HEARTWARE LIMITED

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Manager of Company Announcements
ASX Limited
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SYDNEY NSW 2000

18 April 2008
BY E-LODGEMENT

Dear Sir / Madam

Annual Report

Please see the attached copy of the Company's 2007 Annual Report.

Yours faithfully

David McIntyre
Chief Financial Officer &
Company Secretary

HeartWare

PRODUCTS
PATIENTS
PROGRESS

Annual Report 2007

Corporate Profile

HeartWare is a medical device company developing a family of implantable mechanical circulatory support devices, or heart pumps, and the ancillary equipment required to run those devices. HeartWare's devices are aimed at treating patients suffering from advanced heart failure. The Company is listed on the Australian Stock Exchange with the symbol "HTW".

Heart failure is a degenerative, terminal disease affecting over ten million patients worldwide. Heart transplantation is considered the best available treatment for patients with advanced heart failure but fewer than 4,000 donor hearts become available worldwide each year. Mechanical circulatory support devices are gaining increasing acceptance, both as a bridge to transplantation and as an alternative long-term therapy.

An international clinical trial is underway for the HeartWare® Left Ventricular Assist System (LVAS). The HeartWare® LVAS comprises a fully implanted miniature pump, the HeartWare® Left Ventricular Assist Device (LVAD), and the peripheral components required to power, monitor and control the pump. The HeartWare® LVAD is the smallest full-output blood pump and the only such pump designed to be implanted above the diaphragm. The device's small size and novel configuration are expected to provide significant benefits for both the physician and the patient.

HeartWare is also developing a portfolio of further miniaturized devices, implantable by progressively less invasive surgery.

HeartWare's corporate head office is in Sydney, Australia. The Company's U.S. corporate office is in Framingham, Massachusetts. Operating and manufacturing activities are also based in the U.S. in Miramar, Florida.

Contents:

> Dr Georg Wieselthaler (3rd from left), cardiothoracic surgeon at the Vienna General Hospital in Austria, pictured alongside three of his patients who have been implanted with the HeartWare® Left Ventricular Assist Device.

The HeartWare® Left Ventricular Assist System

The HeartWare® LVAS features a small, implantable, centrifugal blood pump, designed to help treat patients suffering advanced heart failure.

The HeartWare® pump, or Left Ventricular Assist Device (LVAD), is designed to draw blood from the left ventricle and to propel it through an outflow graft connected to the patient's ascending aorta. The device is capable of generating up to ten litres of blood flow per minute.

With a displaced volume of only 50cc, the HeartWare® device is the only full-output pump designed to be implanted in the pericardial space, directly adjacent to the heart. Implantation above the diaphragm is expected to lead to relatively short surgery time and relatively quick patient recovery.

The pump has only one moving part, the impeller, which spins at rates between 2,000 and 3,000 revolutions per minute. The impeller is suspended within the pump housing through a combination of passive magnets and a hydrodynamic thrust bearing. There are no mechanical bearings or any points of contact between the impeller and the pump housing. This wearless suspension mechanism is expected to provide excellent long-term device durability.

The HeartWare® Left Ventricular Assist Device

The pump's inflow cannula is integrated with the device itself, ensuring proximity between the heart and the pumping mechanism. This integrated design is expected to facilitate ease of implant and to help ensure optimal blood flow characteristics. The use of a wide-bladed impeller and the clear flow paths through the system are expected to help minimize any risk of pump induced hemolysis (damage to blood cells) or thrombus (blood clotting).

The device is powered via a percutaneous driveline which connects the pump to an external controller and battery pack, which are carried in a small pouch.

PRODUCTS...

- The smallest full-output mechanical circulatory support device.

- The only full-output pump designed to be implanted above the diaphragm.
- Only one moving part.
- Designed for long-term reliability and optimal blood compatibility

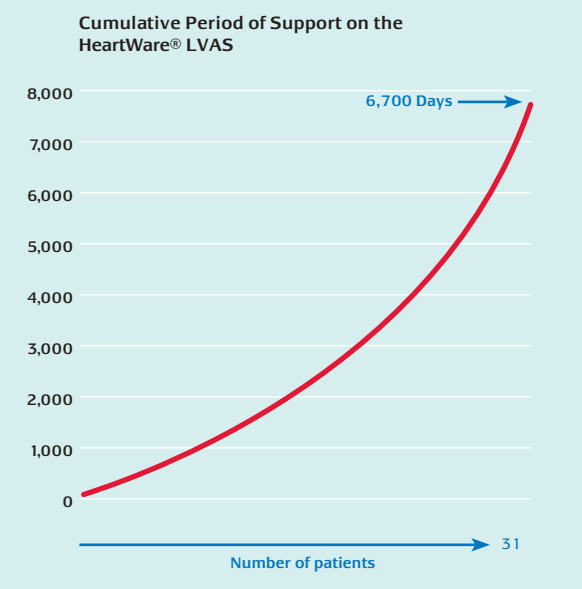
> Relative device size: [1] The HeartWare® pump; [2] The Thoratec HeartMate XVE™, the only device currently approved in the U.S. for Destination Therapy; [3] The Thoratec HeartMate II™, the current market leader.

The HeartWare Clinical Trial

The HeartWare® LVAS is the subject of an international clinical trial aimed at evaluating the safety and feasibility of the system as a bridge to cardiac transplantation in patients with end-stage heart failure. The trial is being conducted at five cardiac transplant centres in Europe and Australia.

As of 31 March 2008, 31 patients have been implanted with the HeartWare® device. The average duration of support on the pump is approximately 217 days. On a cumulative basis, these patients have been supported by the device for approximately 6,700 days, or 18 years.

HeartWare's initial clinical results will be presented in early April at the International Society for Heart and Lung Transplantation meeting in Boston. These results form the basis of HeartWare's submission for CE Mark for the system. Of the first 20 patients, 18 have passed the primary clinical endpoint of the trial, a success rate of 90%. These include 16 patients who survived on mechanical support for 180 days or more and two patients who successfully underwent cardiac transplantation within the first 180 days following their device implants.



Among the entire patient group, a total of six patients have received heart transplants. On average, these transplants have occurred after 284 days of support on the pump. In addition, one patient recovered sufficiently to have his device explanted after 268 days of support.

In 2008, HeartWare will initiate a multi-institutional trial in the United States to evaluate the safety and efficacy of the system for FDA approval. During this time the system will be limited by federal law to investigational use in the United States.

PATIENTS...

31
patients enrolled in the HeartWare trial.

18
years of cumulative support on the system.

90%
success rate among initial 20 patient cohort.

During 2007 HeartWare made important progress across all key areas of the business.

- Increased patient enrolments under the international clinical trial from six (at December 2006) to 31 (at 31 March 2008).
- Made significant progress in resolving manufacturing issues that had restricted supply capability.
- Prepared and filed an application for an Investigational Device Exemption ("IDE") with the U.S. Food and Drug Administration ("FDA") in order to initiate a U.S. clinical trial for the HeartWare® LVAS.
- Advanced the Company's pipeline technologies, with our next generation miniaturized pump system progressing through preclinical trials and our Transcutaneous Energy Transfer ("TET") system and implantable electronics at working prototype stage.
- Commenced preparations to move to a new facility which, subject to finalizing present leasing discussions, will provide HeartWare approximately twice the square footage of our current facility and a significant upgrade to our manufacturing infrastructure.

These activities have positioned the Company well as we move towards our two key milestones for 2008:

- FDA approval of HeartWare's IDE submission and the subsequent start of our U.S. clinical trial; and
- Receipt of CE Mark and subsequent European commercial launch of the HeartWare® LVAS in Europe.

Key Anticipated 2008 Milestones	
Q2	Q3
IDE Approval	CE Mark
First implants in the U.S.	Commercial launch in Europe

PROGRESS...

- International clinical trial demonstrating exceptional results.
- IDE approval to initiate U.S. clinical trial anticipated during the second quarter of 2008.
- CE Mark anticipated during the third quarter of 2008.
- First revenues anticipated within six months.

Chairman's Review

DEAR SHAREHOLDERS

The past year has seen substantial progress across all areas of our business.

The international clinical trial for the HeartWare® Left Ventricular Assist System is nearing completion, with very promising results. We are now more confident than ever of the long-term commercial opportunity underpinned by this device.

We will soon be starting our U.S. clinical trial. Formal dialogue with the FDA has been ongoing since late last year. The team has worked exceedingly hard to prepare the enormous volumes of material required both for the initial IDE application and for subsequent submissions. Some 17,000 pages of materials have been lodged with the FDA, representing a synthesis of virtually everything the company has learnt about our device over the past ten years of development. We look forward to commencing our U.S. implant program and we share the enthusiasm of our prospective U.S. clinical investigators as to the potential of the device.

HeartWare will be entering the U.S. market with the HeartWare® LVAS at a particularly interesting time in the development of the mechanical circulatory support market. In November 2007 an independent panel convened by the FDA recommended unanimously that the Thoratec HeartMate II be approved for Bridge-to-Transplant in the United States. The HeartMate II will be the first continuous flow pump approved in the U.S., providing both patients and clinicians access for the first time to a relatively small, reliable device. We share the view of many clinicians that the HeartMate II will help drive a long-term shift in patient referral patterns and lead to a broad increase in the use of mechanical circulatory support devices. It is exciting that HeartWare will be entering this market as it begins a new phase of growth, with a device that we expect will demonstrate significant competitive advantages.

We also continue to make solid progress with our next-generation miniaturized devices. Our future miniature pump technology was first presented at the International Society of Rotary Blood Pumps (ISRBP) meeting in Sydney late last year and generated a great deal of interest. This novel and extremely small device will enable surgeons for the first time to implant a full-output pump through minimally invasive surgery, without the need for a sternotomy. This has the potential to significantly expand the market for our products. We hope to initiate Good Laboratory ("GLP") animal studies for the device in 2009.

As we move towards the start of our U.S. clinical trial, we are also in advanced discussions concerning a potential move to a new manufacturing facility. This facility, recently vacated by a major medical company, includes state of the art medical device manufacturing infrastructure and represents a significant upgrade for HeartWare. The facility, which occupies approximately double the manufacturing footprint of our current facility in Miramar, provides significant scope for expanding production over coming years.

Last year we sought to pursue in parallel both our IDE submission (to start our U.S. clinical trial) and our CE Mark submission (for European marketing approval). The Board determined that the U.S. IDE process had to take priority and, as a result, we are behind our previously discussed schedule for CE Mark. The decision to prioritize the IDE process proved fortuitous, given the Company's subsequent opportunity to relocate to a new, larger facility. Although the facility move remains subject to finalizing current lease negotiations, clearly it would not make sense to seek ISO certification of our Miramar facility – a prerequisite for CE Mark. Instead, we intend to hold off until the new facility has been commissioned. On this basis we anticipate receiving CE Mark in the second half of the year.

As you are aware the Board determined not to pursue an ADR listing on the NASDAQ Exchange as had been previously considered. This followed our successful equity capital raise of July 2007, during which the Company was able to generate substantial institutional interest from the United States directly into the ASX listed stock. We will continue to consider all financing options for the Company, including the possibility of a U.S. listing in 2009.

I would like, on behalf of the Board, to express my appreciation for the hard work and extraordinary dedication demonstrated by the HeartWare team over the past 12 months. The Company faced several challenges during 2007, calling for clear leadership and direction and, on occasion, testing the depth of the Company's manufacturing, engineering and clinical capabilities. Under the leadership of Doug Godshall, our Chief Executive Officer, the Company has emerged stronger than ever, with the product, capability and credibility to challenge the market leader within the next few years.

I wish to thank my fellow directors who continue to make very valuable contributions both in corporate governance and in helping to set strategic direction.

HeartWare is also very fortunate to have in place a world-class Medical Advisory Board, which comprises several pre-eminent cardiac surgeons and cardiologists. We continue to draw on their advice and counsel and appreciate their ongoing support. We also greatly appreciate the efforts and dedication of the surgeons, cardiologists and clinical staff at all our investigational centres.

> "We are committed to establishing a world class medical device company with a leading technology position in a rapidly growing market.

Finally, a sincere thanks to all our shareholders. The year ahead promises to be yet another pivotal year for the company as we progress our U.S. trial, initiate commercial activities in Europe and begin to generate revenue. We are committed to establishing a world class medical device company, with a leading technology position in a rapidly growing market. With these objectives firmly in mind, we continue to strive to deliver substantial value for our shareholders. We thank you for your support and look forward to an exciting year ahead.

Yours sincerely

ROBERT B THOMAS
Chairman

Chief Executive Officer's Report

DEAR SHAREHOLDERS

The past 12 months have seen an almost complete transformation of our business. Our core objective of advancing the HeartWare® Left Ventricular Assist System towards the market has not changed, however a comprehensive upgrade in the Company's systems, infrastructure, resources, personnel and overall capabilities has seen us evolve from an early stage technology developer into a full-fledged medical device enterprise. With each new implant of our device and with the exponential daily growth in our cumulative implant experience, we are making steady progress towards our long-term goal of achieving market leadership and revolutionizing the mechanical circulatory support sector.

Our Clinical Results are Exceptional

In September 2007 we completed the enrolment of the initial 20 patients in the international clinical trial for the HeartWare® LVAS. We subsequently expanded the trial to 30 patients and completed our 30th implant in late February. At the encouragement of our investigators, we have further expanded enrolment under the trial to 50 patients so as to allow the continued use of our device as we work through the process of seeking CE Mark for the system.

As of 31 March the HeartWare® LVAS has been used to treat 31 patients. The sample size remains small but our early results are extremely promising. The simple goal of our company and technology is to keep patients with heart failure alive and every day we measure ourselves against this one objective. Virtually every patient enrolled in our trial would not be alive today if it were not for our system. This is both motivating and humbling.

> "With each new implant we are making steady progress towards our long-term goal of achieving market leadership in the mechanical circulatory support sector.

The endpoint of our international study is patient survival to the earlier of 180 days or heart transplantation. Among our first 20 patients, we reported a 180 day survival rate of 90%. This was particularly encouraging given the high proportion of patients (16 out of 18) who were supported by our LVAS at 180 days and the relatively low number (2 out of 18) who met the study endpoint by virtue of having undergone heart transplantation. This tells us and our investigators a great deal about the promising reliability and durability of our system. Despite the clinical trial being for a Bridge-to-Transplant indication, the relatively long periods during which our patients, on average, remain on circulatory support bodes well for the potential future use of the device as a long-term treatment option.

On average our patients have been supported for 217 days each. Our cumulative clinical experience, which already exceeds 18 years, is building exponentially with each new implant. As this experience grows, so too does our confidence that the HeartWare® LVAS will command a meaningful market share and, over time, expand the overall market significantly.

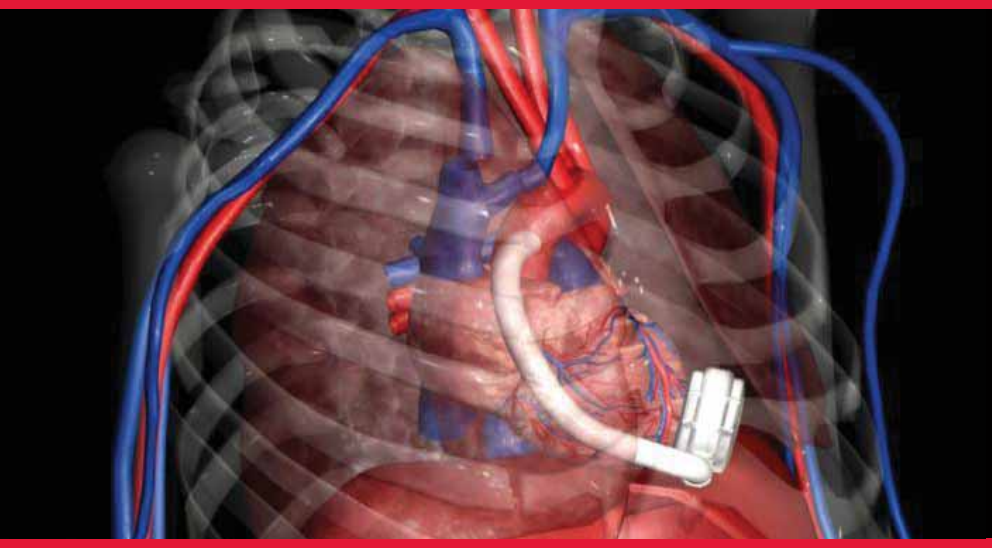
Our Operations are in Good Shape

Our shareholders will recall that in mid-2006 HeartWare was challenged in the early execution of its clinical trial. Our manufacturing capabilities and quality systems reflected the Company's R&D heritage and lacked the robustness required of a clinical stage medical device business. A key focus during 2007 was to upgrade our operational capabilities so as to improve manufacturing output, increase production yields and eliminate supply risk.

Our Quality and Manufacturing Engineering groups have done an outstanding job over the past 12 months to upgrade our systems and processes. We have vastly improved our manufacturing capabilities and greatly reduced the supply-side bottlenecks of the past. As we move towards the start of our U.S. clinical trial, we have product inventory awaiting shipment and a current monthly manufacturing output that will enable us to comfortably meet the demands of the trial.

Developing a leading position in the mechanical circulatory support sector

- The smallest 3rd generation Left Ventricular Assist Device
- The only full-output circulatory support device designed to be implanted above the diaphragm
- 31 implants across five international investigational centres
- Exceptional early clinical results
  - > 90% success rate among initial 20 patient cohort
- U.S. Bridge-to-Transplant clinical trial expected to begin in Q2 2008
- CE Mark expected in Q3 2008
- A pipeline of further miniaturized pumps in development, underpinning HeartWare's long-term competitive position



> The HeartWare® pump is implanted above the diaphragm. No abdominal surgery is required, leading to a less complex, less invasive and shorter procedure relative to that required to implant competing devices.

Our Regulatory Program is Broadly on Track

One of our key priorities last year was the preparation and submission of our application to the U.S. FDA for an Investigational Device Exemption (IDE) to enable the start of our U.S. clinical trial. We filed our submission in late October and received a series of follow-up questions from the FDA in late November. Formal dialogue has continued with the FDA over subsequent months as we have progressively addressed questions and refined elements of our application.

We hope to be granted an IDE in the short term and remain confident of a start to our U.S. trial by mid year. Certain elements of our trial design are novel and represent a departure from the historically conventional approach to LVAD trial protocols. This has perhaps necessitated a more extensive FDA process than might otherwise have been required but, subject to FDA approval, should allow HeartWare effectively to demonstrate the true clinical potential of our system. We look forward to sharing details of our trial design once approved.

Our second major upcoming regulatory milestone is our receipt of CE Mark, which is a requirement for commercializing the pump in Europe. The CE Mark process includes both a regulatory submission (the Technical Dossier) as well as the requirement for a manufacturing facility to pass an ISO audit. Subject to finalizing lease negotiations regarding our proposed new facility, we expect to be relocating our manufacturing activities in the short term. We have decided, therefore, not to go ahead with an audit of our Miramar facility but instead to wait until a decision concerning our proposed facility move has been finalized. Preparation of our Technical Dossier is well underway, so the timing of our CE Mark will be determined by the speed with which we are able to prepare our new facility for an audit. Where we previously anticipated CE Mark in the first or second quarter of 2008, a more realistic expectation now is that we gain approval during the third quarter.

> "As we move towards the start of our U.S. clinical trial, we have product inventory awaiting shipment and current monthly manufacturing output that will enable us to comfortably meet the demands of the trial.

Our Next Generation Programs are Progressing Well

It is largely axiomatic in the world of medical devices that if a device decreases procedural invasiveness then, all else being equal, utilization of the device is likely to increase. This has been proven across virtually every device segment from coronary stents to pacemakers.

The small size of HeartWare's current device positions the pump uniquely amongst its mechanical circulatory support device peers. The HeartWare® LVAD is the only full-output pump designed to be implanted in the pericardial space, directly adjacent to the heart. This placement technique eliminates the abdominal surgery that is required to implant competing devices. Physicians believe that this will shorten their surgery time and reduce procedural complications for their patients. This is expected to lead to a more rapid patient recovery and, over time, preferential use of our device relative to competing systems.

With our next generation miniature pump, our objective is a further, even more dramatic reduction in the surgical invasiveness required to implant a full-output mechanical support device. This device is an axial flow pump approximately one third the size of the HeartWare® pump but still capable of generating up to ten litres of blood flow per minute. We have already confirmed that the pump has blood handling characteristics similar to those of our first pump. The focus of recent preclinical work has therefore been to refine a minimally invasive surgical implantation technique. We are excited by our early results and aim to begin a formal series of Good Laboratory Practice ("GLP") studies in 2009.

With our third pump platform we aim to develop a device that is one tenth the size of the HeartWare® LVAD so as to enable a catheter based delivery

approach. This program is at an early prototype stage, but holds tremendous promise.

Historically our primary focus has been on the pump technology itself, but of nearly equal importance is the external system which runs the device. We have received very positive feedback regarding our peripheral components, particularly the controller and batteries, which patients must have with them at all times.

We recognize that one of the limitations of all current mechanical circulatory support systems is the need for an externally worn battery and controller to power the implanted pump. Clearly, given the choice, all patients would prefer not to have a cable exiting their skin and tethering them to the controller. HeartWare has a major ongoing technology initiative aimed at eliminating this driveline by implanting the core electronics which run the pump. Over the year we have significantly advanced the development of our Transcutaneous Energy Transfer ("TET") system. An operational TET system will allow patients to recharge a fully implanted battery using an external, removable "paddle". Our objective is to enable our patients to be entirely free from any external charging system for a few hours per day and to eliminate the need for a cable altogether. Our TET system, which is currently at working prototype stage, is being developed to be compatible across all of our pump platforms.

Our Team is Outstanding

I would like to express my gratitude to the entire HeartWare team, today numbering 82 personnel, all of whom have worked hard during the year to meet or exceed the ambitious objectives we always set.

Over the year we made several senior executive appointments, significantly bolstering our management depth. With a majority of our leadership team having previously held senior positions at large device companies such as Boston Scientific or Johnson & Johnson, I believe we have in place the operational, technical, clinical and management talent necessary to deliver on our plan.

Looking Ahead

The coming year is set to be our busiest yet. In the short-term we expect to begin our U.S. trial. We will continue to support implants at our current five international centres and, following receipt of CE Mark, will expand our presence through Europe and Australia. We expect to generate revenues for the first time, both from reimbursement in the U.S. clinical trial and from commercial sales in Europe. All the while we will continue to advance our pipeline technologies, with a view to progressing towards GLP animal studies.

In anticipation of this increased level of activity, we have appropriately upgraded our internal capabilities, ensuring that we have in place the infrastructure, systems and personnel to execute effectively.

As we look forward to an exciting year ahead, I would like to join our Chairman in thanking you, our shareholders, for your support over the past year. We will continue to work diligently to build the value of your company.

DOUG GODSHALL
Chief Executive Officer

Review of Operations

As of 31 March 2008, HeartWare has completed 31 implants of the HeartWare® Left Ventricular Assist Device across five centres in Europe and Australia. With some 18 years of cumulative implant experience across this patient group, the anticipated clinical advantages of the device are being strongly validated.

The market for mechanical circulatory support systems continues to develop rapidly. As HeartWare moves towards the start of its U.S. clinical trials and its first commercial sales in Europe, the Company is well positioned.

Heart Failure

Heart failure results from the progressive deterioration of the pumping function of the heart, leading to its inability to meet the metabolic demands of the body. While certain symptoms associated with the disease can be treated, the underlying functional impairment of the heart generally cannot.

A commonly accepted method for categorizing chronic heart failure is the New York Heart Association Classification, which identifies four stages in the progression of the disease, as described below.

According to the American Heart Association, 4.9 million patients in the United States suffer from heart failure, with an additional 550,000 patients diagnosed each year. Worldwide, over ten million patients suffer the disease. Of these, approximately one million patients have reached Class IV, the most advanced stage of the condition.

Heart transplantation remains the "gold standard" of treatment for patients with advanced heart failure. However, with fewer than 4,000 donor hearts becoming available worldwide each year, transplantation is not an available option for the vast majority of patients.

While various drug based therapies are helpful in slowing the disease progression, drugs are generally ineffective in treating patients at an advanced stage of the condition. Therapies based on stem cell technology remain in their infancy but, in future, may be used effectively in combination with mechanical circulatory support.

The Market Opportunity

For almost twenty years, Left Ventricular Assist Devices ("LVADs") have been used to "bridge" heart failure patients temporarily until a donor heart becomes available. This Bridge-to-Transplant ("BTT") market opportunity is, however, constrained by the relatively small number of donor hearts. Each year approximately 2,000 devices are implanted around the world to bridge patients to transplantation.

The more significant market opportunity is that of Destination Therapy ("DT") – the permanent or "lifelong" use of an LVAD to treat patients suffering from advanced heart failure. The National Institutes of Health (NIH) estimates that in the U.S. approximately 100,000 patients per year could benefit from an LVAD implant.

The DT market, however, remains in its infancy. The only device approved in the U.S. for DT is the HeartMate XVE™ from Thoratec Corporation, Inc. Market uptake has been constrained by the limitations of the device, specifically its large size and its relatively poor mechanical reliability over the long-term. The introduction and approval of smaller, improved second generation devices (such as Thoratec's HeartMate II™) and third generation products (such as the HeartWare® LVAD) are expected to drive a significant acceleration in implant numbers.

