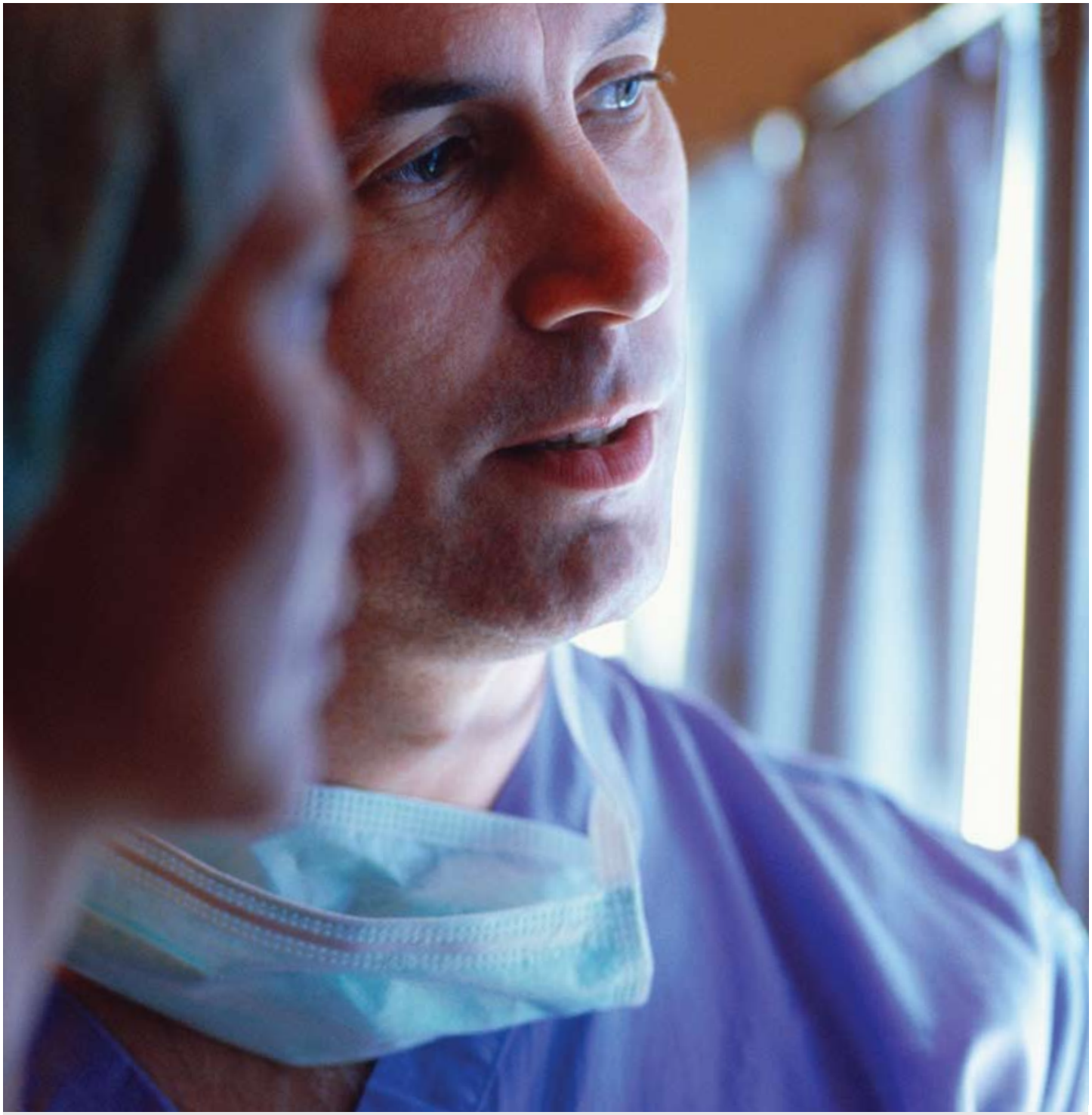


HeartWare

2005 ANNUAL REPORT

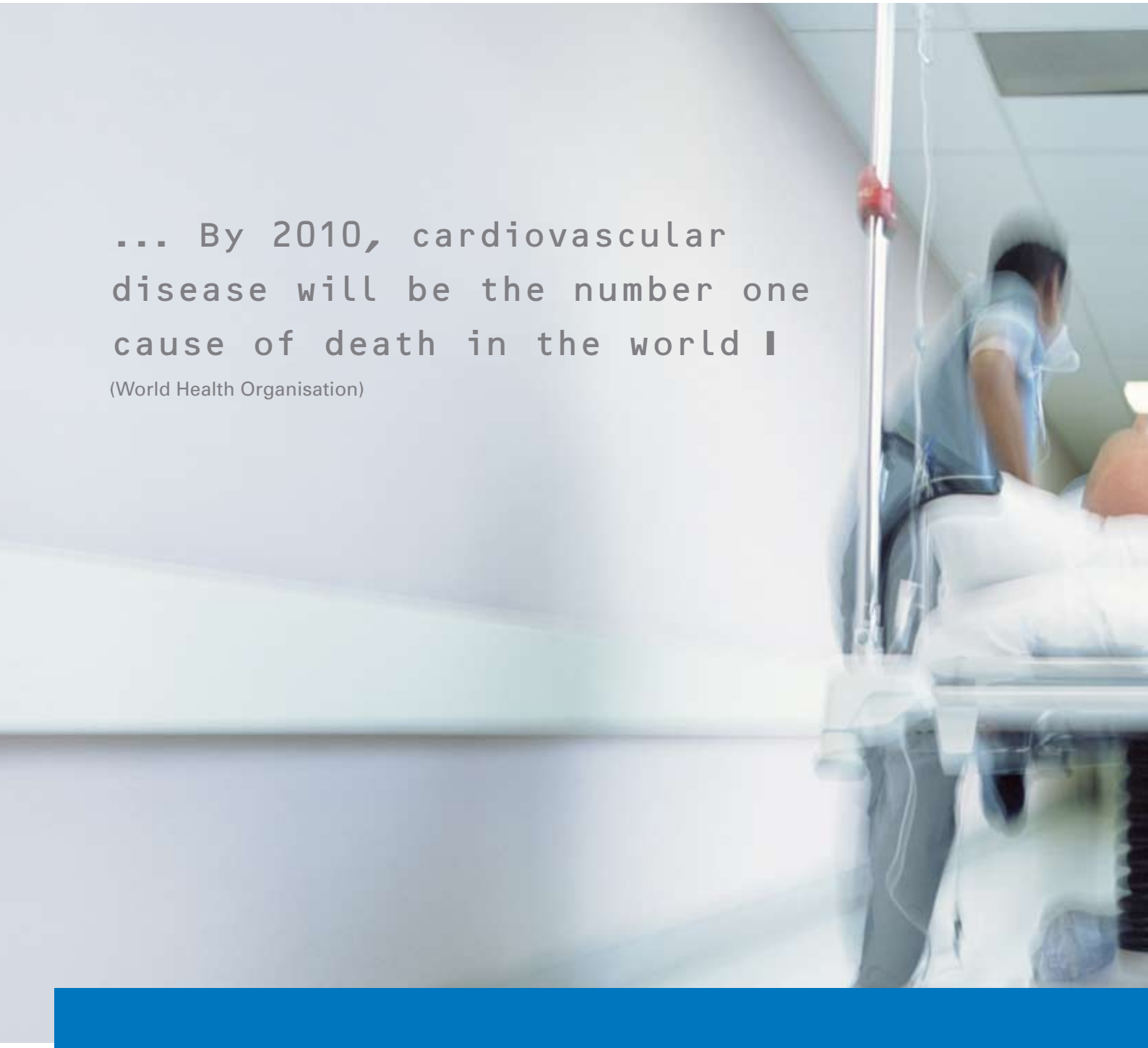
HEARTWARE LIMITED ACN 111 970 257

CONTENTS:

"Being the SMALLEST is very big news!"

…HeartWare is developing a family of permanently implantable blood pumps – known as Left Ventricular Assist Devices ("LVADs") – aimed at treating patients with heart failure. / Heartware has just commenced human implants of its HVAD, the world's smallest "3rd generation" LVAD. / This establishes HeartWare as a leading player in one of the world's largest emerging medical device markets. / This is big!

[actual size]



... By 2010, cardiovascular disease will be the number one cause of death in the world ❙

(World Health Organisation)

"This is a big problem"

Heart failure is one of the leading causes of death in the developed world, affecting over 10 million people globally. / Approximately 1 million patients are at the end stage of the disease. / Heart transplantation is the best available treatment option, but only approximately 3,000 donor hearts are available each year. / Medical therapies have proven largely ineffective. / Device based therapy is recognised as providing the only viable long-term treatment option. / To date, clinical uptake of LVAD therapy has been constrained by the technical limitations of available devices.

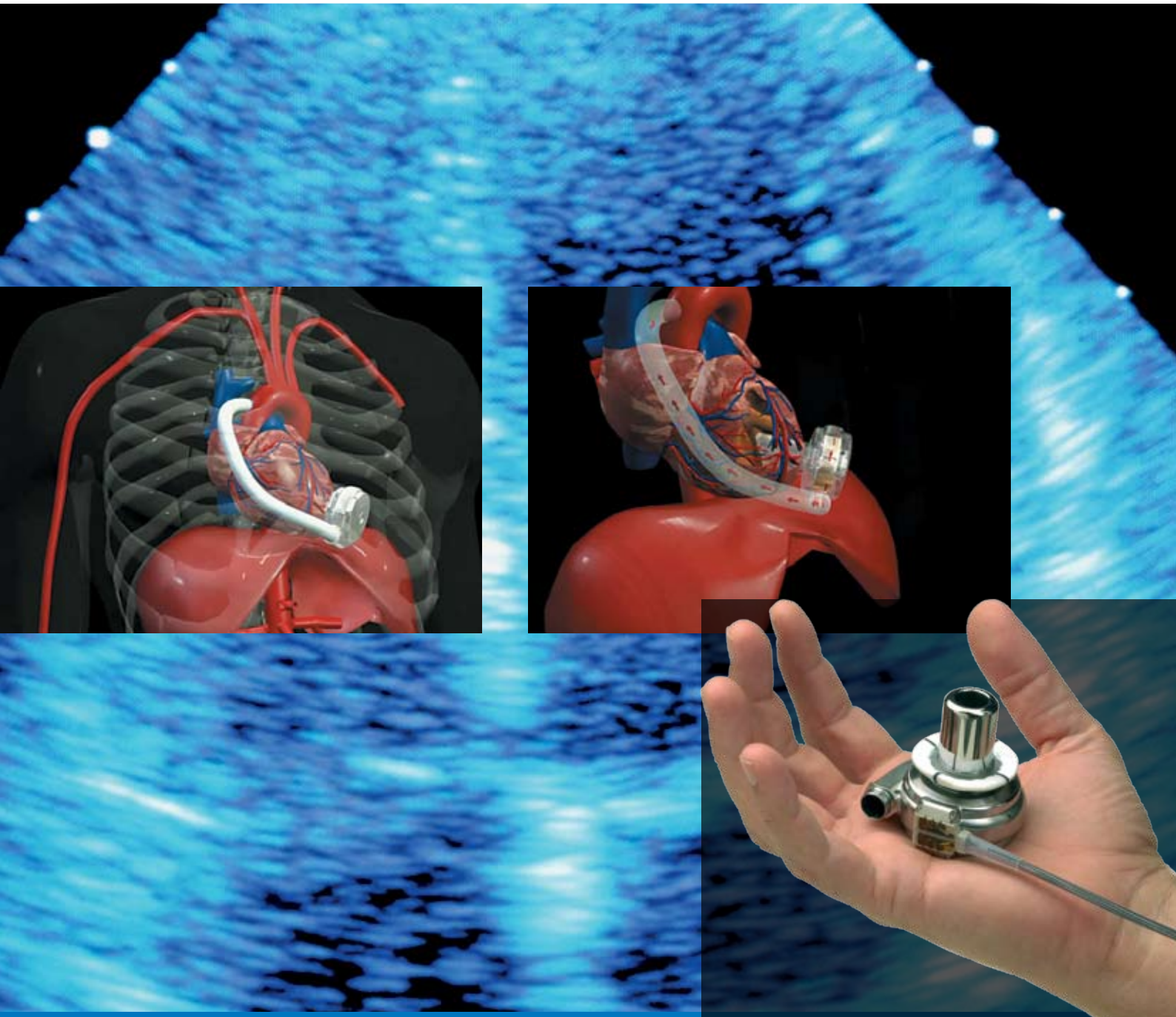
... The introduction of clinically acceptable circulatory assist devices will drive a rapid acceleration in implant rates and unlock a substantial medical device market ▮

"This is a big opportunity"

Of the 1 million patients in end stage heart failure, an estimated 100,000 patients would benefit from a device implant every year. / The LVAD implantation procedure already attracts reimbursement in the US in excess of US$136,000. / Of this amount, approximately US$75,000 is made available for the purchase of the LVAD.

... HeartWare's lead product, the HVAD, is the smallest 3rd generation LVAD and the smallest full output LVAD available ▮

"SMALL ... the big advantage"



The HVAD is the only centrifugal blood pump small enough to be implanted within the pericardial space, directly adjacent to the heart. / This results in a significantly less complex and less invasive surgical procedure than that required for competing devices which are generally implanted in the abdomen. / In addition, the HVAD has demonstrated impressive blood flow characteristics, significantly reducing the risk of blood damage or clotting. / With only one moving part and no mechanical bearings, the HVAD is designed to last in excess of ten years.

... The "next generation" products in HeartWare's pipeline have the potential to drive a paradigm shift in heart failure management ▌

"Small and getting SMALLER"

One of HeartWare's key competitive advantages is its capacity to miniaturise its technology without compromising anticipated clinical performance. / HeartWare's MVAD program aims to deliver a family of LVADs that are a fraction of the size of existing LVADs. / HeartWare's first MVAD prototype, currently in chronic animal studies, is a wearless, full cardiac output axial flow pump approximately one tenth the size of the HVAD. / Further iteration of the technology aims to deliver a device implantable via minimally invasive surgical techniques, and potentially using a catheter based procedure. / These innovations are expected to secure HeartWare's position at the forefront of the circulatory assist sector.

"bringing a BREAKTHROUGH medical device to market"

CHAIRMAN'S REVIEW

Dear Shareholders

I joined HeartWare as Chairman in 2004, as the Company prepared for its Initial Public Offer. It was clear at the time that HeartWare offered extraordinary potential from both a clinical and an investment perspective. The Company was developing leading edge technology aimed at addressing one of the world's largest medical markets. It had ambitious plans and, I believed, the management skill and internal resources to execute effectively. However, the technology remained at a relatively early stage. The Company had not yet begun its formal 'GLP' animal studies, let alone demonstrate the performance of the technology in the clinic.

A little over twelve months later, as we present HeartWare's inaugural Annual Report, your Company is in a fundamentally different position. We still have ambitious objectives and we continue effectively to execute our plans, but no longer are we a pre-clinical technology company. On 22 March 2006, the HVAD was implanted for the first time in a human patient, with very encouraging early results. Having demonstrated the safety of the device in the clinic, the 'technology risk' – so clearly an element of the HeartWare story twelve months ago – has been largely eliminated. No longer is there any question as to whether the HVAD, in its current configuration, will work in humans. Rather, the question has become one of effectively managing the clinical trial, driving patient enrolment and securing the support of leading centres and clinicians around the world. I am very pleased to confirm that on each of these measures, the Company is performing well.

The market for left ventricular assist devices – or LVADs – is at a turning point. LVADs have been widely used over some twenty years to 'bridge' heart failure patients temporarily until a donor heart becomes available. However, it is only in very recent years that the use of these devices for 'destination', or 'lifelong', therapy has gained clinical acceptance. It is widely considered that the introduction of smaller, more reliable and more clinically acceptable devices will drive a rapid acceleration in implant rates. With an estimated 100,000 patients per year who might benefit from an LVAD implant, we are now on the cusp of a potentially very substantial medical device market opportunity.

As the smallest 3rd generation device available, we expect the HVAD to play a significant part in driving the increased adoption of destination therapy. We share the optimism of many of our supporting clinicians as to the prospects of

the device and look forward to its expanded use through the course of 2006 and beyond.

We continue also to allocate substantial resources to our MVAD program, aimed at delivering a family of even further miniaturized devices, implantable by minimally invasive surgery. The clinical introduction of our MVAD device, although still some time off, may be the catalyst for a fundamental shift in the management of heart failure. Through our MVAD program, HeartWare aims to remain at the forefront of innovation in the sector, with a family of devices underpinning significant commercial opportunity over the long term.

In HeartWare's Prospectus of December 2004, the Company committed to an aggressive timeframe for advancing the HVAD to the clinic. The fact that the Company met this important milestone without compromising our MVAD program is testament to the depth of management capability within the Company. We are fortunate, in both our US and Australian offices, to have a cohesive group of skilled and motivated executives, without whose dedication HeartWare could not have achieved the exceptional progress it has over these past twelve months. I wish to extend my personal thanks to Stuart McConchie, our CEO, and all his team for their efforts through the year.

I have also had the privilege over the past twelve months of meeting with all the members of our Medical Advisory Board. One cannot overstate the importance, when bringing a new medical device to market, of having the support and guidance of leading clinicians. We are extremely grateful for the assistance provided to date by each member of our Advisory Board under the leadership of its chairman, Dr Bud Frazier. We look forward to a strong continuing interactive relationship.

Despite the dramatic growth over the past year, HeartWare's expenditure has been within budget and within the Use of Funds detailed in the Prospectus. While the focus has been on rapidly advancing the HVAD to the clinic, we continue to advance the MVAD program and grow our intellectual property portfolio. As foreshadowed in our Prospectus, the Company will seek to raise additional funds during 2006 to fund both the balance of our CE mark trial as well as our US clinical program.

HeartWare's overriding focus is the development of a family of medical devices with the potential to alleviate the suffering of a great many people. We are mindful, however, that without the support of our shareholders this would simply not be possible. We are grateful for your patience and support through the year and will continue to work hard to build the value of your company.

Robert Thomas
Chairman

"Establishing a platform for growth"

CHIEF EXECUTIVE OFFICER'S REPORT

Dear Shareholders

It is with great pleasure that I present the Annual Report for 2005. The past 12 months have been an extremely rewarding period for the team at HeartWare. The period saw the Company undertake a major financing, complete extensive pre-clinical activities and – most significantly – initiate a human clinical trial for our lead device, the HVAD.

The HVAD Clinical Trial

The successful start of the HVAD clinical trial in March 2006 marked the most important event in HeartWare's history. The first implants are being conducted at the Vienna General Hospital in Austria under the leadership of Dr Georg Wieselthaler, Clinical Director of Mechanical Circulatory Support at the University of Vienna. Dr Wieselthaler is the Secretary General of the International Society of Rotary Blood Pumps

The Year in Review

2004

December
HeartWare lodges Prospectus with ASX

Ventracor commences legal action against HeartWare, alleging infringement of two US patents.

2005

January
Successful IPO on the ASX raising AU$32.4 million.

March
Start of the GLP study for the HVAD at the Texas Heart Institute. The study requires implantation of the device in six sheep, each for a period of 90 days.

April
Completion of executive recruitment, with experienced Chief Financial Officer, Chief Operations Officer, VP Clinical Affairs and Director Corporate Development joining the team.

July
Two HVAD's implanted in a calf at Texas Heart Institute, demonstrating the capacity of the device to provide "biventricular" support.

August
HeartWare files a comprehensive defence to the Ventracor legal action and asserts a series of counter claims.

August
Commencement of animal trials for the first MVAD prototype – a miniaturised, full output, "wearless" axial flow pump with a volume one tenth that of the HVAD.

September
Professor Gerry O'Driscoll joins the HeartWare Medical Advisory Board. Professor O'Driscoll is Medical Head of West Australian Advanced Heart Failure and Cardiac Transplant Services.

October
Completion of GLP Animal Studies for the HVAD. The study was conducted without the use of anti-coagulants. Pathological analysis confirms that levels of haemolysis are minimal and that there is no evidence of thrombosis.

October
Medical Advisory Board reviews pathology report from the GLP study and endorses HeartWare's decision to progress the HVAD to the clinic.

and is recognized as one of the leading surgeons in the field.

