2007 to A$11,995,886 in 2008 as a result of increased activity during the 2008 financial year thus resulting in increased research and development expenses and general and administrative expenses. The loss was partially offset by revenues received from LifeScan for provision of certain services.

Basic and diluted net loss per share

	2008 A$	2007 A$
Net loss	(11,995,886)	(8,817,238)
Weighted average number of ordinary shares used as denominator in calculating basic and diluted net loss per share	156,970,679	129,637,286
Basic and diluted net loss per share	(0.08)	(0.07)

Segment reporting

The Company operates in one segment. The principal activities of the Company are the research, development, manufacture and commercialization of a range of in vitro diagnostic tests for point-of-care use.

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.

Salesh Balak
Chief Financial Officer
February 27, 2009

Schedule 1

Universal Biosensors

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

	December 31, 2008	December 31, 2007
	A$	A$
ASSETS		
Current assets:		
Cash and cash equivalents	28,334,864	41,958,285
Short-term investments (held-to-maturity)	-	3,123,501
Inventories, net	-	486,633
Accrued income	118,305	79,811
Accounts receivables	31,657	471,348
Prepayments	3,730,246	139,871
Other current assets	535,000	843,733
Total current assets	32,750,072	47,103,182
Property, plant and equipment	25,801,545	17,981,202
Less accumulated depreciation	(3,864,557)	(1,572,221)
Property, plant and equipment - net	21,936,988	16,408,981
Total assets	54,687,060	63,512,163
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	630,977	811,896
Income taxes payable	-	18,000
Accrued expenses	838,697	996,753
Other liability	227,884	-
Employee entitlements provision	435,387	267,774
Total current liabilities	2,132,945	2,094,423
Non-current liabilities:		
Asset retirement obligations	1,699,133	1,566,892
Employee entitlements provision	197,897	101,224
Other liability	1,953,855	-
Total non-current liabilities	3,850,885	1,668,116
Total liabilities	5,983,830	3,762,539
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2008 (2007: nil)		
Common stock, $0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 156,976,936 shares in 2008 (2007: 156,958,812)	15,698	15,696
Additional paid-in capital	73,338,995	72,389,505
Accumulated deficit	(12,357,265)	(3,540,027)
Current year loss	(11,995,886)	(8,817,238)
Accumulated other comprehensive income	(298,312)	(298,312)
Total stockholders' equity	48,703,230	59,749,624
Total liabilities and stockholders' equity	54,687,060	63,512,163

Universal Biosensors

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

	Period from inception (September 14, 2001) to December 31, 2008	Years ended December 31, 2008	2007	2006
	A$	A$	A$	A$
Revenue				
Revenue from products	$ -	$ -	$ -	$ -
Revenue from services	3,121,754	3,121,754	-	-
Total revenue from ordinary activities	3,121,754	3,121,754	-	-
Costs of revenues				
Cost of goods sold	-	-	-	-
Cost of services	3,121,754	3,121,754	-	-
Total costs of revenues	3,121,754	3,121,754	-	-
Gross profit	-	-	-	-
Operating expenses				
Research and development (1 and 2)	28,916,019	11,585,258	7,157,216	3,466,604
General and administrative (3)	14,362,764	5,510,127	4,226,757	2,511,182
Total operating expenses	43,278,783	17,095,385	11,383,973	5,977,786
Research and development income	13,077,964	1,170,190	1,192,015	2,654,280
Loss from operations	(30,200,819)	(15,925,195)	(10,191,958)	(3,323,506)
Other income/(expense)				
Interest income	4,599,033	2,542,060	1,440,102	443,769
Interest expense	(9,489)	(9,489)	-	-
Fee income	1,131,222	1,131,222	-	-
Other	144,696	265,310	(210,382)	87,076
Total other income/(expense)	5,865,462	3,929,103	1,229,720	530,845
Net loss before tax	(24,335,357)	(11,996,092)	(8,962,238)	(2,792,661)
Income tax benefit/(expense)	(17,794)	206	145,000	(163,000)
Net loss	($ 24,353,151)	($ 11,995,886)	($ 8,817,238)	($ 2,955,661)
Basic and diluted net loss per share	($ 0.35)	($ 0.08)	($ 0.07)	($ 0.06)
Average weighted number of shares outstanding during the period	70,523,954	156,970,679	129,637,286	49,408,822