Class I (least severe cases)	**Class II** (mild)	**Class III** (moderate)	**Class IV** (most severe)
> 40% of patients	> 25% of patients	> 25% of patients	> 10% of patients
> No limitation of physical activity	> Some limitation of physical activity	> Marked limitation of physical activity	> Symptoms at rest. Unable to carry out any physical activity without discomfort
> Little to no drug therapy	> Drug therapy	> Drug therapy, biventricular pacing, or surgery	> Candidates for transplant and LVADs

A third opportunity for LVADs is their use as a Bridge-to-Recovery ("BTR"). In certain patients, the effect of an LVAD unloading the ventricle in combination with the use of a particular pharmaceutical regimen has been shown to lead to recovery of the heart muscle. This allows the physician to wean the patient from the pump and eventually to remove (or "explant") the device. This approach was detailed in a November 2006 *New England Journal of Medicine* article that described a recovery rate of approximately 75% in a study conducted at Harefield Hospital. Confirmatory studies are underway in the United States by Thoratec Corporation. Although BTR is only likely to apply to a small proportion of patients, this potential to "recover" the heart may also help drive overall implant numbers.

> "The National Institutes of Health (NIH) estimates that in the U.S. approximately 100,000 patients per year could benefit from an LVAD implant.

In the U.S., the implantation of an approved LVAD, whether for BTT or DT, attracts reimbursement from the Centres for Medicare & Medicaid Services ("CMS") as well as from a number of private insurers. The procedure is currently reimbursed at approximately US$140,000. The devices themselves are priced at approximately US$70,000 each.

The Competitive Landscape

The schedule on page 12 shows the generational evolution of LVAD technologies.

The first generation devices are volume displacement pumps designed to replicate the heart's pulsatile flow. They are large and mechanically complex, with relatively poor long-term reliability profiles. They are implanted in the abdomen and require extensive surgery. Their size, weight and limited durability restrict their clinical application for Destination Therapy. The HeartMate XVE™, a first generation LVAD from Thoratec Corporation, remains the only device with FDA approval for Destination Therapy, however, as the LVAD market evolves, first generation devices are unlikely to remain competitive.

The second generation devices are continuous flow axial pumps. They have fewer moving parts, giving rise to greater expected long-term reliability than the volume displacement devices. They are, however, characterized by their use of internal mechanical bearings which may over time compromise reliability. The most important of the second generation pumps is the HeartMate II™ from Thoratec Corporation. The HeartMate II™ has completed its U.S. clinical trial for BTT. An independent panel convened by the FDA recommended unanimously on 30 November 2007 that the device should be approved for BTT in the U.S. FDA approval is anticipated early in 2008. Although still implanted in the abdomen, the HeartMate II™ has a lower rate of complication than the much larger HeartMate XVE™ and has demonstrated greatly improved long-term reliability. The approval of the HeartMate II™ is expected to be an important catalyst for the mechanical circulatory support industry and to help drive an overall increase in implant numbers over the medium term.

Third generation LVADs are continuous flow pumps which incorporate magnetic or hydrodynamic suspension systems to eliminate the need for internal mechanical bearings. This wearless suspension of the impeller reduces the risk of mechanical failure. As the smallest of the third generation devices, the HeartWare® LVAD is the only one to be implantable within the pericardial space, directly adjacent to the heart. This is expected both to improve blood flow characteristics and to facilitate a less complex and less invasive operating procedure.

The HeartWare® Left Ventricular Assist Device

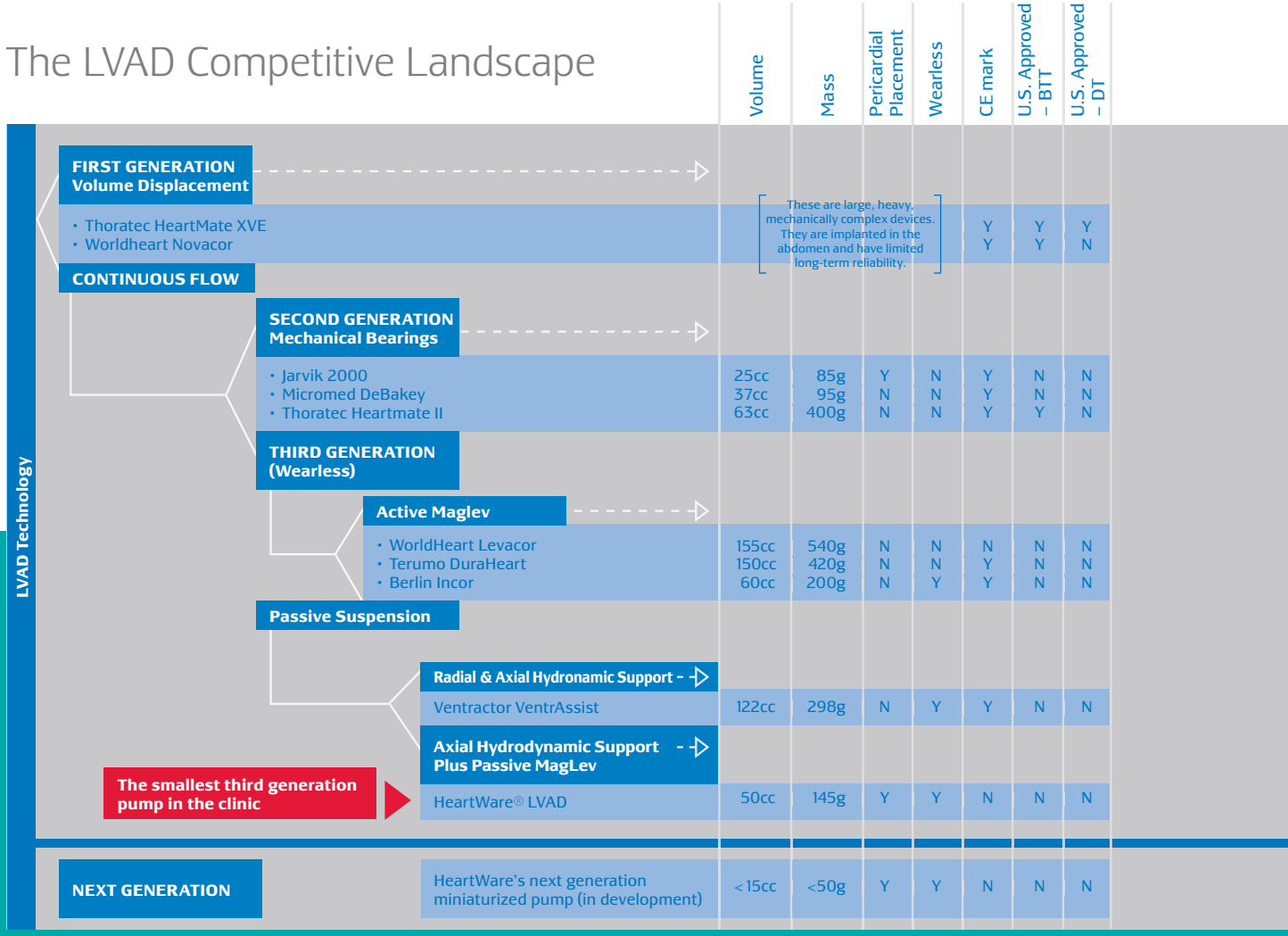
HeartWare's lead device, the HeartWare® LVAD, is a small, permanently implantable centrifugal blood pump capable of generating up to ten litres per minute of forward flow. The pump draws blood from the left ventricle and propels it through an outflow graft connected to the patient's ascending aorta.

With a displaced volume of only 50cc, the HeartWare® LVAD is the only full-output pump implantable in the pericardial space, directly adjacent to the heart. It is also the only centrifugal pump designed to be implanted above the diaphragm. This leads to a less complex, less invasive and shorter surgical procedure relative to that required to implant competing devices, which are generally implanted in the abdomen, below the diaphragm.

> "The approval of the HeartMate II™ is expected to be an important catalyst for the mechanical circulatory support industry and to help drive an overall increase in implant numbers.

The HeartWare® LVAD has only one moving part, the impeller, which is suspended within the pump housing through a combination of passive magnets and a hydrodynamic thrust bearing. The hydrodynamic thrust

The LVAD Competitive Landscape



bearing operates by establishing a “cushion” of blood between the impeller and the pump housing. Once power is applied to the system, there are no points of mechanical contact within the device. This wearless design significantly enhances the long-term durability of the pump, leading to an anticipated reliability profile in excess of ten years.

Device reliability is further enhanced through the use of dual motor stators with independent drive circuitry, allowing a seamless transition between dual and single stator mode if required. The pump’s inflow cannula is integrated with the device itself, ensuring proximity between the heart and the pumping mechanism, facilitating ease of implant and helping to ensure optimal blood flow characteristics. The use of a wide-bladed impeller and the clear flow paths through the system help minimize any risk of pump induced hemolysis (damage to blood cells) or thrombus (blood clotting).

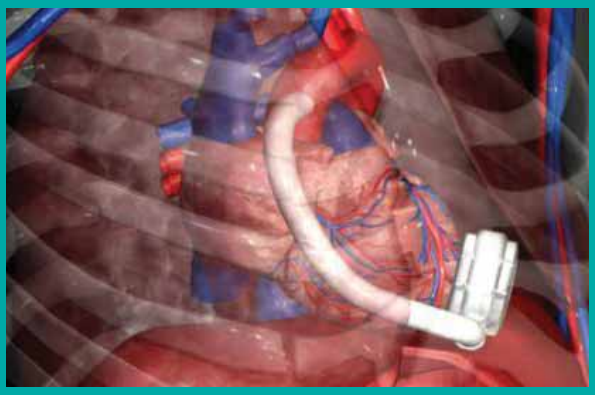
The HeartWare® LVAD is powered via a percutaneous driveline which connects the pump to an external controller and battery pack, which are worn on the patient’s belt or over the shoulder.

The HeartWare® pump is implanted using a set of customized surgical tools and accessories.

> The HeartWare® LVAS external components, including the controller, monitor, batteries and battery charger.

> The HeartWare® LVAS surgical tools, including the Driveline Tunneler, Coring Knife and Sewing Ring Torque Wrench.

> The HeartWare® LVAD – the smallest full-output circulatory support device.



> The HeartWare® LVAD is the only full-output blood pump designed to be implanted above the diaphragm. The pump is positioned in the pericardial space directly adjacent to the heart.

Review of Operations (continued)

HeartWare's International Clinical Trial

Over the past two years, the HeartWare® Left Ventricular Assist System has been the subject of an international clinical trial. The purpose of the trial is to evaluate the safety and feasibility of the device as a bridge to transplantation in patients eligible for cardiac transplantation with refractory, end-stage heart failure at risk of death. The primary endpoint is survival to anesthetic induction for heart transplantation or survival to 180 days on the device.

The study is a multi-centre, prospective, non-randomized, single-arm study, enrolling patients across five participating centres. Initially the study involved 20 patients. Following the twentieth implant, an amendment to the protocol was sought to allow additional implants.

As at 31 March, 31 patients have been implanted with the HeartWare® LVAD as follows:

Hospital	Principal Investigator	Implants at 31/3/08
Vienna General Hospital, Austria	Dr Georg Wieselthaler	8
Royal Perth Hospital, Australia	Dr Gerry O'Driscoll	4
Hannover Medical Centre, Germany	Dr Martin Strüber	11
Harefield Hospital, UK	Dr Asghar Khaghani	2
St Vincents Hospital, Sydney, Australia	Dr Paul Jansz	6

Summary results from the trial thus far are as follows:

Total Patients Enrolled	31
Patient deaths within 180 days	2
Patient deaths beyond 180 days	1
Transplants within 180 days	2
Transplants beyond 180 days	4
Pump explant due to Recovery	1
Patients currently on left ventricular support	21
Cumulative support days	6,723
Average support days per patient	217

- 28 patients remain alive out of 31 patients implanted with the HeartWare® LVAD
- Six patients have received heart transplants and 22 patients remain on circulatory support

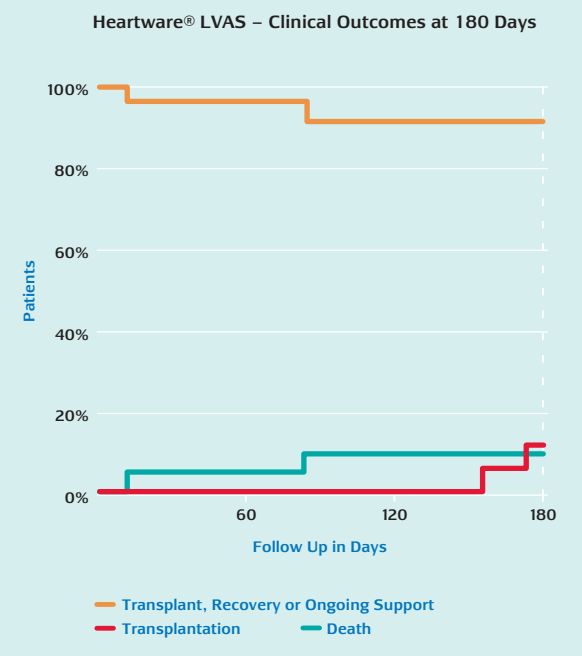
HeartWare's initial clinical trial results will be presented by Dr Georg Wieselthaler at the Annual Meeting of the International Society for Heart and Lung Transplantation ("ISHLT") in early April. The key results from the first 20 patients are as follows:

Total Patients Enrolled	20
Patients successfully met endpoint	18
Patients supported >180 days	16
Transplants within 180 days	2
Patient deaths	2
Proportion of patients meeting endpoint	90%

As at 31 March 2008, of the 31 patients enrolled in the clinical trial, 28 are still alive today because of the HeartWare system. Of our first 20 patients, ten patients remain on left ventricular support, six patients have undergone successful heart transplants and one patient's heart function recovered sufficiently for the device to be removed. The average period of support among this patient group is 283 days. The six patients who received heart transplants underwent their procedures, on average, after 284 days of support.

The earliest transplant occurred on day 156. The latest transplant occurred on day 426. At 31 March 2008, the longest surviving patient still on left ventricular support has been supported by his HeartWare® LVAS for 497 days. The 21st through 31st patient all remain supported on our system.

The survival data at 180 days for HeartWare's first 23 patients are as follows:



> Clinical results reported for HeartWare's initial 23 patients. At 180 days, 21 out of 23 patients remained alive – a survival rate of 91%.

These results form the basis of HeartWare's application for CE Mark, which will enable the Company to begin commercial sales of the HeartWare® LVAS in Europe. HeartWare has largely completed the compilation of its Technical Dossier, the key submission required for the CE Mark. The key outstanding component of the application relates to the required audit and ISO certification of the HeartWare manufacturing facility. Subject to successfully completing present discussions concerning a facility move, HeartWare plans to initiate this certification process as soon as our new manufacturing facility is operational. On this basis, HeartWare expects to receive CE Mark for the device during the third quarter of 2008 and to begin commercial sales in Europe soon thereafter.

HeartWare's U.S. Clinical Trial

In November 2007 HeartWare filed its submission for Investigational Device Exemption ("IDE") with the U.S. Food and Drug Administration ("FDA"). The submission relates to the proposed use of the HeartWare® LVAS in a Bridge-to-Transplant clinical trial aimed at evaluating the safety and effectiveness of the device in patients eligible for cardiac transplantation with refractory, advanced heart failure.

HeartWare received a response from the FDA seeking clarification of various elements of the submission. HeartWare filed its response in early February and received further questions from the FDA in early March. As of 31 March, dialogue with the FDA is ongoing. HeartWare hopes to start its U.S. clinical trial in the second quarter of this year.

Subject to approval by the FDA, HeartWare's U.S. BTT trial will involve 135 patients at up to 28 participating centres. Details of the clinical trial design will be disclosed following FDA approval of the Company's IDE application.

HeartWare's Product Pipeline

HeartWare continues to make significant progress in the development of its next generation technologies, aimed at securing long-term technology leadership in the mechanical circulatory support sector. Over the past twelve months, HeartWare has made significant advances in its next generation miniaturized pumps as well as in the Company's Transcutaneous Energy Transfer ("TET") System.

HeartWare's Miniaturized Pump Pipeline

HeartWare's next generation miniaturized device is a development-stage pump, approximately one third the size of the HeartWare® pump. This future device is based on the same impeller suspension technology used in the HeartWare® LVAD, with a single moving part held in place through a combination of passive-magnetic and hydrodynamic forces.

- HeartWare's next generation miniaturized device is a full-output pump approximately one third the size of the HeartWare® pump
- The device will be implanted using a minimally invasive surgical procedure

> HeartWare's next generation device continues to show promising results in preclinical studies.

Over a series of preclinical studies, this next generation device has shown blood handling and flow characteristics comparable to those of the HeartWare® pump. The device is expected to support the human heart's full output.

Because of its small size, the device will be implanted by way of a minimally invasive procedure. The focus of ongoing pre-clinical work is to refine an innovative implant technique. These preclinical studies are being conducted in collaboration with several hospitals, both in Europe and the United States. HeartWare's objective is to advance this development program and to start formal Good Laboratory Practice (GLP) animal studies during 2009.

HeartWare's Intravascular Device

HeartWare is also developing an axial flow pump which is approximately one-tenth the size of the HeartWare® pump. This device, which is currently at early prototype stage, is being designed to be delivered via a catheter and implanted within the patient's aorta. The initial prototype and design work suggests that this pump will have an output of approximately three litres per minute, making it appropriate for Class III heart failure patients who do not require the full output capability of the HeartWare® LVAD. We believe that the relatively low procedural invasiveness required to implant the intravascular device has the potential to vastly expand the number of heart failure patients for whom mechanical circulatory support therapy is considered appropriate.

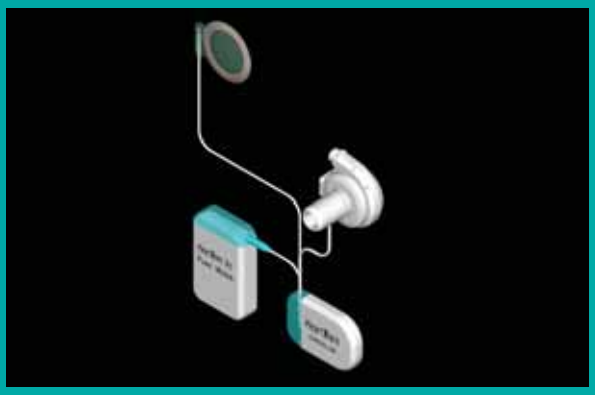
Transcutaneous Energy Transfer

The objective of HeartWare's Transcutaneous Energy Transfer System development is to enable a fully implanted battery to be periodically recharged using induction across the skin. This will allow implantation of the complete pump system, including batteries and controllers, and the elimination of the current need for an externalized driveline. The aim of the development program is to enable patients implanted with a HeartWare device to be free of any external charging system for extended periods of time.

HeartWare's TET System is at a working prototype stage. Development work is ongoing to determine optimal configurations and to refine the specifications for the implantable battery and controller components.

The relatively high energy efficiency of the HeartWare devices makes them particularly conducive to operating with fully implanted battery and controller systems. The TET System is being developed to be compatible across all HeartWare pump platforms.

HeartWare's TET System will charge an implanted battery through the skin, eliminating the need for an externalized driveline.



Board of Directors

The HeartWare Team

HeartWare's executive team is comprised of an experienced group of industry professionals with extensive track records. The HeartWare team was bolstered during 2007 with several new executive appointments, including Mr James Schuermann as Vice President, Sales and Marketing.

Our management team is supported by a Board of Directors with a depth of relevant financial, commercial and industry experience.

HeartWare also draws substantially on the expertise of its Medical Advisory Board, which includes a number of pre-eminent cardiac surgeons and cardiologists.

Mr Robert Thomas Non-Executive Chairman

Rob has over 30 years experience in the securities industry. He is the immediate past Chairman, Citigroup Corporate and Investment Bank, Australia and New Zealand. He is currently also non-executive Chairman of Tower Australia Limited and a non-executive director of Virgin Blue Holdings Limited. He is also the Chairman of the Securities & Derivatives Industry Association and President of the Library Council of New South Wales.

Mr Douglas Godshall

Managing Director and Chief Executive Officer

Prior to joining HeartWare in September 2006, Doug spent over 16 years at Boston Scientific Corporation, most recently as President of the Vascular Surgery Division. He previously spent five years as Vice President, Business Development where he was instrumental in developing the acquisition strategies for the cardiology, electrophysiology and vascular surgery divisions. He led the negotiation and structuring of over 70 transactions and represented Boston Scientific on the Boards of 11 companies.

Dr Seth Harrison Non-Executive Director

Seth is Managing General Partner of Apple Tree Partners, an early stage healthcare venture capital firm based in Cambridge, Massachusetts. Apple Tree Partners is HeartWare's cornerstone investor. A qualified surgeon, Seth is an experienced life-sciences investor, with over 15 years experience at several leading venture capital firms, including Oak Investment Partners, Sevin Rosen Funds and Nazem & Company.

Mr Robert (Bob) Stockman

Bob joined HeartWare as a director in December 2006. He has over twenty years experience in managing and financing medical technology companies. Bob is President and CEO of Group Outcome LLC, a U.S. based merchant banking firm which deploys its capital and that of its financial partners in private equity and venture capital investments in medical technology companies. He is also the Chairman of REVA Medical, Inc, an interventional coronary medical device company which he helped co-found.

Dr Denis Wade Non-Executive Director

Denis has extensive experience in the development and commercialization of research based health care products. He was formerly Managing Director of Johnson & Johnson Research Pty Ltd. For ten years he was a member of J&J's U.S. based Corporate Office of Science & Technology. Denis previously had a distinguished academic career, holding the position of Foundation Professor of Clinical Pharmacology at the University of New South Wales.

Dr Christine Bennett Non-Executive Director

Christine is an experienced company director with a diverse background in clinical care, strategic planning and senior management. On 25 February 2008 Christine was appointed by the Prime Minister of Australia to Chair of the newly formed National Health and Hospitals Reform Commission. Christine also holds the position of Group Executive, Health and Financial Solutions and Chief Medical Officer of MBF Australia Limited, a leading health insurance provider. Christine's previous positions include Chief Executive Officer of Research Australia, Chief Executive Officer of Westmead Hospital and Community Health Service, Partner, Health and Life Sciences at KPMG and non-executive director of Symbion Health.

> Please refer to pages 36 to 39 for detailed biographies of Heartware's Board of Directors.

Medical Advisory Board

O. Howard 'Bud' Frazier, MD

Chairman & Chief of Transplant Services,
Director Cardiovascular Research, Texas Heart Institute

For more than 25 years, Dr Frazier has been a pioneer in the surgical treatment of severe heart failure. He has been director of cardiopulmonary transplantation for 20 years. He serves on the editorial boards of several distinguished journals, including Circulation, the premier journal of the American Heart Association. He has authored or co-authored more than 1,000 scientific publications, presented over 1,200 lectures around the world, and written or edited numerous books in the field.

Dr Frazier is a former chairman of the Federal Affairs Committee for the American Society for Artificial Internal Organs and has served on other prominent committees, including the Education Committee of the American Society of Transplant Surgeons and the Advisory Board of the National Heart, Lung and Blood Institute. In 2001, he was elected president of the American Society for Artificial Internal Organs.

Dr Frazier's academic appointments include Professor of Surgery at the University of Texas Health Science Centre in Houston, Clinical Associate Professor of Surgery at the University of Texas M.D. Anderson Cancer Centre, and Clinical Professor at Baylor College of Medicine in Houston.

Steven W Boyce, MD

Director of Heart Transplantation and Cardiac Assist Device Programmes, Washington Hospital Centre

Dr Boyce has served as Director of the Cardiac Transplantation and Mechanical Circulatory Assist Device Programs for the Washington Hospital Centre, as well as Director of the Cardiac Surgery Research Program for over ten years. He is certified with the American Board of Thoracic Surgery, and performs approximately 500 adult cardiac surgeries per year.

Dr Boyce has served as principal investigator on a number of FDA pharmaceutical and device investigational protocols. He has worked with a variety of mechanical circulatory support devices, both investigational and commercially available.

Dr Boyce graduated from Johns Hopkins University's undergraduate program and the University of Maryland's medical school program. He completed his residency and chief residency in general surgery at the University of California, San Francisco and then trained at UCLA in cardiothoracic surgery. Dr Boyce has a number of professional affiliations, including the International Society of Heart and Lung Transplantation, the American College of Surgeons, the Society of Thoracic Surgeons, the American College of Cardiology, the Heart Failure Society of America, and the International Society for Minimally Invasive Cardiac Surgery. He has published and presented on a range of topics on the surgical management of end stage heart failure.

Laman A Gray, Jr, MD

Professor of Surgery and Director of the Division of Thoracic and Cardiovascular Surgery, University of Louisville School of Medicine

Dr Gray is highly experienced in the fields of cardiac surgery and development of artificial hearts and circulatory support systems. He was an original investigator for the Novacor Ventricular Assist System, he performed the first clinical use of Abiomed's SupraCor IABP and he implanted the first AbioCor Implantable Replacement Heart.

Dr Gray has been the Director of the University of Louisville School of Medicine's Division of Thoracic and Cardiovascular Surgery for more than 20 years, is a founding member of the Jewish Hospital Heart and Lung Institute and is currently the Director of the Cardiovascular Innovation Institute.

Dr Gray received his Bachelor of Arts degree with distinction in chemistry from Wesleyan University in Middletown. He then received his M.D. from Johns Hopkins University in Baltimore, and completed his training and residencies in general and thoracic surgery at the University of Michigan.

Leslie Miller, MD

Director of Cardiology, Washington Hospital Centre
Walters Chair of Cardiology, Georgetown School of Medicine

Dr Miller joined the Washington Hospital Centre in 2006. He was previously Professor and Director of the Cardiovascular Division and Director of the Heart Failure/Heart Transplant Program at the University of Minnesota in Minneapolis.