The implants now underway in Vienna form part of a combined European and Australian clinical trial aimed at gaining CE mark for the HVAD device. The trial calls for the implantation of the HVAD in 20 advanced heart failure patients. The endpoint of the study is survival to 180 days or cardiac transplantation. A minimum of four leading international centres will be participating in the trial, including Vienna General Hospital (Austria), Royal Perth Hospital (Australia), Hannover Medical Centre (Germany) and Harefield Hospital (UK). We expect implants to be underway at all centres during the first half of 2006.

Our objective is to complete the enrolment of all 20 patients in the trial before the end of 2006, allowing submissions for CE mark in early 2007. This is expected to lead to European and Australian regulatory approval and subsequent commercial sales in Europe and Australia during the third quarter of 2007.

Implants in the USA

In parallel with the CE mark trial, HeartWare aims to begin an implant program in the US late in 2006, or in early 2007. The Company expects to apply for an IDE (Investigational Device Exemption) from the US FDA by the fourth quarter of 2006 with a view to initiating implants in the US by the end of the year, subject to FDA approvals. These US implants will form part of the FDA-mandated feasibility study, involving ten patients at up to five hospitals. Upon completion of the feasibility study, HeartWare will commence a pivotal clinical trial in the US for both 'bridge to transplant' and 'destination therapy' indications.

Our Next Generation Products

One of HeartWare's primary corporate strategies has been to avoid the pitfalls which are associated with single product companies. While we believe that in the HVAD we have the world's leading 3rd generation Left Ventricular Assist Device, we continue to devote significant

November
Settlement of dispute with Ventracor. The settlement takes the form of a mutual "covenant not to sue", with no royalty or monetary consideration payable.

December
Mr Asghar Khaghani joins the HeartWare Medical Advisory Board. Mr Khaghani is Consultant Cardiac Surgeon at Harefield Hospital in the UK.

December
Ethics Committee Approval from Vienna General Hospital to commence implants. Submissions made to Austrian Ministry of Health.

2006

January
Surgical Training conducted at the Texas Heart Institute. The training is led by Professor O. Howard "Bud" Frazier, Chief of Transplant Services and Chairman of

cont...
HeartWare's Medical Advisory Board. The training is attended by the surgical teams from Royal Perth Hospital, the Vienna General Hospital, Hannover Medical Centre and Harefield Hospital.

January
Regulatory approval received from the Austrian Ministry of Health to commence HVAD implants in Austria.

February
Ethics Committee Approval from Royal Perth Hospital. Submissions made to the Therapeutic Goods Administration (TGA).

February
Regulatory approval received from the TGA to commence HVAD implants in Australia.

March
Successful first human implant, carried out by Dr Georg Wieselthaler at the Vienna General Hospital in Austria.

April
Successful completion of first series of 30 day animal studies for the MVAD.

resources to developing our 'next generation' technologies.

HeartWare's MVAD program (for 'Miniaturized' VAD) aims to develop a family of miniaturized devices, capable (like the HVAD) of providing full cardiac support, but with a size a fraction that of current devices. Our MVAD prototype has completed a series of acute animal studies and has commenced a series of "chronic" animal tests, during which the device performance is monitored over implant periods of thirty days and beyond.

The current MVAD prototype is approximately one tenth the size of our HVAD. Further iteration of the technology is expected to deliver a device small enough to be implanted by minimally invasive surgical techniques, potentially using a catheter based approach.

Based on the current rate of development, it may be possible to initiate human trials for the MVAD in as little as two years from now. The introduction of a catheter-based permanently implantable VAD will have a fundamental impact on the management of heart failure and represents significant commercial potential for HeartWare. While this program is still at a relatively early stage, we are extremely encouraged by results so far and expect to accelerate development through the course of 2006.

The HeartWare Team

At the time of HeartWare's IPO in January 2005, our lead product – the HVAD – remained in pre-clinical development. It is a great credit to the team at HeartWare that in the space of under 12 months, the device was advanced through pre-clinical testing, regulatory submissions and into clinical trials. This achievement is testimony to the exceptional talent and dedication of the entire HeartWare team and I wish to express my gratitude for their efforts through the year as well as to the Board of Directors for their support.

I also extend my thanks to all members of our Medical Advisory Board. We are extremely fortunate to have the counsel and support of this group of internationally recognized clinicians, each of whom has contributed time and effort to help guide HeartWare's activities. We look forward to continuing this close interaction as we advance through our clinical trial over coming months.

Positioned for Success

Over the period since our Initial Public Offering, HeartWare has met or exceeded all the near term milestones to which we committed at that time. In so doing we have established a strong platform from which to build the Company to the next level. It is our objective over the coming two years to establish and consolidate a leading position in the rapidly evolving market for circulatory assist devices. With our lead device now firmly in clinical trials and our next generation products advancing rapidly towards the clinic, we remain extremely well positioned.

Finally I would like to join our Chairman in thanking our shareholders for their support over the past year. We will continue to work hard to ensure that we build on the achievements of 2005 and we look forward to an exciting year ahead.

Stuart McConchie
Chief Executive Officer

"The HeartWare opportunity"

HEART FAILURE

Heart failure results from the progressive deterioration of the pumping function of the heart, resulting in its inability to meet the metabolic demands of the body. While certain symptoms associated with the disease can be treated, in general, the underlying functional impairment of the heart cannot. The one year survival rate for severe heart failure patients is approximately 25%.

A commonly accepted method for categorising chronic heart failure is the New York Heart Association Classification, which identifies four stages in the progression of the condition, 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 annually. Across the 'developed world' some ten million patients suffer the disease. Of these, approximately one million patients have reached 'Class IV', the end-stage of the condition.

Heart transplantation remains the 'gold standard' of treatment for patients in advanced heart failure. However, with approximately 3,000 donor hearts becoming available each year, transplantation is not an available option for the vast majority of patients. While various drug based therapies are helpful in slowing the progression of the disease, drugs are generally ineffective in treating patients at an advanced stage of the condition.

Class I (least severe cases)	Class II	Class III	Class IV (most severe cases)
• 40% of patients • No physical limitation • Little to no drug therapy	• 25% of patients • Some physical limitation • Drug therapy	• 25% of patients • Marked limitation of activity • Drug therapy, biventricular pacing, or surgery	• 10% of patients • Approximately 1 million patients in the developed world • Symptoms at rest • Candidates for transplant and LVADs

Heart failure affects an increasing number of people every year. In the US it is Medicare's greatest area of healthcare-related spending. With few satisfactory treatment options available, the disease remains one of the largest unmet medical needs in the developed world.

The LVAD 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. The market opportunity arising from this 'bridge to transplant' application is, however, constrained by the relatively small number of donor hearts – approximately 3,000 per year worldwide.

The more significant opportunity is that of 'Destination Therapy' – the permanent or 'lifelong' use of circulatory assist devices in patients suffering late-stage heart failure. Of the one million patients in the end stage of the disease, industry estimates suggest a population of some 100,000 patients every year who might benefit from a device implant.

The clinical viability of mechanical assist devices as a long-term treatment option was firmly established in 2001 through a landmark clinical trial known as 'REMATCH' - for 'Randomized Evaluation of a Mechanical Assistance Device for the Treatment of Congestive Heart Failure.' The trial compared the use of a mechanical assist device (the HeartMate XVE™ from Thoratec Corporation) against the use of maximal medical therapy. The results demonstrated a meaningful survival benefit and improved quality of life for patients supported by the device. This led to the US FDA approving the HeartMate XVE™ for destination therapy and the US authorities approving reimbursement for the procedure.

The procedure currently attracts reimbursement of a minimum US$136,000. Of this, approximately US$75,000 is for purchase of the device.

Following REMATCH, the market opportunity for advanced LVAD technologies has been firmly established:

- A target population of some 100,000 heart failure patients per year with very limited treatment options;
- Clinical validation of device therapy as a superior treatment option relative to drugs;
- A demonstrated willingness by key regulatory bodies to approve appropriate devices for lifelong therapy;
- An attractive reimbursement regime already established in the world's largest market

The market, however, remains in its infancy, with only some two thousand patients implanted each year. Market uptake has been constrained by the absence of available devices with the requisite clinical characteristics to justify their widespread use. The introduction of improved second generation devices (such as Thoratec's HeartMate II™ and Jarvik Heart's Jarvik2000™) and superior third generation products such as HeartWare's HVAD are expected to drive a rapid acceleration in implant rates and to unlock a significant medical device market.

The Competitive Landscape

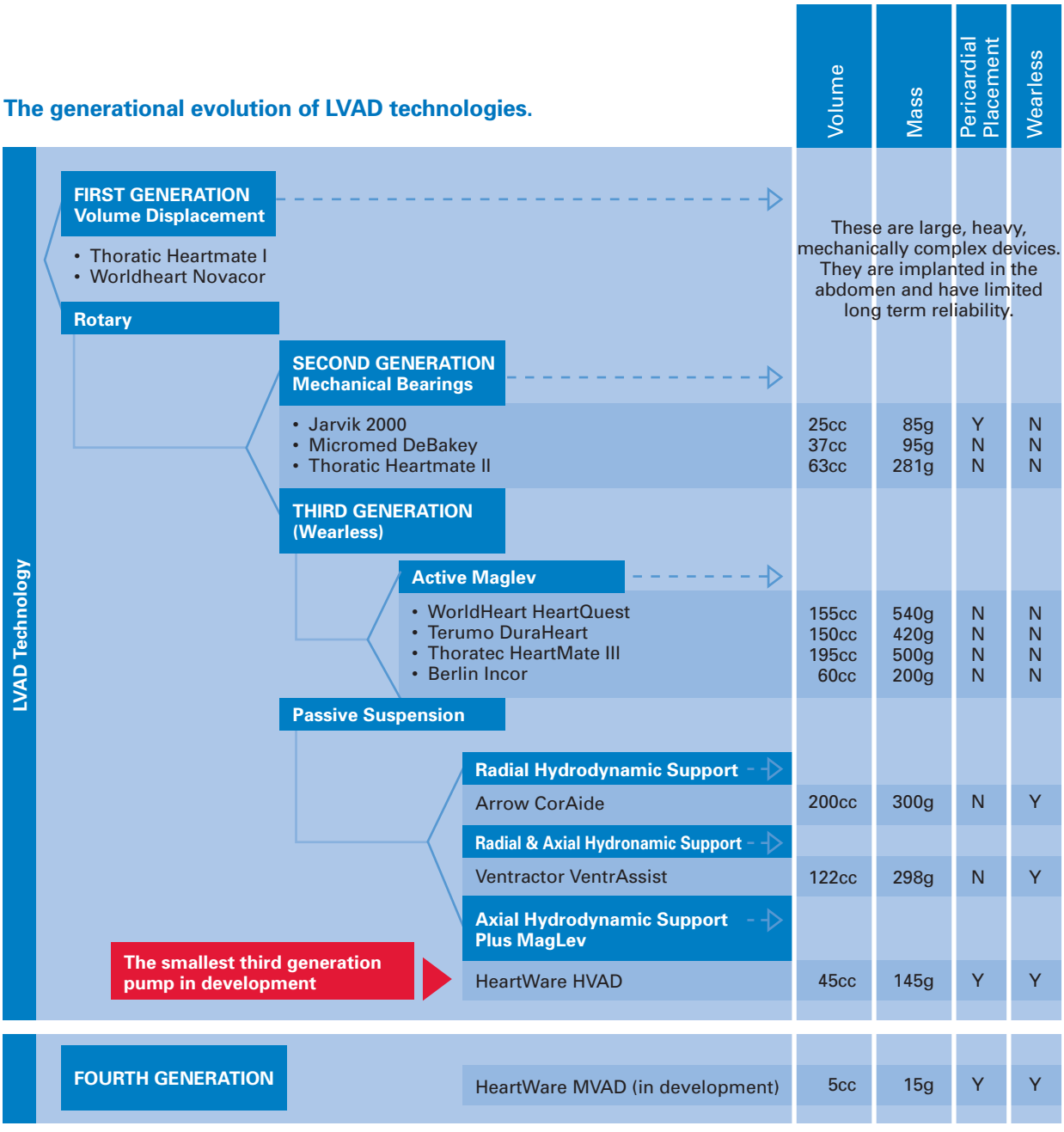
There are currently approximately a dozen mechanical circulatory assist devices at various stages of development. These can be categorised broadly into first, second and third generation technologies as illustrated opposite.

The 'first generation' devices are volume displacement pumps designed to replicate the heart's pulsatility. 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 have a propensity to limit their clinical application as destination therapy devices. Despite this, the HeartMate XVE™, a first generation LVAD, remains the only device with FDA approval for destination therapy.

The 'second generation' devices are continuous flow rotary axial pumps. They have fewer moving parts, giving rise to greater expected long term reliability than the volume displacement devices. They are, however, characterised by their use of internal mechanical bearings which may, over time, compromise reliability. A number of second generation devices are currently undergoing clinical trials, with several demonstrating encouraging clinical results. These include Thoratec's HeartMate II™ and the Jarvik2000™ from Jarvik Heart.

The generational evolution of LVAD technologies.



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 significantly reduces the risk of mechanical failure. HeartWare believes its HVAD to be the best of the third generation designs. As the smallest of the third generation LVADs, it is the only one to be implantable within the pericardial space, directly adjacent to the heart. This is expected both to enhance blood flow characteristics and to facilitate a less complex and less invasive operating procedure.

A Leading Third Generation Design

On 22 March 2006, HeartWare's HVAD was implanted for the first time in a human patient. The implant marked the start of a combined European and Australian clinical trial, during which twenty patients in advanced heart failure will receive an implant. Through the course of the trial, HeartWare expects the HVAD to demonstrate substantial clinical advantages over all competing devices.

The key factors underpinning the clinical success of an LVAD are:

- Small size – enabling thoracic placement and minimizing surgical complexity
- Blood compatibility – minimizing clotting or damage to blood cells
- Reliability – enabling a 'lifelong' approach to treatment

SMALL SIZE

The HVAD is the smallest third generation LVAD in clinical trials, and the only centrifugal pump small enough to be implanted within the pericardial space, directly adjacent to the heart. The HVAD's size and configuration facilitate a far less complex and less invasive operating procedure than that required for competing LVADs. Many larger devices must be implanted in a patient's abdomen, necessitating both thoracic and abdominal surgery. The HVAD's shorter surgical procedure time is expected to result in a reduced incidence of operative and post operative complication, reduced patient morbidity and mortality, and reduced treatment cost. The HVAD's size also allows its implantation in patients with smaller body mass – including women and children – for whom competing devices are often too large.

BLOOD COMPATIBILITY

In pre-clinical studies the HVAD has demonstrated exceptional blood handling characteristics. Critical to the clinical success of any implanted circulatory assist device is whether it causes damage to the blood, in the form of either thrombosis (blood clotting) or haemolysis (damage to blood cell membranes). It is conventional in the industry that patients implanted with a device receive anticoagulation medication to reduce the risk of clotting. However, the use of anticoagulants significantly increases the risk of internal bleeding. In preclinical studies, the HVAD has shown extremely low levels of haemolysis and no evidence of thrombogenesis, despite the GLP animal study being conducted without the use of anticoagulants. In a clinical setting, HeartWare is confident that the level of anticoagulation required for the HVAD will be lower than that typically recommended with competing devices, thereby helping to reduce one of the key risks of LVAD therapy.

RELIABILITY

HeartWare believs that the HVAD will lead the industry in terms of reliability over the long term. One of the key limitations of the

[The HVAD alongside an early MVAD prototype]

earlier generation devices is their relatively poor durability. The first generation volume displacement pumps have been shown to generally fail within two years. The use of mechanical bearings within the second generation pumps might impact their reliability over the long term. The HVAD's 'wearless' design – with only one moving part and no mechanical bearings – results in an expected durability in excess of ten years.

HeartWare's HVAD:

- The world's smallest 3rd generation LVAD
- The world's smallest centrifugal blood pump
- The only centrifugal pump designed to be implanted exclusively above the diaphragm
- The only full-output pump implanted in the pericardial space

The Heartware MVAD – Next Generation Technology

Small size is recognised among clinicians as an important determinant of the clinical performance of an LVAD. Smaller size facilitates a significantly less complex and less invasive operating procedure, in turn reducing both surgical risk and the likelihood of post operative complication. Small size also allows implantation in a wider number of patients and, potentially, to address a wider range of conditions.

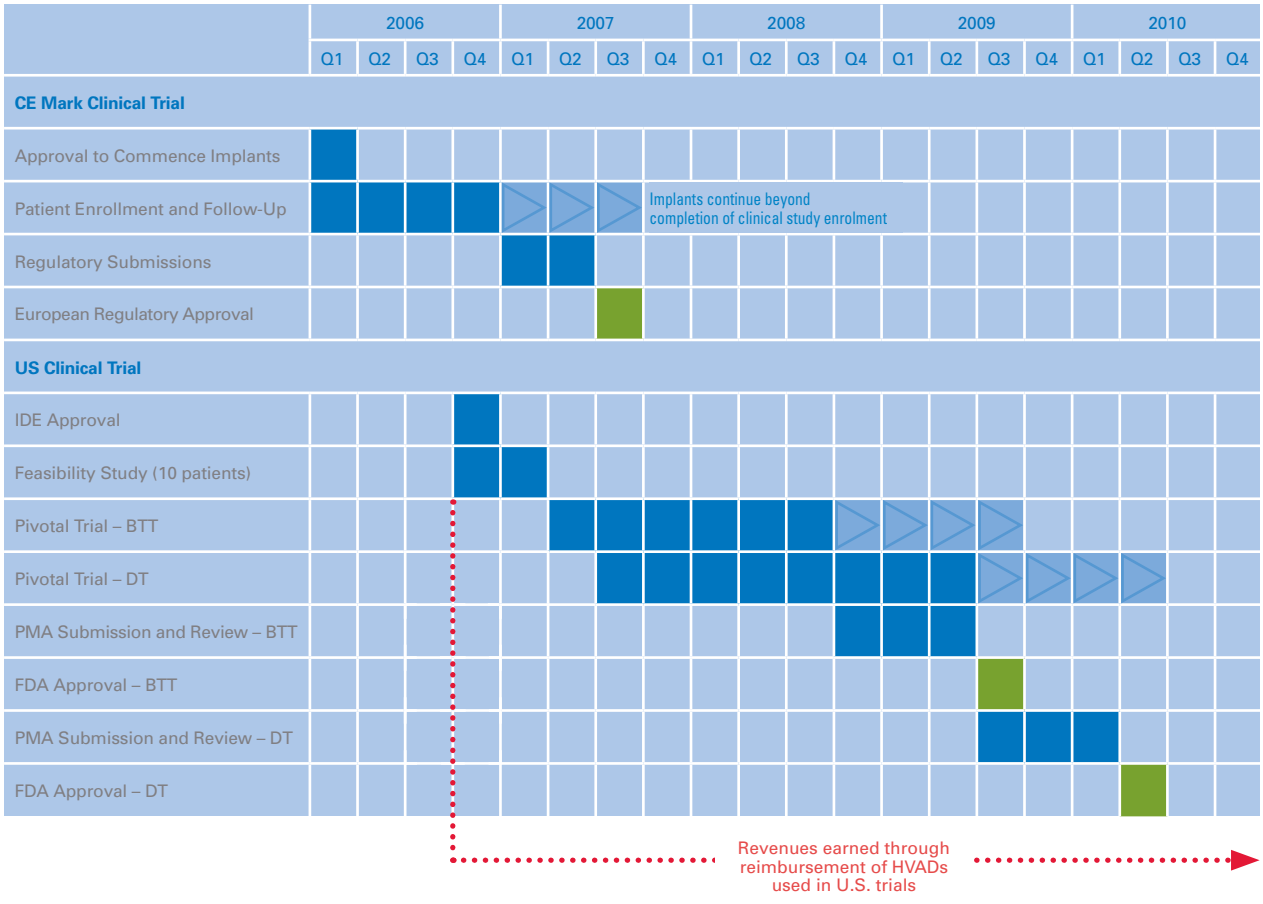
One of HeartWare's foremost competitive advantages is its capacity to miniaturise its technology without compromising anticipated clinical performance. The Company's MVAD program – based around a proprietary 'miniaturization platform' – aims to ensure that HeartWare remains at the forefront of innovation in the LVAD sector, with an evolving family of implantable miniaturized devices.