Notes:

1. Net of research grant income in these amounts	$ 2,366,063	$ 300,613	$ 872,513	$ 578,653
2. Includes non-cash compensation expense (research and development)	$ 1,148,752	$ 661,497	$ 339,882	$ 147,373
3. Includes non-cash compensation expense (general & administrative)	$ 851,138	$ 299,611	$ 277,833	$ 273,694

Universal Biosensors

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, 2005	10,210,926	4,076,641	43,613,014	4,361	2,350,839	(584,366)	(163,956)	5,683,519
Issuance of preference shares at A$0.45 per share for cash	30,176,036	12,624,795	-	-	-	-	-	12,624,795
Conversion of preference shares to ordinary shares	(40,386,962)	(16,701,436)	40,386,962	4,039	16,697,397	-	-	-
Issuance of ordinary shares at A$0.50 per share in private placement to American institutional and sophisticated investors in December 2006, net of issuance costs	-	-	8,000,000	800	3,999,200	-	-	4,000,000
Issuance of ordinary shares at A$0.50 per share in a public offering in Australia and a concurrent placement in the US to institutional and sophisticated investors in December 2006, net of issuance costs	-	-	36,000,000	3,600	15,638,963	-	-	15,642,563
Comprehensive Income								
Net loss	-	-	-	-	-	(2,955,661)	-	(2,955,661)
Foreign currency translation reserve	-	-	-	-	-	-	(134,356)	(134,356)
Total Comprehensive Income								(3,090,017)
Stock option expense	-	-	-	-	421,067	-	-	421,067
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	-	-	-	-	961,108	-	-	961,108
Balances at December 31, 2008	-	-	156,976,936	15,698	73,338,995	(24,353,151)	(298,312)	48,703,230

Note Common stock has a par value of $0.0001.
All share and per share amounts from inception to December 31, 2006 presented have been retroactively adjusted to give effect to the stock split. 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, 2008	Years Ended December 31, 2008	2007	2006
		A$	A$	A$
Cash flows from operating activities provided by/(used in):				
Net loss	(24,353,151)	(11,995,886)	(8,817,238)	(2,955,661)
Adjustments to reconcile net loss to net cash used in operating activities:				
Net exchange difference	1,102,572	-	983,991	171,623
Depreciation and impairment of plant & equipment	4,281,283	2,266,847	708,699	360,711
Share based payments expense	1,999,890	961,108	617,715	421,067
Loss on fixed assets disposal	150,685	34,207	116,478	-
Change in assets and liabilities:				
Inventory	-	486,633	(486,633)	-
Accounts receivables	(938,985)	439,691	(931,864)	(380,768)
Prepaid expenses and other current assets	191,728	191,728	-	-
Accrued income	(108,855)	(38,494)	31,786	(202,448)
Income tax payable	-	(18,000)	(145,000)	163,000
Employee entitlements	633,284	264,286	5,835	217,257
Accounts payable and accrued expenses	1,492,532	267,494	146,957	805,484
Net cash provided by/(used in) operating activities	(15,549,017)	(7,140,386)	(7,769,274)	(1,399,735)
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	(3,616,235)	(3,616,235)	-	-
Purchases of property, plant and equipment	(20,743,898)	(5,978,685)	(9,058,265)	(4,813,073)
Net cash provided by/(used in) investing activities	(24,360,133)	(6,471,419)	(12,181,766)	(4,813,073)
Cash flows from financing activities:				
Gross proceeds from share issue	73,517,472	-	34,246,043	34,623,314
Transaction costs on share issue	(4,099,870)	(16,663)	(1,727,251)	(2,355,956)
Proceeds from stock options exercised	184,045	5,047	148,428	-
Net cash provided by/(used in) financing activities	69,601,647	(11,616)	32,667,220	32,267,358
Net increase/(decrease) in cash and cash equivalents	29,692,497	(13,623,421)	12,716,180	26,054,550
Cash and cash equivalent at beginning of period	-	41,958,285	30,184,756	4,434,274
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(1,357,633)	-	(942,651)	(304,068)
Cash and cash equivalents at end of period	28,334,864	28,334,864	41,958,285	30,184,756