Dr Miller has been an investigator in over 80 clinical trials studying the safety and efficacy of therapies for heart failure, cardiac transplantation and ventricular assist devices. He is a Past President of the International Society for Heart & Lung Transplantation and the American Society of Transplant Physicians and is a Member of the Board of the American Heart Association. He is Founder and Chairman of the Working Group of Transplant Cardiologists and a member of the Cardiac Transplant Research Database Executive Committee. Dr Miller is also a current member on the U.S. Federal Agency Advisory Committees for national coverage policy for the use of left ventricular assist devices and the American Heart Association Committee on Heart Failure/ Transplantation. Dr Miller has contributed more than 285 medical papers and serves on the editorial boards and as a reviewer for major cardiovascular journals.

Dr Miller received his medical degree from the University of Missouri School of Medicine. His postgraduate training includes serving as Chief Resident in Medicine at Washington University and Barnes Hospital, Missouri, Cardiology Fellow at Peter Bent Brigham Hospital, and Senior Resident in Surgery at Boston University. He is a Fellow of the American College of Cardiology, the American College of Chest Physicians and the American Heart Association Council on Clinical Cardiology.

Medical Advisory Board (continued)

Gerry O'Driscoll, MB, BCh, BAO, DMed, PhD

Professor of Cardiology at University of Notre Dame, Western Australia Consultant Cardiologist at Royal Perth Hospital

Dr O'Driscoll is Consultant Cardiologist at Royal Perth Hospital and Medical Head of West Australian Advanced Heart Failure & Cardiac Transplant Services. He is also Head of the Cardiovascular Research Group at Royal Perth Hospital and a Board Member of the Heart & Lung Transplant Foundation of Western Australia.

Dr O'Driscoll has worked extensively with a wide range of mechanical circulatory support devices over the past decade. He has experience with the Thoratec, Heartmate, Novacor, Ventrassist, Biomedicus, Abiomed, Jarvik and HeartWare devices.

Dr O'Driscoll serves as a reviewer for several national funding bodies including the National Heart Foundation and National Health and Medical Research Council. He is a member of several national committees in clinical cardiology and a reviewer for a number of international scientific journals, including the American Journal of Cardiology, Lancet, Circulation and the Journal of the American College of Cardiology.

Dr O'Driscoll received his medical degree from the University College Cork in Ireland. He received his DMed from the National University of Ireland and his PhD from the University of Western Australia. He is a Fellow of the Royal Australasian College of Physicians, the Cardiac Society of Australia & New Zealand, the European Society of Cardiology and the American College of Cardiology.

Georg M. Wieselthaler, MD

Clinical Director of Mechanical Circulatory Support, University of Vienna, Dept of Cardiothoracic Surgery, Vienna General Hospital

Dr Wieselthaler has extensive experience with numerous ventricular assist device systems. He is the primary surgeon implanting VAD systems and supervising patient care at the University of Vienna and Vienna General Hospital.

Dr Wieselthaler has implanted a range of circulatory assist devices. He was the first to implant the MicroMed DeBakey rotary LVAD and has since supported more than 40 patients with this pump. Dr Wieselthaler conducted the first ever implant of the HeartWare® LVAD in March 2006.

Dr Wieselthaler has served as the Secretary General of the International Society of Rotary Blood Pumps.

Executive Management Team

Douglas Godshall

Managing Director, Chief Executive Officer

Doug joined HeartWare as Chief Executive Officer in September 2006.

For a detailed biography, please refer to page 18.

David McIntyre

Chief Financial Officer, Company Secretary

David joined HeartWare soon after the IPO in January 2005.

Prior to joining HeartWare, David was the Chief Financial Officer and General Counsel to another ASX-listed medical device company. He has previously served as a corporate and commercial law specialist in major international law firms, advising some of the world's largest corporations in various areas including mergers and acquisitions, corporate fundraising and securities law. He has also held senior financial roles in multinational companies, among them Rio Tinto.

David holds a Bachelor of Economics, majoring in accounting from the University of Sydney and a Bachelor of Laws from the University of Technology, Sydney. He is admitted as a Solicitor of the Supreme Court of New South Wales and is a member of the Law Society of New South Wales and CPA Australia.

Jeffrey A. LaRose

Chief Scientific Officer

Jeff has been the driving force behind the development of HeartWare's technology for almost ten years. He is responsible for all aspects of the design of the HeartWare® LVAD System and he leads the development of HeartWare's device miniaturisation program.

Jeff has over 20 years experience in hydraulic technology development including roles with AEA Technology Engineering Software and Babcock and Wilcox. He holds a Master of Science in Mechanical Engineering.

Dozier Rowe

Chief Operating Officer

Dozier joined HeartWare as Chief Operating Officer in April 2006. He has primary responsibility for managing all internal operational functions of the business.

Dozier brings to HeartWare over 20 years of experience in the medical device industry, having held senior positions at Boston Scientific Corporation, St Jude Medical Inc. and Baxter Healthcare Corporation. He has worked with a variety of Class III implantable medical devices with responsibility across all elements of manufacturing, quality control, regulatory affairs, materials management, supply chain and operations. He previously held the position of Vice President and General Manager, Operations at Boston Scientific's Miami operations centre, where he had responsibility for over 1,000 staff and a budget in excess of US$100M per year.

Executive Management Team (continued)

Jennifer Foley

Vice President, Clinical and Regulatory Affairs

Jennifer joined HeartWare in January 2007. She is responsible for the design and execution of HeartWare's clinical trial program and regulatory plan.

Prior to joining HeartWare, she held the position of Vice-President, Clinical Sciences, Clinical Program Management and Operations at Boston Scientific Corporation. As one of the most senior executives within Boston Scientific's clinical affairs organization, she was responsible for overseeing the execution of clinical trials across nine of the company's divisions. Prior to joining Boston Scientific in 2002, Jennifer was responsible for managing major trials with The Medicines Company and Glaxo (now GlaxoSmithKline). She previously spent five years in leadership positions at Parexel International Corporation, one of the world's largest contract research organizations.

James Schuermann

Vice President, Sales and Marketing

Jim joined HeartWare in September 2007. He has overall responsibility for HeartWare's sales and marketing activities.

Jim has over 15 years sales and marketing experience in the medical device arena. Prior to joining HeartWare, he spent nine years in sales and marketing at Boston Scientific Corporation. Over this time he progressed from sales through product management until being appointed Director of Marketing in 2005. With five direct reports and a broader team of over 150 product managers and salespeople, Jim led the marketing activities for a US$280M worldwide business which emerged as one of the strongest in the company. Before joining Boston Scientific, he spent five years in medical sales and sales management at Sherwood Davis & Geck. Jim received his undergraduate degree in marketing from Kelley School of Business, Indiana University, Bloomington, IN and his MBA from Ageno School of Business, Golden Gate University, San Francisco, CA.

Barry M. Yomtov

Vice President, Product Development

Barry joined HeartWare in August 2006. He is responsible for the design and development of new products with a particular focus on HeartWare's electronics programs.

Barry has over 28 years experience in the medical device industry specializing in Class III implantable medical devices. Prior to joining HeartWare, Barry has held senior management positions at MicroCHIPS, Inc, Abiomed, Inc., and InControl, Inc. He also spent ten years at Cordis Corporation in the design and development of pacemakers, neurostimulators and defibrillators. Barry received a Masters of Engineering in Biomedical Engineering from Rensselaer Polytechnic Institute. He has nine patents issued, two patents pending, plus ten publications in the field of medical devices.

Ramon Augusto Paz

Vice President, Quality Assurance

Ramon joined HeartWare in October 2004. He has primary responsibility for establishing and implementing the company's Quality Management System.

Ramon's has over 23 years of multifunctional experience in the medical device industry across Quality, Manufacturing, Engineering, Regulatory and Clinical organizations. He began his career with Cordis Corporation, where he spent 15 years in a range of positions across the Quality, Manufacturing and Product Development groups. In 1998 Ramon joined World Medical, a start-up company which was later acquired by Medtronic AVE, where Ramon was Head of Quality, with expanded responsibility for managing the regulatory and clinical groups responsible for the clinical study of the TALENT stent graft.

Howard Leibman

Director, Corporate Development

Howard joined HeartWare in April 2005, soon after the Company's IPO. Based at HeartWare's corporate headquarters in Sydney, he is responsible for financing strategy, investor relations and corporate communications.

Prior to joining HeartWare, Howard was Associate Director at Emerging Growth Capital, a specialist life sciences investment house. He advised on a number of successful Initial Public Offerings, private capital raisings and other corporate transactions. While at Emerging Growth Capital, Howard played a key role in HeartWare's capital raising and listing on the Australian Stock Exchange.

Howard's previous roles include Executive Director at Aeris Technologies, a company listed on the ASX, and Design Engineer at General Electric Company. He holds a Bachelor of Engineering and a Bachelor of Arts from the University of New South Wales and an MBA from the Australian Graduate School of Management and London Business School.

Directors' Report

The Board of Directors of HeartWare Limited ("the Company" or "HeartWare") is pleased to submit its Directors' Report for the Company and its controlled entities ("the HeartWare Group" or "the Consolidated Group") for the financial year ended 31 December 2007.

Directors

The names of the directors in office at any time during or since the end of the financial year are as follows:

Mr Robert (Rob) B Thomas
(Appointed 26 November 2004)

Dr Seth L Harrison (Appointed 26 November 2004)

Mr Douglas E Godshall (Appointed 28 October 2006)

Dr Christine C Bennett (Appointed 15 December 2004)

Dr Denis N Wade AM (Appointed 15 December 2004)

Mr Robert (Bob) B Stockman
(Appointed 11 December 2006)

Principal Activities

The principal activities of the HeartWare Group are the development and commercialisation of its circulatory assist device technology.

There were no significant changes in the nature of the principal activities of the HeartWare Group during the year ended 31 December 2007.

Financial Results for the Year Ended 31 December 2007

During the year the HeartWare Group continued to commercialise the HeartWare® LVAD System, the first of its range of circulatory assist devices or "heart pumps", which are used for the treatment of congestive heart failure. 2007 was also a pivotal year for the Company as it completed enrolment of its 20-patient clinical trial, lodged an application with the United States Food & Drug Administration with a view to commencing its Bridge-to-Transplant clinical trials in the United States, conducted additional research and development on its future range of products including ongoing cannulation studies for its miniaturised ventricular assist device or "MVAD", as well as further development work on the intravascular pump or "IV VAD" and the fully implantable electronics system (i.e. transcutaneous energy transfer system ("TETS")).

The net loss of the HeartWare Group for the year ended 31 December 2007 after providing for income tax was $26,113,807 (2006: $23,250,653). The increase in the loss over the preceding year reflects the expansion of the Company's international clinical trials, progress towards the commencement of its US clinical trials and early-stage manufacturing development.

Total revenue for the year was $1,150,040 (2006: $1,143,912). Revenue comprises interest revenue only. The Company has no sales revenue as it has not received regulatory approval that permits sales of its heart pumps. Sales of the HeartWare® LVAD System are expected to commence during the first half of 2008.

Dividends

As the Company has not made a profit for the year ended 31 December 2007 and has no accumulated retained earnings. For this reason no dividends have been, or were able to be, recommended, declared or paid during the year.

Review of Operations

Overview

The 2007 calendar year has seen HeartWare achieve some of its most important milestones to date, namely the completion of enrolment in its 20-patient international clinical trial and the lodgement of an investigational device exemption ("IDE") with the US Food and Drug Administration ("FDA") to commence a Bridge-to-Transplant clinical trial in the United States.

Undoubtedly, the key event for 2007 was the Company lodging a submission with the United States Food & Drug Administration seeking an IDE for the proposed use of the HeartWare® LVAD System in a Bridge-to-Transplant indication in the United States on 1 November 2007. The purpose of the proposed study is to evaluate the safety and effectiveness of the HeartWare® LVAD System in the United States in patients eligible for cardiac transplantation with refractory, advanced heart failure.

The proposed primary endpoint is survival to anaesthetic induction for heart transplantation or survival to 180 days on the device and listed for heart transplantation, whichever occurs first. The initial phase of the US clinical trial comprises thirty (30) patients implanted with the HeartWare® LVAD System at up to ten (10) clinical centres in the United States. The ultimate objective is for the Company to secure regulatory approval to sell its HeartWare® LVAD System in the United States of America. As at the date of this report, we have not yet received final approval from the FDA to commence our US clinical trial. Receipt of FDA approval in this regard is critical as it will mark the commencement of first revenues for the Company as the Company expects to be reimbursed during the course of its US clinical trial.

As at the date of this report, HeartWare has implanted thirty (30) patients across its five (5) international clinical centres, with more than 6,050 cumulative implant days, or approximately 14.25 years of patient data. Eighteen (18) of our first twenty (20) patients have reached successful completion of the 180-day primary endpoint, with sixteen (16) of these eighteen (18) patients also having been supported on the HeartWare® LVAD System for a period exceeding 180-days. Though early in the study, we have had encouraging clinical outcomes and very positive surgeon review.

The Company also further developed and stabilized its manufacturing processes, particularly towards the end of 2007 with the result that the Company is now in a position to easily meet the needs of the US clinical trial.

The Company has opened 2008 with sufficient quantities of its products, a stable manufacturing environment and with strong clinical results. These are excellent foundations for the Company as it looks forward to the commencement of US clinical trials and, importantly, "first revenue".

Regulatory Approvals

Our commercial focus at present is the rapid advancement of our lead product, the HeartWare® LVAD System, through clinical trials with a view to obtaining regulatory approval, particularly in the United States.

All our products will require regulatory approval prior to commercialization. Regulation by government authorities in the United States of America and foreign countries is a significant factor in the research and development, manufacturing, and marketing of our current and future products.

Medical device regulations are enforced in the United States of America by the US Food and Drug Administration ("FDA"), the Therapeutic Goods Administration ("TGA") in Australia and by the European Medical Device Directives in the European Union.

Regulatory requirements also include ISO-13485-2003 compliance for the manufacturing and assembly of medical devices. Various regulatory approvals will also be required as product development advances into commercialization. Following launch, there will be an ongoing requirement to file yearly reports with the FDA and to report any adverse events.

While it is difficult to predict the amount of time required for regulatory processes, we anticipate receiving an approval to commence our US trial in early 2008. Our plan is to file for a CE mark during the first part of 2008 and this would, subject to satisfaction of the relevant regulatory hurdles, lead to commercialization within the European Union in mid 2008.

Financial Position

HeartWare's cash reserves as at 31 December 2007 were $32.1 million (2006: $21.1 million).

Expenditure grew significantly during 2007 as the Company transformed itself from a focus on product development to one that is focused on both clinical trials and developing more substantive manufacturing processes. The Company expanded its clinical trials in both Europe and Australia, further advanced its product pipeline through additional research and development, and expects to shortly commence clinical trials in the United States for the HeartWare® LVAD System.

The growth of the Company is reflected in the increase in head count from 65 employees to 76 employees, with a parallel increase in annual employee entitlements costs to $10.4 million (2006: $10 million), noting that the 2006 cost was larger than expected due to the unanticipated one-off employee termination costs for two senior employees of approximately $650,000.

Other notable increases in costs include additional clinical and regulatory consulting costs totalling $2.2 million (2006: $1.6 million) incurred in consequence of the commencement of our international clinical trials. The Company also expenses all product used for its international clinical trials. Product costs have not been capitalized in the Balance Sheet because this is not permitted under applicable Australian accounting standards as we do not have regulatory approval and

therefore do not hold product "for sale". These costs are included in the Income Statement in the line item titled "Raw materials and consumables used". The Company expects to revisit this issue in early 2008 following the commencement of first revenue with the first US human implant and subject to satisfaction of relevant regulatory hurdles.

Other non-operating expenses included in this year's loss are the share-based payments expense of $2.8 million (2006: $1.2 million), together with amortization and depreciation expense of $0.8 million (2006: $0.8 million).

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the HeartWare Group occurred during the financial year:

(a) On 4 January 2007, Hannover Medical Centre in Germany became the third hospital to implant HeartWare's HeartWare® LVAD System when it implanted the Company's seventh patient.

(b) With effect from 31 January 2007, the Australian Securities Exchange released 87,003,221 ordinary shares from escrow, together with 2,264,204 options with various strike prices and one convertible note with a face value of $1.42 million.

(c) On 22 March 2007, the very first recipient of the HeartWare® LVAD System reached an important milestone, having been the first patient to be supported on the HeartWare® LVAD System device for a duration exceeding one year.

(d) On 28 March 2007, Harefield Hospital in the United Kingdom commenced implanting the HeartWare® LVAD System and thereby became the Company's 4th implanting centre in its international clinical trial.

(e) On 4 April 2007, St Vincent's Hospital became the Company's 5th implanting centre in the international clinical trial when it implanted a HeartWare® LVAD System in its first patient.

(f) On 14 June 2007, the Company announced that it had received commitments to raise in excess of $30 million pursuant to a private placement, with significant institutional participation. Shareholders subsequently approved the capital raising on 26 July 2007 with the Company receiving subscriptions for approximately $36 million.

(g) On 18 July 2007, the Company confirmed that it had successfully closed its Share Purchase Plan whereby it raised approximately $1.15 million.

(h) On 31 August 2007, the Company completed enrolment in its international clinical trial when Vienna General Hospital implanted the HeartWare® LVAD System in the Company's 20th patient.

(i) On 31 October 2007, the Company shipped its submission for an IDE to the FDA. The IDE submission is the key regulatory filing with the FDA and represents the most important regulatory milestone in the Company's history. As noted above, HeartWare's IDE submission relates to the proposed use of the HeartWare® LVAD System in a Bridge-to-Transplant indication in the United States.

(j) On 2 November 2007, the Company gave its first major presentation on its miniaturization capabilities at the International Society of Rotary Blood Pumps Conference in Sydney.

(k) On 20 November 2007, the Company announced its annual employee incentive allotment, pursuant to which the Company issued 2.9 million options under its Employee Share Option Plan and a further 2.05 million performance rights under the Performance Rights Plan.

Except as stated above there were no material changes to the Consolidated Group during the financial year.

After Balance Date Events

There have been no matters or circumstances that have arisen since the end of the financial year which have or may significantly affect the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group in future financial years.

Further Developments, Prospects and Business Strategies

The likely developments in the operations of the Consolidated Group and the expected results of those operations in future financial years are as follows:

(a) Notwithstanding the commencement of human clinical trials in both Europe and Australia, the Company has not, as at the date of this report, received an IDE to commence human clinical trials in the United States of America, the world's largest medical device market. In this regard, the Company envisages commencing its US human clinical trials shortly (with the prior approval of the FDA). The Company anticipates that it will receive reimbursement (i.e. revenue) during the course of its US human clinical trials.

(b) HeartWare is hopeful of receiving CE marking for the HeartWare® LVAD System during mid 2008 and this will enable commercialisation to commence in the European Union. Receipt of CE mark will allow equivalent regulatory filings to be made in other countries, including Australia, and this will further expand the Company's commercialisation activities.

(c) HeartWare must raise capital in order to continue to commercialise its technology. As at 31 December 2007, the Company has $32.1 million in cash and cash equivalents. Notwithstanding this cash holding and the impending commencement of revenue, the Company will need to raise additional capital in the future. These funds will be primarily applied for the purposes of meeting costs associated with expanding the Company's human clinical trials into the United States, commercialisation costs in the European Union and Australia, product development (including in relation to the Company's transcutaneous energy transfer system and its next generation devices, the IV VAD and MVADTM), regulatory and other compliance costs as well as for general working capital. The Company continually monitors its cash position and, based on prior successful capital raisings and the continued success of the Company's progress towards commercialisation of the HeartWare® LVAD System, is confident that a capital raising as contemplated above is achievable (and for this reason the Financial Statements are prepared on a going concern basis).

The expected results of the above have not been included in this Directors' Report because the directors believe, on reasonable grounds, that disclosure of such information would be likely to result in unreasonable prejudice to the Consolidated Group.

Notwithstanding the above, it is the Board's view that the above events are achievable.

Environmental Regulation

The HeartWare Group is not subject to significant environmental regulation.

Information on Directors and Company Secretary

Information regarding the qualifications and experience of each of the directors and the company secretary, together with details concerning the responsibilities of directors and the directorships held by each director in the three years to 31 December 2007 are set out in the Corporate Governance Statement and those details form part of this Directors' Report and are incorporated by reference.

Directors' Interest

The direct and indirect interests of the directors in the shares of the Company (including interests in options) are set out in the Remuneration Report on pages 43 to 56 (inclusive).

Meetings of Directors

During the financial year 15 meetings of directors (including committees of directors) were held. The number of meetings attended by each of the directors during the financial year is as follows:

					Comittee meetings			
	Directors' meeting		Non-executive Directors' meeting		Audit & compliance committee		Nomination & remuneration committee	
	A	B	A	B	A	B	A	B
Rob Thomas	9#	8	–	–	5	5	1#	1
Seth Harrison	9	8	–	–	*	*	1	1
Denis Wade	9	9	–	–	5	5	1	1
Christine Bennett	9	8	–	–	5#	5	1	1
Doug Godshall	9	9	*	*	*	*	*	*
Bob Stockman	9	8	–	–	*	*	*	*

A – Number of meetings held during the time the director held office during the year.
B – Number of meetings attended.
** – Not a member of the relevant committee.*
 # – Designates the Chair of the relevant committee.

In relation to the above please note that significant Company announcements are reviewed by either the full Board of Directors or by the Continuous Disclosure Committee ("CDC"). The members of the Continuous Disclosure Committee are Mr Rob Thomas, Dr Seth Harrison and Mr Doug Godshall. In all instances, the Continuous Disclosure Committee reviews and approves recommendations on ASX announcements from senior management, prior to their release to the ASX. Formal meetings of the CDC are held infrequently and on an "as needed" basis. No formal meetings of the CDC were held during the financial year.

Indemnification & Insurance

The Company has entered into a Deed of Indemnity, Access and Insurance pursuant to which each of the directors and the company secretary are entitled, to the extent permitted by law, to the benefit of certain indemnities from the Company. In addition, these persons have certain rights of access to books and records of the Company.

The Company has also paid premiums to insure each of the directors and officers against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract because disclosure is prohibited under the terms of the contract.

Options issued to directors and other key management personnel during or since the end of the financial year

On 26 July 2007 and following shareholder approval, the Company granted 200,000 options under the Company's HeartWare Limited Employee Share Option Plan to Mr Bob Stockman, Non-Executive Director. The exercise price of these options is $0.75 per option and the options vest in three equal annual tranches commencing on the first anniversary of the grant date (i.e. 26 July 2008).

Except as stated above, no options were granted during or since the end of the financial year to any director of the HeartWare Group.

Details of options that were granted during or since the end of the financial year to any of the other key management personnel (including the five most highly remunerated officers) as part of remuneration is set out in Note 29 in the Notes to the Financial Statements.

Shares under Option

At the date of this report, the unissued ordinary shares of HeartWare under option are as follows:

Grant date	Expiry date	Exercise price	Category	Number under option
24 January 2005	24 January 2010	$0.20	ESOP*	4,273,804
24 January 2005	24 January 2010	$0.60	ESOP	191,051
24 January 2005	24 January 2010	$0.75	ESOP	191,051
24 January 2005	24 January 2010	$1.00	ESOP	191,051
24 January 2005	24 January 2010	$1.50	ESOP	191,051
24 January 2005	24 January 2010	$0.60	Incentive	600,000
24 January 2005	24 January 2010	$1.00	Incentive	600,000
24 January 2005	24 January 2010	$1.50	Incentive	300,000
27 April 2005	27 April 2010	$0.60	ESOP	191,051
27 April 2005	27 April 2010	$0.75	ESOP	191,051
27 April 2005	27 April 2010	$1.00	ESOP	191,051
27 April 2005	27 April 2010	$1.50	ESOP	191,051
27 April 2005	27 April 2015	$0.50	ESOP	2,190,510
15 December 2006	15 December 2012	$0.75	ESOP	764,204
20 April 2006	20 April 2016	$1.41	ESOP	1,000,000
25 July 2006	25 July 2016	$1.10	ESOP	2,444,580
27 September 2006	27 September 2016	$1.10	ESOP	5,581,264
28 October 2006	28 October 2016	$1.10	ESOP	900,000
2 January 2007	2 January 2017	$1.10	ESOP	1,150,000
26 July 2007	26 July 2017	$0.75	ESOP	200,000
16 November 2007	16 November 2017	$0.75	Incentive	350,000
16 November 2007	16 November 2017	$0.75#	ESOP	2,900,000
16 November 2007	16 November 2017	$0.00#	PRP^	2,050,000
				26,832,770

The exercise of these options is subject to satisfaction of various performance hurdles as set out in the terms of issue.

* Options issued under the Company's Employee Share Option Plan ("ESOP").

^ Performance rights issued under the Company's Performance Rights Plan ("PRP").

No person entitled to exercise their respective option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Shares issued on exercise of options

During and since the year ended 31 December 2007, the following ordinary shares of the Company have been issued on the exercise of options granted under the ESOP:

Grant date	Exercise date	Exercise price	Amount paid	Number of shares issued
24 January 2005	17 January 2007	$0.20	$8,000	40,000
24 January 2005	12 December 2007	$0.20	$17,600	88,000

No amounts are unpaid on any of the above shares.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability the directors support and have endeavoured to adhere to and promote the principles of good corporate governance.

The Company's Corporate Governance Statement is set out immediately after this Directors' Report and all matters set out therein are incorporated into this Directors' Report by reference.

Remuneration Report

The Company's Remuneration Report is set out immediately after the Corporate Governance Statement and all matters set out therein are incorporated into this Directors' Report by reference.