The first prototype arising from the MVAD program is a full cardiac output axial flow pump with a suspended impeller system and a volume approximately one tenth that of the HVAD. The device commenced animal studies in 2005 and is currently undergoing a series of longer term 'chronic' animal tests, with results comparable to those of the HVAD.

In its current configuration, the MVAD device may be implantable via minimally invasive surgical techniques. Further iterations of the technology are expected to lead to a range of miniaturized blood pumps, implanted intravascularly using catheter based procedures. During 2006 HeartWare will finalise the design parameters of the first device in the MVAD family to be advanced to the clinic. The Company anticipates commencing clinical trials within approximately two years

Commercialisation Timeline – Delivering Results

HeartWare's priority remains the rapid progression of the HVAD through clinical trials in Europe, Australia and the USA with a view to obtaining regulatory approval and commercial sales in Europe and Australia before the end of next year. The Company's anticipated timeline for commercialising the HVAD is as follows:



"Our people"

HeartWare's senior management team comprises an experienced group of industry professionals with extensive track records in the medical device arena. Our management team is supported by a Board of Directors with a depth of relevant commercial, financial and industry experience. In addition HeartWare draws on the expertise of a Medical Advisory Board which includes a number of the world's pre-eminent cardiac specialists.

BOARD OF DIRECTORS

Please refer to pages 44 to 46 for detailed biographies of HeartWare's Board of Directors.

Mr Robert Thomas

Non-Executive Chairman

Rob has over 30 years experience in the securities industry, having recently retired as Chairman, Global Corporate & Investment Bank, Australia and New Zealand of Citigroup Global Markets Australia Pty Limited. He is also Chairman of the Securities & Derivatives Industry Association and Australian Wealth Management Limited.

Mr Stuart McConchie

Executive Director and Chief Executive Officer

Stuart has over twenty five years international senior management experience in the medical device industry. He has spent the past ten years working with mechanical circulatory assist and heart failure devices, most recently as European Representative for Jarvik Heart. Stuart previously worked for 17 years with Telectronics in a range of technical, marketing and strategic roles in Melbourne, Sydney, Denver, London and Brussels. He is among Australia's most experienced medical device executives.

Dr Seth Harrison

Non-Executive Director

Deputy-Chairman

Seth is Managing General Partner of Apple Tree Partners, a New York based healthcare venture capital fund manager and HeartWare's cornerstone investor. He is an experienced life-sciences investor, with some 15 years experience at several leading venture capital firms, including Oak Investment Partners and Sevin Rosen Funds.

Seth holds an AB from Princeton University and an MD and MBA from Columbia University.

Dr Denis Wade

Non-Executive Director

Denis has a depth of experience in the development and commercialization of research based health care products. He was formerly Managing Director of Johnson & Johnson Research Pty Ltd. For 10 years he was a member of J&J's US-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 in both the public and private health sectors. Christine recently assumed the position of Chief Medical Officer at MBF, a leading health insurance provider. She was previously Chief Executive Officer of Research Australia, a national alliance of organizations promoting health and medical research.

MEDICAL ADVISORY BOARD

O. Howard 'Bud' Frazier, MD (Chairman)

(Chief Transplant Services,
Director Cardiovascular Research,
Texas Heart Institute)

Dr Frazier has personally performed over 900 heart transplants and implanted over 600 left ventricular assist devices.

For more than 25 years, Dr Frazier has been a pioneer in the surgical treatment of severe heart failure. He serves on the editorial boards of several distinguished medical 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 Center in Houston, Clinical Associate Professor of Surgery at the University of Texas M.D. Anderson Cancer Center, 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 Center)

Dr Boyce has served as Director of the Cardiac Transplantation and Mechanical Circulatory Assist Device Programs for the Washington Hospital Center, 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 been actively involved in the HeartWare LVAD program since its early development.

Dr Boyce's clinical research experience spans over a decade, having served as principal investigator on a number of FDA pharmaceutical and device investigational protocols. During that time, Dr Boyce has worked with a variety of mechanical circulatory support devices.

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. Dr Boyce has published and presented widely on the surgical management of end stage heart failure.

Laman A. Gray, Jr., M.D.

(Professor of Surgery and Director of the Division of Thoracic and Cardiovascular Surgery at the 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. Dr Gray 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

(Professor of Medicine, Director Cardiovascular Division, Lillehei Heart Institute, University of Minnesota)

Dr Miller is Professor and Director of the Cardiovascular Division and Director of the Heart Failure/Heart Transplant Program at the University of Minnesota in Minneapolis. He is a Past President of the International Society for Heart & Lung Transplantation and the American Society of Transplant Physicians and is currently 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 US 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 chaired a number of national and international scientific sessions on heart/lung transplantation and is principal investigator for industry and federally-sponsored clinical trials. He has also 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. Dr Miller is a Fellow of the American College of Cardiology, the American College of Chest Physicians and the American Heart Association Council on Clinical Cardiology.

Gerry O'Driscoll M.D.

(Medical Head, West Australian Advanced Heart Failure and Cardiac Transplant Services)

Dr O'Driscoll is Professor of Cardiology at University of Notre Dame, Western Australia. He 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 and Jarvik devices. He 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.

Stephen Westaby, FRCS, MD, BSc, PhD

(Consultant Cardiothoracic Surgeon, John Radcliffe Hospital, Oxford, United Kingdom)

Mr Stephen Westaby is an adult and pediatric cardiac surgeon in Oxford, United Kingdom. He performs over 500 cardiac operations per year. His main clinical interests are non transplant surgery of heart failure, surgery of the thoracic aorta and the development of new heart valve prostheses. He is co-editor of the Journal of Congestive Heart Failure & Circulatory Support.

Mr Westaby was formerly Senior Registrar at Hammersmith, Great Ormond Street Hospital for Sick Children and Harefield Hospital. In 1986, he was appointed Chief of Cardiac Surgery for the regional Cardiothoracic Centre in Oxford. In 1996, Mr Westaby in conjunction with colleagues from the Texas Heart Institute, USA, performed the first permanent implants of the Thermo Cardio Systems artificial heart in patients who were not eligible for heart transplantation. Mr Westaby and the Oxford Heart Centre now have an international reputation for their work on mechanical hearts and treatment of heart failure.

Mr Westaby began his medical career at the Charing Cross Hospital Medical School, University of London, having obtained degrees in biochemistry, medicine and surgery. His PhD thesis was on Bioengineering of Artificial Hearts. Mr Westaby was awarded a scholarship to the Albert Einstein Medical College in New York City, has trained in general surgery at Cambridge University and took a research fellowship at the University of Alabama.

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 and is the primary surgeon implanting the various devices and supervising patient care at The University of Vienna. The University has been developing ventricular assist devices and a total artificial heart since the 1970's. Dr Wieselthaler has implanted a wide range of devices, and was the first in the world to implant MicroMed's DeBakey rotary LVAD.

Currently, Dr Wieselthaler is the Secretary General of the International Society of Rotary Blood Pumps.

Dr Wieselthaler performed the first implant of the HeartWare HVAD at the Vienna General Hospital.

HEARTWARE LIMITED ACN 111 970 257

"Financial Statements"

Directors' Report

The Board of Directors of HeartWare Limited ("the Company" or "HeartWare") is pleased to submit its inaugural Directors' Report for the Company and its controlled entities ("the HeartWare Group") for the reporting period ended 31 December 2005.

Directors

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

Mr Robert B Thomas
Dr Christine C Bennett
Mr Stuart B McConchie
Dr Seth L Harrison
Dr Denis N Wade AM

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 during the reporting period ended 31 December 2005.

Financial Results for the Reporting Period

The Company was registered on 26 November 2004 and hence the Company's first financial year represents the thirteen month period from registration to 31 December 2005. There is therefore no comparative information.

During the reporting period the HeartWare Group continued to commercialise the HVAD, the first of its range of circulatory assist devices or "heart pumps", which are used for the treatment of congestive heart failure. The HeartWare Group also conducted additional research and development on its future range of heart pumps, including the miniaturised ventricular assist device or MVAD.

Accordingly, the net loss of the HeartWare Group for the reporting period ended 31 December 2005 after providing for income tax was $14,683,862. In addition to the above, development costs totalling $2,729,725 were capitalised within Intellectual Property in the Statement of Financial Position.

Revenue from Operating Activities was $1,613,569. The majority of this revenue is interest revenue. The Company has no sales revenue as it has not commenced sales of its heart pumps.

Dividends

As the Company has not made a profit for the reporting period ended 31 December 2005 it is not possible to declare a dividend. No dividends have been, or were able to be, paid since the registration of the Company.

Review of Operations

Overview

Over the 2005 calendar year and during the early months of 2006, HeartWare has achieved a number of significant milestones. The period saw the Company undertake a major financing, complete extensive pre-clinical activities and most significantly, initiate its first human clinical trial.

Start of Clinical Trial for the HVAD

On 22 March 2006 a patient with advanced heart failure received the first implant of HeartWare's HVAD.

The procedure was conducted at the Vienna General Hospital under the leadership of Dr Georg Wieselthaler, Clinical Director of Mechanical Circulatory Support at the University of Vienna. The successful implant represented the culmination of significant development efforts over almost ten years, and marked the most important milestone in the Company's history.

Regulatory Approvals

In order to commence its human clinical program, the Company sought approval from the Ethics Committees of participating hospitals. Following receipt of Ethics Approvals HeartWare made submissions to several regulatory authorities in Europe and Australia to approve implantation of the HVAD in selected heart failure patients.

In January 2006 HeartWare received regulatory approval from the Austrian Ministry of Health allowing implants of the HVAD to proceed in Austria. The approval followed receipt of Ethics Approval from the Vienna General Hospital.

On 8 March 2006 HeartWare received regulatory approval from the Therapeutic Goods Administration, allowing implants of the HVAD to proceed in Australia. The approval followed receipt of Ethics Approval from the Royal Perth Hospital. Similar submissions have been made to the authorities in the UK with approvals anticipated over coming months.

Accelerated MVAD Development

In August 2005 HeartWare commenced animal trials for the first MVAD prototype – a miniaturised full output axial flow pump with a suspended impeller and a volume approximately one tenth that of

the HVAD. HeartWare's capacity to miniaturise its technology without compromising anticipated clinical performance is one of the Company's foremost competitive advantages. The Company's MVAD program aims to ensure that HeartWare remains at the forefront of innovation in the LVAD sector, with an evolving family of implantable miniaturized devices to follow the HVAD. Early results from the animal studies are extremely encouraging.

Financial Position

HeartWare's cash reserves as at 31 December 2005 were $13.7 million. This is in line with the Company's expenditure projections as set out in the Company's prospectus in late 2004. This is a major accomplishment for the Company given the significant achievements referred to above and the time and resources expended by the Company in relation to the Ventracor litigation.

Significant Changes in State of Affairs

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

(a) On 17 December 2004 the Company issued an initial public offering prospectus for the purpose of facilitating a capital raising of up to approximately $35 million, together with seeking a listing on the Australian Stock Exchange.

(b) Within a week of the lodgement of the Company's prospectus, VentrAssist Pty Limited (a subsidiary of Ventracor Limited) and the University of Technology, Sydney, (collectively "Ventracor") commenced legal proceedings against the Company's subsidiary, HeartWare, Inc., alleging patent infringement of two of Ventracor's US patents. As a result of this, the Company issued a one-page supplementary prospectus on 24 December 2004.

(c) On 24 January 2005 the Company acquired all of the voting stock of HeartWare, Inc.. The consideration for this acquisition was the issue of 88 million fully paid ordinary shares in the capital of the Company at an issue price of $0.50 per ordinary share, together with 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. The principal and capitalised interest on the convertible note is repayable to the holder (Apple Tree Partners 1 LP) on the secondary anniversary of the date of issue of the convertible note (i.e. 24 January 2007).

(d) On 24 January 2005 the Company successfully completed the capital raising referred to in (a) above. The Company issued approximately 64.8 million fully paid ordinary shares thereby raising approximately $32.4 million (before issue costs).

(e) On 31 January 2005 the Company's fully paid ordinary shares were listed for quotation on the Australian Stock Exchange.

(f) During March and April 2005 the Company added significant experience to its management ranks by making a number of key senior appointments, including Vice President – Clinical & Marketing (Jane Reedy), Vice President – Manufacturing & Product Development (Bill Rissmann), Chief Financial Officer & Company Secretary (David McIntyre) and Director, Corporate Development (Howard Leibman).

(g) As outlined in the Company's prospectus the Company issued 2,589,998 ordinary shares to Dr Fine pursuant to a cashless exercise of options. Dr Fine is a former executive of Kriton Medical, Inc., a predecessor entity whose assets were sold to HeartWare, Inc.. The issue occurred on 20 May 2005.

(h) On 2 August 2005 HeartWare filed its defence to the patent infringement action referred to in (b) above. HeartWare emphatically denied infringement and maintained that the patents asserted against it were invalid and unenforceable on the grounds of "inequitable conduct". HeartWare also filed six counterclaims seeking damages and costs as well as a decision that the relevant patents were invalid, not infringed and unenforceable.

(i) On 2 November 2005 the Company announced the successful completion of animal studies for the HVAD. These studies were conducted at the Texas Heart Institute under Good Laboratory Practice conditions.

(j) On 10 November 2005 a joint announcement by HeartWare and Ventracor confirmed the settlement of the patent dispute between the parties (see (b) above). The settlement was by way of a covenant

not to sue and no royalty or other consideration was, or will be, paid pursuant to the settlement agreement.

(k) On 2 December 2005 the United States District Court for the Southern District of Florida issued a Final Order of Dismissal with Prejudice thereby concluding the patent litigation with Ventracor.

Except as stated in paragraph (c) above, there were no changes to controlled entities during the period.

After Balance Date Events

The matters or circumstances that have arisen since the end of the reporting period which significantly affected the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years are as follows:

(a) On 5 January 2006 the Company announced that it had received regulatory approval to commence human implants of the HVAD. Approval was received from the Austrian Minister of Health following receipt of Ethics Approval from the Vienna General Hospital, one of the world's leading centres for device based treatment of cardiac failure.

(b) On 25 January 2006 the Australian Stock Exchange released 996,779 ordinary shares from escrow.

(c) On 1 February 2006 the FORUS limitation on HeartWare's shares was removed thereby allowing US residents to purchases shares in the Company.

(d) On 8 March 2006 the Company announced that it had received regulatory approval from the Therapeutic Goods Administration, allowing implants of the HVAD to proceed in Australia.

(e) On 24 March 2006 HeartWare announced that it had commenced human implants for the HVAD. On 22 March 2004 a patient with advanced heart failure received the first implant of the device at the Vienna General Hospital.

Except as stated above, no other matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in future financial years.

Likely Developments

The likely developments in the operations of the economic entity in future financial years are as follows:

(a) Notwithstanding the commencement of human clinical trials in Europe, the Company has not, as at the date of this report, commenced human clinical trials in the world's largest medical device market, the United States of America. In this regard, the Company envisages commencing its US human clinical trials towards the end of 2006 or in early 2007 (with the prior approval of the US Food and Drug Administration). The Company anticipates that it will receive reimbursement (i.e. revenue) in connection with its US human clinical trials.

(b) As disclosed in the Company's prospectus, HeartWare must raise capital in order to continue to commercialise its technology. It remains the Company's intention to raise further funds during the course of the 2006 financial year. These funds will be primarily applied for the purposes of meeting costs associated with the Company's human clinical trials, product development (including in relation to the MVAD), regulatory and other compliance costs as well as for general working capital. The Company continually monitors its cash position and is confident that, given the Company's success to date, 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 the expected results would be likely to result in unreasonable prejudice to the economic entity.

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

Environmental Regulation

The HeartWare Group is not subject to significant environmental regulation.

Information on Directors

Information regarding the qualifications, experience and responsibilities of directors together with details of all directorships held by a director in the three years to 31 December 2005 are set out in the Corporate Governance Statement and those details form part of this Directors' Report and are incorporated by reference.

Directors' Interest

At the date of this report, the direct and indirect interests of the directors in the shares of the Company are as follows:

NAME	NOTE	SHARES		OPTIONS	
		DIRECT	INDIRECT	DIRECT	INDIRECT
Rob Thomas	(a)	668,000	570,000	1,264,204	–
Seth Harrison	(b)	–	91,588,782	–	–
Denis Wade	(c)	–	800,000	250,000	–
Christine Bennett	(d)	–	–	250,000	–
Stuart McConchie	(e)	–	–	4,585,228	–

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. 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 1 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*, Dr Harrison is deemed to have an indirect interest in this convertible note.

(c) The shares are held by Tower Trust 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".

(d) The options refer to Incentive Options, further details of which are set out below under the heading "Options".

(e) The options refer to ESOP options granted to Mr McConchie in connection with his remuneration, further details of which are set out below.

Directors' Report (continued)

Meetings of Directors

The number of directors' meetings (including meetings of Committees) and number of meetings attended by each of the directors during the reporting period are as follows:

	DIRECTORS' MEETING		NON- EXECUTIVE DIRECTORS' MEETING		COMMITTEE MEETINGS					
					AUDIT & COMPLIANCE COMMITTEE		NOMINATION & REMUNERATION COMMITTEE		CONTINUOUS DISCLOSURE COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
Rob Thomas	12	12	1	1	1	1	1#	1	1	1
Seth Harrison	12	12	1	1	*	*	1	1	1	1
Denis Wade	11	11	1	1	0	0	1	1	*	*
Christine Bennett	11	10	1	1	1#	1	1	1	*	*
Stuart McConchie	12	12	*	*	*	*	*	*	1	1

A – Number of meetings held during the time the director held office during the reporting period.

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 the following:

(a) The Audit & Compliance Committee and the Nomination & Remuneration Committee met once during 2005. This is because many of the matters were dealt with by the full Board of Directors (particularly prior to the formation of the relevant Committee) and this is reflected by the high number of Board Meetings held during the reporting period. The infrequency of these Committee meetings is also due to the fact that the Company is in its first year of operation as a public company and therefore did not have to, for example, consider prior year financials or undertake extensive remuneration reviews during the course of 2005. Notwithstanding the above, the Board envisages that the Audit & Compliance Committee and Nomination & Remuneration Committee will meet more frequently in the future.

(b) The Continuous Disclosure Committee ("CDC") was formed during the course of the 2005 calendar year. Prior to the CDC's formation, ASX disclosures were dealt with by the full Board of Directors. Disclosures are reviewed by the CDC following a written recommendation from senior management and are approved in writing by members of the CDC prior to release to the ASX. Formal meetings of the CDC are held on an "as needs" basis.

(c) Denis Wade was appointed to the Audit & Compliance Committee following completion of the half-year review. No meetings of the Audit & Compliance Committee were held in the second half of 2005 with all relevant matters dealt with by the full Board of Directors.

Indemnification & Insurance

The Company has entered into a Deed of Indemnity, Access and Insurance with each of the directors under which the Company agrees, to the extent permitted by law, to provide certain indemnities to each of those persons, and to provide certain rights of access to books and records of the Company to those persons.

The Company has also paid premiums to insure each of the directors 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

A listing of the options granted by the Company, including names of recipients, are set out in the section titled "ASX Additional Information" which is located immediately behind the Company's Financial Statements.

Options that were granted over unissued shares during or since the end of the reporting period by the Company or controlled entity to directors or any of the five most highly remunerated officers as part of their remuneration are as follows:

Incentive Options

On 24 January 2005, the Company issued 1,000,000 Incentive Options to the Company's non-executive directors. Mr Thomas received 500,000 Incentive Options whilst Dr Wade and Dr Bennett each received 250,000 Incentive Options. The terms of the Incentive Options are as follows:

(a) Each Incentive Option entitles the holder to subscribe for a fully paid ordinary share in the capital of the Company on a one-for-one basis.

(b) The Incentive Options vest in three tranches; 40% on the first anniversary of issue; 40% on the second anniversary of issue and 20% on the third anniversary of issue.

(c) The exercise price for each option exercised is $0.60 for the first tranche, $1.00 for the second tranche and $1.50 for the third tranche.

(d) Subject to (e) below, the directors must be directors of the Company at the date they exercise the second and third tranches.