(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 development, manufacture and commercialization of a range of in vitro diagnostic tests for point-of-care use. In vitro diagnostic testing involves the testing of a body fluid or tissue sample outside the body. The Company's diagnostic tests comprise a novel disposable test strip and a reusable meter and are small, portable and easy-to-use.

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

The Group has a range of point-of-care blood tests in development including an immunoassay point-of-care test to measure the amount of C-reactive protein in the blood which may be used to assist in the diagnosis and management of inflammatory conditions and a prothrombin time test which may be used for monitoring the therapeutic range of the anticoagulant, warfarin. The Group has developed a working prototype of the immunoassay C-reactive protein test and the prothrombin time test. The Group has also started work on a second point-of-care dry immunoassay to measure the amount of D-dimer in the blood. D- Dimer is a well established marker currently being used as point-of-care test for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). Universal Biosensors also intends to develop additional immunoassay based point-of-care test devices by taking selected disease biomarkers currently measured in the central laboratory environment and creating tests using those biomarkers for the point-of-care setting using our novel platform of electrochemical cell technologies. Universal Biosensors proposes to focus on the development of products which do not rely on the discovery of new medicines, treatments or biomarkers, but instead proposes to focus on areas where existing therapies or practice can be enhanced significantly by simple and accurate diagnostic tools incorporating well known biomarkers.

On October 29, 2007, Universal Biosensors entered into a Master Services and Supply Agreement with LifeScan which contains the terms pursuant to which Universal Biosensors Pty Ltd will provide certain services in the field of blood glucose monitoring to LifeScan and would act as a non-exclusive manufacturer for LifeScan ("Master Services and Supply Agreement"). The Master Services and Supply Agreement is structured as an umbrella agreement which provides the framework within which LifeScan and us can enter into a series of additional arrangements for the supply by us of additional services and products in the field of blood glucose monitoring. We are currently in discussions with LifeScan with respect to the commercial terms for the development and supply of an enhanced blood glucose test strip. Additionally, the Group will continue 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").

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 its planned commercial manufacturing operations have not yet commenced.

(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 ("A$") unless otherwise stated.

The Company's financial statements have been prepared assuming the Company will continue as a going concern. Other than a small profit in the Company's first year of operations, the Company has sustained operating losses since inception. The Company expects to continue to incur losses as it continues the development of its point-of-care tests and expands the organization and commercial manufacturing capability until the Company is able 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.

There are no open derivative instruments as at December 31, 2008.

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 still is expected 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

Raw materials are stated at the lower of cost and net realizable value. Costs of purchased inventory are determined after deducting rebates and discounts.

Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful debts. Receivables are due for settlement no more than 45 days from the receipt of the invoice by the customer.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted

at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognized in the income statement.

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.

The Company receives certain manufacturing equipment from LifeScan at their expense. Legal title of these assets remains with LifeScan. LifeScan has no substantial continuing involvement in the assets while the Company retains all the risks and benefits associated with the assets. In exchange for the assets, the Company has incurred a liability of commensurate value and is represented as “Other Liability” in the balance sheets. The non-monetary assets relinquished are measured at the fair value of the exchanged assets.

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, 2006, 2007, 2008 and for period from inception to December 31, 2008 are as follows:

	Period from inception to December 31, 2008	Years ended December 31,		
		2008	2007	2006
	A$	A$	A$	A$
Research and development expenses	31,282,082	11,885,871	8,029,729	4,045,257
Research grants received recognized against related research and development expenses	(2,366,063)	(300,613)	(872,513)	(578,653)
Research and development expenses as reported	28,916,019	11,585,258	7,157,216	3,466,604

Income Taxes

The Company applies Statement of Financial Accounting Standards No. 109 – Accounting for Income Taxes (SFAS 109) 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. A reconciliation of the valuation and qualifying accounts is attached as Schedule ii.