Life Sciences Code of Best Practice for Reporting

Patents

The Code of Best Practice for Reporting by Life Sciences Companies (published by the ASX and AusBiotech) recommends that the Company make a variety of disclosures across a range of areas of interest. In accordance with those recommendations, the Company provides the following information concerning the Consolidated Group's patents (as at 31 December 2007):

Title	Country	Status	Patent or application number
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	Granted	708476
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	Granted	734310
Rotary Blood Pump	Canada	Granted	2218342
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Europe	Pending	4014527.8
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Israel	Granted	121834
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Korea	Granted	351336
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	United States	Granted	5695471
Sealless Rotary Blood Pump	Australia	Granted	730235
Sealless Rotary Blood Pump	Australia	Granted	742536
Sealless Rotary Blood Pump	Germany	Granted	69828926.9-8
Sealless Rotary Blood Pump	Europe	Granted	901797
Sealless Rotary Blood Pump	France	Granted	901797
Sealless Rotary Blood Pump	Great Britain	Granted	901797

Title	Country	Status	Patent or application number
Sealless Rotary Blood Pump	Japan	Pending	205985/98
Sealless Rotary Blood Pump	Netherlands	Granted	901797
Sealless Rotary Blood Pump	United States	Granted	5840070
Sealless Blood Pump with Means for Avoiding Thrombus Formation	Australia	Granted	768864
Sealless Blood Pump with Means for Avoiding Thrombus Formation	Japan	Pending	19027/99
Sealless Blood Pump with Means for Avoiding Thrombus Formation	United States	Granted	6120537
Sealless Rotary Blood Pump	United States	Granted	6080133
Power System for an Implantable Heart Pump	United States	Granted	6149683
Active Magnetic Bearing System for Blood Pump	Australia	Granted	765716
Active Magnetic Bearing System for Blood Pump	Europe	Granted	1135181
Active Magnetic Bearing System for Blood Pump	France	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Germany	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Italy	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Spain	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Great Britain	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Japan	Pending	2000-584946
Active Magnetic Bearing System for Blood Pump	United States	Granted	6264635
Rotary Blood Pump with Ceramic Members	Australia	Granted	765033
Rotary Blood Pump with Ceramic Members	Europe	Pending	957558.2
Rotary Blood Pump with Ceramic Members	Japan	Pending	2000-590707
Rotary Blood Pump with Ceramic Members	United States	Granted	6158984
Blood Pump Using Cross-Flow Principles	Australia	Granted	760773
Blood Pump Using Cross-Flow Principles	Germany	Granted	69931960
Blood Pump Using Cross-Flow Principles	Europe	Granted	1146920
Blood Pump Using Cross-Flow Principles	France	Granted	1146920
Blood Pump Using Cross-Flow Principles	Great Britain	Granted	1146920
Blood Pump Using Cross-Flow Principles	Netherlands	Granted	1146920
Blood Pump Using Cross-Flow Principles	Japan	Pending	2000-594506
Blood pump using Cross-Flow Principles	United States	Granted	6217541
Rotary Blood Pump	Australia	Granted	773136
Rotary Blood Pump	Europe	Pending	923125.9
Rotary Blood Pump	Japan	Pending	2000-613497
Rotary Blood Pump	United States	Granted	6234772
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Australia	Granted	771931
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Japan	Pending	2001-509146
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	United States	Granted	7138776

Title	Country	Status	Patent or application number
Sealless Rotary Blood Pump	United States	Granted	6234998
Power System for an Implantable Heart Pump	United States	Granted	6592620
Sealless Rotary Blood Pump	United States	Granted	6368083
Sealless Rotary Blood Pump	United States	Granted	6688861
Ventricular Connector	United States	Granted	6732501
Sealless Rotary Blood Pump	United States	Pending	10/887116
Ventricular Connector	United States	Pending	10/799534
Sensorless Flow Estimation For Implanted Ventricle Assist Device	Australia	Pending	2005247478
Sensorless Flow Estimation For Implanted Ventricle Assist Device	Europe	Pending	05755086.5
Sensorless Flow Estimation for Implanted Ventricle Assist Device	United States	Pending	10/853302
Wide Blade, Axial Flow Pump	PCT	Pending	PCT/US05/042495
Wide Blade, Axial Flow Pump	United States	Pending	11/003810
Multiple Rotor, Wide Blade, Axial Flow Pump	PCT	Pending	PCT/US05/35964
Multiple Rotor, Wide Blade, Axial Flow Pump	United States	Pending	11/118551
Impeller for a Rotary Ventricle Assist Device	United States	Pending	11/243722
Implantation Procedure for Blood Pumps	United States	Pending	11/280030
Implant Connector	PCT	Pending	*
Implant Connector	United States	Pending	11/298410
Surgical Cutting Tool for Making Precise and Accurate Incisions	United States	Pending	11/332455
Surgical Tool for Coring Precise Holes and Providing for Retrieval of Tissue	United States	Pending	11/332016
Surgical Tool for Coring Precise Holes and Providing for Retrieval of Tissue	PCT	Pending	PCT/US07/000764
Hydrodynamic Thrust Bearings for Rotary Blood Pumps	United States	Pending	11/337708
Shrouded Thrust Bearings	United States	Pending	11/654217
Stabilizing Drive for Contactless Rotary Blood Pump Impeller	United States	Pending	11/654226
Surgical Tool	PCT	Pending	PCT/US07/001743
Surgical Tool	United States	Pending	11/337708
Axial Flow Pump with Multi-Grooved Rotor	PCT	Pending	PCT/US06/21
Axial Flow Pump with Multi-Grooved Rotor	United States	Pending	11/445963
Control Panel	United States	Pending	29/273244
Controller	United States	Pending	29/273238
Rotary Blood Pump	PCT	Pending	PCT/US07/000763
Hydrodynamic Thrust Bearings for a Rotary Blood Pump	United States	Pending	11/243722
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	United States	Pending	11/603933

Escrow

As at the date of this report, none of the Company's securities were subject to escrow under the ASX Listing Rules.

Intangible Assets

Note 14 of the Company's Financial Statements provide details of the Consolidated Group's intangible assets.

Proceedings on Behalf of Company

The Company has not received written notice that any person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

Denomination

All amounts set out in Company's Annual Report & Directors' Report are denominated in Australian dollars.

Filing Requirements in the United States of America

With effect from 1 January 2007, the Company is no longer able to rely on the "foreign private issuer exemption" as set out under the Securities Exchange Act of 1934 and is therefore subject to the same registration and reporting requirements that are required of domestic U.S. companies. These requirements generally call for the filing of annual, quarterly and current reports with the U.S. Securities and Exchange Commission. The Company is now "registered" with the U.S. Securities and Exchange Commission ("SEC") and all US filings can be obtained from the SEC website (www.sec.gov).

Non-audit Services

The directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence as the scope of services rendered during the year was minor in nature.

The directors, in accordance with advice from the Audit & Compliance Committee, are satisfied that the services disclosed below did not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants, issued by the Accounting Ethical Professional Standards Board.

The following non-audit services were paid/payable to the external auditors during the financial year ended 31 December 2007:

	2007 $	2006 $
Auditors of the parent entity – Grant Thornton NSW		
– Tax services	20,350	9,190
– Advisory fees in connection with Company's US GAAP and Australian GAAP filings	14,857	2,650
Auditors of HeartWare, Inc. – Grant Thornton LLP		
– Tax services	–	7,768
– Advisory fees in connection with Company's obligations to lodge US GAAP compliant financial statements with the Securities Exchange Commission	–	2,328
	35,207	**21,936**

Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 31 December 2007 has been received and can be found immediately following this Directors' Report (including the Corporate Governance Statement and the Remuneration Report) and forms part of this report.

Auditor

Grant Thornton NSW continues in office in accordance with section 327 of the Corporations Act 2001.

This report (and the attaching Corporate Governance Statement, Remuneration Report and the Auditor's Independence Declaration) is made in accordance with a resolution of the Board of Directors.

ROB THOMAS
Chairman
Date 29 February 2008

Corporate Governance Statement

The Board of Directors and employees of HeartWare Limited ("HeartWare" or "the Company") are committed to developing, promoting and maintaining a strong culture of good corporate governance and ethical conduct.

The Board of Directors is pleased to confirm that the Company's corporate governance framework is generally consistent with the Australian Securities Exchange's ("ASX") Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Guidelines"), other than as set out below. To this end, the Company provides below a review of its governance framework using the same numbering as adopted for the best practice recommendations as set out in the ASX Guidelines ("Best Practice Recommendation").

Copies of the Company's codes and policies may be downloaded from the corporate governance section of the HeartWare website (www.heartware.com.au).

Principle 1 – Lay solid foundations for management and oversight

Obligation – Recognise and publish the respective roles and responsibilities of both the Board of Directors and Management

The primary responsibility of:

(a) the Board of Directors is to provide effective governance over the business and affairs of HeartWare and its controlled entities ("the HeartWare Group") so that the interests of all stakeholders are protected; and

(b) the Chief Executive Officer is to oversee the day-to-day performance of the HeartWare Group (pursuant to Board delegated powers).

The Board's responsibilities are recognized and documented on an aggregated basis via the Charter of the Board of Directors and via Letters of Appointment for each individual director. Copies of the Charter of the Board of Directors as well as the Delegation of Authority may be downloaded from the Company's website.

While day-to-day management has been delegated to the Chief Executive Officer, it is noted that the following matters are specifically reserved for the attention of the Board:

(a) decisions about corporate strategy and policies as well as commitments over prescribed limits;

(b) setting major capital expenditure, acquisitions, divestments and funding arrangements;

(c) setting the various internal controls and reporting framework for the management of the risks inherent in the operations of the HeartWare Group;

(d) setting of discretionary financial and related operating limits for management; and

(e) establishing and determining the powers and functions of the committees of the Board.

Reporting Requirement

The Company fully complied with Best Practice Recommendation 1.1 during the year ended 31 December 2007.

Principle 2 – Structure the Board to add value

Obligation – Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

Composition

The Board of Directors presently comprises six (6) directors. The six (6) directors encompass four (4) independent non-executive directors (including the Chairman of the Board), one (1) executive director (being the Chief Executive Officer) and one (1) non-independent, non-executive director (being the Deputy Chairman).

The current composition of the Board and length of tenure of each member of the Board is as follows:

Name	Position	Date appointed	Tenure*	Inde-pendent
Rob Thomas	Non-executive Chairman	26 Nov 2004	3.1 years	Yes
Seth Harrison	Non-executive Deputy Chairman	26 Nov 2004	3.1 years	No
Denis Wade	Non-executive director	15 Dec 2004	3.0 years	Yes
Christine Bennett	Non-executive director	15 Dec 2004	3.0 years	Yes
Bob Stockman	Non-executive director	11 Dec 2006	1.1 years	Yes
Doug Godshall	Chief Executive Officer/ President/ Executive Director	28 Oct 2006	1.2 years	No

* Calculated as at 31 December 2007.

Expertise

The Board has a diverse range of skills and experience, details of which are set out below:

Robert Bain Thomas

Position Non-executive Chairman
Age 62
Independent Yes

Rob is the immediate past Chairman, Global Corporate & Investment Bank, Australia and New Zealand of Citigroup Global Markets Australia Pty Limited, one of Australia's leading investment banks.

Rob has in excess of 30 years experience in the investment and securities industry. In 1986, Rob joined County NatWest Securities Australia Limited to establish its stockbroking operations and was appointed Managing Director.

In April 1998, County NatWest Securities was taken over by Salomon Smith Barney and Rob was subsequently appointed Chief Executive Officer of Australia and New Zealand, Corporate and Investment Bank and ultimately, Chairman.

In the last three years, Rob has been a non-executive director of Virgin Blue Holdings Limited (Appointed 8 September 2007 – Present), non-executive Chairman of Tower Australia Limited (ASX:TAL) (Appointed 27 September 2007 – Present), non-executive Chairman of Australian Wealth Management Limited (ASX:AUW) (Appointed 15 February 2006 – Resigned 27 September 2007) and Deputy Chairman of Benitec Limited (ASX: BLT) (Appointed 7 May 2004 – Resigned 30 November 2006). In addition, Rob is also the Chairman of the Securities & Derivatives Association, and President of the Library Council of New South Wales.

Rob holds a Bachelor of Economics from Monash University. He is a Master Stockbroker and has also been a member of the Securities Institute of Australia for almost four decades and a Fellow for a decade.

Rob is the Chairman of the Nomination & Remuneration Committee and a member of each of the Audit & Compliance Committee and the Continuous Disclosure Committee.

Dr Seth Loring Harrison

Position Non-executive Deputy Chairman
Age 47
Independent No

Seth has been involved in life sciences venture capital since 1991.

Seth is presently Managing General Partner of HeartWare's major shareholder, Apple Tree Partners. Apple Tree Partners is an early stage life sciences venture capital firm, based in Cambridge, Massachusetts, managing US$105 million. Prior to this, Seth held senior executive positions with U.S. based Oak Investment Partners, Sevin Rosen Funds and Nazem & Company.

Seth has significant experience in the successful establishment and sale of start-up entities. Seth also has a long term and intimate understanding of HeartWare's technology, having previously acted as HeartWare's Chief Executive Officer.

Seth received a Bachelor of Arts from Princeton University, a Bachelor of Medicine and Masters of Business Administration both from Columbia University and completed a surgery internship at the Presbyterian Hospital in New York. He serves on the Board of and Chairs the Finance Committee of the International Partnership for Microbicides, a Rockefeller Foundation/ Gates Foundation sponsored public-private partnerships engaged in the development of anti-HIV microbicides. Seth is also on the Board of the New York Studio School for Drawing, Painting and Sculpture.

In the last three years, Seth has not held any directorships of Australian listed companies.

Seth is a member of the Nomination & Remuneration Committee as well as the Continuous Disclosure Committee.

Robert (Bob) Bernard Stockman

Position	Non-executive director
Age	54
Independent	Yes

Bob is the President and CEO of Group Outcome LLC, a US based merchant banking firm which deploys its capital and that of its financial partners in private equity and venture capital investments in medical technology companies. He is also the Chairman of REVA Medical, Inc, an interventional coronary medical device company he helped co-found.

Bob has played a critical role in a number of significant US-based buyout transactions, recapitalizations, turnarounds and subsequent sales of various medical companies, which included two divestitures from Johnson & Johnson. Bob also co-founded and provided the start-up financing for CentriMed, which thrives today as the Global HealthCare Exchange, the world's leading electronic exchange for hospital supplies.

Prior to establishing Group Outcome LLC, Bob spent 18 years with Johnston Associates and Narragansett Capital Corporation, where he focused on venture capital investments in healthcare. He previously was an auditor with Price Waterhouse in New York.

Bob holds a Bachelors Degree from Harvard College and a Master in Business Administration from The Tuck School at Dartmouth College.

Bob is not a member of any committee having only recent been appointed to the Board of Directors.

Dr Denis Newell Wade AM

Position	Non-executive director
Age	70
Independent	Yes

Denis has extensive experience in international health care markets, with a particular emphasis on the development of research based health care products in Australia and their commercialisation in the global market.

He regularly engages, often informally, with senior industry executives both in Australia and internationally.

Denis is the immediate past Managing Director and Chairman of Johnson & Johnson Research Pty Ltd ("J&J"). In his 15 years with J&J, he held various roles including as a member of J&J's US-based Corporate Office of Science & Technology and it's Business Development Council.

In addition, Denis was the former Foundation Professor of Clinical Pharmacology at the University of New South Wales and the former President of the Australian Society of Clinical and Experimental Pharmacology. Denis has also held senior positions in the International Union of Pharmacology, serving as Chairman of the Clinical Pharmacology Section.

In the last 18 years, Denis has acted as a non-executive director of a number of developing health-care companies including Gene Shears Pty Limited, Chemgenex Limited (ASX:CXS) (Appointed 5 December 2007 – Resigned 8 February 2007) and Cryptome Pharmaceuticals Limited (ASX:CRP) (Appointed January 2003 – Resigned 10 February 2007). He currently chairs the Industry Advisory Committee of the Australian Synchrotron and is a former member of the Pharmaceuticals Committee of the Australian Industry Research and Development Board. He is the former Chairman of the Innovation Council of New South Wales.

Denis holds a Bachelor degree in Medicine and Surgery from the University of New South Wales and a doctorate in Philosophy from Oxford. He was awarded an Honorary Doctorate in Science from the University of New South Wales. He is a Fellow of the Royal Australasian College of Physicians, the Australian Institute of Company Directors and the Australian Academy of Technological Sciences and Engineering.

Denis is a member of the Nomination & Remuneration Committee and the Audit & Compliance Committee.

Dr Christine Constance Bennett

Position	Non-executive director
Age	52
Independent	Yes

Christine has recently been appointed as Group Executive, Health and Financial Solutions and Chief Medical Officer of MBF Australia Limited having previously held the position of Chief Executive Officer of Research Australia, a highly regarded national body of Australian organisations and companies that are committed to making health and medical research a higher national priority in Australia and globally.

In her role as a Group Executive of MBF, Christine is charged with the responsibility of developing and manufacturing products for the health insurance and various financial services businesses operating as part of the MBF Group. Christine is also responsible for provider contracts and health benefits management. As Chief Medical Officer, Christine is the health spokesperson for MBF and is responsible for building strategic alliances within the health industry both in Australia and overseas.

Christine has 30 years experience in the health sector in senior executive, strategic and clinical roles. Specifically, Christine brings substantial experience as a specialist clinician, strategist and planner and chief executive in both the public and private sectors.

Previous roles have included Chief Executive Officer of Westmead Hospital and Community Health Services, a partner at KPMG in Health and Life Sciences and senior positions in the New South Wales Department of Health in services planning and policy.

In the last three years, Christine has acted as a non-executive director of Resonance Health Limited (ASX:RHT) (Appointed 12 July 2004 – 20 April 2006) and Symbion Health (ASX:SYB) (Appointed 1 February 2007 – Present).

Christine is the Chair of the Audit & Compliance Committee and a member of the Nomination & Remuneration Committee.

Christine holds a Bachelor of Medicine and Surgery (University of Sydney), Master of Paediatrics (University of NSW) and is a Fellow of the Royal Australasian College of Physicians.

Douglas (Doug) Evan Godshall

Position	Chief Executive Officer/President/ Executive Director
Age	43
Independent	No

Doug has almost two decades of senior managerial and executive experience with Boston Scientific Corporation (Boston Scientific).

Prior to accepting appointments as Chief Executive Officer and Executive Director of HeartWare, Doug served on the Operating Committee at Boston Scientific, one of the world's largest medical device companies.

From January 2006 until his departure to join HeartWare, Doug was President, Vascular Surgery at Boston Scientific, with overall responsibility for a business division employing some 600 personnel and generating revenues of approximately US$100 million. Doug previously spent five years as Vice President, Business Development at Boston Scientific, where he was instrumental in developing the acquisition strategies for the cardiology, electrophysiology, neuroradiology and vascular surgery divisions. During this period, he led the negotiation and structuring of over seventy (70) transactions and represented Boston Scientific on the Boards of eleven (11) companies. Prior to assuming the Business Development position, he was Director of Marketing for Boston Scientific's Urology Division where he helped build global sales to over US$150 million. Doug joined Boston Scientific in 1990.

Doug is well known and highly regarded within the US medical device community and his wealth of knowledge and experience will play, and indeed has already played, an invaluable role as HeartWare matures into a leading medical device manufacturer.

Doug is a member of the Continuous Disclosure Committee.

In the last three years, Doug has not held any directorships of Australian listed companies.

David John McIntyre (Chief Financial Officer & Company Secretary)

As HeartWare's Chief Financial Officer and Company Secretary, David has broad financial and legal skills and experience.

David has held senior financial and reporting roles in multinational companies, among them Rio Tinto. He has also previously served as a corporate and commercial law specialist in major international law firms, advising some of the world's largest corporations in various areas including mergers and acquisitions, corporate fundraising and securities law.

David holds a Bachelor of Economics (Accounting) from the University of Sydney as well as a Bachelor of Law from the University of Technology, Sydney. He is a Certified Practising Accountant (CPA) and is admitted as a Legal Practitioner of the Supreme Court of New South Wales (and is a member of the Law Society of New South Wales).

In the last three years, David has not held any directorships of Australian listed companies.

Independent advice

At the Company's expense, the Board collectively or directors (acting as individuals) are entitled to seek advice from independent external advisers in relation to any matter which is considered necessary to fulfil their relevant duties and responsibilities.

Individual directors seeking such advice must obtain the approval of the Chairman (which may not be unreasonably withheld). Any advice so obtained will be made available to all Board members.

Reporting requirement

For the year ended 31 December 2007, the Company is pleased to confirm that it has fully complied with the requirements of Best Practice Recommendations 2.1 to 2.5 (inclusive).

Principle 3 – Promote ethical and responsible decision-making

Obligation – Actively promote ethical and responsible decision-making

The Company has adopted a Code of Conduct that is designed to convey the obligations and standards of behaviour expected of the Chief Executive Officer, the Chief Financial Officer and other employees. It is also designed to help staff resolve any ethical issues that may arise during the course of their duties.

The Company also adopted a "Complaint Procedures for Accounting and Audit Matters". This policy established procedures that operate in addition to the Code of Conduct and which are primarily focused on dealing with employee complaints concerning any questionable accounting or auditing matters. These policies operate in addition to the Company's Operational Policies, Employee Handbook and other corporate policies such as the Risk Management Policy, Securities Trading Policy and Continuous Disclosure Policy.

The Board acknowledges that ethical conduct, together with responsible decision-making, is a matter of concerted diligence and effective promotion of the relevant principles by all employees, particularly senior executives. The establishment of the above policies reflect the Company's commitment in this regard and are, in simple terms, designed to ensure that a suitable framework is established whereby employees are promoted to observe the letter and spirit of the law, adhere to high standards of business conduct and comply with best practice.

A copy of the Code of Conduct and the Securities Trading Policy is available on the corporate governance page of the Company's website.

Reporting requirement

The Company fully complied with Best Practice Recommendations 3.1 to 3.3 (inclusive) during the year ended 31 December 2007.

Principle 4 – Safeguard integrity in financial reporting

Obligation – Have a structure to independently verify and safeguard the integrity of the Company's financial reporting

The Company is committed to exhibiting the highest standard of integrity in its financial reporting. The Company is also equally committed to safeguarding the interests of its shareholders, employees, creditors and the general investing public and believes that, at its simplest, this is achieved via open and appropriate financial reporting.

The Company is, however, a growing organization and is therefore limited in terms of the resources available to it to protect the integrity of its financial reporting mechanism (as compared to larger, more mature organizations). For example, separation of duties, responsibilities and controls in key accounting functions, are intrinsically difficult to preserve when the finance function comprises relatively few employees with diverse responsibilities.

As the associated costs of, for example, an internal audit function are not presently within the Company's available resources, the Company seeks to reduce its financial reporting risk via detailed and frequent financial reporting to the Board, together with various policies and procedures (e.g. Complaint Procedures for Accounting and Audit Matters).

As the Company continues to grow and mature, it is expected that greater resources will be brought to bear on preserving and safeguarding the integrity of the Company's financial reporting function.

Reporting requirement

The Company fully complied with Best Practice Recommendations 4.1 to 4.5 (inclusive) during the year ended 31 December 2007.

Principle 5 – Make timely and balanced disclosure

Obligation – Promote timely and balanced disclosure of all material matters concerning the Company

Heartware is committed to providing timely and balanced disclosure to the market and, in consequence, to meeting its continuous disclosure requirements.

In accordance with its commitment to fully comply with its continuous disclosure requirements, the Company has adopted a Continuous Disclosure Policy, together with a Continuous Disclosure Committee. The Continuous Disclosure Committee comprises the Chairman of the Board, the Deputy Chairman of the Board and the Chief Executive Officer. The Chief Financial Officer acts as convenor for the Continuous Disclosure Committee.

The Continuous Disclosure Committee has been established by the Board as a committee to be responsible for ensuring full compliance with the Company's policy in this regard, particularly in relation to the continuous disclosure obligations set out in the ASX Listing Rules and the Corporations Act 2001.

A copy of the Continuous Disclosure Policy is available on the corporate governance section of the Company's website. In addition, a copy of all of the Company's ASX announcements, financial reports and related public information are also available on the Company's website.

Reporting Requirement

The Company fully complied with Best Practice Recommendations 5.1 to 5.2 (inclusive) during the year ended 31 December 2007.

Principle 6 – Respect the rights of shareholders

Obligation – Respect the rights of shareholders and facilitate the effective exercise of those rights

The Company has implemented a number of measures so as to facilitate the effective and efficient exercise of the rights of shareholders. The Company communicates information to shareholders through a range of media including annual reports, newsletters, public (ASX) announcements and via the website. Key financial information and stock performance are also available on the Company's website. Shareholders can raise questions with the Company via telephone, facsimile, post or email, with relevant contact details being available on the website.

All shareholders are invited to attend the Company's Annual General Meeting, either in person or by proxy. The Board regards the Annual General Meeting as an excellent forum in which to discuss issues relevant to the Company and thereby encourages full participation by shareholders. Shareholders have an opportunity to submit questions to the Board and the Company's auditors. The meeting is also webcast to provide access to those shareholders who are unable to attend the Annual General Meeting.

Reporting requirement

The Company complies with Best Practice Recommendations 6.1 to 6.2 (inclusive) for the year ended 31 December 2007.

Principle 7 – Recognise and manage risk

Obligation – Establish a sound system of risk oversight and management and internal control

The risks that the Company faces are continually changing in line with the development of the Company. The primary risks faced by the Company during 2007 include liquidity or funding risk, operational risks associated with the manufacture of an implantable medical device, and the ongoing risks of the Company's human clinical trials.