(e) Where Mr Thomas resigns as a director due to ill-health which, in the opinion of the Board of Directors, would prevent him from discharging his duties as a director of the Company, then all Incentive Options remain exercisable notwithstanding the cessation of Mr Thomas' directorship with the Company.

HeartWare Limited Employee Share Option Plan

Options granted under the HeartWare Limited Employee Share Option Plan ("ESOP") were as follows:

(a) 8,417,840 ESOP options were granted on 24 January 2005 as follows:

- 764,204 ESOP options were granted to Mr Thomas at an exercise price of $0.20.
- 4,585,228 ESOP options were granted to Mr McConchie in four equal tranches, priced at $0.60, $0.75, $1.00 and $1.50.
- 764,204 ESOP options were granted to Mr McIntyre on the same terms as apply to Mr McConchie.
- 1,540,000 ESOP options were granted to Mr LaRose with an exercise price of $0.20. These ESOP options vested immediately and were issued as part of the rollover of existing entitlements under the HeartWare, Inc. Retention and Equity Rights Plan which was cancelled following the acquisition of HeartWare, Inc. by the Company. Mr LaRose's entitlements reflect his efforts with the HeartWare technology over more than six years.
- 764,204 ESOP options were granted to Mr LaRose on the same terms as apply to Mr McConchie. These ESOP options were subsequently cancelled on 27 April 2005 and reissued with an issue price of $0.50 and with 10 year maturity (and otherwise identical terms).

(b) 3,438,918 ESOP options were granted on 27 April 2005 as follows:

- 764,204 ESOP options were granted to Mr Leibman in four equal tranches, priced at $0.60, $0.75, $1.00 and $1.50.
- 764,204 ESOP options were granted to Mr Rissmann at an exercise price of $0.50.
- 1,146,306 ESOP options were granted to Ms Reedy at an exercise price of $0.50.
- 764,204 ESOP options were granted to Mr LaRose at an exercise price of $0.50. This grant of ESOP options is the replacement issue discussed in (a) above.

(c) 764,204 ESOP options were granted on 15 December 2005 to Mr McIntyre at an exercise price of $0.75.

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	4,621,804
24 January 2005	24 January 2010	$0.60	ESOP	1,337,358
24 January 2005	24 January 2010	$0.75	ESOP	1,337,358
24 January 2005	24 January 2010	$1.00	ESOP	1,337,358
24 January 2005	24 January 2010	$1.50	ESOP	1,337,358
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	3,145,766
15 December 2005	15 December 2012	$0.75	ESOP	764,204
				16,145,410

Directors' Report (continued)

Shares issued on exercise of options

During the period ended 31 December 2005, the following ordinary shares of HeartWare were issued on the exercise of options granted under the ESOP:

GRANT DATE	EXERCISE PRICE	NUMBER OF SHARES ISSUED
24 January 2005	$0.20	395,400

No further shares or options have been issued since 31 December 2005. No amounts are unpaid on any of the shares.

In addition to the above (and as noted in the Company's prospectus), the Company issued 2,589,998 ordinary shares to Dr Fine, a former executive of a predecessor company the business of which was acquired by HeartWare, Inc.. This was a cashless exercise of options (i.e. nil exercise price) which occurred on 20 May 2005.

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

Reporting Period

The financial results set out in this financial report are the consolidated financial results for the HeartWare Group.

As noted elsewhere in this Annual Report, the Company acquired HeartWare, Inc. on 24 January 2005 and, as such, the consolidated financial results only incorporate the financial results of HeartWare, Inc. for the period which commenced on 25 January 2005.

Adoption of Australian equivalents of International Financial Reporting Standards ('AIFRS")

As the current financial year commenced on 26 November 2004 (i.e. prior to 1 January 2005), the Company's first Annual Financial Report for the reporting period ended 31 December 2005 is subject to Australian GAAP rather than AIFRS.

The Company has commenced transitioning its accounting and financial reporting from current Australian Standards to AIFRS.

As the Company has a 31 December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS as at 1 January 2006. This will form the basis of accounting for AIFRS in the future, and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 31 December 2006.

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.

Code of Best Practice for Reporting by Life Sciences Companies

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 Company's patents (as at 31 December 2005):

TITLE	COUNTRY	PATENT OR APPLICATION NO.	STATUS	EFFECTIVE FILING DATE (PRIORITY DATE)
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	AU 708476 B2	Granted	20 Feb 1996
Sealless Rotary Blood Pump	Australia	AU 730235 B2	Granted	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	AU 734310 B2	Granted	20 Feb 1996
Sealless Rotary Blood Pump	Australia	AU 742536 B2	Granted	13 Aug 1997
Sealless Rotary Blood Pump	United States	US 2004/0234397 A1	Pending	13 Aug 1997
Sealless Rotary Blood Pump	United States	US 6,688,861 B2	Granted	13 Aug 1997
Sealless Rotary Blood Pump	United States	US 6,234,998 B1	Granted	13 Aug 1997
Sealless Rotary Blood Pump	United States	US 6,080,133	Granted	13 Aug 1997
Sealless Rotary Blood Pump	United States	US 5,840,070	Granted	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	United States	US 5,695,471	Granted	20 Feb 1996
Sealless Rotary Blood Pump	United States	US 6,368,083 B1	Granted	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Europe	EP 0821596	Pending	20 Feb 1996
Sealless Rotary Blood Pump	Europe	EP 0901797 A2	Granted	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Europe	EP 1464348 A2	Pending	20 Feb 1996
Non-Seal Blood Pump	Japan	JP 11123239 A	Pending	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Japan	JP 11504549T	Pending	20 Feb 1996
Dichtungslose Rotationsblutpumpe	Austria	AT 288770T	Granted	13 Aug 1997
Rotary Blood Pump	Canada	CA 2218342 C	Granted	20 Feb 1996
Sealless Rotary Blood Pump	Canada	CA 2240555 A1	Pending	13 Aug 1997
Sealless Rotary Blood Pump	Germany	DE 69828926D	Granted	13 Aug 1997

TITLE	COUNTRY	PATENT OR APPLICATION NO.	STATUS	EFFECTIVE FILING DATE (PRIORITY DATE)
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Israel	IL 121834	Granted	20 Feb 1996
Sealless Rotary Blood Pump	Israel	IL 124876	Granted	13 Aug 1997
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	South Korea	KR 351336	Granted	20 Feb 1996
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Australia	AU 771931 B2	Granted	08 July 1999
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Europe	EP 1194998	Pending	08 July 1999
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Japan	JP 2003-509987T	Pending	08 July 1999
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Canada	CA 2377982 A1	Pending	08 July 1999
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Israel	IL 147262D D0	Pending	08 July 1999
Blood Pump Using Cross-Flow Principals	Australia	AU 760773 B2	Granted	19 Jan 1999
Blood Pump Using Cross-Flow Principals	United States	US 6,217,541 B1	Granted	19 Jan 1999
Blood Pump Using Cross-Flow Principals	Europe	EP 1146920	Pending	19 Jan 1999
Blood Pump Using Cross-Flow Principals	Japan	JP 2002-535047T	Pending	19 Jan 1999
Blood Pump Using Cross-Flow Principals	Canada	CA 2359934 A1	Pending	19 Jan 1999
Blood Pump Using Cross-Flow Principals	Israel	IL 144244D D2	Pending	19 Jan 1999
Active Magnetic Bearing System for Blood Pump	Australia	AU 765716 B2	Granted	03 Dec 1998
Active Magnetic Bearing System for Blood Pump	United States	US 6,264,635 B1	Granted	03 Dec 1998
Active Magnetic Bearing System for Blood Pump	Europe	EP 1135181	Pending	03 Dec 1998
Active Magnetic Bearing System for Blood Pump	Japan	JP 2002-531185T	Pending	03 Dec 1998
Active Magnetic Bearing System for Blood Pump	Canada	CA 2352270 A1	Pending	03 Dec 1998

TITLE	COUNTRY	PATENT OR APPLICATION NO.	STATUS	EFFECTIVE FILING DATE (PRIORITY DATE)
Active Magnetic Bearing System for Blood Pump	Israel	IL 143362D D0	Pending	03 Dec 1998
Power System for an Implantable Heart Pump	Australia	AU 4858899	Granted	05 Oct 1998
Power System for an Implantable Heart Pump	United States	US 6,592,620 B1	Granted	05 Oct 1998
Power System for an Implantable Heart Pump	United States	US 6,149,683	Granted	5 Oct 1998
Ventricular Connector	Australia	AU 2003240581 A1	Pending	26 June 2002
Ventricular Connector	United States	US 6,732,501 B2	Granted	26 June 2002
Ventricular Connector	United States	US 2004/0171905 A1	Pending	26 June 2002
Rotary Blood Pump	Australia	AU 773136 B2	Granted	28 April 1999
Rotary Blood Pump	United States	US 6,234,772 B1	Granted	28 April 1999
Rotary Blood Pump	Europe	EP 1173238	Pending	28 April 1999
Rotary Blood Pump	Japan	JP 2002541985T	Pending	28 April 1999
Rotary Blood Pump	Canada	CA 2370740	Pending	28 April 1999
Rotary Blood Pump	Israel	IL 145881D D0	Pending	28 April 1999
Rotary Blood Pump with Ceramic Members	Australia	AU 765033 B2	Granted	28 Dec 1998
Rotary Blood Pump with Ceramic Members	United States	US 6,158,984	Granted	28 Dec 1998
Rotary Blood Pump with Ceramic Members	Europe	EP 1140247	Pending	28 Dec 1998
Rotary Blood Pump with Ceramic Members	Japan	JP 20002533167T	Pending	28 Dec 1998
Rotary Blood Pump with Ceramic Members	Canada	CA 2356694	Pending	28 Dec 1998
Rotary Blood Pump with Ceramic Members	Israel	IL 143702D	Pending	28 Dec 1998
Rotary Blood Pump with Ceramic Members	South Korea	KR 2001708282	Pending	28 Dec 1998
Sealless Blood Pump with Means for Avoiding Thrombus	Australia	AU 768864	Granted	23 Dec 1997
Sealless Blood Pump with Means for Avoiding Thrombus	United States	US 6,120,537	Granted	23 Dec 1997
Sealless Blood Pump with Means for Avoiding Thrombus	Europe	EP 1027898 A1	Pending	23 Dec 1997
Sealless Blood Pump with Means for Avoiding Thrombus	Japan	JP 2000217905	Pending	23 Dec 1997
Sealless Blood Pump with Means for Avoiding Thrombus	South Korea	KR 2000052056	Pending	23 Dec 1997
Sensorless Flow Estimation for Implanted Ventricle Assist Device	PCT	WO 05/115539	Pending	25 May 2004
Sensorless Flow Estimation for Implanted Ventricle Assist Device	United States	US 2005/0267322	Pending	25 May 2004

Regulatory

On 5 January 2006, HeartWare confirmed that it had received clearance from the Austrian Ministry of Health to initiate a clinical investigation of the HVAD at Vienna General Hospital.

On 8 March 2006, HeartWare also confirmed that it had received notification from the Australian Therapeutic Goods Administration ("TGA") providing clearance to commence human implants of the HVAD.

HeartWare will submit clinical investigation applications to the regulatory authorities (i.e. Competent Authorities) in the United Kingdom and Germany in late March and early April 2006 and expects to receive clearance to begin the study in these countries during May.

These clinical investigations are based on a study protocol which will enable a CE mark submission to a European Notified Body during the first quarter of 2007. Receipt of CE mark will allow commercial sales of the HVAD in the European Union. Clearance to apply the CE mark is targeted for the third quarter of 2007. Clearance to market the HVAD in Australia will be based on an application to the TGA supported by CE mark approval.

HeartWare anticipates submission of an Investigational Device Application to the United States Food and Drug Administration ("FDA") in the third quarter of 2006 and could reasonably expect to begin the US clinical investigation at the end of 2006. It is the practice of the FDA to approve such application in stages based on sequential expansion of the number of patients and centres in response to interim reports provided by the study sponsor. The first of these stages will be a feasibility study conducted in ten patients or less at a restricted number of investigational centres.

All the submissions mentioned are centred on a single arm clinical study protocol which specifically calls for enrolment of subjects who will be implanted with the HVAD with the intention of providing a bridge to cardiac transplantation.

During early 2007, HeartWare will apply to the FDA for clearance to begin a study of the use of the HVAD as long term support for chronic heart failure. This application will be consistent with the prevailing FDA approach to the approval of permanent mechanical assist devices. Currently this approach is for a multi-site, dual arm clinical protocol with the investigational device randomised against a device with FDA clearance to market for long term or destination therapy. At this time the only such device is the HeartMate XVETM (or HeartMate ITM) manufactured by Thoratec, Inc.

HeartWare expects to be reimbursed by Medicare and Medicaid for implants conducted in the course of a FDA approved clinical investigation. Outside the US, HeartWare does not anticipate reimbursement during the clinical investigation. HeartWare has made adequate consideration for the revenues and costs anticipated during the clinical investigation. Reimbursement for the short and long term use of mechanical assist devices for the treatment of chronic heart failure is established in the US and some non-US countries. Other countries have established limited funding for the use of such therapies.

Clinical Trials

HeartWare has successfully applied to European and Australian regulatory authorities for approval to conduct a multi-site clinical investigation based on a protocol which describes a single arm study of chronic heart failure patients in the end stage of the disease. The end-point of this study is cardiac transplantation or survival to a prescribed number of days after implantation. The study will be carried out at a minimum of four investigational centres located in Europe and Australia and will be based on implants in twenty patients.

Approval for the study has been received (or is expected shortly) from the Ethics Committees of each investigational institution. As noted above, regulatory approval to commence the study has been received in both Austria and Australia. Data will be collected during this clinical investigation which will be used for application for CE mark in the European Union and subsequently approval to market the HVAD in Australia.

HeartWare will apply to the FDA for an Investigational Device Exemption to conduct a similar bridge to cardiac transplantation clinical study in the United States of America. Data from the European and Australian study may or may not be accepted by the FDA as support for this application. To this end, HeartWare has sought input from the FDA toward the design of the clinical protocol and efforts have been made to meet their requirements.

Quality

Design and manufacture of the HVAD has been carried out in accordance with the prevailing requirements of the European Union Active Implantable Medical Device Directive 90/385/EEC (as amended) and quality system regulations as contained in Title 21 Part 820 of the US Code of Federal Regulations. These quality system regulations help assure that medical devices are safe and effective for their intended use.

Specifically, HeartWare is establishing a quality system which will be certified as compliant with the International Standard ISO 13485:2003. This standard is well-accepted in Europe, the USA and Australia and specifies the requirements for a quality management system for the design, development and production of medical devices. HeartWare staff at the operation centre in Miramar, Florida have undergone ISO 13485 training from BSI Management Systems. Certification to ISO13485:2003, or a similar quality system standard, is a requirement for European CE marking or clearance to market a medical device in the USA.

In addition to internal personnel, HeartWare utilises experienced consultants in the USA and Europe to ensure that the Company meets relevant regulatory requirements applicable to current activities.

Escrow

A complete listing of all escrow arrangements in relation to the Company's securities is set out in the section titled "ASX Additional Information" which is located immediately behind the Company's Financial Statements.

Intangible Assets

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

Proceedings on Behalf of Company

Except for the Ventracor litigation described previously (see the section titled "Significant Changes in State of Affairs"), no 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.

Except as set out above, the Company was not a party to any proceedings during the reporting period.

Denomination

All amounts set out in Company's Financial Statements are denominated in Australian dollars.

Non-audit Services

The directors are satisfied that the provision of non-audit services during the reporting period 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 reporting period was minor in nature (other than the work carried out in relation to the Company's listing on the Australian Stock Exchange).

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 the Institute of Chartered Accountants in Australia and CPA's Professional Statement F1: Professional Independence.

The following non-audit services were paid/payable to the external auditors during the reporting period ended 31 December 2005:

	$
Other Services:	
Auditors of the parent entity – Grant Thornton NSW	
– Tax services	1,640
– Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company	65,262
Auditors of HeartWare, Inc. – Grant Thornton LLP	
– Tax services	819
– Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company	46,825
	114,546

Auditor's Independence Declaration

The lead auditor's independence declaration for the reporting period ended 31 December 2005 has been received and can be found at page 64 and forms part of the Directors' Report.

Auditor

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

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

Rob Thomas
Chairman
27 March 2006

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.

To this end, HeartWare supports the Australian Stock Exchange's ("ASX") Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Guidelines").

Soon after the Company's listing on the ASX on 31 January 2005, HeartWare undertook a review of its corporate governance framework. This review confirmed that the Company, as a newly listed and emerging entity, needed to further develop its corporate governance framework so as to more fully comply with the ASX Guidelines.

As a result of the above, the Board of Directors and senior executives have overseen the implementation of a range of practices, procedures and policies which strongly reflect HeartWare's commitment to delivering best practice in corporate governance. The outcome of efforts in this regard is such that the Board is pleased to confirm that the Company's corporate governance framework is generally consistent with the ASX Guidelines (with limited exceptions (see below)).

In addition to the above, the ASX and AusBiotech published the "Code of Best Practice for Reporting by Life Science Companies" on 25 October 2005 ("Code of Best Practice"). The Company has also endeavoured to comply with the requirements of the Code of Best Practice and many of the disclosures and commentary set out in this Corporate Governance Statement and elsewhere in this Annual Report reflect those requirements.

A review of HeartWare's corporate governance framework, in the context of the ASX Guidelines, is set out below. Further, copies of the Company's codes and policies may be downloaded from the corporate governance section of the HeartWare website (www.heartware.com.au).

To assist readers, the review is provided using the same numbering as adopted for the best practice recommendations as set out in the ASX Guidelines ("Best Practice Recommendation").

Principle 1 – Lay solid foundations for management and oversight

Responsibilities

The primary responsibility of 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.

In addition to, and in furtherance of, its responsibilities, the Board carries out the following important functions:

(a) Overseeing the conduct of the HeartWare Group business, including providing input into, and approving, the goals, strategic direction and related objectives for the HeartWare Group as developed by senior executives.

(b) Taking steps to protect the Company's financial position, including approving budgets and monitoring progress against budget.

(c) Ensuring business risks are identified and approving systems of risk management, regulatory compliance and control and associated policies to manage those risks.

(d) Overseeing the performance and terms of employment of senior executives, particularly the Chief Executive Officer and Chief Financial Officer.

As part of its role of overseeing the performance of senior executives, the Board has delegated to the Chief Executive Officer all powers necessary for the day to day management of the Company (except as set out below). To this end, the Chief Executive Officer is accountable to the Board for the day-to-day performance of the HeartWare Group.

While day-to-day management has been delegated to the Chief Executive Officer, the following matters have been specifically reserved for 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 the discretionary financial and related operating limits for management; and

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

The Charter of the Board of Directors requires an independent non-executive director to hold the position of Chair of the Board of Directors and, for this reason, different persons act as Chair of the Board and Chief Executive Officer.

Copies of the Charter of the Board of Directors as well as the Delegation of Authority are available on, and may be downloaded from, the Company's website.

Reporting Requirement

The Company adopted the Board of Directors Charter and the Delegation of Authority during the course of the reporting period ended 31 December 2005. Whilst the Company complies with Best Practice Recommendation 1.1 as at the reporting date, the Company did not fully comply with Best Practice Recommendation 1.1 during the entire period ended 31 December 2005.

Principle 2 – Structure the Board to add value

Board composition

The Constitution of HeartWare provides that the Company must have at least three directors (not counting alternates (if any)). At least two (2) directors must reside ordinarily in Australia.

The Board of Directors presently comprises five (5) directors. The five (5) directors encompass three (3) 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 composition of the Board and length of tenure of each member of the Board is as follows:

NAME	POSITION	DATE APPOINTED	TENURE*	INDEPENDENT
Rob Thomas	Non-Executive Chairman	26 Nov 2004	1.1 years	Yes
Seth Harrison	Non-Executive Deputy Chairman	26 Nov 2004	1.1 years	No
Denis Wade	Non-Executive Director	15 Dec 2004	1.0 years	Yes
Christine Bennett	Non-Executive Director	15 Dec 2004	1.0 years	Yes
Stuart McConchie	Chief Executive Officer/ President/Executive Director	26 Nov 2004	1.1 years	No

* Calculated at as at 31 December 2005.