The Company adopted 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 2007 financial year have been lodged. Internationally, consolidated income tax returns up to the 2007 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. SFAS No. 143 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,	
	2008	2007
	A$	A$
Opening balance at January 1	1,566,892	-
New obligations	-	1,525,550
Accretion expense	132,241	41,342
Ending balance at December 31	1,699,133	1,566,892

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. Impairment, if any, is measured as the amount by which the carrying amount of the assets exceeds its fair value. Impairment, if any, is assessed using 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.

Revenue Recognition

Revenue from services

We provide certain services to LifeScan. We recognize revenue from these services as we perform the services.

Research and development revenue

On April 1, 2002, the Company and LifeScan entered into a License Agreement, pursuant to which LifeScan granted to the Company a worldwide, royalty free, exclusive license, with a limited right to sub-license, to make, have made, use, sell under and exploit in any way a range of key patents, patent applications and know-how owned by LifeScan, relating to electrochemical sensor technologies in all fields in the area of diabetes and blood glucose management generally ("LifeScan Fields"), the rights to which are retained by LifeScan. The exclusive license is subject to LifeScan having retained the right to make, have made, use, and sell under and exploit in any way the key patents, patent applications and know-how owned by LifeScan in all fields including in the fields of the Company's own point-of-care tests. At the time of execution of the Master Services and Supply Agreement in October 2007, the License Agreement was amended to grant the Company a license to certain new patents outside of such field of use.

LifeScan has assumed responsibility for the cost of maintaining the licensed patents and patent applications. In the event that LifeScan elects not to proceed with the prosecution of any patent application, the Company may assume responsibility for those patents. Pursuant to the License Agreement, if the Company receives a lump sum, actual or minimum royalties payment from any sub-licence, 50% of such lump sum or royalties is payable to

LifeScan.

Also in 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. At the time of execution of the Master Services and Supply Agreement in October 2007, the Development and Research Agreement was amended to conform the intellectual property provisions in the Master Services and Supply Agreement such that LifeScan would own 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 scope of the program under the Development and Research Agreement was also expanded to include development work in connection with a blood glucose meter.

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. Revenue 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 is paying the Company US$250,000 per quarter under the Development and Research Agreement.

The revenue derived from the Development and Research Agreement is recognized over the period in which the agreed upon research services are completed. The Company recognizes revenue for accounting purposes ratably over the annual grant period. Under the Development and Research Agreement, the Company is not matching the revenue to a specific expenditure but to a specified period of research. The annual research and development revenue received from LifeScan is agreed 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 under the Development and Research Agreement 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.

Revenue 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

Under the terms of the Master Services and Supply Agreement, in January 2008 the Company received an initial non-refundable fee of A$1,131,222 in consideration for the grant of certain rights to LifeScan. The Company recorded the fee income as revenue upon receipt. This revenue is recorded under the caption “Other income” in the consolidated statements of operations as it is not indicative of the core operating activities or revenue producing goals of the Company.

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 Australian dollars for all years presented.

The consolidated financial statements are presented using a reporting currency of Australian dollars. The reporting currency of the group changed from US dollars to Australian dollars during 2008.

Whilst the Company was incorporated in the United States, its shares are quoted on the Australian Securities Exchange and majority of the shareholders of the Company are domiciled in Australia. Based on this, the Company is of the view that the reporting currency of the group should be Australian dollars.