The above is set in an environment where the Company must actively manage fundamental risks such as the integrity of the Company's intellectual property portfolio, disaster management, exchange rate risk and the risk of losing key management personnel.

In simple terms, risk is inherent in all activities undertaken by HeartWare. Unfortunately, many of these risks are beyond the control of the Company and, as such, it is therefore important that risk be mitigated on a continuous basis, particularly if the Company is to preserve shareholder value.

The Board of Directors has approved a Risk Management Policy, a copy of which is available on the corporate governance page of the Company's website. In summary, the Risk Management Policy is designed to ensure that risks including, amongst others, technology risks, economic risks, financial risks and other operational risks are identified, evaluated and mitigated to enable the achievement of the Company's goals.

It would be remiss of the Board not to acknowledge that no risk management system can provide total assurance that HeartWare's risks will be fully mitigated. This is particularly the case in organizations such as HeartWare where its pre-revenue status means that limited resources can be applied to the risk management process. HeartWare's approach is therefore not to eliminate risk, rather to utilize available resources as effectively as possible in order to manage the risks inevitably involved in many corporate activities.

Reporting requirement

The Company complies with Best Practice Recommendation 7.1 and 7.2 for the year ended 31 December 2007 and the Chief Executive Officer and the Chief Financial Officer have provided the requisite written sign-offs.

Principle 8 – Encourage enhanced performance

Obligation – Fairly review and actively encourage enhanced Board and management effectiveness

The attached Remuneration Report provides detailed information in relation to the manner in which the Company reviewed the effectiveness of the Company's management, including details of a benchmark exercise.

The Board has not undertaken any other type of Board review, including a performance evaluation of the Board, its committees or of individual directors.

A copy of the Company's charter for the Nomination & Remuneration Committee is available on the corporate governance page of the Company's website.

Reporting requirement

The Company has not fully complied with the requirements of Best Practice Recommendation 8.1 as it has not undertaken a review of, and is therefore unable to disclose the details of, the performance of the Board, its committee or individual directors.

Principle 9 – Remunerate fairly and responsibly

Obligation – Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined

As noted above in the discussion regarding Principle 8, the Remuneration Report includes detailed information in relation to the Company's remuneration practices and policies, including its annual performance review process, its external benchmarking review and its meritorious approach to employee performance. Shareholders should read the Remuneration Report for further information in this regard.

Reporting requirement

The Company full complied with Best Practice Recommendations 9.1 to 9.5 (inclusive) during the year ended 31 December 2007.

Principle 10 – Recognise the legitimate interests of stakeholders

Obligation – Recognise legal and other obligations to all legitimate stakeholders

As noted elsewhere in this Corporate Governance Statement, the Company has adopted a variety of practices, policies and procedures, including a Code of Conduct and a "Complaint Procedures for Accounting and Audit Matters". These "mechanisms" are some of the main drivers for achieving compliance with legal and other obligations.

A copy of the Company's Code of Conduct is available on the corporate governance page of the Company's website.

Reporting requirement

The Company complied with Best Practice Recommendation 10.1 during the year ended 31 December 2007.

This report is made in accordance with a resolution of the Board of Directors.

Rob Thomas
Chairman
Date 29 February 2008

Remuneration Report

This report and the information referenced in this report detail the remuneration policy for directors, executives and employees of HeartWare Limited ("HeartWare" or "the Company") and its controlled entities (collectively, "the HeartWare Group" or the "Consolidated Group").

This report also endeavours to provide details of the links between the performance of the HeartWare Group and individual remuneration outcomes. Remuneration arrangements, including details of equity holdings, are also disclosed in this report and the Notes to the Financial Statements.

Nomination & Remuneration Committee

The HeartWare Group's remuneration arrangements are overseen by the Nomination & Remuneration Committee ("Remuneration Committee"). The Remuneration Committee presently consists of four non-executive directors, being Mr Rob Thomas (Chairman), Dr Seth Harrison, Dr Denis Wade and Dr Christine Bennett.

The Remuneration Committee advises the Board on compensation policies and practices generally. In addition, the Remuneration Committee makes specific recommendations on compensation packages and other terms of employment for HeartWare's senior executives and non-executive directors and considers recommendations from senior management regarding amendments to existing employee entitlements. In order for the Remuneration Committee to make recommendations to the Board of Directors regarding compensation and incentive packages, the Remuneration Committee requests that senior management obtain information on behalf of the Remuneration Committee in order to assist the Remuneration Committee with its decision-making. The Board considers the recommendations of the Remuneration Committee and makes the final determination of compensation.

Details, including experience and qualifications, of the members of the Remuneration Committee are set out in the Directors' Report.

Remuneration Policy

We believe that our compensation policies and practices are central to our ability to attract and retain our executives, and that this will be especially critical as we transition from a development company to an early-stage manufacturer of implantable circulatory assist devices. Moreover, on a global basis, there are a limited number of individuals with significant and applicable medical device experience, and competition for executives with relevant experience is intense. We also recognize that because the bulk of our facilities are located in the southeastern United States, many potential new executives are forced to consider the additional burden of both travel and relocation into their decision-making process.

During this period of growth and development, we acknowledge that we depend on a concentrated pool of employees who, consequently, are imparted with a wider set of responsibilities and obligations than would normally be expected in larger, more mature organizations. For this reason, the retention of these employees, together with their accumulated knowledge and experiences, are of great importance and directly impact our ability to achieve our corporate objectives in a timely manner.

Our compensation policies are therefore designed to attract, retain and motivate executives officers as well as the entire staff of the organization and to align compensation and related financial incentives with the interests of shareholders.

The key principles of our compensation policies are as follows:

(a) offer sufficient rewards to attract and retain executives in light of current employment market conditions in our industry;

(b) link rewards for executives to the achievement of corporate goals thereby aligning the interest of our executives and our shareholders;

(c) ensure parity in terms of compensation among executives; and

(d) assess and reward executives using a variety of measures of performance.

Philosophy

The market for medical device employees is highly competitive and, accordingly, employees in the medical device sector are generally relatively highly compensated, particularly in the United States. It is also well-recognized that companies like HeartWare who are early-stage, pre-revenue, have limited clinical experience and which are largely dependant on their ability to raise capital in order to remain viable, are perceived by employees to have a significantly higher risk profile than other more established medical device companies.

We believe that we need to take account of a number of factors when negotiating and determining compensation levels for our executives. For example, we consider the relevant executive's compensation level prior to joining HeartWare as well as wider medical device industry compensation practices, especially those compensation practices adopted by other development-stage companies. We also consider each executive's current or anticipated future contribution, responsibilities, previous experience, perceived importance to the Company, work ethic and seniority following commencement with the Company.

In order to confirm the appropriateness of the Company's compensation practices the Company retained an external consultant in 2007 to assist in reviewing our executives' compensation. This review, which is discussed below under the heading "Benchmark Exercise", was undertaken to enable the Company to compare our executives' compensation with compensation practices of other medical device companies who are at a similar development stage. Using the benchmark exercise as a guide, we then considered each individual on a case-by-case basis and took into account the factors referred to above as well as years of experience, actual performance, the executives' role and importance and each individual executives' compensation and employment history.

While we believe that equity-based compensation is an important financial motivator for our executives, the Board of Directors recognizes that the Company's risk profile is such that the salary component of each executive's compensation will continue to constitute a critical component of an executive's total compensation from an executive's perspective.

Above all, we believe that that a combination of cash and equity compensation is currently appropriate to ensure that we are able to attract and retain talented executives to manage the business and affairs of the Company, to become a significant player in the growing circulatory assist market and to increase shareholder value. We continue to monitor both our cash and equity compensation approaches to ensure that they are competitive and motivating.

Benchmark Exercise

During 2007, the Company retained Frederick W. Cook & Co., Inc. ("F W Cook") to examine the compensation practices of a peer group of companies and to compare that data to our senior executives' compensation. F W Cook is an independent, third party, specialist in United States-based compensation norms.

The exercise included representatives of F W Cook:

(a) Meeting with management and selected members of the Board of Directors for the purposes of learning about the Company, its background, historical compensation practices and perceived shareholder views.

(b) Collecting and analyzing company-specific background data from management for the purposes of independent analysis.

(c) Identifying and examining the compensation practices of a peer group of 16 comparable, publicly traded, development stage, biotechnology and medical device companies located in the United States, and comparing that data to HeartWare's data.

The analysis undertaken by F W Cook focused on base salaries, annual bonuses, long-term incentives and total "carried–interest ownership", which is a form of measurement of the equity awards received by each executive during the course of their employment. Carried-interest measures the amount of future increase in value captured by each executive arising through their equity awards and is calculated as the aggregate holding of options and shares plus recent share sales of an executive, divided by the number of Company shares outstanding.

Components of Remuneration

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing HeartWare's diverse operations and achieving the Company's strategic objectives in a timely manner.

For the short term, the base salary component is the most significant component in executive compensation. Base salaries are set by reference to the scope of the executive's responsibilities, the nature of the relevant individual's role and the extent of the executive's ongoing contributions to our strategic goals. Other relevant considerations include perceived long-term value to HeartWare, succession planning and retention and the executives' compensation prior to joining the Company.

Performance-based bonuses are an important element of our compensation strategy. These bonuses are used to reward the achievement of significant corporate milestones in circumstances where this can be linked to the delivery of improved shareholder value, subject to corporate cash flow and general working capital considerations.

In rare instances, HeartWare also uses sign-on bonuses. If the Company does use a sign-on bonus then this is because management believes that an upfront payment to an executive significantly influences that individual's decision to join the Company. The decision to offer such bonuses generally evolves as part of the employment negotiation process and is dependent on the importance of the relevant appointment, the availability of candidates and the individual qualities and experience of the candidate. A sign-on bonus is also beneficial where a potential employee becomes ineligible to receive a bonus at their existing employee if the employee decides to join HeartWare.

The Remuneration Committee and the Board of Directors also determined to pay a discretionary bonus on October 31, 2007 in recognition of the Company completing enrolment in its international clinical trial, the filing of its submission with the US Food & Drug Administration for an investigational device exemption for the commencement of human clinical trials in the United States and in consideration of the overall progress made by the Company since June 2006. These accomplishments were achieved through an enormous contribution by the Company's executives and the Company determined that the payment of this bonus was appropriate in the circumstances. As the above bonus was both discretionary and retrospective in nature, there were no objectives established in relation to this bonus.

The Board notes that the above operates in tandem with the Company's Employee Share Option Plan ("ESOP") and its Performance Rights Plan ("PRP") which are primarily utilised for the purposes of employee retention and long-term incentives. Further details of the ESOP and the PRP are set out at the bottom of this Remuneration Report.

All benefits received by key management personnel (including the 5 most highly remunerated executives) are set out in Appendix A to this Remuneration Report (and the contents of Appendix A are incorporated into this Remuneration Report by reference). The information is as follows:

(a) Director and Other Key Management Personnel – Section 1 to Appendix A to this Remuneration Report

(b) Compensation options – Section 2 to Appendix A to this Remuneration Report.

(c) Option holdings – Section 3 to Appendix A to this Remuneration Report.

(d) Compensation, including salary and retirement benefits – Section 4 to Appendix A to this Remuneration Report.

(e) Shareholdings – Section 5 to Appendix A to this Remuneration Report.

Employment Arrangements

The executives set out below include direct reports to the Chief Executive Officer.

Doug Godshall MBA – Chief Executive Officer, President and Executive Director

Overview

Mr Godshall is responsible for the day-to-day management of HeartWare, as well as for planning and directing all of HeartWare's policies, objectives and initiatives. Mr Godshall was appointed Chief Executive Officer with effect from 18 September 2006 and became a director of the Company on 28 October 2007.

Details of Mr Godshall's background and experience are set out in the attached Corporate Governance Statement. Mr Godshall resides in the United States of America and his employee arrangements are denominated in US dollars.

Employment Arrangements

Mr Godshall has a service agreement with HeartWare Limited and HeartWare, Inc. Set out below is an overview of the ongoing key elements of this agreement:

(a) Annual salary of approximately $417,000 being equivalent to US$350,000.

(b) An annual performance bonus of up to approximately $89,000 (being equivalent to US$75,000) subject to satisfaction of agreed annual performance hurdles.

The above agreement does not include a fixed term and is terminable by either party on notice (in certain circumstances). Mr Godshall does not receive any additional compensation, except as provided above, for his role as an executive director of the Company.

David McIntyre BEc LLB CPA– Chief Financial Officer and Company Secretary

Overview

As Chief Financial Officer and Company Secretary, Mr McIntyre is responsible for directing HeartWare's financial, taxation, compliance (non-clinical), legal and company secretarial functions.

Mr McIntyre holds a Bachelor of Economics (Accounting) from the University of Sydney as well as a Bachelor of Law from the University of Technology, Sydney. He is an Australian Certified Practising Accountant ("CPA") and is admitted as a Legal Practitioner of the Supreme Court of New South Wales.

Until April 30, 2006, Mr McIntyre resided in Sydney, Australia and traveled frequently to the United States. As of May 1, 2006, Mr McIntyre has temporarily relocated to our operations facility located in Miramar, Florida.

Employment Arrangements

Mr McIntyre has a service agreement with HeartWare Limited that has been temporarily suspended with effect from 30 April 2006 (i.e. prior to his temporary relocation to the United States of America). Set out below is an overview of the key ongoing elements of this agreement:

(a) Annual salary of $220,000 per annum.

(b) Superannuation calculated at the statutory rate of 9% per annum.

(c) Provision of one car parking space and a maintained motor vehicle.

Mr McIntyre's employment agreement does not contain a fixed term and may be terminated by either party on three months' notice. This employment agreement, including all accrued but unpaid leave entitlements, will resume upon Mr McIntyre's return to Australia.

While serving us in the United States, and with effect from May 1, 2006, Mr McIntyre is subject to a service agreement with HeartWare, Inc. The arrangements with Mr McIntyre, including relocation benefits, were determined following a detailed external, independent review. This review, which was conducted by Ernst & Young, compared host country (Miami, Florida) and home country (Sydney, Australia) relativities incorporating a net income comparison, spending and housing cost differentials as well as standards of living comparatives. In addition, market data provided by recognized relocation experts were also assessed and consideration was given to the additional financial burden associated with an international relocation including, among other things, consideration of the loss of income for Mr McIntyre's spouse as a certified practicing accountant. Set out below is an overview of the key elements of this service agreement:

(a) Annual salary of approximately $268,000 per annum (being equivalent to US$225,000).

(b) A monthly after-tax payment of approximately US$6,000 (gross cost US$9,000) for the purposes of assisting Mr McIntyre with the provision of comparative housing, financing of motor vehicles, rental shortfall on his Australian residence and other incremental recurring costs associated with his relocation to this United States of America.

The above agreement does not contain a fixed term and may be terminated by either party at will.

Dozier Rowe MGT Sci – Chief Operating Officer

Overview

As Chief Operating Officer, Mr Rowe is responsible for HeartWare's manufacturing and operational processes including final product development, assembly methods, plant layout, workflow and workforce utilisation.

Mr Rowe holds a Bachelor of Science degree in Management Science from Georgia Institute of Technology. Mr Rowe resides in the United States of America and is employed by HeartWare's US subsidiary, HeartWare, Inc. Mr Rowe's employee arrangements are denominated in US dollars.

Employment Agreement

Mr Rowe has a service agreement with HeartWare, Inc. Set out below is an overview of the key ongoing elements of the terms of his employment:

(a) Annual salary of approximately $268,000 per annum (being equivalent to US$225,000).

(b) In certain circumstances the termination of Mr Rowe's employment within twelve months of a "Change of Control" (e.g. a merger or takeover) will permit Mr Rowe to exercise those options which would vest within twelve months of the date of termination.

The above agreement does not contain a fixed term and may be terminated by either party at will.

Jeff LaRose MSME – Chief Scientific Officer

Overview

As Chief Scientific Officer Mr LaRose is responsible for technology and intellectual property development.

Mr LaRose holds a Masters of Science in Mechanical Engineering and is a member of American Society of Mechanical Engineers, American Society for Artificial Internal Organs, and International Society of Rotary Blood Pumps.

Mr LaRose resides in the United States of America and is employed by HeartWare's US subsidiary, HeartWare, Inc. Mr LaRose's employee arrangements are denominated in US dollars.

Employment Agreement

Mr LaRose has a service agreement with HeartWare, Inc. with an annual salary of approximately $268,000 per annum (being equivalent to US$225,000).

The above agreement does not contain a fixed term and may be terminated by either party at will.

Jennifer Foley BS MBA – Vice-President, Clinical & Regulatory Affairs

Overview

As Vice-President, Clinical & Regulatory Affairs, Ms Foley is primarily responsible for the conduct of the Company's clinical trials.

Ms Foley holds a Bachelor of Science in Microbiology from the University of Maryland and a Masters of Business Administration from Boston University.

Ms Foley resides in the United States of America and is employed by HeartWare's US subsidiary, HeartWare, Inc. Ms Foley's employee arrangements are denominated in US dollars.

Employment Agreement

Ms Foley has a service agreement with HeartWare, Inc. with an annual salary of approximately $252,000 per annum (being equivalent to US$220,000).

Ms Foley was paid US$30,000 as a sign-on bonus immediately following the commencement of her employment. Ms Foley is a highly experienced and well-regarded clinical specialist who, prior to joining the Company, was one of the most senior executives within Boston Scientific Corporation's clinical affairs organization where Ms Foley was responsible for overseeing the execution of clinical trials across nine of that company's divisions.

Ms Foley was also eligible to receive a US$30,000 bonus provided the Company filed its IDE with the FDA within 90 days of the Company implanting its 20th patient.

The above agreement does not contain a fixed term and may be terminated by either party at will.

James (Jim) Schuermann BS MBA – Vice President Sales and Marketing

Overview

Mr Schuermann is responsible for global sales and marketing and for managing reimbursement strategy in domestic and international markets.

Mr Schuermann holds an undergraduate degree in marketing from the Kelley School of Business at Indiana University, Bloomington, Indiana, together with a Masters in Business Administration from Ageno School of Business at Golden Gate University, San Francisco, California.

Mr Schuermann resides in the United States of America and is employed by HeartWare's US subsidiary, HeartWare, Inc.. Mr Schuermann's employee arrangements are denominated in US dollars.

Employment Agreement

Mr Schuermann has a service agreement with HeartWare, Inc. with an annual salary of approximately $252,000 per annum (being equivalent to US$220,000).

The above agreement does not contain a fixed term and may be terminated by either party at will.

Jane Reedy RN MSN– Vice President Sales and Marketing (Former)

Overview

Ms Reedy, former Vice President Sales and Marketing, was previously responsible for global marketing, managing reimbursement systems in domestic and international markets, and directing clinical trials to support product registration.

Ms Reedy holds a Bachelor of Science (Nursing) from the University of Missouri-Columbia as well as a Master of Science (Nursing) from St. Louis University. Ms Reedy is a member of the International Society for Heart and Lung Transplantation and American Society for Artificial Internal Organs.

Ms Reedy resides in the United States of America and is employed by HeartWare's US subsidiary, HeartWare, Inc. Ms Reedy's employee arrangements are denominated in US dollars.

Ms Reedy ceased her role as Vice-President, Sales & Marketing in October 2007 but remained employed by the Company through 31 December 2007.

The Company and Ms Reedy entered into an agreement on 12 September 2007 under which Ms Reedy will continue to be employed by the Company until 31 December 2007 at which time Ms Reedy will resign all positions with the Company. Under this agreement, the Company agreed to pay Ms Reedy a severance payment equal to twelve months salary, being approximately $252,000 (or US$220,000) and this amount has been accrued at 31 December 2007.

Employment Agreement

Ms Reedy had a service agreement with HeartWare, Inc. with an annual salary of approximately $252,000 per annum (being equivalent to US$220,000).

The above agreement did not contain a fixed term and may be terminated by either party at will.

This report includes the 11 pages in Appendix A to the Remuneration Report (and is incorporated by reference) and is made in accordance with a resolution of the Board of Directors.

ROB THOMAS
Chairman
Date 29 February 2008

SECTION 1 – APPENDIX A TO THE REMUNERATION REPORT

DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Names and positions held of directors and other key management personnel in office at anytime during the financial year are as follows:

Name	Position	Entity	Tenure
Directors			
Mr R B Thomas	Non-executive Chairman	(i)	26 November 2004 – Current
Dr S L Harrison	Non-executive Deputy Chairman	(i)	26 November 2004 – Current
Dr D N Wade	Non-executive Director	(i)	15 December 2004 – Current
Dr C C Bennett	Non-executive Director	(i)	15 December 2004 – Current
Mr D E Godshall	Chief Executive Officer Executive Director	(i), (ii)	18 September 2006 – Current 28 October – Current
Mr R B Stockman	Non-executive Director	(i)	11 December 2006 – Current
Other Key Management Personnel			
Mr D J McIntyre	Chief Financial Officer Company Secretary	(i), (ii)	28 February 2005 – Current 28 February 2005 – Current
Mr D A Rowe	Chief Operating Officer	(ii)	17 April 2006 – Current
Mr J A LaRose	Chief Scientific Officer	(ii)	10 July 2003 – Current
Ms J H Foley	Vice President, Clinical & Regulatory Affairs	(ii)	2 January 2007 – Current
Ms J E Reedy	Vice President, Sales & Marketing (Former)	(ii)	16 May 2005 – 31 December 2007
Mr J F Schuermann	Vice President, Sales & Marketing	(ii)	4 September 2007 – Current

Notes:
(i) HeartWare Limited
(ii) HeartWare, Inc.

SECTION 2 – APPENDIX A TO THE REMUNERATION REPORT

COMPENSATION OPTIONS FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

			TERMS & CONDITIONS FOR EACH GRANT				
Parent Entity Directors	Vested number	Granted number	Grant date	Value per option at grant date ($)	Exercise price ($)	First exercise date	Last exercise date
Thomas, R	382,102	764,204	24 January 2005	$0.36	$0.20	*24 January 2006	24 January 2010
	200,000	200,000	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
	200,000	200,000	24 January 2005	$0.17	$1.00	*24 January 2007	24 January 2010
	–	100,000	24 January 2005	$0.12	$1.50	24 January 2008	24 January 2010
Harrison, S	–	–	–	–	–	–	–
Stockman, R	–	200,000	26 July 2007	$0.40	$0.75	26 July 2008	26 July 2017
Wade, D	100,000	100,000	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
	100,000	100,000	24 January 2005	$0.17	$1.00	*24 January 2007	24 January 2010
	–	50,000	24 January 2005	$0.12	$1.50	24 January 2008	24 January 2010
Bennett, C	100,000	100,000	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
	100,000	100,000	24 January 2005	$0.17	$1.00	*24 January 2007	24 January 2010
	–	50,000	24 January 2005	$0.12	$1.50	24 January 2008	24 January 2010
Godshall, D	1,395,316	5,581,264	27 September 2006	$0.50	$1.10	27 September 2007	27 September 2016
Total	**2,577,418**	**7,545,468**					

No options were exercised by directors during the year ended 31 December 2007. On 20 November 2007, the Company announced its intention to seek shareholder approval in 2008 to grant 1.1 million performance rights to Mr Godshall with a zero strike price. No such approval has been obtained, and therefore no performance rights have been issued (or recorded above), at the date of this report.

SECTION 2 – APPENDIX A TO THE REMUNERATION REPORT (continued)

COMPENSATION OPTIONS FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL (continued)

			TERMS & CONDITIONS FOR EACH GRANT				
Other Key Management Personnel	Vested number	Granted number	Grant date	Value per option at grant date ($)	Exercise price ($)	First exercise date	Last exercise date
Rowe, D	250,000	1,000,000	20 April 2006	$0.87	$1.41	20 April 2007	20 April 2016
	50,000	200,000	28 October 2006	$0.50	$1.10	28 October 2007	28 October 2016
	–	200,000	16 November 2007	$0.75	$0.00	(A) 16 November 2008	(B) 16 November 2017
LaRose, J	382,102	764,204	27 April 2005	$0.26	$0.50	27 April 2006	27 April 2015
	1,540,000	1,540,000	24 January 2005	$0.36	$0.20	31 January 2005	24 January 2010
	50,000	200,000	28 October 2006	$0.50	$1.10	28 October 2007	28 October 2016
	–	300,000	16 November 2007	$0.75	$0.00	(A) 16 November 2008	(B) 16 November 2017
McIntyre, D	191,051	191,051	24 January 2005	$0.23	$0.60	24 January 2006	24 January 2010
	191,051	191,051	24 January 2005	$0.20	$0.75	24 January 2007	24 January 2010
	–	191,051	24 January 2005	$0.17	$1.00	24 January 2008	24 January 2010
	–	191,051	24 January 2005	$0.12	$1.50	24 January 2009	24 January 2010
	382,102	764,204	15 December 2005	$0.38	$0.75	31 January 2007	15 December 2013
	50,000	200,000	28 October 2006	$0.50	$1.10	28 October 2007	28 October 2016
	–	400,000	16 November 2007	$0.75	$0.00	(A) 16 November 2008	(B) 16 November 2017
Foley, J	–	1,000,000	2 January 2007	$0.43	$1.10	2 January 2008	2 January 2017
	–	200,000	16 November 2007	$0.75	$0.00	(A) 16 November 2008	(B) 16 November 2017
Reedy, J	573,153	1,146,306	27 April 2005	$0.26	$0.50	27 April 2005	27 April 2015
	50,000	200,000	28 October 2006	$0.50	$1.10	28 October 2007	28 October 2016
Schuermann, J	–	900,000	16 November 2007	$0.42	$0.75	(A) 16 November 2008	(B) 16 November 2017
	–	100,000	16 November 2007	$0.75	$0.00	(A) 16 November 2008	(B) 16 November 2017
Total	**3,709,459**	**9,878,918**					

Notes:

(A) 16 November 2008 is the earliest exercise date for the first tranche of this grant of equity. However, vesting does not occur until certain performance conditions are satisfied. The performance hurdles are as follows:

(i) Vesting for the first tranche, representing 25% of the total allotment, occurs on the last to occur of the first anniversary of the grant date, the Company receiving CE marking in Europe, the Company filing its application for Therapeutic Goods Administration approval and the commencement of the Company's Bridge-to-Transplant clinical trial in the United States.