Corporate Governance Statement (continued)

The composition of the Board did not alter during 2005. Notwithstanding this, it is the Board's present intention to revise its current composition so that the Board's skill set better reflects the Company's international aspirations. In this regard, the Board envisages, in the short term, engaging at least one (1) non-executive director who has the requisite background which shall include, as a minimum, significant North American and/or European experience (in line with HeartWare's target markets).

To assist in the performance of its functions and duties, the Board has formed a number of Committees. Details of those Committees, including director membership and attendance, are set out in the accompanying Directors' Report (and are incorporated by reference).

Independence

In accordance with the Company's Charter, "independence" is defined as being a director who is not a member of management (i.e. a non-executive director) and who:

(a) is not a substantial shareholder of the Company (in accordance with the definition set out in Section 9 of the *Corporations Act*);

(b) has not within the last three years been a principal of a material professional adviser or a material consultant to the Company or another group member or an employee materially associated with the service provided;

(c) has no material contractual relationship with the Company or another group member other than as a director;

(d) has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment; and

(e) is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

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	61
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. Under Rob's leadership, County NatWest grew to 220 staff with operations in Melbourne, London, New York, Auckland and Tokyo with a consistent No.1 Market Share rating in Australia during the 1990's.

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

In the last three years, Rob has been Deputy Chairman of Benitec Limited (ASX:BLT) (Appointed 7 May 2004 – Resigned 30 November 2005)) and a Non-Executive Chairman of Australian Wealth Management Limited (ASX:AUW) (Appointed 15 February 2005 – Present). In addition, Rob is also the Chairman of the Securities & Derivatives Association and a Senior Advisor to Citigroup Australia and New Zealand.

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	45
Independent	No

Seth has been involved in life sciences venture capital for more than 14 years.

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 New York, 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.

In addition, Seth received a Bachelor of Arts from Princeton University, an Bachelor of Medicine and Masters of Business Administration both from Columbia University and completed a surgery internship at the Presbyterian Hospital. He serves on the Board of the International Partnership for Microbicides, a Rockefeller Foundation/Gates Foundation sponsored public-private partnership engaged in the development of anti-HIV microbicides. Seth is also Chairman of the Board of Trustees 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.

Dr Denis Newell Wade AM

Position	Non-Executive Director
Age	68
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 and he frequently participates in conferences due to his wealth of experience and knowledge.

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 its 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 and ASX-listed Cryptome Pharmaceuticals Limited (ASX:CRP) (Appointed January 2003 – Resigned 10 February 2006). He currently chairs the Industry Advisory Committee of the Australian Synchrotron and is a member of the Pharmaceuticals Committee of the Australian Industry Research and Development Board.

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

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 NSW. 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.

Corporate Governance Statement (continued)

Dr Christine Constance Bennett

Position	Non-Executive Director
Age	50
Independent	Yes

Christine is the current 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.

Christine has over 20 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 11 November 2003 – 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.

Stuart Bruce McConchie

Position	Chief Executive Officer/President / Executive Director
Age	54
Independent	No

Stuart has almost three decades of experience in the international medical device sector. He has been employed or consulted to an impressive range of internationally recognised medical devices companies, including more than a decade working in mechanical circulatory assist and heart failure devices.

Stuart is well known and highly regarded by cardiologists and cardiac surgeons in the implantable blood pump sector in the United States and Europe. His wealth of knowledge and experience has played an instrumental role in drawing together some of the world's foremost surgical "heart pump" experts to form the Company's Advisory Board.

Prior to joining HeartWare, Stuart consulted to a range of medical device companies in Europe, including over five years working as the European representative for Jarvik Heart Inc. during its clinical trial and regulatory programme. Stuart also worked for 17 years with the ASX listed company, Telectronics (later Pacific Dunlop) in a range of technical, marketing and strategic roles in Melbourne, Sydney, Denver, London and Brussels.

Stuart is a member of the Continuous Disclosure Committee.

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

David John McIntyre (Company Secretary)

As HeartWare's Chief Financial Officer and Company Secretary, David has broad financial and legal skills and experience. 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 and reporting roles in multinational companies, among them Rio Tinto.

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 member of CPA Australia and the Law Society of New South Wales (as well as being admitted as a Solicitor of the Supreme Court 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

The Company's prospectus (dated 17 December 2004) stated:

> "The Board has not formed a Nominations Committee or Remuneration Committee as the full Board presently considers all matters relating to nomination to the Board and the remuneration of executives of the Company."

During the course of the Company's corporate governance review (conducted during 2005), the Board revisited its stance concerning the formation of a Nomination or Remuneration Committee. On this basis (and during the second half of 2005), the Company formed the Nomination & Remuneration Committee and adopted a Charter, which may be downloaded from the corporate governance page of the Company's website.

Because of the above, the Company complies with Best Practice Recommendations 2.4 and 2.5 as at the reporting date but did not fully comply with Best Practice Recommendations 2.4 and 2.5 during the entire period ended 31 December 2005. In all other respects, HeartWare complied with the requirements of Best Practice Recommendations 2.1, 2.2 and 2.3 throughout the entire reporting period.

Principle 3 – Promote ethical and responsible decision-making

Code of Conduct

During the course of the 2005 calendar year, the Company adopted a Code of Conduct. This Code of Conduct 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 Code of Conduct is supplemented by the following:

(a) Operational Policies. These policies provide guidance on a variety of commercial issues, such as expenditure and approval requirements, communications on behalf of HeartWare, travel, credit cards etc.

(b) Employee Handbook. The Employee Handbook provides assistance in areas such as confidentiality, privacy and other important work practices.

(c) Other corporate policies such as the Risk Management Policy, Securities Trading Policy and Continuous Disclosure Policy.

As can be seen above, the Code of Conduct and other ancillary policies are designed to ensure that employees observe both the letter and spirit of the law, adhere to high standards of business conduct and comply with best practice.

The Board acknowledges that HeartWare and its business is evolving at a rapid rate, particularly as the Company is now transitioning from the development stage through pre-production to full scale commercialisation. This intensive period of change will require the Company to continually reassess its practices, policies and procedures so as to ensure that, at all times, employees and the Company as a whole exhibit and apply the principles of ethical and responsible decision-making.

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

Corporate Governance Statement (continued)

Securities Trading Policy

As noted above, the Company has adopted a Securities Trading Policy which sets out various prohibitions and procedures concerning dealings in the Company's shares.

The Securities Trading Policy focuses on ensuring that, when people associated with HeartWare deal in the Company's securities, those dealings are not only fair, but are seen to be fair.

Pursuant to the Securities Trading Policy, short term trading in the Company's securities is strictly prohibited and, in all cases, notice in writing must be given to the Company Secretary not less than three days prior to any intended transactions. In addition, "Senior Management" (a defined term) is prohibited from trading in the Company's securities other than in certain "trading windows", which generally follow the release of financial results.

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

Reporting requirement

The Company adopted the Code of Conduct and Securities Trading Policy during the course of 2005. While the Company complies with Best Practice Recommendations 3.1 and 3.2 as at the reporting date, it did not comply with those Best Practice Recommendations during the entire period ended 31 December 2005.

Principle 4 – Safeguard integrity in financial reporting

CEO/CFO Sign-Off

The Chief Executive Officer and the Chief Financial Officer have provided a written statement to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and that operational results are in accordance with relevant accounting standards.

Board Committees

The Board carries out its duties and responsibilities through a number of Board Committees, namely:

(a) Audit & Compliance Committee.

(b) Nomination & Remuneration Committee.

The Board Committees are governed by Charters which are available on the corporate governance section of the Company's website.

Audit & Compliance Committee

The principle function of the Audit & Compliance Committee is to assist the Board of Directors and the Company as a whole in fulfilling its responsibilities under the ASX Listing Rules, the Corporations Act, applicable accounting standards and other legislation and regulations. To this end, the Audit & Compliance Committee provides advice to the Board of Directors on all matters pertaining to audit and risk management.

The Audit & Compliance Committee is comprised of independent, non-executive directors only. The Chair of the Audit & Compliance Committee is not the Chairman of the Board, but it is noted that the Chairman of the Board is a member of the Audit & Compliance Committee. The members of the Audit & Compliance Committee are Christine Bennett (Chair), Denis Wade and Rob Thomas.

The Audit & Compliance Committee meets as required and, generally speaking, at least twice per year. Minutes of meetings of the Audit & Compliance Committee are provided to members of the Board.

Reporting requirement

As noted above, the Audit & Compliance Committee comprises only independent, non-executive directors and is chaired by Christine Bennett (who is not the Chair of the Board). However, in the period up to and including the preparation and finalisation of the Company's inaugural interim financial report in July 2005, Rob Thomas acted as Chairman of the Audit & Compliance Committee and as Chairman of the Board. In accordance with Best Practice Recommendation 4.3, he has relinquished the role of Chair of the Audit & Compliance Committee in favour of Christine Bennett. Rob Thomas, due mainly to his extensive financial industry experience, remains as a member of the Audit & Compliance Committee.

It is also noted that the Company's first audit has recently been completed. The audit was conducted by Grant Thornton who was selected by the Board of Directors following a review of several suitably qualified providers. Further, the Board sought independent advice from its corporate advisers in relation to the selection of Grant Thornton as the Company's auditors. Given the Company's limited life as a public company, no policy has been determined by the Board in relation to the rotation of external audit engagement partners or whether, for example, Board vacancies may be filled by present or past audit partners. The Board will

address these and related issues in due course. On this basis, the Company has not complied with the requirements of Best Practice Recommendation 4.5 concerning the disclosure of information on the Company's website regarding the publication of the Company's policies on external auditor appointment and selection.

Principle 5 – Make timely and balanced disclosure

Continuous Disclosure

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 complying with its continuous disclosure requirements, the Company has:

(a) adopted a Continuous Disclosure Policy; and

(b) formed 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.

It should be noted that, in performing its duties, the Continuous Disclosure Committee is authorised to seek assistance from the Company's legal advisers as required. All determinations of the Continuous Disclosure Committee must be documented.

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's Continuous Disclosure Policy was adopted soon after the Company's listing on the ASX. In consequence, the Company has complied with the requirements of Best Practice Recommendation 5.2 for the vast majority, but not all, of the period ended 31 December 2005.

Principle 6 – Respect the rights of shareholders

Shareholder interaction

As noted above in the discussion concerning Principle 5 (Make timely and balanced disclosure), the Company has adopted a Continuous Disclosure Policy. Importantly, Section 5 of the Continuous Disclosure Policy (titled "Shareholder Communication") explains the approach which the Company employs in relation to its dealing with shareholders.

This component of the Continuous Disclosure Policy confirms that it is a fundamental objective of the Company to establish, maintain and promote effective procedures for shareholders to communicate with the Board and for directors to respond to shareholders' concerns.

Pursuant to its commitment to respect the rights of its shareholders and, particularly, to promote and exhibit effective shareholder communication, the Company:

(a) Keeps an up-to-date website which includes an "Investor Centre". The Investor Centre has been specifically designed to provide shareholders with appropriate levels of (past and present) information concerning the Company.

(b) Has, via the "Email Alerts" system, created a system whereby shareholders and other interested parties can receive immediate notification of new announcements made by the Company.

(c) Periodically prepares Shareholder Updates which provides useful information regarding the status of the Company's affairs.

In addition to the above, the Company's auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Reporting requirement

The Company adopted the Code of Conduct (inclusive of its Shareholder Communication policy) during the course of 2005 and, whilst the Company complies with Best Practice Recommendation 6.1 as at the reporting date, it did not fully comply during the entire period ended 31 December 2005.

Corporate Governance Statement (continued)

Principle 7 – Recognise and manage risk

Risk Management

Risk is inherent in all activities undertaken by HeartWare. Many of these risks are beyond the control of the Company. It is therefore important that risk be mitigated on a continuous basis, particularly if the Company is to preserve shareholder value.

The Board, directly and via the Audit & Compliance Committee, works with management on an ongoing basis within the Company's risk framework to mitigate the risks to the Company's business as it may evolve over time. Specifically the Audit & Compliance Committee is responsible for reviewing and assessing internal control systems, the procedures for identifying risk and the method to control any adverse effect on the Company and its business.

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.

Management is responsible for developing risk mitigation plans and implementing risk reduction strategies and reporting to the Board of Directors and the Audit & Compliance Committee on developments related to risk.

The Company presently does not have a specific internal audit or risk management dedicated employee. Instead, the Company has formed the Risk Management Team which, under the leadership of the Chief Executive Officer, has been requested to draw together from management ranks a group who periodically meet to identify and assess specific business risks. The Risk Management Team has a strong understanding of all HeartWare's business plans, objectives and values as well as a broad variety of professional experiences. Based on reviews of each segment of HeartWare's business, an overall profile of the risks of HeartWare is established.

In addition to the above, in late 2005 the Company commissioned a corporate governance review by the Company's external U.S. legal provider with a view to the Company transitioning towards Sarbanes-Oxley compliance. It should be appreciated that these reviews are an ongoing and iterative process which will drive change within the organisation over a long period of time.

It is acknowledged that no risk management system can provide total assurance that HeartWare's risks will be fully mitigated. HeartWare's approach is therefore not to eliminate risk, rather to manage the risks inevitably involved in many corporate activities so as to maximise opportunities and minimise negative outcomes.

As HeartWare continues to mature, it is envisaged that it will establish an internal audit programme as well as recruit experienced individuals to manage and oversee the Company's risk management function.

CEO and CFO Reporting

The Chief Executive Officer and the Chief Financial Officer have made the following declarations to the Board of HeartWare with regard to the report of HeartWare Limited and its controlled entities ("the HeartWare Group") for the reporting period ended 31 December 2005:

(a) The financial records of the HeartWare Group for the period have been properly maintained in accordance with Section 286 of the Corporations Act 2001 ("the Act").

(b) The financial statements and notes give a true and fair view in all material respects (within the meaning of that term in Section 295A(2)(c) of the Act) and comply with relevant Australian accounting standards.

(c) There are reasonable grounds to believe that the risk management and internal compliance and control systems of the HeartWare Group are operating efficiently and effectively, in all material respects.

(d) The statements made in (a) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors.

Reporting requirement

The Company adopted the Risk Management Policy, and a number of other important policies, during the course of 2005 and, whilst the Company complies with Best Practice Recommendation 7.1 as at the reporting date, it did not comply with that Best Practice Recommendation during the entire period ended 31 December 2005.

Principle 8 – Encourage enhanced performance

Nomination & Remuneration Committee

During the course of the year, the Board of Directors formed the Nomination & Remuneration Committee, the members of which are all non-executive directors. The Nomination & Remuneration Committee meets as frequently as required and, generally speaking, not less than annually.

The role of the Nomination & Remuneration Committee is to assist and advise the Board of Directors on matters relating to the appointment and remuneration of the non-executive directors, the Chief Executive Officer and other key employees of the HeartWare Group.

As HeartWare has just completed its inaugural financial period since listing on the ASX, the Company has not yet established a process for reviewing the performance of non-executive directors. However, the Board intends to establish such a process which shall include, as a minimum, self evaluation, a peer evaluation and an evaluation of the non-executive directors by the senior executive team. It is expected that an independent external consultant will be utilised to facilitate this process and it may be extended to include evaluation of the Board and Committee structures, functions and processes.

A review of the performance of each of the Chief Executive Officer and the Chief Financial Officer is proposed to be conducted, at least, annually. Further details of the relevant review process are set out in the Remuneration Report.

Reporting requirement

As noted above, the Company has only recently had its first anniversary as an entity listed on the ASX and therefore has not, at the date of this report, undertaken a performance evaluation for the Board or its members. As the performance evaluation process has not yet been finalised for non-executive directors, no disclosure regarding the same has been available on the Company's website. Accordingly, the Company has not complied with the requirements of Best Practice Recommendation 8.1.

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

Principle 9 – Remunerate fairly and responsibly

Remuneration

As noted above, the Nomination & Remuneration Committee is responsible for advising the Board in relation to, amongst other things, the remuneration policies and practices adopted and applied by the HeartWare Group.

HeartWare has adopted a performance appraisal system for all employees. This performance appraisal system incorporates elements of a 360 degree review format whereby feedback is provided "both ways" between managers (at all levels) and their direct reports. The above is the preliminary step leading to a process where department leaders, in combination with senior management, make recommendations regarding salaries, bonuses, succession planning and other related matters. These recommendations are then further developed in conjunction with wider corporate and operational reviews (including the budgeting process) with a view to, in certain circumstances, a written recommendation being made by the Chief Executive Officer to the Nomination & Remuneration Committee.

The Nomination & Remuneration Committee considers recommendations made to it by the Chief Executive Officer and, where appropriate, makes further recommendations to the Board of Directors.

During the course of the 2005 review process, the Nomination & Remuneration Committee requested that an internal analysis of comparable remuneration practices be undertaken by the executive team in relation to various senior employees. This review included internal benchmarking against 10 ASX listed companies which were perceived to be broadly comparable with HeartWare in terms of scale and stage of development. This was undertaken in the context of an assessment of the Company's progress towards its stated goals. This review was conducted for the purposes of assisting the Nomination & Remuneration Committee to make recommendations to the Board of Directors regarding the remuneration practices of a number of key executives.

Corporate Governance Statement (continued)

In addition to the above, the Company has implemented the HeartWare Employee Share Option Plan ("ESOP"), details of which were set out in the Company's prospectus. It is also noted that the Board amended the ESOP during the course of 2005 to allow for the grant of longer term options pursuant to the Company's perception of established U.S. medical device industry practice. Further, it is the Company's intention to submit the ESOP to shareholders for approval at the Company's forthcoming inaugural Annual General Meeting.

The Company does not have any schemes for retirement benefits for non-executive directors, other than statutory superannuation.

Further information regarding the remuneration practices of the HeartWare Group are set out in the Remuneration Report. The Remuneration Report also outlines various details relating to executives' and directors' remuneration during the reporting period ended 31 December 2005. Information included in the Remuneration Report is incorporated into this report by reference.

Reporting requirement

Due to its recent listing on the ASX, the Company has not yet held a meeting of its shareholders. On this basis, it has not been possible for the Company to comply with the requirement to obtain shareholder approval for its equity compensation plans and therefore the Company has not complied with the requirements of Best Practice Recommendation 9.4.

Principle 10 – Recognise the legitimate interests of stakeholders

Code of Conduct

Various information concerning the Company's Code of Conduct is set out above in the narrative on ASX Guideline Principle No. 3 (titled "Promote ethical and responsible decision-making").

The Company would add that, as a newly listed and emerging company, a significant part of the Company's value relates to the manner in which the investment community, and indeed the general public, perceives the Company's behaviour, both in the ethical sense and more broadly in the pursuit of its corporate objectives.

Accordingly (and as noted above) the Board has approved a Code of Conduct which prescribes the principles of ethical behaviour by all employees and officers of the HeartWare Group. The Code of Conduct deals with a wide variety of ethical issues including, without limitation, conflicts of interest, acceptance of gifts, close personal relationships and discrimination.

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 adopted a Code of Conduct during the course of the reporting period ended 31 December 2005 and subsequently made a copy of the Code of Conduct available on the Company's website. Whilst the Company complies with Best Practice Recommendation 10.1 as at the reporting date, it did not comply with that Best Practice Recommendation during the entire period ended 31 December 2005.

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

Rob Thomas
Chairman
27 March 2006

Remuneration Report

Remuneration Policy

The Board of Directors of HeartWare Limited ("HeartWare" or "the Company") acknowledges that the Company's remuneration policies and practices are central to the Company's ability to attract, retain and incentivise its employees. This is of the utmost importance to HeartWare as the depth of employee capabilities directly impacts on HeartWare's ability to achieve corporate objectives in a timely manner and, in consequence, to grow shareholder value.

The Company's remuneration policies are designed to align pay and related (financial) incentives with the interests of shareholders. Performance-related bonuses may be used in limited circumstances at the discretion of the Board. These payments are usually linked to the achievement of specific objectives which are relevant to meeting the Company's business objectives.