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

In 2006, the Company expanded significantly its Australian based research activities. All of the Company's directors became and continue to be resident in Australia. All 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$87,076, (A$210,382), A$265,310 and A$145,734 for each of the years ended December 31, 2006, 2007 and 2008 and the period from inception to December 31, 2008, 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 product development 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, 2006, 2007 and 2008 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 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 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 ESOP). Results for periods before January 1, 2006 have not been restated to reflect, and do not include the impact of, FASB Statement No. 123(R), "Share Based Payment", or SFAS 123(R). The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

	Year ended December 31, 2005
	A$
Net loss, as reported	(128,960)
Add stock-based employee compensation expense included in reported net income, net of tax	-
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards	(45,913)
Pro forma net loss	(174,873)

As of January 1, 2006, the Company adopted SFAS 123(R), 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 SFAS 123(R) 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 SFAS 123 shall be recognized in net income in the

periods after adoption. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with valuation techniques previously utilized for options in footnote disclosures required under SFAS 123, as amended by 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 SFAS 123(R). There were no transitional adjustments on adoption of SFAS 123 (R).

The application of SFAS 123(R) had the following effect on reported amounts for the year ended December 31, 2006, 2007 and 2008 relative to amounts that would have been reported under previous accounting:

	Under Previous Accounting	2006 SFAS 123(R) Adjustments	As reported
	A$	A$	A$
Net loss - 2006	(2,534,594)	(421,067)	(2,955,661)
Net loss - 2007	(8,199,523)	(617,715)	(8,817,238)
Net loss - 2008	(11,034,778)	(961,108)	(11,995,886)

Pension Costs

As required by Australian law, 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 Loss per Share and Anti-dilutive Securities

Basic and diluted net loss per share is presented in conformity with Statement of Financial Accounting Standards No. 128 – Earnings Per Share ("SFAS 128"). Basic and diluted net loss per share has been computed using the weighted-average number of common shares outstanding during the period. All periods present in these financial statements have been retroactively adjusted to give effect to the stock split in December 2006 (note 11). The potentially dilutive options issued under the Universal Biosensors Employee Option Plan and the convertible preference shares (see note 12) were not considered in the computation of diluted net loss per share because they would be anti-dilutive given the Group's loss making position in this and previous years.

Total Comprehensive Income

The Company follows Statement of Financial Accounting Standard ("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. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not expect the adoption of SFAS No.161 to have a material impact on our financial statements.

(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 April 1, 2007 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, 2008 are:

	A$
2009	500,120
2010	517,366
2011	535,217
2012	555,188
2013	567,007
2014 and thereafter	144,703
Total minimum lease payments	2,819,601

Rent expense was A$195,832, A$482,805, A$514,984 and A$1,818,554 for the fiscal years ended December 31, 2006, 2007 and 2008 and for the period from inception to December 31, 2008, respectively.

Government research grants

Universal Biosensors Pty Ltd has 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 has been 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 A$262,119 (2007: A$894,849) were received during 2008 and income of A$300,613 (2007: A$872,513, 2006: A$578,653, and period from inception to December 31, 2008: A$2,366,063) was recognized with A$118,305 recorded as accrued income at December 31, 2008 (2007: A$79,811).

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, 2008 was A$130,000 (2007: A$150,000, 2006: Nil and period from inception to December 31, 2008: A$280,000). 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) 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) and includes all directors. 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 2006, 2007 and 2008 were 2,066,108, 1,608,000 and 1,553,000, respectively.

In accordance with SFAS 123(R), the fair value of the option grants was estimated on the date of each grant using the Black-Scholes option pricing model. The assumptions for these grants were:

	Grant Date					
	Aug-08	**Mar-08**	**Oct-07**	**Sep-07**	**Mar-07**	**2006**
Exercise Price (A$)	$0.70	$0.89	$1.13	$1.20	$1.18	$0.35
Share Price at Grant Date (A$)	$0.71	$0.91	$1.19	$1.21	$1.21	$0.45
Volatility	71%	76%	76%	72%	74%	55%
Expected Life	10 years	10 years	10 years	10 years	10 years	10 years
Risk Free Interest Rate	5.85%	5.87%	6.13%	5.99%	5.86%	4.40%
Fair Value of Option (A$)	$0.45	$0.59	$0.78	$0.78	$0.79	$0.27

Each of the inputs to the Black-Scholes pricing model is discussed below.