(ii) Vesting for the second tranche, representing 25% of the total allotment, occurs on the last to occur of the second anniversary of the grant date and the completion of enrolment under the Company's Bridge-to-Transplant trial in the United States.

(iii) Vesting for the third tranche, representing 25% of the total allotment, occurs on the last to occur of the third anniversary of the grant date, the Company filing an application for Pre-Market Approval with the United States Food and Drug Administration as a Bridge-to-Transplant therapy and the completion of enrolment under the Company's Destination Therapy clinical trial in the United States.

(iv) Vesting for the fourth tranche, representing 25% of the total allotment, occurs on the last to occur of the fourth anniversary of the grant date and the Company completing a human feasibility study for its next generation device, the MVAD.

(B) Unvested equity lapses on the fifth anniversary of the grant date. Unexercised, vested equity expires on the tenth anniversary of the grant date.

SECTION 3 – APPENDIX A TO THE REMUNERATION REPORT

OPTION HOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

							Vested 31 December 2007		
Parent Entity Directors	Note	Balance 1 January 2007	Granted as compen-sation	Net change	Options exercised	Balance 31 December 2007	Total	Not exercisable	Exercisable
Thomas, R	(a), (b)	1,264,204	–	–	–	1,264,204	782,102	–	782,102
Harrison, S		–	–	–	–	–	–	–	–
Stockman, R	(b)	–	200,000	–	–	200,000	–	–	–
Wade, D	(a)	250,000	–	–	–	250,000	200,000	–	200,000
Bennett, C	(a)	250,000	–	–	–	250,000	200,000	–	200,000
Godshall, D*	(b)	5,581,264	–	–	–	5,581,264	1,395,316	–	1,395,316
Total		**7,345,468**	**200,000**	**–**	**–**	**7,545,468**	**2,577,418**	**–**	**2,577,418**

* On 20 November 2007, the Company announced its intention to seek shareholder approval in 2008 to grant 1.1 million performance rights to Mr Godshall with a zero strike price. No such approval has been obtained, and therefore no performance rights have been issued (or recorded above), at the date of this report.

							Vested 31 December 2007		
Other Key Management Personnel	Note	Balance 1 January 2007	Granted as compen-sation	Net change	Options exercised	Balance 31 December 2007	Total	Not exercisable	Exercisable
Rowe, D	(b), (c)	1,200,000	200,000	–	–	1,400,000	300,000	–	300,000
LaRose, J	(b), (c)	2,504,204	300,000	–	–	2,804,204	1,972,102	–	1,972,102
McIntyre, D	(b), (c)	1,728,408	400,000	–	–	2,128,408	814,204	–	814,204
Foley, J	(b), (c)	–	1,200,000	–	–	1,200,000	–	–	–
Reedy, J	(b), (c)	1,346,306	–	–	–	1,346,306	623,153	–	623,153
Schuermann, J	(b), (c)	–	1,000,000	–	–	1,000,000	–	–	–
Total		**6,778,918**	**3,100,000**	**–**	**–**	**9,878,918**	**3,709,459**	**–**	**3,709,459**

Notes:

(a) The options refer to Incentive Options, further details of which are set out below under the heading "Options". In relation to Mr Thomas, 764,204 of his options were granted under the Company's ESOP with the balance comprising Incentive Options.

(b) The options refer to performance rights granted under the Company's Performance Rights Plan ("PRP"). Ms Foley's equity includes 1,000,000 options granted under the Company's ESOP with the remainder constituting performance rights. Mr Schuermann's equity includes 900,000 options granted under the Company's ESOP with the remainder constituting performance rights.

(c) In accordance with the terms of the Company's ESOP Rules and the PRP Rules, each option/performance right entitles the holder to purchase one ordinary share at the relevant exercise price (with the strike price under the PRP being zero) and subject to satisfaction of performance hurdles, if any.

Net Change refers to those options that have been forfeited or cancelled in accordance with the terms of the Company's ESOP Rules.

SECTION 4 – APPENDIX A TO THE REMUNERATION REPORT

COMPENSATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

		Short-term benefits			Other benefits	Notes	Post employment		Share-based payments		Total
Parent Entity Directors		Salary & fees	Cash bonus	Non-monetary			Super-annuation	Retire-ment benefits	Options*	% of total remun.	
Thomas, R	2007	120,000	–	–	–		10,800	–	–	–	130,800
	2006	120,000	–	–	–		10,800	–	–	–	130,800
Harrison, S	2007	100,000	–	–	–		9,000	–	–	–	109,000
	2006	100,000	–	–	–		9,000	–	–	–	109,000
Stockman, R	2007	–	–	–	–	(a)	–	–	64,667	–	64,667
	2006	–	–	–	–		–	–	–	–	–
Wade, D	2007	35,000	–	–	–		30,400	–	–	–	65,400
	2006	35,000	–	–	–		30,400	–	–	–	65,400
Bennett, C	2007	60,000	–	–	–		5,400	–	–	–	65,400
	2006	60,000	–	–	–		5,400	–	–	–	65,400
Godshall, D	2007	417,462	84,983	–	15,952		–	–	–	–	518,397
	2006	115,441	98,949	–	3,524	(b)	–	–	2,802,962	93%	3,020,876
Total Remun-eration	**2007**	**732,462**	**84,983**	**–**	**15,952**		**55,600**	**–**	**64,667**	**7%**	**953,664**
Total Remun-eration	**2006**	**430,441**	**98,949**	**–**	**3,524**		**55,600**	**–**	**2,802,962**	**83%**	**3,391,476**

* Black-Scholes option valuation incorporating an annualised standard deviation of return of 51.10% (2006: 55.14%) for European style options.

SECTION 4 – APPENDIX A TO THE REMUNERATION REPORT (continued)

COMPENSATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL (continued)

		Short-term benefits			Other benefits	Notes	Post employment		Share-based payments		Total
Other Key Management Personnel		Salary & fees	Cash bonus	Non-monetary			Super-annuation	Retire-ment benefits	Options*	% of total remun.	
Rowe, D	2007	268,368	32,204	–	15,952	(c), (d)	–	–	149,000	33%	465,524
	2006	194,220	–	–	8,946	(c)	–	–	970,071	81%	1,173,237
LaRose, J	2007	268,368	53,674	–	15,952	(c) (e)	–	–	223,500	41%	561,494
	2006	279,088	59,370	–	13,154	(c)	–	–	100,300	22%	451,912
McIntyre, D	2007	268,368	53,674	–	144,769	(c), (f), (g)	–	–	298,000	40%	764,811
	2006	246,494	46,176	4,497	151,205	(c), (g)	6,600	–	100,300	18%	544,175
Foley, J	2007	252,313	71,565	–	15,952	(c), (h)	–	–	576,333	64%	916,163
	2006	–	–	–	–	(c), (h)	–	–	–	–	–
Reedy, J	2007	261,487	–	–	277,439	(c), (i)	–	–	–	–	538,926
	2006	263,865	32,983	–	14,850	(c)	–	–	100,300	24%	411,998
Schuermann, J	2007	77,414	–	–	4,310	(c)	–	–	480,740	86%	562,464
	2006	–	–	–	–		–	–	–	–	–
Total Remun-eration	**2007**	1,396,318	211,117	–	212,887		–	–	1,727,573	49%	3,547,895
Total Remun-eration	**2006**	983,667	138,529	4,497	188,155		6,600	–	1,270,971	49%	2,581,332

* Black-Scholes option valuation incorporating an annualised standard deviation of 55.14% (2006: 55.14%). This figure also includes performance rights granted under the Performance Rights Plan that have a strike price of zero and a fair value at the grant date of $0.75.

SECTION 4 – APPENDIX A TO THE REMUNERATION REPORT (continued)

COMPENSATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL (continued)

Notes:

(a) Pursuant to shareholder approval Mr Stockman was granted 200,000 options under the Company's ESOP with a strike price of $0.75 each. Mr Stockman did not draw a salary or other fees during the financial year.

(b) In accordance with the terms of his employment, Mr Godshall was paid a one-off sign-on bonus on commencement of employment of $98,949 in September 2006 (being US$75,000).

(c) Unless otherwise stated, the Other Benefit refers to the cost of the relevant employee's participation in the Company's medical and insurance scheme (which is available to all employees).

(d) Mr Rowe was paid a cash bonus of $32,204 (being US$27,000) on 31 October 2007 as part of a Company-wide bonus in recognition of the Company's progress.

(e) Mr LaRose was paid a cash bonus of $53,674 (being US$45,000) on 31 October 2007 as part of a Company-wide bonus in recognition of the Company's progress.

(f) Mr McIntyre was paid a cash bonus of $53,674 (being US$45,000) on 31 October 2007 as part of a Company-wide bonus in recognition of the Company's progress.

(g) At the Company's request, Mr McIntyre has relocated to the United States of America. Following an independent assessment undertaken by Ernst & Young, the following payments were made to Mr McIntyre under his relocation arrangements:

  (i) In April 2006, a one-off payment of $36,611 as a relocation allowance, being US$27,750. This payment is subject to personal income tax in the United States at the normal statutory rate and was provided to assist with meeting out-of-pocket expenses that were incurred on relocation to the United States, such as installation and purchase of electrical appliances, house cleaning, establishment of utilities, telephone installation etc, together with associated costs of leaving Australia (termination of existing services and utilities etc).

  (ii) A monthly after-tax payment of approximately US$6,000 (gross cost US$9,000) for the purposes of assisting Mr McIntyre with the provision of comparative housing, financing of motor vehicles, rental shortfall on his Australian residence and other incremental recurring costs associated with his relocation to the United States of America. In 2006, a pre-tax amount of US$80,077 ($105,647) has been paid to Mr McIntyre in this regard while in 2007 an amount of US$108,000 ($128,817) has been paid.

(h) In accordance with Ms Foley's employment agreement, Ms Foley was paid US$30,000 ($35,782) on commencement of employment on 2 January 2007 and this amount is included in the disclosed salary amount. Ms Foley was also paid a cash bonus of $35,782 (being US$30,000) on 31 October 2007 as part of a Company-wide bonus in recognition of the Company's progress.

(i) Ms Reedy has entered into a Separation Agreement with the Company pursuant to which Ms Reedy resigns her positions with the Company with effect from 31 December 2007. Pursuant to this agreement, Ms Reedy is entitled to receive twelve months salary, being US$220,000 ($261,487), over the course of 2008 and otherwise in accordance with normal pay periods. This amount, which constitutes a termination benefit, is included in Other Benefits and has been accrued at 31 December 2007.

(j) Ms Schuermann commenced his position with the Company on 4 September 2007.

In addition to the above, all of the above employees are provided with a mobile telephone or Blackberry at no cost to the employee.

SECTION 5 – APPENDIX A TO THE REMUNERATION REPORT

SHAREHOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

	Note	Balance 1 January 2007	Granted as remuneration	Options exercised	Net change* other	Balance 31 December 2007
Parent Entity Directors						
Thomas, R	(a)	1,758,000	–	–	600,000	2,358,000
Harrison, S	(b)	91,588,782	–	–	–	91,588,782
Stockman, R		–	–	–	500,000	500,000
Wade, D	(c)	1,000,000	–	–	8,333	1,008,333
Bennett, C		–	–	–	–	–
Godshall, D		37,305	–	–	63,000	100,305
Other Key Management Personnel						
Rowe, D		10,000	–	–	–	10,000
LaRose, J		–	–	–	–	–
McIntyre, D		28,000	–	–	–	28,000
Foley, J		–	–	–	–	–
Reedy, J		–	–	–	–	–
Schuermann, J		–	–	–	–	–
Total		94,422,087	–	–	1,071,333	95,593,420

* Net Change Other refers to shares purchased or sold during the year.

Notes:

(a) Mr Thomas owns shares in the Company through a variety of direct and indirect holdings. The bulk of Mr Thomas' indirect shareholding is held by himself and his wife (Mrs Kyrenia Thomas) as trustee of the Robert Thomas Superannuation Fund.

(b) As noted elsewhere in this Directors' Report, Dr Harrison is the Managing General Partner of Apple Tree Partners I LP ("Apple Tree Partners"), the Company's largest shareholder. To this end, the shares set out in the table above refer to shares owned by Apple Tree Partners.

Under Dr Harrison's employment arrangement with Apple Tree Partners, he is prohibited from having an interest, directly or indirectly, in any entity in which Apple Tree Partners has invested. For this reason, Dr Harrison has no share or option holding in HeartWare (other than indirectly via Apple Tree Partners).

It should also be noted that, in connection with the acquisition of HeartWare, Inc. by HeartWare Limited, the Company issued a convertible note in favour of Apple Tree Partners in the amount of $1,420,000 which will accrue interest at 2.0% per annum (capitalised monthly in arrears). The conversion price is $1.00 per ordinary share. The principal and capitalised interest on the convertible note is repayable on the secondary anniversary of the date of issue of the convertible note (being 24 January 2007). As Managing General Partner of Apple Tree Partners and for the purposes of the *Corporations Act 2001*, Dr Harrison is deemed to have an indirect interest in this convertible note.

(c) The shares are held by Nickeli Holdings Pty Limited as trustee of the Wade Family Superannuation Fund. The options refer to Incentive Options, further details of which are set out below under the heading "Options".

Remuneration Benefits

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Consolidated Group during the year and there were no material contracts involving Directors' interests subsisting at anytime.

At 31 December 2007, there were no amounts receivable from or payable to directors and their director-related entities.

Independent Audit Report

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEARTWARE LIMITED

We have audited the accompanying financial report of HeartWare Limited (the company), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes of the company and the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standards AASB 124: Related Party Disclosures, under the heading "remuneration report" on pages 26 to 44 of the directors' report and not in the financial report.

The directors are also responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEARTWARE LIMITED (cont)

Auditor's responsibility (cont)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

a the financial report of HeartWare Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

c the remuneration disclosures that are contained on pages 26 to 44 of the directors' report comply with Accounting Standard AASB 124.

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney, 29 February 2008

Auditor's Independence Declaration

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF HEARTWARE LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of HeartWare Limited for the year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney, 29 February 2008

Directors' Declaration

The directors of HeartWare Limited declare that:

(a) the financial statements and notes, set out on pages 61 to 90, are in accordance with the Corporations Act 2001 and:

  (i) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the year ended on that date of the Company and Consolidated Group; and

  (ii) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) the Chief Executive Officer and Chief Financial Officer have each declared that:

  (i) the financial records of the Company and the Consolidated Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

  (ii) the financial statements and notes for the financial year comply with Australian Accounting Standards; and

  (iii) the financial statements and notes for the financial year give a true and fair view; and

(c) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

ROB THOMAS
Chairman
Date 29 February 2008

Income Statement

For the year ended 31 December 2007

	Note	Consolidated group 2007 $	Consolidated group 2006 $	Parent entity 2007 $	Parent entity 2006 $
Revenue	2	1,150,040	1,143,912	1,089,199	1,100,864
Administrative and facilities expenses		(616,162)	(516,717)	(309,765)	(112,014)
Advertising and marketing expenses		(166,983)	(106,790)	(91,296)	(82,209)
Audit, financial and taxation services		(233,231)	(186,468)	(189,423)	(174,622)
Consultants – clinical, regulatory and medical		(2,240,969)	(1,624,884)	–	–
Consultants – corporate advisory and investor relations		(159,269)	(283,567)	(129,929)	(283,567)
Contractor expenses		(1,152,546)	(201,952)	(36,154)	–
Depreciation and amortization expenses	3	(810,881)	(746,821)	(60,624)	(100,259)
Share-based payments to employees and directors	25	(2,762,319)	(1,174,620)	(2,762,319)	(1,174,620)
Other employee and director benefits expenses		(10,677,938)	(10,043,836)	(802,658)	(2,421,829)
Net loss on foreign exchange transactions		(1,042,508)	(770,227)	(1,042,507)	(770,227)
Information technology expense		(372,026)	(278,385)	(31,271)	(46,654)
Insurance expenses		(206,524)	(269,700)	(49,411)	(54,322)
Legal expense – intellectual property protection, litigation costs and related expenditure		(191,425)	(584,397)	–	(4,405)
Legal expense – corporate, compliance and commercial advisory		(1,038,896)	(529,163)	(822,314)	(276,003)
Raw materials and consumables used		(1,043,583)	(2,223,821)	–	–
Rental expense and outgoings		(953,042)	(699,350)	(122,153)	(199,735)
Research and development expenses		(550,306)	(1,695,837)	–	–
Sterilisation and testing expenses		(174,241)	(133,899)	–	–
Tax and duties expenses, other than income tax		(236,407)	(131,178)	–	–
Travel, accommodation and related expenses		(1,645,113)	(1,357,808)	(177,615)	(467,143)
Trials expenses – animal and human		(587,837)	(435,839)	–	(12,649)
Validation and verification expense		(18,575)	(228,178)	–	–
Other expenses		(645,906)	(171,128)	(55,089)	(144,410)
(Loss) before income tax		**(26,376,647)**	**(23,250,653)**	**(5,592,329)**	**(5,223,804)**
Income tax expense	5	–	–	–	–
(Loss) attributable to members of HeartWare Limited		**(26,376,647)**	**(23,250,653)**	**(5,592,329)**	**(5,223,804)**
		Cents	Cents		
Basic and diluted (loss) per share (cents per share)	6	(12.4)	(13.3)		

The Financial Statements should be read in conjunction with the accompanying notes.

Balance Sheet

As at 31 December 2007

	Note	Consolidated group 2007 $	Consolidated group 2006 $	Parent entity 2007 $	Parent entity 2006 $
Current Assets					
Cash and cash equivalents	8	32,073,942	21,101,693	31,225,265	20,267,573
Trade and other receivables	9	180,035	153,905	191,062	166,658
Other current assets	10	705,785	609,916	244,676	236,350
Total Current Assets		32,959,762	21,865,514	31,661,003	20,670,581
Non-Current Assets					
Financial assets	11	–	–	100,094,335	78,897,414
Property, plant and equipment	13	3,072,874	3,140,329	28,185	193,409
Intangible assets	14	2,592,089	2,881,771	3,561	4,390
Other non-current assets	10	–	2,527	–	–
Total Non-Current Assets		5,664,963	6,024,627	100,126,081	79,095,213
Total Assets		38,624,725	27,890,141	131,787,084	99,765,794
Current Liabilities					
Trade and other payables	15	1,665,561	1,782,239	102,684	236,776
Financial liabilities	17	1,517,689	1,495,676	1,517,689	1,495,676
Short-term provisions	16	311,870	200,608	28,849	19,328
Total Current Liabilities		3,495,120	3,478,523	1,649,222	1,751,780
Non-Current Liabilities					
Financial liabilities	17	–	20,139	–	20,139
Total Non-Current Liabilities		–	20,139	–	20,139
Total Liabilities		3,495,120	3,498,662	1,649,222	1,771,919
Net Assets		**35,129,605**	**24,391,479**	**130,137,862**	**97,993,875**
Equity					
Issued capital	18	94,647,107	59,673,110	140,230,916	105,256,919
Reserves	19	5,647,770	3,506,994	6,489,531	3,727,212
Retained earnings		(65,165,272)	(38,788,625)	(16,582,585)	(10,990,256)
Total Equity		**35,129,605**	**24,391,479**	**130,137,862**	**97,993,875**

The Financial Statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 31 December 2007

	Consolidated group					
	Share capital $	Foreign currency translation reserve $	Share option reserve $	Exercised options reserve $	Retained earnings $	Total $
Balance at 1 January 2006	**28,824,205**	**112,210**	**2,408,356**	**144,236**	**(15,537,972)**	**15,951,035**
Currency translation	–	(332,428)	–	–	–	(332,428)
Net income recognized directly in equity	–	(332,428)	–	–	–	(332,428)
Loss for the period	–	–	–	–	(23,250,653)	(23,250,653)
Total recognized income and expense for the period	**–**	**(332,428)**	**–**	**–**	**(23,250,653)**	**(23,583,081)**
Shares issued	32,869,695	–	–	–	–	32,869,695
Transaction costs	(2,020,790)	–	–	–	–	(2,020,790)
Employee share based compensation	–	–	1,044,435	130,185	–	1,174,620
Balance at 31 December 2006	**59,673,110**	**(220,218)**	**3,452,791**	**274,421**	**(38,788,625)**	**24,391,479**
Currency translation	–	(621,543)	–	–	–	(621,543)
Net income recognized directly in equity	–	(621,543)	–	–	–	(621,543)
Loss for the period	–	–	–	–	(26,376,647)	(26,376,647)
Total recognized income and expense for the period	**–**	**(621,543)**	**–**	**–**	**(26,376,647)**	**(26,998,190)**
Shares issued	37,051,408	–	–	–	–	37,051,408
Transactions costs	(2,077,411)	–	–	–	–	(2,077,411)
Employee share based compensation	–	–	2,715,627	46,692	–	2,762,319
Balance at 31 December 2007	**94,647,107**	**(841,761)**	**6,168,418**	**321,113**	**(65,165,272)**	**35,129,605**

The Financial Statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity (continued)

For the year ended 31 December 2007

	Parent entity					
	Share capital $	Foreign currency translation reserve $	Share option reserve $	Exercised options reserve $	Retained earnings $	Total $
Balance at 1 January 2006	**74,408,014**	**–**	**2,408,356**	**144,236**	**(5,766,452)**	**71,194,154**
Net income recognized directly in equity	–	–	–	–	–	–
Loss for the period	–	–	–	–	(5,223,804)	(5,223,804)
Total recognized income and expense for the period	**–**	**–**	**–**	**–**	**(5,223,804)**	**(5,223,804)**
Shares issued	32,869,695	–	–	–	–	32,869,695
Transaction costs	(2,020,790)	–	–	–	–	(2,020,790)
Employee share based compensation	–	–	1,044,435	130,185	–	14,174,620
Balance at 31 December 2006	**105,256,919**	**–**	**3,452,791**	**274,421**	**(10,990,256)**	**97,993,875**
Net income recognized directly in equity	–	–	–	–	–	–
Loss for the period	–	–	–	–	(5,592,329)	(5,592,329)
Total recognized income and expense for the period	**–**	**–**	**–**	**–**	**(5,592,329)**	**(5,592,329)**
Shares issued	37,051,408	–	–	–	–	37,051,408
Transaction costs	(2,077,411)	–	–	–	–	(2,077,411)
Employee share based compensation	–	–	2,715,627	46,692	–	2,762,319
Balance at 31 December 2007	**140,230,916**	**–**	**6,168,418**	**321,113**	**(16,582,585)**	**130,137,862**

The Financial Statements should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 31 December 2007

	Note	Consolidated group 2007 $	Consolidated group 2006 $	Parent entity 2007 $	Parent entity 2006 $
Cash flows from operating activities					
Receipts from customers		–	–	–	–
Payments to suppliers and employees		(23,836,052)	(22,343,699)	(3,861,599)	(5,054,570)
Interest received		1,085,157	1,157,557	1,024,316	1,114,509
Finance costs		(690)	(488)	(690)	(488)
Net cash used in operating activities	23(a)	**(22,751,585)**	**(21,186,630)**	**(2,837,973)**	**(3,940,549)**
Cash flows from investing activities					
Loans to subsidiary		–	–	12,040	17,214
Proceeds from sale of property plant and equipment		9,569	3,735	6,546	–
Payments for purchase of property, plant and equipment		(908,984)	(1,827,710)	–	(15,167)
Payments for shares in subsidiary		–	–	(21,196,918)	(19,995,843)
Payments for intangible assets		(265,311)	(393,072)	–	(4,988)
Net cash used in investing activities		**(1,164,726)**	**(2,217,047)**	**(21,178,332)**	**(19,998,784)**
Cash flows from financing activities					
Proceeds from issues of shares		37,051,408	32,869,695	37,051,408	32,869,695
Payments for share issue expenses		(2,077,411)	(2,020,790)	(2,077,411)	(2,020,790)
Net cash provided by financing activities		**34,973,997**	**30,848,905**	**34,973,997**	**30,848,905**
Net increase in cash held		**11,057,686**	**7,445,228**	**10,957,692**	**6,909,572**
Cash at beginning of the year		**21,101,693**	**13,679,897**	**20,267,573**	**13,358,001**
Effect of exchange rates on cash holdings in foreign currencies		(85,437)	(23,432)	–	–
Cash at end of the year	8	**32,073,942**	**21,101,693**	**31,225,265**	**20,267,573**

The Financial Statements should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Annual Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001 ("the Corporations Act").

The Annual Financial Report covers the Consolidated Group of HeartWare Limited ("HeartWare" or "the Company") and its controlled entity, HeartWare, Inc., a Delaware corporation ("the Consolidated Group" or "the HeartWare Group"). The Annual Financial Report also covers HeartWare as an individual parent entity. HeartWare is a listed public company, the ordinary shares of which are listed for quotation on the Australian Securities Exchange Limited. HeartWare is incorporated and domiciled in Australia.

The Annual Financial Report is prepared on a going concern basis as the directors consider that the Company has, or will be able to access, sufficient cash resources to enable it to continue as a going concern.

Reporting and Comparative Periods

The financial results set out in this Annual Financial Report are the consolidated financial results for the HeartWare Group for the twelve-month period ended 31 December 2007.