The key principles of the HeartWare remuneration policy are as follows:

(a) offer sufficient rewards to attract and retain key employees;

(b) link rewards for executives and staff to the achievement of corporate goals thereby preserving and enhancing value for shareholders;

(c) ensure parity in terms of remuneration amongst executives and staff; and

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

Market Factors

HeartWare acknowledges that the market for medical device employees is highly competitive. As a result, employees in the medical device sector are generally relatively highly remunerated, particularly in the United States. Additionally, HeartWare also contends with the following market factors:

(a) The "LVAD" or circulatory assist segment of the broader medical device sector is an emerging market in which there is substantial competition for appropriately skilled individuals at all levels.

(b) On a global basis, there are a limited number of individuals with significant circulatory assist experience or related device experience (e.g. pacemaker or defibrillator experience).

(c) Because of (a) and (b) above, HeartWare must contend with high levels of competition to attract and importantly, retain suitably qualified staff.

(d) The circulatory assist technology that the Company is developing is highly specialised and highly technical due to the consequences for patients of product failure and the exceedingly high standards for manufacture, training, implanting and gaining regulatory approval for the Company's products.

(e) HeartWare does not, for the time being, have revenue or detailed human data from its products and on this basis, the Company has a more acute "risk profile" than other established medical device companies from the perspective of potential new employees.

(f) The Company's facilities are located in the south-east corridor of the United States which means that, in many instances, potential new employees must consider the additional burden of relocation.

(g) Compared with many of its competitors, HeartWare has adopted a leaner management and organisational structure.

Nomination & Remuneration Committee

The Nomination & Remuneration Committee, consisting of four non-executive directors, advises the Board on remuneration policies and practices generally. In addition the Nomination & Remuneration Committee:

(a) makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors; and

(b) considers recommendations from senior management regarding amendments to existing employee entitlements on an entity-wide basis.

Details of the members of the Nomination & Remuneration Committee are set out in the Directors Report and other relevant information concerning the Nomination & Remuneration Committee is set out in the Corporate Governance Statement.

Philosophy

Because of competition and related factors set out above, HeartWare executives are well remunerated, in line with the Company's perception of medical device industry remuneration practices.

It is the Company's view that this philosophy is necessary if HeartWare is to be a leader in the circulatory assist market and more importantly, reach its corporate objectives in a timely manner.

Remuneration Report (continued)

During the second half of 2005, the Company undertook an internal review which benchmarked the remuneration of HeartWare executives against that of a number of ASX-listed comparable entities. The Company envisages that, in the future, this internal review process and the Company's wider remuneration processes will be assisted or supplemented by professional advice obtained from expert (independent) remuneration consultants.

Additional Considerations

In providing this Remuneration Report, the Board of Directors believe that the following factors should also be considered relevant:

(a) The ordinary shares of HeartWare Limited were listed for quotation on the Australian Stock Exchange on 31 January 2005. As such, HeartWare has only recently completed its initial year as a public company.

(b) Consequently, the Board has not sought to review or amend the remuneration entitlements of the directors or employees during the course of the 2005 reporting period (except in limited circumstances).

(c) Towards the end of 2005, HeartWare implemented a new performance appraisal system which is focussed on standardising the employee review process, including remuneration considerations.

Executive remuneration and other terms of employment will, in future, be reviewed annually by the Nomination & Remuneration Committee having regard to performance against goals set at the start of the year, relevant comparative information and where appropriate, independent expert advice.

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.

Base salaries are set by reference to the scope of responsibilities, the nature of the relevant individual's role and in relation to senior executives, the extent of ongoing contributions to the Company's strategic direction. Other relevant considerations include perceived long term value to HeartWare, succession planning and retention.

In addition to base salaries, all employees receive retirement benefits which reflect the different statutory entitlements in the country in which the relevant employee is based (e.g. 401K in the United States and statutory superannuation in Australia). Further, all US based employees participate in corporate coverage, including life and disability insurance (short and long term), health and group dental.

Performance-based bonuses are an important element of the Company's remuneration strategy. These 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 always to corporate cash flow considerations).

The Board notes that the above operates in tandem with the Company's ESOP which is primarily utilised for the purposes of employee retention and long term incentives. Further details of the ESOP are set out at the bottom of this Remuneration Report.

All benefits received by Directors and Specified Executives (defined terms), together with all equitable interests in the Company, are set out in a schedule which is located at the end of this Remuneration Report.

Employment Arrangements

Where the remuneration of HeartWare's employees is denominated in US dollars, the Australian dollar equivalent is provided using the average exchange rate for 2005 (i.e. $1 = US$0.7629).

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

Stuart McConchie – Chief Executive Officer and Executive Director

Overview

Mr McConchie 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.

Details of Mr McConchie's background and experience are set out in the attached Directors' Report.

Mr McConchie resides in Sydney, Australia but travels frequently to the United States of America. Mr McConchie's employment arrangements are denominated in Australian dollars.

Employment Arrangements
Mr McConchie has a service agreement with HeartWare Limited. Set out below is an overview of the key elements of this agreement:

(a) Annual salary of $470,000, including superannuation contributions.

(b) Eligible to participate in a corporate performance bonus scheme (if any).

(c) In consideration of Mr McConchie (and his family) relocating from the United Kingdom to Australia to take up the position of Chief Executive Officer, the following amounts were also payable to or on behalf of Mr McConchie on commencement of his employment:

  (i.) Relocation costs not exceeding $62,000 (subject to the provision of appropriate documentation).

  (ii.) Three months rental accommodation.

(d) A one-off relocation allowance of $100,000, payable in twelve monthly instalments commencing in August 2005.

(e) Reimbursement of one business class return airfare to the United Kingdom each year for Mr McConchie's spouse.

(f) On commencement of employment, the grant of 4,585,228 options under the Company's Employee Share Option Plan ("ESOP"), details of which are as follows:

  (i.) 1,146,307 ESOP options vesting on 24 January 2006 with an exercise price of $0.60. Pursuant to the ASX Listing Rules, these options are escrowed and may not be exercised until 31 January 2007.

  (ii.) 1,146,307 ESOP options vesting on 24 January 2007 with an exercise price of $0.75. Pursuant to the ASX Listing Rules, these options are escrowed and may not be exercised until 31 January 2007.

  (iii.) 1,146,307 ESOP options vesting on 24 January 2008 with an exercise price of $1.00.

  (iv.) 1,146,307 ESOP options vesting on 24 January 2009 with an exercise price of $1.50.

  (v.) Subject to (vi) below, exercise of the above ESOP options is subject to Mr McConchie being employed by the Company on the relevant vesting date.

  (vi.) If the Company terminates the employment of Mr McConchie or Mr McConchie terminates his employment on the basis, acting reasonably, that his role as Chief Executive Officer has effectively been "downgraded", then Mr McConchie is entitled to exercise his vested options and those options which would otherwise vest within twelve months of the date of termination.

The above agreement has an initial term of two years, commencing on the date of the official listing of HeartWare on the Australian Stock Exchange (being 31 January 2005). This initial term will be automatically extended for additional terms of twelve months' duration unless the Company or Mr McConchie gives notice that the term is not to be extended.

In addition to the above, the Company or Mr McConchie may terminate the agreement by giving six months' notice.

David McIntyre – 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), risk 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 a member of CPA Australia and the Law Society of New South Wales (as well as being admitted as a Solicitor of the Supreme Court of New South Wales).

Mr McIntyre resides in Sydney, Australia but travels frequently to the United States of America. Mr McIntyre's employment arrangements are denominated in Australian dollars.

Employment Arrangements
Mr McIntyre has a service agreement with HeartWare Limited. Set out below is an overview of the key 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.

(d) On commencement of employment, the grant of 764,204 ESOP options as follows:

(i.) The ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the Company's listing on the Australian Stock Exchange.

(ii.) Exercise price for each tranche being $0.60, $0.75, $1.00 and $1.50.

(iii.) Subject to (iv) below, exercise of the above ESOP options is subject to Mr McIntyre being employed by the Company on the relevant vesting date.

(iv.) If the Company terminates the employment of Mr McIntyre, then Mr McIntyre is entitled to exercise his vested options and those options which would otherwise vest within twelve months of the date of termination.

(e) Eligible to participate in a corporate performance bonus scheme (if any).

The above agreement does not contain a fixed term and may be terminated by either party on three months' notice.

William (Bill) Rissmann – Vice President Manufacturing and Product Development

Overview

As Vice President Manufacturing and Product Development, Mr Rissmann is responsible for HeartWare's manufacturing processes and product development functions including final product development, assembly methods, plant layout, workflow and workforce utilisation.

Mr Rissmann holds a Bachelors Degree and Masters Degree in Electrical Engineering (Bioengineering) from the University of Illinois as well as a Masters of Business Administration from the Carlson School of Management at the University of Minnesota. Mr Rissmann is a member of the Institute of Electrical and Electronics Engineers.

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

Employment Agreement

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

(a) Annual salary of $294,927 per annum (being US$225,000).

(b) A one-off payment of $32,770 on commencement of employment (being US$25,000).

(c) Full participation in the Company's US employee benefits program, including life and disability insurance (short and long term), health and group dental.

(d) Reimbursement of relocation costs not exceeding $98,309 to compensate Mr Rissman for relocating from California to Florida (being US$75,000).

(e) Participation in the (401K) pension plan.

(f) Eligible to participate in a corporate performance bonus scheme (if any).

(g) On commencement of employment, the grant of 764,204 ESOP options with an exercise price of $0.50. Subject to (h) below, these ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the commencement of employment.

(h) In certain circumstances, the termination of Mr Rissmann's employment within twelve months of a "Change of Control" (e.g. a merger or takeover) will permit Mr Rissmann 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.

Jane Reedy – Vice President Clinical and Marketing

Overview

As Vice President Clinical and Marketing, Ms Reedy is 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 employment arrangements are denominated in US dollars.

Employment Agreement
Ms Reedy has a service agreement with HeartWare, Inc.. Set out below is an overview of the key elements of this agreement:

(a) Annual salary of $262,258 per annum (being US$200,000).

(b) A one-off payment of $52,432 on commencement of employment (being US$40,000).

(c) Full participation in the Company's US employee benefits program, including life and disability insurance (short and long term), health and group dental.

(d) Participation in the (401K) pension plan.

(e) Eligible to participate in a corporate performance bonus scheme (if any).

(f) On commencement of employment, the grant of 1,146,306 ESOP options with an exercise price of $0.50. Subject to (g) below, these ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the commencement of employment.

(g) In certain circumstances, the termination of Ms Reedy's employment within twelve months of a "Change of Control" (e.g. a merger or takeover) will permit Ms Reedy 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 – 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 the 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 employment arrangements are denominated in US dollars.

Employment Agreement
Mr LaRose has a service agreement with HeartWare, Inc.. Set out below is an overview of the key elements of this agreement:

(a) Annual salary of $229,388 per annum (being US$175,000).

(b) Full participation in the Company's US employee benefits program, including life and disability insurance (short and long term), health and group dental.

(c) Participation in the Company's ESOP. Further details of grants of ESOP options to Mr LaRose are set out in the Notes to the Financial Statements.

(d) Participation in the (401K) pension plan.

(e) Eligible to participate in a corporate performance bonus scheme (if any).

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

Howard Leibman – Director, Corporate Development

Overview
As Director Corporate Development, Mr Leibman is responsible for the Company's investor relations and shareholder liaison functions, with a focus on establishing HeartWare's presence in the US capital markets.

Mr Leibman holds a Bachelor of Engineering (Electrical) and a Bachelor of Arts from the University of New South Wales, and a Masters of Business Administration from the Australian Graduate School of Management and London Business School.

Mr Leibman resides in Sydney, Australia. Mr Leibman's employment arrangements are denominated in Australian dollars.

Employment Arrangement
Mr Leibman has a service agreement with HeartWare Limited. Set out below is an overview of the key elements of this agreement:

(a) Annual salary of $250,000 per annum, including superannuation.

(b) A one-off cash bonus linked to a capital raising by the Company.

(c) On commencement of employment, the grant of 764,204 ESOP options as follows:

(i.) The ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the commencement of employment.

(ii.) Exercise price for each tranche being $0.60, $0.75, $1.00 and $1.50.

(iii.) Subject to (iv) below, exercise of the above ESOP options is subject to Mr Leibman being employed by the Company on the relevant vesting date.

(iv.) If the Company terminates the employment of Mr Leibman, then Mr Leibman is entitled to exercise his vested options and those options which would otherwise vest within twelve months of the date of termination.

(d) Eligible to participate in a corporate performance bonus scheme (if any).

The above agreement does not contain a fixed term and may be terminated by either party on three months' notice.

HeartWare Limited Employee Share Option Plan ("ESOP")

The Company has adopted the ESOP which allows the Company to grant options over unissued ordinary shares in the Company ("Shares") to employees and directors.

The ESOP is primarily designed to provide employees and directors with the opportunity to participate in the growth and success of the Company and to provide an incentive for such participants to have a greater involvement with, and to focus on, the long term goals of the Company. The Board of Directors believe that this is an important component of executive retention and central to the long-term development of the Company.

Each option issued under the ESOP allows the holder to subscribe for and be issued with one ordinary share in the capital of the Company. In accordance with the ESOP Rules, all ESOP options issued after the Company became listed on the Australian Stock Exchange must have an exercise price which is not be less than the weighted average sale price of Shares sold during the five days (or such other period as the Board determines) prior to the issue of the ESOP option.

Options may generally be exercised after they have vested and prior to the specified expiry date if applicable exercise conditions are met. The expiry date can be for periods of up to 10 years.

Exercise conditions (if any) are determined by the Board and may include performance criteria set by the Board. In addition, options may be exercised at any time, subject to approval by the Board of Directors, if the Company enters into a scheme of arrangement or a takeover occurs, or if an entity acquires a relevant interest in sufficient Shares to enable them to replace all or a majority of the Board of Directors.

There are a number of events that may cause options to lapse under the ESOP including, for example, where a participant ceases to be an employee or Director of the Company for whatever reason.

Option holders will not be entitled to participate in new issues of capital offered to shareholders of the Company. However, in the event of any bonus issue of Shares by the Company, the number of Shares which an option holder is entitled to on exercise of the option will be adjusted accordingly.

ESOP options are not listed for quotation on the Australian Stock Exchange.

Options issued under the ESOP are not transferable, except during a takeover in which case the options can be transferred to the bidder.

The Board will seek shareholder approval of the terms of the ESOP Rules at the Company's forthcoming inaugural Annual General Meeting.

This report includes pages 53 to 61 (inclusive) and is made in accordance with a resolution of the Board of Directors.

Rob Thomas
Chairman
27 March 2006

Remuneration Benefits – Specified Directors

	PRIMARY			POST EMPLOYMENT		EQUITY		OTHER BENEFITS	NOTES	TOTAL
	SALARY AND FEES	CASH BONUS	NON-MONE-TARY	SUPER	RETIRE-MENT BENEFITS	OPTIONS*	% OF TOTAL REMUN.			
Specified Directors										
Thomas, R (Non-Executive Chairman)	120,000	–	–	10,800	–	62,852	32%	–	(a) (b)	193,652
Harrison, S (Deputy Chairman, Non-Executive Director)	100,000	–	–	9,000	–	–	0%	–	(a) (c)	109,000
Wade, D (Non-Executive Director)	60,000	–	–	5,400	–	7,838	11%	–	(a) (d)	73,238
Bennett, C (Non-Executive Director)	60,000	–	–	5,400	–	7,838	11%	–	(a) (e)	73,238
McConchie, S (Executive Director, Chief Executive Officer)	414,526	–	–	38,807	–	152,514	19%	177,646	(a) (f)	783,493
Total Remuneration Specified Directors	**754,526**	**–**	**–**	**69,407**	**–**	**231,042**		**177,646**		**1,232,621**

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

Remuneration Report (continued)

Remuneration Benefits – Specified Executives

	PRIMARY			POST EMPLOYMENT		EQUITY		OTHER BENEFITS	NOTES	TOTAL
	SALARY AND FEES	CASH BONUS	NON-MONE-TARY	SUPER	RETIRE-MENT BENEFITS	OPTIONS*	% OF TOTAL REMUN.			
Specified Executives										
Rissmann, W (VP – Manuf. & Product Develpmt)	294,927	32,770	–	–	–	12,571	3%	110,598	(g)	450,866
Reedy, J (VP – Clinical & Marketing)	267,775	52,432	–	–	–	20,345	6%	9,031	(h)	349,583
LaRose, J (Chief Scientific Officer)	233,597	–	–	–	–	574,329	70%	11,976	(i)	819,902
McIntyre, D (CFO & Company Secretary)	184,179	–	11,217	16,576	–	26,843	11%	–	(j)	238,815
Leibman, H (Director, Corporate Development)	160,845	–	–	14,476	–	12,241	7%	–	(k)	187,562
Total Remuneration Specified Executives	**1,141,323**	**85,202**	**11,217**	**31,052**	**–**	**646,329**		**131,605**		**2,046,728**

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

Notes:

(a) No directors' fees were paid during 2004. The payment of directors' fees commenced on 1 January 2005.

Mr McConchie does not receive a directors' fee.

(b) Options granted to Mr Thomas include 764,204 ESOP options exercisable at $0.20 and 500,000 Incentive Options exercisable at various exercise prices between $60 and $1.50. The ESOP options were granted mainly in recognition of Mr Thomas' significant (unpaid) contributions to the acquisition of HeartWare, Inc. by the Company.

Mr Thomas, as Chairman, receives directors' fees totalling $120,000 per annum, excluding superannuation.

(c) Dr Harrison, as Deputy Chairman, receives directors' fees of $100,000 per annum, excluding superannuation.

(d) Dr Wade, as a non-executive director, receives directors' fees of $60,000 per annum, excluding superannuation.

(e) Dr Bennett, as a non-executive director, receives directors' fees of $60,000 per annum, excluding superannuation.

(f) The Other Benefits provided to Mr McConchie relate mainly to the relocation of Mr McConchie (and his family) from the United Kingdom to Australia in order to assume the position of HeartWare's Chief Executive Officer. Further details of Mr McConchie's contractual arrangement with HeartWare are set out at the beginning of the Remuneration Report. Except for (iv) below, the Other Benefits are non-recurring (i.e. one-off). The elements of the Other Benefits are as follows:

(i.) The reimbursement of moving and relocation costs totalling $61,239.

(ii.) Payment of three months rental accommodation totalling $34,938.

(iii.) Payment of a relocation allowance totalling $71,903. As at the reporting date, a further non-recurring amount of $20,097 remains payable to Mr McConchie during 2006 (by way of monthly instalments not exceeding $8,000).

(iv.) Payment of one business class airfare to the United Kingdom for Mr McConchie's spouse ($9,565).

(g) Amounts set out above for Mr Rissmann refer to those benefits provided to Mr Rissmann from the commencement of his employment with HeartWare, Inc. on 25 April 2005.

The Other Benefits provided to Mr Rissmann relate mainly to the relocation of Mr Rissmann (and his family) from California to Florida in order to assume the position of Vice President Manufacturing and Product Development. Further details of Mr Rissmann's remuneration package are set out at the beginning of the Remuneration Report which precedes the Financial Statements and below:

(i.) Cash bonus refers to non-recurring sign-on payment on commencement of employment of $32,770 (US$25,000).

(ii.) Other Benefit includes a non-recurring moving and relocation cost totalling $100,076 (US$76,348). The balance of this amount refers to the cost of Mr Rissmann's participation in the Company's medical and insurance scheme.

(h) Amounts set out above for Ms Reedy refer to those benefits provided to Ms Reedy from the commencement of her employment with HeartWare, Inc. on 16 May 2005. Included in the salaries and fees amount is $101,406 (US$70,913) paid to Ms Reedy as a consultant for services rendered prior to her commencement as a full-time employee.

Cash Bonus refers to a non-recurring sign-on payment on commencement of employment of $52,432 (US$40,000).

Other Benefits refers to the cost of Ms Reedy's participation in the Company's medical and insurance scheme.

(i) Other Benefits refers to the cost of Mr LaRose's participation in the Company's medical and insurance scheme.

(j) Amounts set out above for Mr McIntyre refer to those benefits provided to Mr McIntyre from the commencement of his employment with HeartWare Limited on 28 February 2005.

Non-monetary refer to the cost to the Company of providing a maintained motor vehicle and car parking space.

(k) Amounts set out above for Mr Leibman refer to those benefits provided to Mr Leibman from the commencement of his employment with HeartWare Limited on 18 April 2005.