Share price at valuation date

We have applied the Black-Scholes pricing model in order to value our options.

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. The share price at valuation date was as follows:

Option Grant Date	Share Price A$	Volatility
March 23, 2007	$1.21	74%
September 19, 2007	$1.21	72%
October 29, 2007	$1.19	76%
March 17. 2008	$0.91	76%
August 20, 2008	$0.71	71%

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

Time to expiry

All options granted under our share option plan have a 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 January 1, 2006	1,844,997	0.30
Granted	2,066,108	0.35
Exercised	-	-
Forfeited	(90,618)	0.33
Expired	-	-
Balance at December 31, 2006	3,820,487	0.33
Granted	1,608,000	1.19
Exercised	(420,474)	0.32
Forfeited	(61,618)	0.35
Expired	-	-
Balance at December 31, 2007	4,946,395	0.61
Granted	1,553,000	0.85
Exercised	(18,124)	0.35
Forfeited	(107,987)	1.13
Expired	-	-
Balance at December 31, 2008	6,373,284	0.66

At December 31, 2008, the number of options exercisable was 4,324,821 (2007: 2,851,605 and 2006: 2,305,341).

The following table represents information relating to stock options outstanding under the plans as of December 31, 2008, 2007 and 2006:

	Exercise Price A$	Options Outstanding Shares	Options Outstanding Weighted average remaining life in years	Options Exercisable Shares
2006	$0.30	1,808,751	7.00	1,772,503
	$0.35	2,011,736	9.00	532,838
2007	$0.30	1,594,890	6.00	1,594,890
	$0.35	1,743,505	8.00	975,058
	$1.18	845,000	9.20	281,657
	$1.20	663,000	9.70	-
	$1.13	100,000	9.80	-
2008	$0.30	1,594,890	5.00	1,594,890
	$0.35	1,725,394	7.00	1,551,394
	$1.18	837,000	8.20	557,980
	$1.20	663,000	8.70	220,996
	$1.13	-	-	-
	$0.89	1,199,000	9.20	399,651
	$0.70	354,000	9.60	-

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	Option Exercise Price A$	Proceeds Received A$
2007	213,865	0.39	71,047
2007	206,609	0.45	77,381
2008	18,124	0.35	5,047
Total	438,598		153,475

(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 significant 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 the Company and Universal Biosensors Pty Ltd entered into a Master Services and Supply Agreement with LifeScan which contains the terms pursuant to which Universal Biosensors Pty Ltd will provide certain services in the field of blood glucose monitoring to LifeScan and would act as a non-exclusive manufacturer

of blood glucose test strips for LifeScan. The Master Services and Supply Agreement is structured as an umbrella agreement which provides the framework within which the Company and LifeScan can 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. On December 11, 2008, the Company entered into an additional services addendum to provide manufacturing process support to LifeScan. On December 11, 2008, the Master Services and Supply Agreement was amended to reflect certain definitional matters in the document. LifeScan is solely responsible for registration strategy and commercial efforts with regard to the blood glucose sensor. LifeScan have decided not to complete the registration process for the initial blood glucose sensor strip the Company developed but wish to pursue an enhanced blood glucose sensor strip which we have been developing based on the same technology. The Company is currently in discussions with LifeScan with respect to the commercial terms for the development and supply of an enhanced blood glucose test strip. If the Master Services and Supply Agreement is terminated as a result of a party defaulting on its material obligations, a party becoming insolvent 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.