Basis of Preparation

The Annual Financial Report of HeartWare and its controlled entity, and HeartWare an individual parent entity, complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards in their entirety.

The accounting policies set out below have been consistently applied to all years presented, with the exception of the change in accounting policy (refer to Note 32 to the Financial Statements).

Reporting Basis and Conventions

The Annual Financial Report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Denomination

All figures ("$") referred to in this Annual Financial Report are denominated in Australian dollars.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity controlled by the Company whereby the Company has the power to control the financial and operating policies of that entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the Financial Statements. All controlled entities have a December financial year-end.

All inter-company balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Consolidated Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

In Australia, the accounting treatment for business combinations is set out in AASB 3: Business Combinations ("AASB 3"). However, the business combination whereby HeartWare Limited acquired HeartWare, Inc. on 24 January 2005 falls within the definition of a "business combination involving entities under common control" and this type of business combination is specifically scoped out of AASB 3. Further, there is presently no prescribed accounting treatment in Australia for business combinations involving entities under common control.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purposes of this Annual Financial Report, the Consolidated Group has accounted for the acquisition of HeartWare, Inc. by HeartWare Limited as a business combination involving entities under common control and has recorded the transaction at the historical cost of the assets and liabilities of HeartWare, Inc. at the time of the acquisition (being 24 January 2005). Further information in this regard is contained in Note 32 to the Financial Statements. This represents a change of accounting policy from that adopted in the prior year's Annual Financial Report.

(b) Income Tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognized to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets is depreciated on a straight line basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
Leasehold improvements	33%
Plant and equipment	8–33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to entities in the Consolidated Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Consolidated Group will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognized as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

The Consolidated Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments that became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in the financial statements. There has been no impact on profit and loss or the financial position of the Consolidated Group.

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Investments in subsidiaries

Investments in subsidiaries are measured at cost but are subject to impairment write-down to recoverable amount.

Financial liabilities

Non-derivative financial liabilities are recognized at amortised cost, comprising original debt less principal payments and amortization.

Impairment

At each reporting date, the Consolidated Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognized in the Income Statement.

(g) Impairment of assets

At each reporting date, the Consolidated Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Intangibles

Patents and trademarks

Patents and trademarks are recognized at cost of acquisition. Patents and trademarks have a definite life and are carried at cost less any accumulated amortization and any impairment losses. Patents and trademarks are amortized on a straight-line basis over their useful life, estimated at 15 years.

Software

Software is recognized at cost. It has a finite life and is amortized on a systematic basis matched to the future benefits of the asset. Software is currently amortized on a straight-line basis over their estimated useful life ranging from 5 to 7 years.

Research and development

Expenditure during the research phase of a project is recognized as an expense when incurred.

Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortized on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Consolidated Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognized in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognized directly in equity to the extent that the gain or loss is directly recognized in equity, otherwise the exchange difference is recognized in the income statement.

Consolidated Group companies

The financial results and position of foreign operations whose functional currency is different from the Consolidated Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Consolidated Group's foreign currency translation reserve in the balance sheet. These differences are recognized in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Provision is made for the Consolidated Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(k) Equity-settled compensation

The Consolidated Group operates two share-based compensation plans, being share option arrangements. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(l) Provisions

Provisions are recognized when the Consolidated Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(n) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognized as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments in the Annual Financial Report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Group.

Key Estimates — Impairment

The Consolidated Group assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key Estimates — Option Valuations

The Consolidated Group uses a Black-Scholes option value method in connection with the calculation of share-based payments expense and this requires the input of highly subjective judgment and assumptions, including an estimated expected life of the option, share price volatility and a forfeiture rate.

The assumptions used in calculating the fair value of share-based awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment.

There are no other key estimates or assumptions that require specific disclosure.

2. REVENUE AND OTHER INCOME

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Operating activities				
Sales	–	–	–	–
Interest received from other persons/corporations	1,150,040	1,143,912	1,089,199	1,100,864
Total Revenue	**1,150,040**	**1,143,912**	**1,089,199**	**1,100,864**

Sales – the Company has not yet sold any of its heart pumps as it does not yet have regulatory approval. Regulatory approval and revenue are anticipated in 2008 (as reimbursement is expected through clinical trials conducted in the United States of America).

3. LOSS FOR THE YEAR

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
(a) Expenses				
Finance costs – external	30,470	29,679	30,470	29,679
Net Foreign exchange losses	1,042,508	770,227	1,042,508	770,227
Rental expenses on operating leases – minimum lease payments	903,501	631,590	121,814	155,645
Research and development costs	550,306	1,695,837	–	–
Raw materials and consumables used – write down of inventories to net realisable value	1,043,583	1,621,556	–	–
(b) Significant Expenses				
The following significant expense items are relevant in explaining the financial performance:				
Depreciation of plant and equipment	485,182	349,733	23,519	26,303
Amortization of intangible assets	273,745	321,457	829	598
Amortization of leasehold improvements	51,954	75,631	36,276	73,358
Total depreciation and amortization	**810,881**	**746,821**	**60,624**	**100,259**

4. AUDITORS' REMUNERATION

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Remuneration of the auditor of the parent entity and economic entities:				
Auditing or reviewing the Australian financial reports – Grant Thornton NSW	100,674	79,587	100,674	79,587
Auditing of HeartWare, Inc. in connection with the preparation of the Australian financial report – Grant Thornton LLP	–	59,670	–	–
Auditing or reviewing the US financial reports – Grant Thornton LLP	193,040	25,275	193,040	25,275
Taxation services – Grant Thornton NSW	20,350	9,190	20,350	9,190
Taxation services – Grant Thornton LLP	–	7,764	–	–
Advisory fees in conjunction with US SEC and Australian reporting requirements during the year –Grant Thornton NSW	14,857	2,650	14,857	2,650
Advisory fees in conjunction with US SEC reporting requirements during the year – Grant Thornton LLP	–	2,332	–	–
	328,921	**186,468**	**328,921**	**116,702**

5. INCOME TAX EXPENSE

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
(Loss) before income tax	(26,376,647)	(23,250,653)	(5,592,329)	(5,223,804)
The prima facie tax on (loss) before income tax is reconciled to the income tax as follows:				
Prima facie tax benefit on (loss) at 30% (2006: 30%)				
– Consolidated Group	(7,912,994)	(6,975,196)	–	–
– Parent Entity	–	–	(1,677,699)	(1,567,141)
Tax effect of overseas losses taxed at higher than 30%	(475,753)	(412,635)	–	–
Add:				
Tax effect of:				
Non deductible depreciation and amortization	72,733	101,973	23,519	30,078
Other non allowable items	5,466	3,115	1,997	3,115
	(8,310,548)	(7,282,743)	(1,652,183)	(1,533,948)
Adjusted income tax benefit attributable to the entity	(8,310,548)	(7,282,743)	(1,652,183)	(1,533,948)
Deferred tax asset not brought to account	8,310,548	7,282,743	(1,652,183)	1,533,948
Income tax attributable to entity	–	–	–	–
The applicable weighted average effective tax rates are as follows:	0%	0%	0%	0%
Deferred tax assets in respect of tax losses not brought to account:	20,103,785	11,793,237	4,890,500	3,238,317

Potential deferred tax assets will only be obtained in certain limited circumstances. Specifically, a deferred tax asset cannot be obtained unless:

(a) the relevant company derives future assessable income of a nature and an amount sufficient to enable the asset to be realised, or the asset can be utilised by another company in the Consolidated Group in accordance with Division 170 of the Income Tax Assessment Act 1997;

(b) the relevant company and/or the Consolidated Group continues to comply with the conditions for deductibility imposed by the law; and

(c) no changes in tax legislation adversely affect the relevant company and/or the Consolidated Group in realising the benefit.

At the date of this report, HeartWare and its controlled entities do not have revenues or profit which would be sufficient to allow deferred tax assets to be accrued with a substantial degree of certainty. This issue will be closely monitored as the Company moves toward the commercialisation of its range of implantable circulatory assist devices.

6. EARNINGS PER SHARE ("EPS")

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Earnings used in the calculation of basis EPS and dilutive EPS	(26,376,647)		(23,250,653)	
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		213,029,192		174,689,977
Weighted average number of options outstanding not treated as dilutive		4,395,718		2,652,745
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS		213,029,192		174,689,997

The number of options referred to above is not dilutive because the Consolidated Group incurred a loss for the year ended 31 December 2007.

7. SEGMENT INFORMATION

The HeartWare Group is developing and commercialising its range of circulatory assist devices or "heart pumps" which are used for the treatment of congestive heart failure. The Company does not yet have regulatory approvals so as to permit it to sell its products into the global market. On this basis, the Consolidated Group operates in one business segment, being the medical devices sector. It conducts integrated operations in the United States of America (mainly Miami), and Sydney, Australia and the primary reporting segment is therefore geographical.

	Sydney, Australia		Miami, USA		Eliminations		Consolidated Group	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Total Segment Revenue:								
Total revenue	1,089,199	1,100,864	60,841	43,048	–	–	1,150,040	1,143,912
Segment Result:								
(Loss) before income tax expense	(5,592,329)	(5,223,804)	(20,784,318)	(18,026,849)	–	–	(26,376,647)	(23,250,653)
Income tax expense	–	–	–	–	–	–	–	–
(Loss) after income tax	**(5,592,329)**	**(5,223,804)**	**(20,784,318)**	**(18,026,849)**	–	–	**(26,376,647)**	**(23,250,653)**
Assets:								
Segment assets	**131,787,084**	**99,765,794**	**6,931,976**	**7,587,882**	**(100,094,335)**	**(79,463,535)**	**38,624,725**	**27,890,141**
Liabilities:								
Segment liabilities	**1,649,222**	**1,771,919**	**1,845,898**	**1,726,743**	–	–	**3,495,120**	**3,498,662**
Other:								
Acquisition of non-current segment assets	–	20,155	1,174,294	2,200,627	–	–	1,174,294	746,821
Depreciation and amortization of segment assets	60,624	100,259	750,257	646,562	–	–	810,881	746,821

8. CASH AND CASH EQUIVALENTS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Cash at bank and in hand	1,158,350	916,076	309,172	81,956
Short-term bank deposits	30,915,592	20,185,617	30,916,093	20,185,617
	32,073,942	**21,101,693**	**31,225,265**	**20,267,573**

The effective interest rate on short-term bank deposits was 5.32% (2006: 5.44%); these deposits have an average maturity of 77 days (2006: 32 days).

9. TRADE AND OTHER RECEIVABLES

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Current				
Trade receivables	–	–	–	–
Other receivables	180,035	153,905	191,062	166,658
	180,035	**153,905**	**191,062**	**166,658**

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. Refer to Note 20 to the Financial Statements for further information regarding foreign currency and interest rate risk in relation to the above.

10. OTHER ASSETS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Current				
Prepayments	274,625	255,728	79,214	77,693
Advances – suppliers and employees	230,654	161,409	–	–
Security and other deposits	200,506	192,779	165,462	158,657
	705,785	**609,916**	**244,676**	**236,350**
Non Current				
Security and other deposits	–	2,527	–	–

Due to the short-term nature of these other assets, their carrying value is assumed to approximate their fair value. Refer to Note 20 to the Financial Statements for further information regarding foreign currency and interest rate risk in relation to the above.

11. FINANCIAL ASSETS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Unlisted investments at cost – shares in controlled entities	–	–	100,094,335	78,897,414

12. CONTROLLED ENTITIES

Name of entity	Country of incorporation	Class of shares	Percentage owned 2007 %	Percentage owned 2006 %	Carrying value 2007 $	Carrying value 2006 $
HeartWare, Inc.	USA	Series B	100	100	45,238,921	45,238,921
HeartWare, Inc.	USA	Series C	100	100	54,855,414	33,658,493
			100	**100**	**100,094,335**	**78,897,414**

On 24 January 2005, the Company acquired all of the voting stock of HeartWare, Inc. HeartWare, Inc. was incorporated in Delaware, United States of America.

The purchase consideration for the acquisition was $44 million, payable by the issue of ordinary shares in the capital of the Company.

Subsequent to this transaction, HeartWare, Inc. has issued Series C Stock to the Company.

In addition to the above (and as part of the above purchase consideration), the Company has issued a convertible note in the amount of $1,420,000 which will accrue interest at 2.0% per annum (capitalised monthly in arrears). The conversion price is $1.00 per ordinary share in the capital of the Company. The principal and capitalised interest on the convertible note is repayable to the holder on the secondary anniversary of the date of issue of the convertible note.

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated group 2007 $	Consolidated group 2006 $	Parent entity 2007 $	Parent entity 2006 $
Plant and equipment:				
At cost	4,091,274	3,735,228	68,993	120,651
Accumulated depreciation	(1,110,111)	(746,423)	(40,808)	(37,722)
	2,981,163	2,988,805	28,185	82,929
Leasehold improvements:				
At cost	108,838	264,268	–	220,679
Accumulated amortization	(17,127)	(112,744)	–	(110,199)
	91,711	151,524	–	110,480
Total plant and equipment	**3,072,874**	**3,140,329**	**28,185**	**193,409**
Movements in carrying amounts				
Movement in the carrying amount for each class of plant and equipment between the beginning and end of the current financial year				
Plant and equipment:				
Balance at the beginning of the year	2,988,805	1,680,652	82,929	134,422
Exchange differences	(307,558)	(52,975)	–	–
Additions	835,679	1,790,061	–	15,167
Disposals	(50,581)	(79,200)	(31,225)	(40,357)
Depreciation expense	(485,182)	(349,733)	(23,519)	(26,303)
Carrying amount at the end of the year	**2,981,163**	**2,988,805**	**28,185**	**82,929**
Leasehold Improvements:				
Balance at the beginning of the year	151,524	189,865	110,480	183,838
Exchange differences	(6,960)	(359)	–	–
Additions	73,305	37,649	–	–
Disposals	(74,204)	–	(74,204)	–
Amortization expense	(51,954)	(75,631)	(36,276)	(73,358)
Carrying amount at the end of the year	**91,711**	**151,524**	**–**	**110,480**

14. INTANGIBLE ASSETS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Patents and Trademarks – at cost	415,019	308,590	–	–
Accumulated amortization	(54,071)	(34,108)	–	–
	360,948	274,482	–	–
Development – at cost	2,362,388	2,631,833	–	–
Accumulated amortization	(435,919)	(310,108)	–	–
	1,926,469	2,321,775	–	–
Software – at cost	440,958	348,910	4,988	4,988
Accumulated amortization	(136,286)	(63,396)	(1,427)	(598)
	304,672	285,514	3,561	4,390
	2,592,089	**2,881,771**	**3,561**	**4,390**
Intangible assets have finite useful lives. The current amortization charges for intangible assets are included under depreciation and amortization expense in the Income Statement.				

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Movements in carrying amounts				
Movement in the carrying amount for each class of intangible assets between the beginning and end of the current financial year				
Patents and trademarks at cost:				
Balance at the beginning of the year	274,482	270,928	–	–
Exchange differences	(27,039)	48,528	–	–
Additions	138,037	23,402	–	–
Amortization charge	(24,532)	(68,376)	–	–
Carrying amount at the end of the year	**360,948**	**274,482**	**–**	**–**
Development at cost:				
Balance at the beginning of the year	2,321,775	2,696,671	–	–
Exchange differences	(229,350)	(188,095)	–	–
Additions	–	–	–	–
Amortization charge	(165,956)	(186,801)	–	–
Carrying amount at the end of the year	**1,926,469**	**2,321,775**	**–**	**–**
Software at cost:				
Balance at the beginning of the year	285,514	–	4,390	–
Exchange differences	(24,859)	2,884	–	–
Additions	127,274	348,910	–	4,988
Amortization charge	(83,257)	(66,280)	(829)	(598)
Carrying amount at the end of the year	**304,672**	**285,514**	**3,561**	**4,390**

15. TRADE AND OTHER PAYABLES

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Current				
Trade payables	588,327	435,216	1,424	64,013
Sundry payables and accrued expenses	1,077,234	1,347,023	101,260	172,763
	1,665,561	**1,782,239**	**102,684**	**236,776**

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Refer to Note 20 to the Financial Statements for further information regarding foreign currency and interest rate risk in relation to the above.

16. PROVISIONS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Current				
Employee benefits	311,870	200,608	28,849	19,328
Number of employees				
Number of employees at year end	**76**	**65**	**2**	**3**
Movements in provisions				
Employee benefits:				
Opening balance	200,608	145,018	19,328	21,698
Additional provisions	416,293	246,726	25,753	62,429
Amounts used	(305,031)	(191,136)	(16,232)	(64,799)
Closing balance	**311,870**	**200,608**	**28,849**	**19,328**

17. FINANCIAL LIABILITIES

Current				
Lease incentive	12,513	20,280	12,513	20,280
Convertible note*	1,505,176	1,475,396	1,505,176	1,475,396
	1,517,689	**1,495,676**	**1,517,689**	**1,495,676**
Non-Current				
Lease incentive	**–**	**20,139**	**–**	**20,139**

* The Company issued a convertible note in the amount of $1,420,000 that accrues interest at 2.0% per annum (capitalised monthly in arrears). The conversion price is $1.00 per ordinary share in the capital of the Company. The principal and capitalised interest on the convertible note is repayable to the holder on the second anniversary of the date of issue of the convertible note. The Company issued the convertible note in favour of Apple Tree Partners as part of the consideration for the acquisition of HeartWare, Inc. As at the reporting date, the Company has received written confirmation that Apple Tree Partners has no present intention to require repayment of the convertible note.

18. ISSUED CAPITAL

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
248,100,277 (2006: 186,262,597) fully paid ordinary shares	**94,647,107**	**59,673,110**	**140,230,916**	**105,256,919**

	Issue Price	No. of Shares	$
Movements during the year ended 31 December 2007			
Opening balance as at 1 January 2007		186,262,597	59,673,110
Share issue on exercise of options granted under the Company's ESOP on 17 January 2007	$0.20	40,000	8,000
Share issue under shareholder share purchase plan on 17 July 2007	$0.60	2,002,933	1,201,760
Share issue pursuant to a private placement on 26 July 2007	$0.60	59,706,747	35,824,048
Share issue on exercise of options granted under the Company's ESOP on 12 December 2007	$0.20	88,000	17,600
Issue costs relating to private placement	–	–	(2,077,411)
Closing balance as at 31 December 2007		**248,100,277**	**94,647,107**

Share options

For information relating to the HeartWare Limited Employee Share Option Plan ("ESOP") and the Performance Rights Plan, including details of grants, exercises and lapses during the financial year and the equity at year-end, please refer to Note 25 to the Financial Statements.

For information relating to share options issued to directors and other key management personnel during the financial year, please refer to Note 26 to the Financial Statements.

Capital Management

When managing capital, the Company's objective is to ensure that the Consolidated Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Company also aims to maintain a capital structure that ensures the lowest cost of capital available to the Consolidated Group.

The Company will need to raise capital in the future and it intends to do so via the issue of new ordinary shares in the Company at the appropriate time. The Company does not presently intend to raise funds via the use of debt instruments, however the Company monitors the market constantly and may change its approach in this regard depending on developments therein.

The Consolidated Group is not subject to any externally imposed capital requirements.

19. RESERVES

(a) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of HeartWare, Inc.

(b) Share options reserve

The share options reserve records items recognized as expense in relation to the calculated value of vested options granted under the Company's ESOP and the PRP.

(c) Exercised options reserve

The exercised options reserve records items recognized as expense items in relation to the calculated value of options that have been exercised.

20. FINANCIAL INSTRUMENTS

(a) Financial risk management

The Consolidated Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, leases and the convertible note (issued on 27 January 2005).

(b) Foreign currency risk

The Consolidated Group is exposed to fluctuations in foreign currencies arising from the fact that the bulk of the Consolidated Group's expenditure is incurred in U.S. dollars, which is not the same as the Consolidated Group's measurement currency (being Australian dollars).

During the year, the Consolidated Group purchased and held US dollars in order to minimise its foreign currency risk associated with its short-term US dollar commitments.

Details regarding foreign exchange risk exposure is set out in Note 3 to the Financial Statements.

(c) Liquidity risk

Liquidity risk represents the ability of the Consolidated Group to meet is obligations as and when they fall due.

The Consolidated Group manages liquidity risk by monitoring forecast cash flows.

(d) Credit risk

Credit risk represents the loss that would be recognized if counter-parties failed to perform as contracted.

Recognized financial instruments

The credit risk on financial assets, excluding investments, of the Consolidated Group that have been recognized in the Income Statement is the carrying amount, net of any provision for doubtful debts. The Consolidated Group is not materially exposed to any individual overseas country or individual customer.

20. FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk

The Consolidated Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities is set out below:

	Fixed interest rate maturing				
Consolidated Group	Within Year $	Over 1 to 5 years $	Floating interest rate $	Non-interest bearing $	Total $
2007 Financial Year					
Financial assets					
Cash and cash equivalents	–	–	1,157,850	500	1,158,350
Deposit at call	30,915,592	–	–	–	30,915,592
Receivables	–	–	–	180,035	180,035
Other current assets	158,006	–	–	547,779	705,785
	31,073,598	**–**	**1,157,850**	**728,314**	**32,959,762**
Weighted Average Effective Interest Rate	**5.32%**	**–**	**4.63%**	**–**	**–**
Financial liabilities					
Trade payables	–	–	–	1,665,561	1,665,561
Provisions	–	–	–	311,870	311,870
Borrowings	**1,505,176**	**–**	**–**	**12,513**	**1,517,689**
	1,505,176	**–**	**–**	**1,989,994**	**3,495,120**
Weighted Average Effective Interest Rate	**2.0%**	**–**	**–**	**–**	**–**
2006 Financial Year					
Financial assets					
Cash and cash equivalents	–	–	915,576	500	916,076
Deposit at call	20,185,617	–	–	–	20,185,617
Receivables	–	–	–	315,314	315,314
Other current assets	**158,006**	**–**	**–**	**290,501**	**448,507**
	20,343,623	**–**	**915,576**	**606,315**	**21,865,514**
Weighted Average Effective Interest Rate	**5.44%**	**–**	**4.04%**	**–**	**–**
Financial liabilities					
Payables	–	–	–	1,782,239	1,782,239
Provisions	–	–	–	200,608	200,608
Borrowings	1,495,676	–	–	–	**1,495,676**
	1,495,676	**–**	**–**	**1,982,847**	**3,478,523**
Weighted Average Effective Interest Rate	**2.00%**	**–**	**–**	**–**	**–**

Details regarding interest rate risk exposure is set out in Note 3 to the Financial Statements.

20. FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk (continued)

Parent entity	Fixed interest rate maturing: Within Year $	Fixed interest rate maturing: Over 1 to 5 years $	Floating interest rate $	Non-interest bearing $	Total $
2007 Financial Year					
Financial assets					
Cash and cash equivalents	–	–	308,672	500	309,172
Deposit at call	30,916,093	–	–	–	30,916,093
Receivables	–	–	–	191,062	191,062
Other current assets	158,006	–	–	86,670	244,676
	31,074,099	–	308,672	278,232	31,661,003
Weighted Average Effective Interest Rate	5.32%	–	4.35%	–	–
Financial liabilities					
Payables	–	–	–	102,684	102,684
Provisions	–	–	–	28,849	28,849
Borrowings	1,505,176	–	–	12,513	1,517,689
	1,505,176	–	–	144,046	1,649,222
Weighted Average Effective Interest Rate	2.00%	–	–	–	–
2006 Financial Year					
Financial assets					
Cash and cash equivalents	–	–	81,456	500	81,956
Deposit at call	20,185,617	–	–	–	20,185,617
Receivables	–	–	–	166,658	166,658
Other current assets	158,006	–	–	78,344	236,350
	20,343,623	–	81,456	245,502	20,670,581
Weighted Average Effective Interest Rate	3.90%	–	2.45%	–	–
Financial liabilities					
Payables	–	–	–	236,776	236,776
Provisions	–	–	–	19,328	19,328
Borrowings	1,495,676	–	–	–	1,495,676
	1,495,676	–	–	256,104	1,751,780
Weighted Average Effective Interest Rate	2.00%	–	–	–	–

(f) Net fair values

The net fair value of cash and cash equivalents and non-interest bearing liabilities of the Consolidated Group approximates their carrying value.

Net fair values of monetary financial assets and liabilities are based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rate for assets and liabilities with similar risk.

Aggregate net fair values are materially in line with the carrying amounts for the HeartWare Group's financial assets and financial liabilities at balance date.

21. CAPITAL AND LEASING COMMITMENTS

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Capital expenditure commitments contracted for:				
Plant and equipment purchases	**31,543**	**73,043**	–	–
Capital expenditure commitments payable:				
Not later than 12 months	**110,321**	**73,043**	–	–
Operating lease commitments				
Non-cancellable operating leases contracted for but not capitalised in the Financial Statements				
Payable – minimum lease payments:				
Not later than 12 months	206,309	910,343	44,256	183,593
Between 12 months and 5 years	189,209	404,183	–	160,805
	395,518	**1,314,526**	**44,256**	**344,398**

The Consolidated Group leases property under non-cancellable operating leases expiring for periods of up to twenty months. Leases generally provide the relevant entity with a right of renewal. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or criteria.