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

Independent Audit Report

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

INDEPENDENT AUDIT
TO THE MEMBERS OF HEARTWARE LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for HeartWare Limited (the company) and the company and its controlled entities (the consolidated entity), for the 13 month period ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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Grant Thornton

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF HEARTWARE LIMITED (cont)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of HeartWare Limited is in accordance with:

(a) 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 2005 and of their performance for the period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 27 March 2006

Auditors Independence Declaration

Grant Thornton

Chartered Accountants
Business Advisers and Consultants

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 13 month period ended 31 December 2005, 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 27 March 2006

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Directors' Declaration

HEARTWARE LIMITED (ABN 34 111 970 257) AND CONTROLLED ENTITIES DIRECTORS' DECLARATION

The directors of HeartWare Limited declare that:

(a) the financial statements and notes, set out on pages 66 to 92, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position as at 31 December 2005 and of the performance for the reporting period ended on that date of the Company and economic entity; and

(ii) complying with Accounting Standards in Australia 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 for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001;

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

(iii) the financial statements and notes for the financial period 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
27 March 2006

Statement of Financial Performance
for the 13 Month Reporting Period Ended 31 December 2005

	NOTE	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
Revenues from ordinary activities	2	1,613,569	1,599,610
Depreciation and amortisation expenses	3	(2,760,154)	(56,459)
Administrative and facilities expenses		(293,663)	(87,836)
Audit, financial and taxation services		(138,856)	(126,159)
Consultants – clinical, regulatory and medical		(318,505)	–
Consultants – corporate advisory and investor relations		(525,019)	(311,236)
Contractor expenses		(524,962)	(8,560)
Information technology expense		(203,586)	(59,900)
Insurance expenses		(120,250)	(95,911)
Employment and directors' expenses		(5,564,635)	(1,596,425)
Legal expense – intellectual property protection, litigation costs and related expenditure		(1,217,070)	(748,586)
Legal expense – post ASX listing, corporate and commercial advisory		(358,764)	(196,397)
Raw materials and consumables used		(776,255)	–
Rental expense and outgoings		(495,116)	(99,076)
Research and development expenses		(282,208)	–
Travel, accommodation and related expenses		(1,144,001)	(656,833)
Trials – animal and human		(783,826)	–
Validation and verification expense		(386,944)	–
Other expenses from ordinary activities		(403,617)	(182,649)
(Loss) from ordinary activities before income tax expense		**(14,683,862)**	**(2,626,417)**
Income tax (expense)/benefit relating to ordinary activities	5	–	–
(Loss) attributable to members of HeartWare Limited		**(14,683,862)**	**(2,626,417)**
Total revenues, expenses and valuation adjustments attributable to members of HeartWare Limited and recognised directly in equity		**–**	**–**
Total changes in equity other than those resulting from transactions with owners as owners	22	**(14,683,862)**	**(2,626,417)**
		CENTS	
Basic and diluted earnings per share (cents per share)	6	**(11.12)**	

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

Statement of Financial Position as at 31 December 2005

	NOTE	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
Current Assets			
Cash assets	8	13,679,897	13,358,001
Receivables	9	157,076	174,289
Other	10	333,133	262,233
Total Current Assets		**14,170,106**	**13,794,523**
Non-Current Assets			
Other financial assets	11	–	58,901,571
Property, plant and equipment	13	1,807,096	318,260
Intangible assets	14	46,151,664	–
Total Non-Current Assets		**47,958,760**	**59,219,831**
Total Assets		**62,128,866**	**73,014,354**
Current Liabilities			
Payables	15	1,410,980	294,113
Provisions	16	139,639	21,698
Other	17	23,273	23,273
Total Current Liabilities		**1,573,892**	**339,084**
Non-Current Liabilities			
Interest-bearing liabilities	18	1,446,205	1,446,205
Other	19	34,909	34,909
Total Non-Current Liabilities		**1,481,114**	**1,481,114**
Total Liabilities		**3,055,006**	**1,820,198**
Net Assets		**59,073,860**	**71,194,156**
Equity			
Contributed equity	20	73,820,573	73,820,573
Reserves	21	(62,851)	–
Accumulated losses	22	(14,683,862)	(2,626,417)
Total Equity		**59,073,860**	**71,194,156**

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

Statement of Cash Flows
for the 13 Month Reporting Period Ended 31 December 2005

	NOTE	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
Cash flows from operating activities			
Receipts from customers		–	–
Payments to suppliers and employees		(12,265,611)	(3,228,103)
Interest received		831,970	821,320
Interest paid		(206)	(206)
Net cash used in operating activities	25(a)	**(11,433,847)**	**(2,406,989)**
Cash flows from investing activities			
Loans to subsidiary		–	(17,214)
Cash assets acquired on the acquisition of subsidiary	25(b)	163,493	–
Payments for purchase of property, plant and equipment		(1,865,348)	(374,719)
Payments for shares in subsidiary		–	(13,662,650)
Payments for research and development		(2,729,725)	–
Payments for intangible assets		(274,249)	–
Net cash used in investing activities		**(4,705,829)**	**(14,054,583)**
Cash flows from financing activities			
Proceeds from issues of shares		32,499,229	32,499,229
Payments for share issue expenses		(2,679,656)	(2,679,656)
Net cash provided by financing activities		**29,819,573**	**29,819,573**
Net increase in cash held		**13,679,897**	**13,358,001**
Cash at 26 November 2004		**–**	**–**
Cash at 31 December 2005	8	**13,679,897**	**13,358,001**

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

Notes to the Financial Statements for the 13 Month Reporting Period Ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Financial Statements are 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.

The financial report covers the economic entity of HeartWare Limited ("HeartWare" or "the Company") and controlled entities, and HeartWare as an individual parent entity.

The financial report has been prepared on an accruals basis utilising historical costs and, except where stated, does not take into account changing money values or current values of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

As the current financial year commenced on 26 November 2004 (i.e. prior to 1 January 2005), the financial report for the reporting period ended 31 December 2005 is subject to Australian GAAP rather than Australian equivalents of International Financial Reporting Standards ("AIFRS") as early adoption of AIFRS is not permitted. The financial report therefore represents the results for the 13 month period from incorporation to 31 December 2005 and there are no comparison figures.

HeartWare is a listed public company, the ordinary shares of which are listed for quotation on the Australian Stock Exchange Limited. HeartWare is incorporated and domiciled in Australia.

These accounting policies have been consistently applied, unless otherwise stated.

(b) Principles of Consolidation

Controlled Entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Where controlled entities have entered or left the economic entity during the reporting period, their operating results have been included from the date control was obtained or until the date controlled ceased.

Transactions Eliminated on Consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax ("GST").

Sales of Goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of goods passes to the customer.

Interest Revenue

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

Sale of Non-Current Assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Foreign Currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts receivable in foreign currencies are brought to account as exchange gains or losses in the Statement of Financial Performance as they arise.

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rate changes. Any material gain or loss arising at the time of entering into hedge transactions is deferred and brought to account in the profit from ordinary activities over the lives of the hedges.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale, are deferred and included in the measurement of the purchase or sale.

During the course of the reporting period the Company entered into a forward contract to hedge against possible depreciation of the Australian dollar against the US dollar. All gains or losses made on the forward contract are brought to account in the Statement of Financial Position.

(f) Taxation

The economic entity adopts the liability method of tax-effect accounting.

Income tax expense is based on the profit (loss) from operating activities adjusted for permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(g) Acquisition of Assets

Initial Recognition

All assets acquired including plant and equipment and intangibles are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Subsequent Additional Costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

Recoverable Amount

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

In determining the recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(h) Cash and Cash Equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount.

Interest is recognised as an expense as it accrues.

(i) Receivables

The collectables of debts is assessed at balance date and provision is made for any doubtful accounts.

(j) Investments

Investments in controlled entities are carried in the Company's Financial Statements at the lower of cost and recoverable amount.

(k) Depreciation and Amortisation

Useful Lives

All assets, including intangibles and capitalised lease assets, have limited useful lives. All assets are depreciated/amortised using the straight line method over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use.

The exception to the above is finance lease assets which are amortised over the unexpired term of the relevant lease, or where it is likely the economic entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated from the time the asset is held ready for use.

The depreciation rates used for each class of asset are as follows:

	2005
Plant and Equipment	
Plant and equipment	8–33%
Leasehold improvements	33%
Intangibles	
Patents and trademarks	5–10%
Intellectual Property	5%
Research and development costs	5%

(l) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payables are normally settled within 60 days.

(m) Employee Benefits

Wages, Salaries and Annual Leave

The provisions for employee entitlements for wages, salaries and annual leave represent present obligations resulting from employees' services provided up to balance date.

Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Superannuation

Contributions are made by the economic entity to employee superannuation funds are charged as expenses when incurred.

(n) Provisions

A provision is recognised when a legal or constructive obligation exists, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, except where noted below.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Intangible Assets and Expenditure Carried Forward

Research and Development Costs

Research and development costs are recognised as an expense when incurred except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected beyond any reasonable doubt, to be recoverable.

Any deferred development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial production of the project.

The unamortised balance of development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written-off as an expense in the profit and loss statement.

Patents and Trademarks

Patents and Trademarks are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

Intellectual Property

Intellectual property represents expenditure on the Company's HVAD technology and is being amortised over the period in which the benefits are expected to be realised.

(p) Contributed equity

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares in the Company are recognised directly in equity as a reduction of the share proceeds received.

(q) Earnings per share ("EPS")

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(r) Adoption of Australian Equivalents to International Financial Reporting Standards ("AIFRS")

The Company is preparing and managing the transition to AIFRS effective for the financial years commencing 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ended 31 December 2006 as the Company's financial year ended 31 December 2005 commenced on incorporation on 26 November 2004 (i.e. prior to 1 January 2005).

On first time adoption of AIFRS, comparatives for the financial period ended 31 December 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made respectively against retained earnings at 1 January 2006.

The economic entity management has assessed the significance of the expected changed and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material difference in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard setters to the current AIFRS or the interpretation of the AIFRS requirements changes from the continuing work of the economic entity AIFRS committee.

Lastly, it should be noted that there is a significant amount of judgement involved in the preparation of reconciliations from current accounting policy to AIFRS. Consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the financial information set out below.

Research and Development Expenditure

AASB 138: Intangible Assets requires that costs associated with research be expensed in the period in which they are incurred. Development costs should be capitalised only after six specific criteria have been met. These criteria include requirements specific to the Company such as:

(a) the technical and commercial feasibility of the asset in use is required to have been established along with a commercially viable market (i.e. there must be an intention to be able to complete the intangible asset and either use it or sell it and demonstrate how the asset will generate future economic benefit); and

(b) the expenditure attributable to the intangible asset during its development is required to have been measured reliably. AASB: 138 Intangible Assets prohibits the recognition of intangible assets arising from research activities or the research phase of an internal project.

In terms of current policy, research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

No impact is expected from the adoption of AIFRS.

Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of the fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the "cash generating unit" level. A "cash generating unit" is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets.

The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The economic entity has reassessed it impairments testing policy and, as at 1 January 2006, the impact of impairment testing is estimated as nil.

Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

In addition (and at present), future income tax benefits of tax losses are only brought to account when realisation of the benefits is "virtually certain". Pursuant to this test, HeartWare has not accrued a future income tax benefit because HeartWare and its controlled entities do not have revenues or profit at this point in time. However, under AASB 112: Income Taxes, this virtual certainty test is replaced by a balance of probabilities. It is likely that this change in accounting policy will lead to deferred tax assets being recognised earlier than under the current accounting policy.

For the reasons stated above, it is the director's view that the balance of probabilities test is not satisfied as at 1 January 2006 and, on this basis, the financial effect on transition to AIFRS at this stage is assessed as nil.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets and Financial Liabilities

Under AASB 139: Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of four categories which will, in turn, determine the accounting treatment of the relevant item.

The classifications are:

(a) Loans and receivables – measured at amortised cost.

(b) Held to maturity – measured at amortised cost.

(c) Held for trading – measured at fair value with fair value changes charged to net profit or loss (fair value excludes disposal costs).

(d) Available for sale – measured at fair value with changes taken to equity, and non-trading liabilities measured at amortised cost.

The current accounting policy is to carry the forward contract at fair value, with changes charged to the Statement of Financial Performance. The Company's policy is in accordance with the requirements of AASB 139: Financial Instruments: Recognition and Measurement.

Share Based Payments

The Company does not currently recognise an expense for options issued to employees. On adoption of AIFRSs, pursuant to AASB 2: Share-based Payments, the Company will recognise an expense for all share-based remuneration, including deferred shares and options, and will amortise those expenses over the relevant vesting periods.

The change in accounting policy will result in additional expenses being recorded and therefore lower earnings. There will be an initial negative impact on opening balances of retained earnings at 1 January 2006 which is estimated as $1,223,382 when retrospective adjustments are made for options that have not vested by 31 December 2005.

Foreign Operations

Under currently policy, the assets and liabilities of integrated operations are translated using temporal rates. Monetary assets and liabilities are translated at exchange rates prevailing at reporting date while non-monetary and revenue and expense items are translated at the average exchange rates. Exchange differences arising on translation are recorded in the statement of financial performance.

Under AASB 121: The Effects of Changes in Foreign Exchange Rates, each entity in the economic entity maintains it accounts in its functional currency, being the currency of the primary economic environment in which the entity operates. The assets and liabilities of foreign operations are translated from the entity' functional currency to the economic entity's presentation currency of Australia Dollars at the exchange rate prevailing at reporting date, while revenue and expenses are translated to Australian Dollars at the average exchange rate. Foreign exchange differences arising on translation are recognised in the foreign currency translation reserve.

The impact of this change at transition date for both the economic entity and the parent entity then would be to increase retained earnings and the foreign currency translation reserve by $702,466.

Listing Costs

Under previous Australian GAAP all costs relating to the initial public offering were deemed to be directly attributable to the raising of new capital and hence were treated as a reduction of equity.

Under AIFRS, some of these costs are deemed to relate to the listing and not specific to the raising of capital. Hence there will be an increase in share capital of $587,441 on 1 January 2006 with a corresponding reduction in retained earnings.

Set out over the page is a reconciliation of Net Profit and Equity recorded under Australian Accounting Standards as compared with that recorded under AIFRS.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)		
Reconciliation of Net Profit		
Net loss reported under Australian Accounting Standards	(14,683,862)	(2,626,417)
Key transitional adjustments:		
– Recognition of share-based payments	(1,223,382)	(1,223,382)
– Share issue costs	(587,441)	(587,441)
Total transitional adjustments	(1,810,823)	(1,810,823)
Net loss under AIFRS	**(16,494,685)**	**(4,437,240)**
Reconciliation of Equity		
Total equity reported under Australian Accounting Standards	59,073,860	71,194,156
Key transitional adjustments:		
– Recognition of share-based payments	–	–
– Share issue costs	–	–
Adjustment to foreign currency translation reserve on consolidation of foreign operation	702,466	–
Total equity under AIFRS	**59,776,326**	**71,194,156**
2. REVENUE FROM ORDINARY ACTIVITIES		
Sale of goods revenue from operating activities	–	–
Other revenue from ordinary activities:		
From operating activities		
Interest from:		
Other persons/corporations	966,326	952,367
Realised gain on foreign exchange transactions	647,243	647,243
Total revenue from ordinary activities	**1,613,569**	**1,599,610**

Sale of goods – the Company has not yet sold any of its heart pumps as it does not yet have regulatory approval. Regulatory approval is anticipated in 2007 but sales are expected to commence in late 2006 or early 2007 (as reimbursement is expected through clinical trials).

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		
Loss from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:		
Expenses		
Depreciation and amortisation:		
Depreciation of plant and equipment	286,832	19,618
Amortisation of intellectual property	2,436,118	–
Amortisation of leasehold improvements	37,204	36,841
Total depreciation and amortisation	2,760,154	56,459
Borrowing costs:		
Interest expense	26,411	26,411
Net expense/(gain) from movement in provisions:		
Employee entitlements	87,367	21,698
Research and development	282,208	–
Rental expenses on operating leases	356,231	78,926
4. AUDITORS' REMUNERATION		
Audit Services:		
Auditors of the parent entity – Grant Thornton NSW	72,726	72,726
Auditors of HeartWare, Inc. – Grant Thornton LLP	51,793	51,793
Other Services:		
Auditors of the parent entity – Grant Thornton NSW		
– Tax services	1,640	1,640
– Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company	65,262	65,262
Auditors of HeartWare, Inc. – Grant Thornton LLP		
– Tax services	819	–
– Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company	46,825	46,825
	239,065	**238,246**

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
5. TAXATION		
Net profit/(loss) before tax	(14,683,862)	(2,626,417)
Prima facie income tax (benefit) at 30%		
– Economic entity	(4,405,159)	–
– Parent entity	–	(787,925)
Non deductible depreciation and amortisation	719,674	11,162
Other non allowable items	8,629	8,629
Tax effect of overseas profits taxed at rates higher than 30%	(314,150)	–
Adjusted prima facie income tax (benefit)	(3,991,006)	(768,134)
Deferred tax asset not brought to account	3,991,006	768,134
Income tax expense attributable to operating loss	–	–

Potential future income tax benefits will only be obtained in certain limited circumstances. Specifically, a future income tax benefit cannot be obtained unless:

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

(b) the relevant company and/or the consolidated entity 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 entity 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 future income tax benefits 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.

	ECONOMIC ENTITY 2005 $	NO.
6. EARNINGS PER SHARE		
Earnings used in the calculation of basis EPS and dilutive EPS	(14,683,862)	
Weighted average number of ordinary shares used in the calculation of basic EPS		131,992,295
Weighted average number of options outstanding not treated as dilutive		14,401,506
Weighted average number of ordinary shares used in the calculation of dilutive EPS		131,992,295

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 the basis of the above, the economic entity operates in one business segment, being the medical devices sector. It conducts integrated operations in Miami, USA and Sydney, Australia and the primary reporting segment is therefore geographical.

	SYDNEY, AUSTRALIA $	MIAMI, USA $	ELIMINATIONS $	ECONOMIC ENTITY $
Revenue/Result				
Total segment revenue:				
Revenue from ordinary activities	1,599,610	13,959	–	1,613,569
Segment result:				
Profit from ordinary activities before income tax expense	(2,626,417)	(10,289,866)	(1,767,579)	(14,683,862)
Assets				
Carrying amount of segment assets	73,014,354	14,432,081	(25,317,569)	62,128,866
Acquisitions of non-current segment assets	59,276,290	15,160,722	(23,549,990)	50,887,022
Depreciation and amortisation of segment assets	(56,459)	(417,775)	(2,285,920)	(2,760,154)
Liabilities				
Carrying amount of segment liabilities	1,820,198	1,234,808	–	3,055,006

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
8. CASH ASSETS		
Cash at bank	390,945	69,048
Deposits at call – Note (i)	13,288,952	13,288,953
	13,679,897	**13,358,001**
Note (i) – Deposits at call have a weighted average interest rate of 3.99%.		
9. RECEIVABLES		
Current		
Other receivables	595	595
Goods and services tax receivable	22,484	22,484
Interest receivable	131,047	131,047
Amounts receivable from:		
Subsidiary of parent entity	–	17,213
Directors – Note (i)	2,950	2,950
	157,076	**174,289**
Note (i) Amount owed by Dr Christine Bennett in respect of travel and accommodation on behalf of the Company which was incurred in late 2005. This has since been repaid in full.		
10. OTHER CURRENT ASSETS		
Prepayments	145,083	101,053
Security and other deposits	188,050	161,180
	333,133	**262,233**
11. OTHER FINANCIAL ASSETS		
Non-current		
Shares in controlled entities		
Unlisted shares at cost		
Refer to Note 12, 25(b)	–	58,901,571
	–	**58,901,571**

12. CONTROLLED ENTITIES

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2005 %	CARRYING VALUE 2005 $
HeartWare, Inc.	USA	Series B	100	45,238,921
HeartWare, Inc.	USA	Series C	100	13,662,650
			100	**58,901,571**

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.