(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	
	2008	**2007**
	A$	**A$**
Current Receivables		
Reimbursement of expenses	31,919	464,341
Sale of Goods and Services		
Revenue from services	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$1,170,190 in 2008 (2007: A$1,192,015) under the Development and Research Agreement with LifeScan
- the Company received an initial non-refundable fee of A$1,131,222 in 2008 (2007: Nil) in consideration for the grant of certain rights to LifeScan pursuant to the Master Services and Supply Agreement
- the Company received certain manufacturing equipment from LifeScan at their expense. Legal title of these assets remains with LifeScan. LifeScan has no substantial continuing involvement in the assets while the Company retains all the risks and benefits associated with the assets. In exchange for the assets, the Company has incurred a liability of commensurate value. The non-monetary assets relinquished are measured at the fair value of the exchanged assets. During the year ended December 31, 2008, the non-monetary assets and the liability were recorded at A$2,278,838 (2007: Nil) at the time of the initial exchange. No gains or losses have been recognized on the exchange

- the Company was reimbursed A$477,898 in 2008 (2007: Nil) for certain expenditure incurred on behalf of LifeScan

Denis Hanley, Andrew Denver, Colin Adam and Charles Kiefel 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.

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	
	2008	2007
	A$	A$
Plant and equipment	15,282,087	3,826,919
Leasehold improvements	8,123,925	6,294,002
Capital work in process	2,395,533	7,860,281
	25,801,545	17,981,202
Accumulated depreciation	(3,864,557)	(1,572,221)
Property, plant & equipment, net	21,936,988	16,408,981

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, 2006, 2007 and 2008 was A$205,978, A$300,213 and 1,501,516, 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$130,000 for the year ended December 31, 2008 (2007: A$150,000). 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$360,711, A$708,699, A$2,266,847 and A$4,281,283 for the fiscal years ended December 31, 2006, 2007 and 2008 and for the period from inception to December 31, 2008, respectively.

The movement in accumulated depreciation for the 2007 and 2008 financial year is agreed to depreciation expense as follows:

	As of December, 31	
	2008	2007
	A$	A$
Movement in accumulated depreciation	2,292,336	444,127
Accumulated depreciation of fixed assets disposed	71,611	264,572
Accumulated depreciation on equipment owned by third parties	(97,100)	-
Depreciation expense for the financial year	2,266,847	708,699

The Company receives certain manufacturing equipment from LifeScan at their expense. Legal title of these assets remains with LifeScan. LifeScan has no substantial continuing involvement in the assets while the Company retains all the risks and benefits associated with the assets. In exchange for the assets, the Company has incurred a liability of commensurate value and is represented as "Other Liability" in the balance sheets. The non-monetary assets relinquished are measured at the fair value of the exchanged assets. During the year ended December 31, 2008, the non-monetary assets and the liability were recorded at A$2,278,838 (2007: Nil) at the time of the initial exchange. No gains or losses have been recognized on the exchange.

(10) Accrued Expenses

Accrued expenses consist of the following:

	As of December, 31	
	2008	**2007**
	A$	**A$**
Legal, tax and accounting fees	346,000	588,980
Salary and related on-costs	460,761	248,861
Other	31,936	158,912
	838,697	996,753

(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 were 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

As required by Australian law, 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$295,288, A$507,270, A$587,885 and A$1,774,182 for the fiscal years ended December 31, 2006, 2007 and 2008, and the period from inception to December 31, 2008, respectively.

(14) Net Loss per Share

Basic net loss per ordinary share was computed by dividing the net 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 and the convertible preference shares on issue during the current and prior periods are considered to be potential ordinary shares for the purpose of calculating diluted net loss per share. However, all these were not included in the calculation of diluted net loss per share as the effect of including them is anti-dilutive.

	Period from inception to December 31, 2008	Year ended December 31,		
		2008	2007	2006
Weighted average number of ordinary shares used as denominator in calculating basic and diluted net loss per share	70,523,954	156,970,679	129,637,286	49,408,822

(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, 2008.

(16) Segments

The Company operates in one segment. The principal activities of the Company are the research, development, manufacture and commercialization of a range of in vitro diagnostic tests for point-of-care use.

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 December 11, 2008, the Company entered into an additional services addendum to provide manufacturing process support to LifeScan. In February 2009, the Company received A$3,087,849 milestone payment under the manufacturing process support addendum.

On February 17, 2009, the Company granted 154,000 options to its new employees under the Company's Employee Option Plan.

With the exception of the above, there has not arisen in the interval between the end of the financial year and the date of this report 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.