22. CONTINGENT LIABILITIES

As set out in the Company's prospectus (dated 17 December 2004), the Consolidated Group and the parent entity has the following contingent liabilities resulting from the acquisition by HeartWare, Inc. of a business that previously held the Company's technology:

(a) a milestone payment of US$750,000 within 6 months of the date when the first circulatory assist device is approved for sale in Europe, provided that the Company has a least US$15,000,000 in cash on hand* and, if the Company does not have $15,000,000 in cash on hand at that time, then the payment is deferred until such time that the Company has $15,000,000 in cash on hand;

(b) a milestone payment of US$1,250,000 when the first circulatory assist device is approved for sale in the US, provided that the Company has at least US$25,000,000 in cash on hand* and, if the Company does not have $25,000,000 in cash on hand at that time, then the payment is deferred until such time that the Company has $25,000,000 in cash on hand; and

(c) a special payment of up to US$500,000 upon a sale of HeartWare, Inc. if such sale generated proceeds in excess of the aggregate liquidation preferences of all of HeartWare, Inc.'s then outstanding preferred stock.

Except as stated above, the Company is not aware of any contingent liabilities at the date of the Directors' Report.

* The date when this will occur, and the Company's cash balance at the relevant time, is indeterminate at this stage and, as such, no provision is made for this liability.

23. CASH FLOW INFORMATION

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Reconciliation of Cash Flow from Operations with Loss After Income Tax				
(Loss) after income tax	(26,376,647)	(23,250,653)	(5,592,329)	(5,223,804)
Non-cash flows in (Loss):				
Depreciation	485,182	349,733	23,519	26,303
Amortization	325,699	397,088	37,105	73,956
Share Based Payment	2,762,319	1,174,620	2,762,319	1,174,620
Loss on disposal of plant and equipment	114,416	17,539	98,883	13,912
Proceeds of sale asset not yet received	–	26,445	–	26,445
Changes in assets and liabilities, net of the effects of the purchase of HeartWare, Inc.:				
Increase/(decrease) in accrued expenses/employee benefits	129,832	55,590	9,521	(2,370)
Decrease/(Increase) in trade and term receivables	204,201	(166)	32,677	(21,388)
Increase/(decrease) in other provisions	234,934	(17,763)	(27,906)	(17,763)
(Decrease)/increase in other creditors	(422,923)	384,282	(164,777)	(36,278)
Increase in interest payable	29,780	29,191	29,780	29,191
Decrease/(increase) in other debtors	175,999	(190,557)	19,639	(20,378)
(Increase)/decrease in interest receivable	(64,899)	13,645	(64,883)	13,645
(Increase)/decrease in prepaid expenses	(267,786)	(108,889)	(1,521)	23,360
Exchange rate adjustment	(81,692)	(66,735)		–
Cash Flow from Operations	**(22,751,585)**	**(21,186,630)**	**(2,837,973)**	**(3,940,549)**
Reconciliation of Cash:				
Cash – Note 8	1,158,350	916,076	309,172	81,956
Deposits at call – Note 8	**30,915,592**	**20,185,617**	**30,916,093**	**20,185,617**
	30,073,942	**21,101,693**	**31,225,265**	**20,267,573**

The Company has provided guarantees and indemnities totalling $258,006 (2006: $258,006) to its bankers in respect to banking facilities provided to the Company.

24. DIRECTOR AND OTHER KEY MANAGEMENT PERSONNEL INFORMATION

(a) Names and positions held of directors and other key management personnel in office at anytime during the financial year are as follows:

Directors

Name	Position	Entity	Tenure
Mr R B Thomas	Non-executive Chairman	(i)	26 November 2004 – Current
Dr S L Harrison	Non-executive Deputy Chairman	(i)	26 November 2004 – Current
Mr R B Stockman	Non-executive Director	(i)	11 December 2007 – Current
Dr D N Wade	Non-executive Director	(i)	15 December 2004 – Current
Dr C C Bennett	Non-executive Director	(i)	15 December 2004 – Current
Mr D E Godshall	Chief Executive Officer Executive Director	(i), (ii)	18 September 2007 – Current 28 October – Current

Other Key Management Personnel

Name	Position	Entity	Tenure
Mr D J McIntyre	Chief Financial Officer Company Secretary	(i), (ii)	28 February 2006 – Current 28 February 2006 – Current
Mr D A Rowe	Chief Operating Officer	(ii)	17 April 2007 – Current
Mr J A LaRose	Chief Scientific Officer	(ii)	10 July 2003 – Current
Ms J H Foley	Vice President, Clinical & Regulatory	(ii)	2 January 2007 – Current
Ms J E Reedy	Vice President, Sales & Marketing (Former)	(ii)	16 May 2006 – 31 December 2007
Mr J F Schuermann	Vice President, Sales & Marketing	(ii)	4 September 2007 – Current

(i) HeartWare Limited
(ii) HeartWare, Inc.

(b) Director and other key management personnel compensation

The Company has applied the provisions of the Corporations Amendments Regulation 2007 that allow the Company to transfer director and other key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

In accordance with the above, information concerning the compensation for directors and other key management personnel may be found in the Remuneration Report (see Section 4 to Appendix A to the Remuneration Report).

25. SHARE-BASED PAYMENTS

During the financial year, the Company granted options to its employees under the HeartWare Limited Employee Share Option Plan ("ESOP") and the HeartWare Limited Performance Rights Plan ("PRP") as follows:

(a) On 2 January 2007 and following the appointment of Ms Jennifer Foley as Vice President, Clinical & Regulatory Affairs of the Company, 1,000,000 ESOP options were granted to Ms Foley at an exercise price of $1.10 per option, with a further 200,000 ESOP options being granted to another senior appointee on the same terms.

(b) On 26 July 2007 and following shareholder approval, 200,000 ESOP options were granted to Mr Bob Stockman, non-executive director. The exercise price of these options was $0.75 per option.

(c) On 16 November 2007, the Company granted 2.05 million performance rights under the PRP to 11 employees. The exercise price of the performance rights is zero and vesting is subject to various performance hurdles.

(d) On 16 November 2007, the Company granted 2.9 million ESOP options to 31 employees. The exercise price of the ESOP options is $0.75 and vesting is subject to various performance hurdles.

(e) On 16 November 2007, the Company granted 350,000 Incentive Options to two corporate advisers. The exercise price is $0.75.

Each of the options and performance rights referred to above expire on the tenth (10th) anniversary of the respective grant date. All ESOP options and PRP performance rights are unlisted and are not transferable; hold no voting or dividend rights; and, entitle the holder to purchase one ordinary share in the capital of the Company (at the relevant exercise price and subject to performance conditions, if any).

	Consolidated group				Parent entity			
	2007		2006		2007		2006	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at the beginning of the year	20,501,250	0.82	16,145,410	0.64	20,501,250	0.82	16,145,140	0.64
Granted	6,650,000	0.58	10,116,324	1.13	6,650,000	0.58	10,116,324	1.13
Forfeited	(190,480)	1.08	(5,349,333)	0.90	(190,480)	1.08	(5,349,433)	0.90
Exercised	(128,000)	0.20	(411,151)	0.34	(128,000)	0.20	(411,051)	0.34
Outstanding at year-end	**26,832,770**	**0.76**	**20,501,250**	**0.82**	**26,832,770**	**0.76**	**20,501,250**	**0.82**
Exercisable at year-end	**9,894,724**	**$0.64**	**5,524,880**	**0.41**	**9,894,724**	**$0.64**	**5,524,880**	**0.41**

25. SHARE-BASED PAYMENTS (continued)

There were 128,000 options exercised during the year ended 31 December 2007. These options had a weighted average share price of $0.20 at exercise date.

The ESOP options outstanding at 31 December 2007 had a weighted average exercise price of $0.64 and a weighted average remaining contractual life of 7.13 years. Exercise prices range from $0.20 to $1.41 in respect of options outstanding at 31 December 2007. The weighted average fair value of the options granted during the year was $0.58.

The PRP performance rights outstanding at 31 December 2007 had a weighted average exercise price of $0.00 and a weighted average remaining contractual life of 9.88 years. Exercise price for these is zero and vesting is subject to satisfaction of various performance hurdles. The weighted average fair value of the performance rights granted during the year was $0.75.

The fair value for ESOP options was calculated by using a Black Scholes option pricing model applying the following inputs:

(a) Weighted average exercise price.

(b) Weighted average life of the option.

(c) Underlying share price.

(d) Expected share price volatility.

(e) Risk free interest rate.

Historic volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the Income Statement is $2,762,319 (2006: $1,174,620) and relates, in full, to equity-settled share-based payment transactions.

The fair value of performance rights granted under the PRP is the share price on the date of grant, being $0.75.

	Consolidated group		Parent entity	
	2007 $	2006 $	2007 $	2006 $
Detail of number of shares issued on exercise of remuneration options during the year:				
Proceeds from shares issued	25,600	139,576	25,600	139,576
Fair value of shares issued during the year	93,440	352,057	93,440	352,057

No amount remains unpaid on any of the shares referred to above.

Fair value of shares issued during the year at their issue date is estimated to be the market price of shares of HeartWare Limited on the Australian Securities Exchange as at closing of trading on the issue dates.

Fair value of shares issued during the year at their issue date is estimated to be the market price of shares of HeartWare Limited on the Australian Securities Exchange as at closing of trading on the issue dates. The fair value of shares at date of issue was:

Issue date	Fair value	Number of shares issued
17 January 2007	33,600	40,000
12 December 2007	59,840	88,000
	93,440	**128,000**

Details of share options outstanding as at end of the reporting period are set out in the Directors' Report.

26. COMPENSATION OPTIONS FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

The Company has applied the provisions of the Corporations Amendments Regulation 2007 that allow the Company to transfer director and other key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

In accordance with the above, information concerning the compensation options for directors and other key management personnel may be found in the Remuneration Report (see Section 2 to Appendix A to the Remuneration Report).

27. OPTION HOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

	Note	Balance 1 January 2007	Granted as compen-sation	Net change	Options exercised	Balance 31 December 2007	Vested 31 December 2007 Total	Not exer-cisable	Exer-cisable
Parent Entity Directors									
Thomas, R	(a), (b)	1,264,204	–	–	–	1,264,204	782,102	–	782,102
Harrison, S		–	–	–	–	–	–	–	–
Stockman, R	(b)	–	200,000	–	–	200,000	–	–	–
Wade, D	(a)	250,000	–	–	–	250,000	200,000	–	200,000
Bennett, C	(a)	250,000	–	–	–	250,000	200,000	–	200,000
Godshall, D*	(b)	5,581,264	–	–	–	5,581,264	1,395,316	–	1,395,316
Total		**7,345,468**	**200,000**	**–**	**–**	**7,545,468**	**2,577,418**	**–**	**2,577,418**

* On 20 November 2007, the Company announced its intention to seek shareholder approval in 2008 to grant 1.1 million performance rights to Mr Godshall with a zero strike price. No such approval has been obtained, and therefore no performance rights have been issued (or recorded above), at the date of this report.

	Note	Balance 1 January 2007	Granted as compen-sation	Net change	Options exercised	Balance 31 December 2007	Vested 31 December 2007 Total	Not exer-cisable	exer-cisable
Other Key Management Personnel									
Rowe, D	(b), (c)	1,200,000	200,000	–	–	1,400,000	300,000	–	300,000
LaRose, J	(b), (c)	2,504,204	300,000	–	–	2,804,204	1,972,102	–	1,972,102
McIntyre, D	(b), (c)	1,728,408	400,000	–	–	2,128,408	814,204	–	814,204
Foley, J	(b), (c)	–	1,200,000	–	–	1,200,000	–	–	–
Reedy, J	(b), (c)	1,346,306	–	–	–	1,346,306	623,153	–	623,153
Schuermann, J	(b), (c)	–	1,000,000	–	–	1,000,000	–	–	–
Total		**6,778,918**	**3,100,000**	**–**	**–**	**9,878,918**	**3,709,459**	**–**	**3,709,459**

Notes:

(a) The options refer to Incentive Options, further details of which are set out below under the heading "Options". In relation to Mr Thomas, 764,204 of his options were granted under the Company's ESOP with the balance comprising Incentive Options.

(b) The options refer to performance rights granted under the Company's Performance Rights Plan ("PRP"). Ms Foley's equity includes 1,000,000 options granted under the Company's ESOP with the remainder constituting performance rights. Mr Schuermann's equity includes 900,000 options granted under the Company's ESOP with the remainder constituting performance rights.

(c) In accordance with the terms of the Company's ESOP Rules and the PRP Rules, each option/performance right entitles the holder to purchase one ordinary share at the relevant exercise price (with the strike price under the PRP being zero) and subject to satisfaction of performance hurdles, if any.

Net Change refers to those options that have been forfeited or cancelled in accordance with the terms of the Company's ESOP Rules.

28. COMPENSATION FOR DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

The Company has applied the provisions of the Corporations Amendments Regulation 2007 that allow the Company to transfer director and other key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

In accordance with the above, information concerning the compensation for directors and other key management personnel may be found in the Remuneration Report (see Section 4 to Appendix A to the Remuneration Report).

29. SHAREHOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

	Note	Balance 1 January 2007	Granted as Remuneration	Options Exercised	Net Change* Other	Balance 31 December 2007
Parent Entity Directors						
Thomas, R	(a)	1,758,000	–	–	600,000	2,358,000
Harrison, S	(b)	91,588,782	–	–	–	91,588,782
Stockman, R		–	–	–	300,000	300,000
Wade, D	(c)	1,000,000	–	–	8,333	1,008,333
Bennett, C		–	–	–	–	–
Godshall, D		37,305	–	–	63,000	100,305
Other Key Management Personnel						
Rowe, D		10,000	–	–	–	10,000
LaRose, J		–	–	–	–	–
McIntyre, D		28,000	–	–	–	28,000
Foley, J		–	–	–	–	–
Reedy, J		–	–	–	–	–
Schuermann, J		–	–	–	–	–
Total		**94,422,087**	**–**	**–**	**971,333**	**95,393,420**

* Net Change Other refers to shares purchased or sold during the year.

(a) Mr Thomas owns shares in the Company through a variety of direct and indirect holdings. The bulk of Mr Thomas' indirect shareholding is held by himself and his wife (Mrs Kyrenia Thomas) as trustee of the Robert Thomas Superannuation Fund. The options referred to above include 500,000 Incentive Options and 764,204 ESOP options, further details of which are set out below under the heading "Options".

(b) As noted elsewhere in this Directors' Report, Dr Harrison is the Managing General Partner of Apple Tree Partners I LP ("Apple Tree Partners"), the Company's largest shareholder. To this end, the shares set out in the table above refer to shares owned by Apple Tree Partners.

Under Dr Harrison's employment arrangement with Apple Tree Partners, he is prohibited from having an interest, directly or indirectly, in any entity in which Apple Tree Partners has invested. For this reason, Dr Harrison has no share or option holding in HeartWare (other than indirectly via Apple Tree Partners).

It should also be noted that, in connection with the acquisition of HeartWare, Inc. by HeartWare Limited, the Company issued a convertible note in favour of Apple Tree Partners in the amount of $1,420,000 which will accrue interest at 2.0% per annum (capitalised monthly in arrears). The conversion price is $1.00 per ordinary share. The principal and capitalised interest on the convertible note is repayable on the secondary anniversary of the date of issue of the convertible note (being 24 January 2007). As at the reporting date, the Company has received written confirmation that Apple Tree Partners has no present intention to require repayment of the convertible note. As Managing General Partner of Apple Tree Partners and for the purposes of the Corporations Act 2001, Dr Harrison is deemed to have an indirect interest in this convertible note.

(c) The shares are held by Nickeli Holdings Pty Limited as trustee of the Wade Family Superannuation Fund. The options refer to Incentive Options, further details of which are set out below under the heading "Options".

Remuneration Benefits

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Consolidated Group during the year and there were no material contracts involving Directors' interests subsisting at anytime. At 31 December 2007, there were no amounts receivable from or payable to directors and their director-related entities.

30. RELATED PARTIES

On 26 July 2007, Mr Robert Stockman was granted 200,000 options under the Company's ESOP with an exercise price of $0.75 per option.

On 26 July 2007, Mr Stockman and Mr Thomas each subscribed for 500,000 shares under the Company's placement with an exercise price of $0.60 per share.

Shareholders at an Extraordinary General Meeting held on 26 July 2007 approved all of the above.

Except as stated above, there were no transactions between the Consolidated Group and related parties during the year.

31. EVENTS SUBSEQUENT TO BALANCE DATE

Other than the matters disclosed elsewhere in this Annual Report, there has not arisen in the interval between the end of the reporting period and the date of the Directors' Report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly effect the operations of the Consolidated Group, the results of those operations or the state of affairs of the Consolidated Group.

32. CHANGE IN ACCOUNTING POLICY

(a) Accounting for business combinations

The Consolidated Group changed its accounting policy for the financial year ended 31 December 2007 relating to the acquisition of HeartWare, Inc. by HeartWare Limited in January 2005. This acquisition is a "business combination", the accounting treatment for which is set out in AASB 3: Business Combinations ("AASB 3").

The business combination whereby HeartWare Limited acquired HeartWare, Inc. falls within the definition of a "business combination involving entities under common control" and this type of business combination is specifically scoped out of AASB 3. Further, there is presently no prescribed accounting treatment in Australia for business combinations involving entities under common control.

As a result of being scoped out of AASB 3 and in the absence of an Australian accounting standard governing common control transactions, the Consolidated Group considered the requirements of AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors ("AASB 108") in relation to the first-time adoption of Australian Equivalents to International Financial Reporting Standards for the year ended 31 December 2006 and determined to continue to apply the accounting policy that it had previously adopted for the year ended 31 December 2005 (under previous Australian GAAP), being the purchase method by the legal parent, as the appropriate accounting policy for business combinations involving entities under common control.

For the half-year ended 30 June 2007 and the year ended 31 December 2007, the Consolidated Group has continued to account for the acquisition of HeartWare, Inc. by HeartWare Limited as a business combination involving entities under common control but it has changed its accounting policy, as allowed under AASB 108, and has now recorded the transaction at the historical cost of the assets and liabilities of HeartWare, Inc. at the time of the acquisition (being 24 January 2005). As a result, the Consolidated Group no longer recognises intangible assets or goodwill as a consequence of the transaction.

It should be noted that the above revised approach has been taken in order to provide more relevant and reliable information to users on the basis that this approach is consistent with the accounting policy as it applies to the Company's separate US financial statements which are filed with United States Securities & Exchange Commission and which are prepared in accordance with applicable accounting standards in the United States.

In changing the Australian accounting policy such that it is consistent with the US accounting policy, the Board of Directors believe that this will reduce investor confusion and better align the Consolidated Groups' financial results as reported in both Australia and the United States.

The aggregate effect of the change in accounting policy on the financial statements is as follows (no taxation effect results from these changes):

32. CHANGE IN ACCOUNTING POLICY (continued)

(a) Accounting for business combinations (continued)

	Previously stated	Adjustment	Revised
Consolidated Income Statement for 12 Months Ended 31 December 2006			
Depreciation and amortisation expense ($)	(2,911,525)	2,211,235	756,160
Loss before income tax expense ($)	(25,461,888)	2,211,235	(23,250,653)
Basic and diluted earnings per share (cents per share)	(14.6)	1.3	(13.3)
Consolidated Balance Sheet as at 31 December 2006			
Intangible assets ($)	43,806,476	(40,924,705)	2,881,771
Issued capital ($)	(105,256,919)	45,583,809	(59,673,110)
Reserves ($)	(3,270,362)	(236,632)	(3,506,994)
Retained earnings ($)	43,211,097	(4,422,472)	38,788,625

(b) Changes to Australian Accounting Standards

The following Australian Accounting Standards have been issued or amended and are applicable to the Parent Entity and Consolidated Group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the Consolidated group
AASB 2007-1	AASB 2: Share-based Payment	No change, no impact	1 March 2007	1 January 2008
AASB 2007-2	Various standards	No change, no impact	1 January 2008	1 January 2008
AASB 2007-3	Various standards	No change, no impact	1 January 2009	1 January 2009
AASB 2007-4	Various standards	No change, no impact	1 July 2007	1 January 2008
AASB 2007-6	Various standards	No change, no impact	1 January 2009	1 January 2009
AASB 2007-7	Various standards	No change, no impact	1 July 2007	1 January 2008
New Standard	AASB 8: Operating Segments	No change, no impact	1 January 2009	1 January 2009
Interpretation 11	AASB 2: Share-based payment – Group and Treasury Share Transactions	No change, no impact	1 March 2007	1 January 2008

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the Parent Entity or Consolidated Group.

33. COMPANY DETAILS

The registered office of the Company is:

HeartWare Limited
Level 57
MLC Centre
19–29 Martin Place
SYDNEY NSW 2000

The principal places of business are as follows:

Corporate Offices:
HeartWare Limited
Level 57
MLC Centre
19–29 Martin Place
SYDNEY NSW 2000

Operations Facility:
HeartWare, Inc.
3351 Executive Way
MIRAMAR FLORIDA USA 33025

ASX Additional Information

for the year ended 31 December 2007

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this Annual Report is set out below.

Shareholder information set out below was applicable as at 3 February 2008.

Distribution of equity security holders

	Ordinary Shares		Options (unlisted)	
	Number of holders	Number of shares	Number of holders	Number of options
1 – 1,000	102	81,098	–	–
1,001 – 5,000	286	924,904	–	–
5,001 – 10,000	268	2,329,433	–	–
10,001 – 100,000	601	21,610,054	39	1,645,960
100,001 – and over	122	223,154,788	43	25,186,810
	1,379	**248,100,277**	**82**	**26,832,770**

The number of shareholders holding less than a marketable parcel was 19.

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held %
1 Apple Tree Partners I L P	91,588,782	36.92
2 HSBC Custody Nominees (Australia) Limited – GSCO ECSA	20,667,965	8.33
3 HSBC Custody Nominees (Australia) Limited – A/C 2	14,846,843	5.98
4 National Nominees Limited	14,301,102	5.76
5 ANZ Nominees Limited <Cash Income A/C>	11,299,388	4.55
6 J P Morgan Nominees Australia Limited	9,714,776	3.92
7 Mr Jon B Platt	8,000,000	3.23
8 HSBC Custody Nominees (Australia) Limited	6,157,574	2.48
9 Merrill Lynch (Australia) Nominees Pty Limited	4,449,259	1.79
10 Citicorp Nominees Pty Limited	3,123,728	1.26
11 Bond Street Custodians Limited <Macquarie Smaller Co's A/C>	2,583,333	1.04
12 Asia Union Investments Pty Limited	2,061,359	0.83
13 Mr Matthew Rosenthal	1,777,947	0.72
14 Warman Investments Pty Ltd	1,650,000	0.67
15 Moore Family Nominee Pty Ltd <moore Family Super Fund A/C>	1,200,000	0.48
16 Equity Trustees Limited <SGH Pi Smaller Co's Fund>	1,192,355	0.48
17 Mr Robert Thomas & Mrs Kyrenia Thomas <Rob Thomas Super Fund A/C>	1,100,000	0.44
18 Nickeli Holdings Pty Limited <Wade Family S/Fund A/C>	1,051,333	0.42
19 Mr Stan Siejka	814,820	0.33
20 Mr Paul Burgess Cave	800,000	0.32
Total	**198,380,564**	**79.96**

Options Unlisted

The Company has 26,832,770 options on issue under both the Company's Employee Share Option Plan ("ESOP") and the Performance Rights Plan. These options are held by 72 individuals with 2 directors holding 6,345,468 options under the ESOP.

The Company has an addition 1.85 million Incentive Options on issue, with 1.5 million of these being held by 3 directors and the balance being held by 2 individuals.

Escrowed Securities

The Company has no escrowed securities.

Substantial Shareholders

The number of shares held by the substantial shareholders and their associated interests are set out below:

	Number of Ordinary Shares	Percentage %
Apple Tree Partners	91,588,782	36.9
Mr Muneer A. Satter	18,450,000	7.44
Pequot Capital Management, Inc.	12,662,135	5.10

Voting Rights

Ordinary shares

The voting rights set out in the Company's Constitution are:

(a) at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney; and

(b) on a show of hands every person who is a member has one vote and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

General Information

The name of the Company Secretary is Mr David John McIntyre.

The address of the principal registered office in Australia is:
Level 57, MLC Centre, 19–29 Martin Place, Sydney NSW 2000, telephone (02) 9238 2064.

Registers of securities are held at Registries Limited, Level 7, 207 Kent Street, Sydney, NSW 2000.

Quotation has been granted for all ordinary shares of the Company (excluding escrowed securities) on all Member Exchanges of the Australian Securities Exchange Limited.

Details on options over unissued shares, including the convertible note, are set out in the Directors Report.

Statement on use of cash and assets in a form readily convertible to cash

Since admission to the Australian Securities Exchange Limited on 31 January 2007, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a manner consistent with its business objectives.

Corporate Directory

Board of Directors

Robert Thomas
Non-Executive Chairman

Douglas Godshall
Chief Executive Officer

Dr Seth Harrison
Non-Executive Director

Robert Stockman
Non-Executive Director

Dr Denis Wade
Non-Executive Director

Dr Christine Bennett
Non-Executive Director

Chief Executive Officer

Douglas Godshall

Registered Address

Level 57
MLC Centre
19–29 Martin Place
SYDNEY NSW 2000
AUSTRALIA
PH: (02) 9238 2064

Share Registry

Registries Limited
Level 2
28 Margaret Street
SYDNEY NSW 2000
AUSTRALIA

Medical Advisory Board

O. Howard "Bud" Frazier, MD (Chairman)
Steven Boyce, MD
Laman Gray Jr., MD
Georg Wieselthaler, MD
Gerry O'Driscoll, MD
Asghar Khaghani, MD

Company Secretary

David McIntyre

US Office

3351 Executive Way
Miramar
MIAMI FLORIDA 33025
UNITED STATES OF AMERICA

Auditors

Grant Thornton NSW
Level 17
383 Kent Street
SYDNEY NSW 2000
AUSTRALIA

DESIGN: COLLIER & ASSOCIATES THE STRATEGIC DESIGN COMPANY # 12880


HeartWare