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.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
13. PLANT AND EQUIPMENT		
Plant and equipment		
At cost	2,072,399	154,040
Accumulated depreciation	(454,937)	(19,618)
	1,617,462	134,422
Leasehold improvements		
At cost	226,838	220,679
Accumulated depreciation	(37,204)	(36,841)
	189,634	183,838
Total plant and equipment	**1,807,096**	**318,260**
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Plant and equipment		
Carrying amount at beginning of the period	–	–
Additions	1,638,508	154,040
Additions through acquisition of subsidiary	265,786	–
Disposals	–	–
Depreciation	(286,832)	(19,618)
Carrying amount at end of period	1,617,462	134,422
Leasehold Improvements		
Carrying amount at beginning of the period	–	–
Additions	226,838	220,679
Disposals	–	–
Amortisation	(37,204)	(36,841)
Carrying amount at end of period	189,634	183,838

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
14. INTANGIBLES		
Intellectual Property – at cost – Note (i)	45,583,808	–
Accumulated amortisation	(2,285,920)	–
	43,297,888	–
Research and Development – at cost – Note (ii)	2,729,725	–
Accumulated amortisation	(136,486)	–
	2,593,239	–
Patents and Trademarks – at cost	274,249	–
Accumulated amortisation	(13,712)	–
	260,537	–
	46,151,664	**–**

Note (i)
As noted elsewhere in the Annual Report, the Company acquired all of the voting stock of HeartWare, Inc. on 24 January 2005. The purchase price for the acquisition was $44 million payable by way of the issue of 88 million ordinary shares in the capital of the Company. Following the acquisition of HeartWare, Inc. and in accordance with applicable Australian accounting standards, the Company has recognised intellectual property to the value of $45,583,808, this being a reflection of almost ten years of investment in the Company's HVAD and associated technology as well as the difference between the purchase price and the net assets of HeartWare, Inc (as at 24 January 2005).

Note (ii)
The research and development costs referred to above include amounts capitalised in relation to HeartWare's "externals" project, being the devices accompanying the HVAD (e.g. battery pack, controller etc.).

It should also be noted that the Company has determined to expense amounts associated with the Company's MVAD project in accordance with the requirements of applicable Australian accounting standards.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
15. PAYABLES		
Current		
Trade creditors	467,730	117,747
Other creditors and accruals	943,250	176,366
	1,410,980	294,113
16. PROVISIONS		
Current		
Employee benefits	139,639	21,698
Number of employees		
Number of employees at year end	41	5

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
17. OTHER CURRENT LIABILITIES		
Current		
Lease incentive	23,273	23,273
18. INTEREST BEARING LIABILITIES		
Non-Current		
Convertible Note – Loan to related party – See Note (i) below	1,446,205	1,446,205

Note (i) – As detailed in Note 12 to the Financial Statements, 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. The note was issued in favour of Apple Tree Partners as part of the consideration for the acquisition of HeartWare, Inc. by the Company.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
19. OTHER NON-CURRENT LIABILITIES		
Non-Current		
Lease incentive	34,909	34,909
20. CONTRIBUTED EQUITY		
Issued and paid-up share capital		
156,096,274 ordinary shares, fully paid	73,820,573	73,820,573
	73,820,573	73,820,573

20. CONTRIBUTED EQUITY (continued)

MOVEMENTS DURING THE PERIOD	NOTE	ISSUE PRICE	NO. OF SHARES	$
Opening balance – registration		$0.50	2,000	1,000
Share Issue pursuant to the Company's Prospectus – Australian allotment	(a)	$0.50	55,838,000	27,919,000
Share Issue pursuant to the Company's Prospectus – U.S allotment	(b)	$0.50	9,000,876	4,500,438
Share Issue – acquisition of HeartWare, Inc. by HeartWare Limited	(c)	$0.50	88,000,000	44,000,000
Share Issue – cashless exercise of options by Dr Fine	(d)	–	2,859,998	–
Share Issue – exercise of options granted under the Company's Employee Share Option Plan ("ESOP")		$0.20	147,400	29,480
Share Issue – exercise of options granted under the Company's ESOP		$0.20	76,000	15,200
Share Issue – exercise of options granted under the Company's ESOP		$0.20	172,000	34,400
Issue costs	(e)	–	–	(2,678,945)
Total at reporting date			**156,096,274**	**73,820,573**

Notes:

(a) The Company issued a Prospectus (dated 17 December 2004) and a Supplementary Prospectus (dated 24 December 2004) in relation to an underwritten offer of fully paid ordinary shares in HeartWare Limited. This is the number of ordinary shares issued under the Australian allotment as discussed in the documents referred to above.

(b) See Note (a) above. This is the number of ordinary shares issued under the U.S. allotment, further details of which are set out in the documents referred to above.

(c) See Note (a) above. This is the number of ordinary shares issued in consideration of the acquisition of HeartWare, Inc. by HeartWare Limited (further details of which are set out in the documents referred to above).

(d) These shares were issued to Dr Robert Fine, former CEO of Kriton Medical, Inc. As outlined in the Company's Prospectus, HeartWare provided for the issue of shares to Dr Fine pursuant to three warrants which had been issued by its subsidiary, HeartWare, Inc., on 3 October 2003. Dr Fine has exercised these warrants on a "cashless" basis. This concludes all obligations of HeartWare in relation to the warrants issued to Dr Fine.

(e) The issue costs relate to the capital raising carried out by the Company as referred to in (a)–(c) above.

Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation (if any).

Share Options

During the reporting period 16,454,770 options were issued under the Company's Employee Share Option Plan ("ESOP"). In relation to these options, 1,413,960 ESOP options were cancelled and a further 395,400 ESOP options were exercised.

In addition to the above, the Company granted 1,500,000 Incentive Options and provided for the issue of up to 5,259,076 ordinary shares to Dr Fine, a former executive. Details in relation to this share issue are set out in paragraph (d) above.

At 31 December 2005 there were 14,645,410 ESOP options (unlisted) and 1,500,000 Incentive Options (unlisted) on issue. Further details of the above are set out in the Directors' Report.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
21. RESERVES		
Foreign currency translation	**(62,851)**	**–**
Foreign currency translation reserve movements during the reporting period		
Opening balance	–	–
Adjustment arising from the translation of foreign controlled entity financial statements	(62,851)	–
Closing balance	**(62,851)**	**–**
The foreign currency translation reserve records exchange differences arising on translation of HeartWare, Inc.		
22. ACCUMULATED LOSSES		
Accumulated losses at beginning of reporting period	–	–
Net (loss) attributable to members of parent entity	(14,683,862)	(2,626,417)
Accumulated losses at end of reporting period	**(14,683,862)**	**(2,626,417)**

23. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average rate for classes of financial assets and liabilities is set out below:

	FIXED INTEREST MATURING IN: 1 YEAR OR LESS $	OVER 1 TO 5 YEARS $	FLOATING INTEREST $	NON-INTEREST BEARING $	TOTAL $	NOTE
2005 Financial Year						
Financial assets						
Cash on hand	–	–	390,945	–	390,945	8
Deposit at call	13,288,952	–	–	–	13,288,952	8
Receivables	–	–	–	157,076	157,076	9
Other current assets	158,006	–	–	175,127	333,133	10
	13,446,958	–	390,945	332,203	14,170,106	
Weighted Average Interest Rate	4.01%	–	3.14%	–	–	
Financial liabilities						
Payables	–	–	–	1,410,980	1,410,980	16
Provisions	–	–	–	139,639	139,639	17
Interest bearing liabilities	1,446,205	–	–	–	1,446,205	19
	1,446,205	–	–	1,550,619	2,996,824	
Weighted Average Interest Rate	2.00%	–	–	–	–	

23. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised in the Statement of Financial Position is the carrying amount, net of any provision for doubtful debts. The consolidated entity is not materially exposed to any individual overseas country or individual customer.

(c) Net fair values of financial assets and liabilities

Valuation approach

The net fair value of cash and cash equivalents and non-interest bearing liabilities of the consolidated entity 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.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
24. EXPENDITURE COMMITMENTS AND CONTINGENT LIABILITIES		
Capital expenditure commitments		
Estimated capital expenditure contracted for at Reporting date, but not provided for, payable:		
Within one year	–	–
One year or later but not later than five years	–	–
Later than five years	–	–
	–	–
Non cancellable operating lease commitments		
Future operating leases rentals not provided for in the financial statements and payable:		
Within one year	372,629	160,692
One year or later but not later than five years	561,617	279,035
Later than five years	–	–
	934,246	**439,727**

As set out in the Company's prospectus (dated 17 December 2005), the economic 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 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;

(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

(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 economic entity leases property under non-cancellable operating leases expiring for periods of up to three years. 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.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
25. NOTES TO THE STATEMENTS OF CASHFLOWS		
(a) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities		
(Loss) from ordinary activities after income tax	(14,683,862)	(2,626,417)
Non-cash flows in profit from ordinary activities:		
Depreciation	286,832	56,459
Amortisation	2,473,325	–
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries:		
Increase in accrued expenses/employee entitlements	87,367	21,698
Increase/(decrease) in trade creditors	(301,436)	70,577
Increase in other provisions	58,182	58,182
Increase in other creditors	559,537	201,053
Increase in interest payable	26,205	26,205
Decrease in other debtors	(114,379)	(17,355)
(Increase) in interest receivable	(131,047)	(131,047)
(Increase)/decrease in prepaid expenses	139,522	(101,054)
Exchange rate adjustment	(62,851)	–
Cash flow from operations	(11,433,847)	(2,406,989)
Reconciliation of Cash:		
Cash – Note 8	390,945	69,048
Deposits at call – Note 8	13,288,952	13,288,953
	13,679,897	**13,358,001**

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

	ECONOMIC ENTITY 2005 $
25. NOTES TO THE STATEMENT OF CASHFLOWS (continued)	
(b) Acquisition of Entities	
On 24 January 2005, the Company acquired 100% of the voting stock of HeartWare, Inc.	
Consideration	
Shares issued – 88 million shares at 50 cents each	44,000,000
Issue of convertible note *	1,420,000
Write-off of asset on acquisition of subsidiary	(181,079)
Total Consideration	45,238,921
Fair value of identifiable net assets of HeartWare, Inc.	
Cash	163,493
Receivable	97,025
Prepayments	284,605
Other non-current assets	26,870
Intellectual property	45,583,808
Trade creditors	(721,994)
Other current creditors	(331,306)
Other non-current creditors	(129,366)
Property, plant and equipment	265,786
	45,238,921
Transaction costs	–
Total Consideration	**45,238,921**
Cash paid	–
Net cash acquired on acquisition of controlled entity	(163,493)
	(163,493)

* 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. 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 (being 24 January 2005).

26. EMPLOYEE BENEFITS

Details of grants of options under the Company's employee share option plan ("ESOP") are as follows:

(a) On 24 January 2005, 11,589,544 ESOP options were granted to employees and a director. These options are exercisable at various prices between $0.20 and $1.50 and progressively vest equally over four years. These options have a 5 year life.

In relation to the above, 663,052 ESOP options were cancelled or exercised during the course of the reporting period.

Further, 1,146,308 ESOP options, exercisable between $0.60 and $1.50, were cancelled on 27 April 2005 and reissued (see (b) below).

(b) On 27 April 2005, 3,336,818 ESOP options were granted to employees. These options are exercisable at $0.50, progressively vest equally over four years and have a 10 year life. Included in this amount, is the re-issue of the 1,146,308 ESOP options referred to above.

(c) Also on 27 April 2005, 764,204 ESOP options were granted to an employee. These options are exercisable at various prices between $0.60 and $1.50 and progressively vest equally over four years. These options have a five year life.

(d) On 15 December 2005, 764,204 ESOP options were granted to an employee. These options are exercisable at $0.75 and vest in two halves, being on the second and third anniversary of the Company's listing on the ASX. These options have a 7 year life.

As noted elsewhere in these Notes, 14,645,410 ESOP options remain exercisable at the reporting date. These options are exercisable at various prices between $0.20 and $1.50.

The closing share market price of an ordinary share of HeartWare Limited on the Australian Stock Exchange on 30 December 2005 (i.e. the lasting trading day of the reporting period) was $0.75.

All ESOP options are unlisted and are not transferable. ESOP options hold no voting or dividend rights.

	ECONOMIC ENTITY 2005 $	THE COMPANY 2005 $
(a) Movement in the number of options held by employees are as follows:		
Opening balance	–	–
Granted during the reporting period	16,454,770	16,454,770
Exercised during the reporting period	(395,400)	(395,400)
Lapsed/cancelled during the reporting period	(1,413,960)	(1,413,960)
Closing balance	**14,645,410**	**14,645,410**
(b) Detail of share options exercised during the reporting period:		
Proceeds from shares issued	79,080	79,080
Fair value of shares issued during the reporting period	222,172	222,172

Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of HeartWare Limited on the Australian Stock 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
30 June 2005	56,012	147,400
1 December 2005	115,240	172,000
1 December 2005	50,920	76,000
	222,172	**395,400**

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

27. REMUNERATION OPTIONS

	VESTED NUMBER	GRANTED NUMBER	TERMS AND CONDITIONS FOR EACH GRANT GRANT DATE	VALUE PER OPTION AT GRANT DATE ($)	EXER-CISE PRICE PER SHARE ($)	FIRST EXERCISE DATE	LAST EXERCISE DATE
Specified Directors							
Thomas, R	–	764,204	24 January 2005	$0.36	$0.20	*24 January 2006	24 January 2010
(Non-Executive – Chairman)		200,000	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
		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 (Deputy Chairman, Non-Executive – Director)	–	–	–	–	–	–	–
Wade, D		100,000	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
(Non-Executive – Director)		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	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
(Non-Executive – Director)		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
McConchie, S	–	1,146,307	24 January 2005	$0.23	$0.60	*24 January 2006	24 January 2010
(Executive Director,		1,146,307	24 January 2005	$0.20	$0.75	*24 January 2007	24 January 2010
Chief Executive Officer)		1,146,307	24 January 2005	$0.17	$1.00	24 January 2008	24 January 2010
		1,146,307	24 January 2005	$0.12	$1.50	24 January 2009	24 January 2010
Specified Executives							
Rissmann, W	–	764,204	27 April 2005	$0.26	$0.50	27 April 2006	27 April 2015
(VP – Manuf. & Product Develpmt)							
Reedy, J	–	1,146,306	27 April 2005	$0.26	$0.50	27 April 2006	27 April 2015
(VP, Clinical & Marketing)							
LaRose, J	–	764,204	27 April 2005	$0.26	$0.50	27 April 2006	27 April 2015
(Chief Scientific Officer)		#1,540,000	24 January 2005	$0.36	$0.20	31 January 2005	24 January 2010
McIntyre, D	–	191,051	24 January 2005	$0.23	$0.60	24 January 2006	24 January 2010
(CFO & Company Secretary)		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	15 December 2005	$0.38	$0.75	31 January 2007	15 December 2012
		382,102	15 December 2005	$0.38	$0.75	31 January 2008	15 December 2012
Leibman, H	–	191,051	27 April 2005	$0.23	$0.60	24 January 2006	24 January 2010
(Director, Corporate		191,051	27 April 2005	$0.20	$0.75	24 January 2007	24 January 2010
Development)		191,051	27 April 2005	$0.17	$1.00	24 January 2008	24 January 2010
		191,051	27 April 2005	$0.12	$1.50	24 January 2009	24 January 2010
Total	**–**	**12,856,758**					

* In accordance with the ASX Listing Rules, these options are escrowed until 31 January 2007.

\# These options replace Mr LaRose's entitlements under the HeartWare, Inc. Retention and Equity Rights Plan ("Old Plan"). The Old Plan was terminated on the acquisition of HeartWare, Inc. by the Company. The options represent Mr LaRose's accrued entitlements in respect of his six years of service on the HeartWare technology. Mr LaRose is HeartWare's longest serving employee.

Options granted under the ESOP are utilised predominately for the purposes of retention and, accordingly, do not have performance hurdles.

28. OPTION HOLDINGS OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

	BALANCE 26 NOVEMBER 2004	GRANTED AS REMUNERATION	NET CHANGE	OPTIONS EXERCISED	BALANCE 31 DECEMBER 2005	VESTED 31 DECEMBER 2005		
						TOTAL	NOT EXER-CISABLE	EXER-CISABLE
Specified Directors								
Thomas, R (Non-Executive – Chairman)	–	1,264,204	–	–	1,264,204	–	–	–
Harrison, S (Deputy Chairman, Non-Executive – Director)	–	–	–	–	–	–	–	–
Wade, D (Non-Executive – Director)	–	250,000	–	–	250,000	–	–	–
Bennett, C (Non-Executive – Director)	–	250,000	–	–	250,000	–	–	–
McConchie, S (Executive Director, Chief Executive Officer)	–	4,585,228	–	–	4,585,228	–	–	–
Specified Executives								
Rissmann, W (VP – Manuf. & Product Develpmt)	–	764,204	–	–	764,204	–	–	–
Reedy, J (VP, Clinical & Marketing)	–	1,146,306	–	–	1,146,306	–	–	–
LaRose, J (Chief Scientific Officer)	–	2,304,204	–	–	2,304,204	1,540,000	–	1,540,000
McIntyre, D (CFO & Company Secretary)	–	1,528,408	–	–	1,528,408	–	–	–
Leibman, H (Director, Corporate Development)	–	764,204	–	–	764,204	–	–	–
Total	**–**	**12,856,758**	**–**	**–**	**12,856,758**	**1,540,000**	**–**	**1,540,000**

29. SHAREHOLDINGS OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

	BALANCE 26 NOVEMBER 2004	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	NET CHANGE* OTHER	BALANCE 31 DECEMBER 2005
Specified Directors					
Thomas, R (Non-Executive – Chairman)	–	–	–	1,238,000	1,238,000
Harrison, S (Deputy Chairman, Non-Executive – Director)	2,000	–	–	91,586,782	91,588,782
Wade, D (Non-Executive – Director)	–	–	–	800,000	800,000
Bennett, C (Non-Executive – Director)	–	–	–	–	–
McConchie, S (Executive Director, Chief Executive Officer)	–	–	–	–	–
Specified Executives					
Rissmann, W (VP – Manuf. & Product Develpmt)	–	–	–	–	–
Reedy, J (VP, Clinical & Marketing)	–	–	–	–	–
LaRose, J (Chief Scientific Officer)	–	–	–	–	–
McIntyre, D (CFO & Company Secretary)	–	–	–	34,000	34,000
Leibman, H (Director, Corporate Development)	–	–	–	160,000	160,000
Total	**2,000**	**–**	**–**	**93,818,782**	**93,820,782**

Net Change Other refers to shares purchased or sold during the reporting period.

As a result of the ASX requirement to impose a FORUS limitation on HeartWare's shares, U.S. residents (including HeartWare employees) were not permitted to purchase HeartWare shares on the Australian Stock Exchange during the reporting period. For this reason, no US based HeartWare employee has been able to purchase shares in the Company during the reporting period. This limitation was removed with effect from 1 February 2006.

Remuneration Benefits

Details of Directors' remuneration are set out in the Remuneration Benefits section of the Remuneration Report which follows immediately after the Corporate Governance Statement. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the economic entity during the reporting period and there were no material contracts involving Directors' interests subsisting at anytime.

Except as stated at Note 8, at 31 December 2005, there were no amounts receivable from or payable to directors and their director-related entities.

30. RELATED PARTIES

Other than the purchase of HeartWare, Inc by the Company from various vendors, including Apple Tree Partners (a related party), there were no transactions between the economic entity and related parties.

In relation to the acquisition of HeartWare, Inc by the Company, the Board notes that the Company has written-off an amount of $181,079. The payment of this amount was part of an arrangement between Apple Tree Partners and the Company in relation to monies claimed to be payable to the Company by Apple Tree Partners and vice versa.

The ordinary shares of the Company are listed for quotation on the Australian Stock Exchange. Apple Tree Partners has an interest in 91,588,782 ordinary shares and is the holder of the convertible note referred to elsewhere in this Annual Report. On this basis, Apple Tree Partners controlled 58.67% of the Company as at the reporting date. For the purposes of the definition of "control" as set out in the Corporations Act, HeartWare Limited is ultimately controlled by Apple Tree Partners, which is incorporated in the United States of America.

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 economic entity, the results of those operations or the state of affairs of the consolidated entity.

32. COMPANY DETAILS

The registered office of the Company is:

HeartWare Limited
Suite 4
Level 46
2 Park Street
SYDNEY NSW 2000

The principal places of business are as follows:

Corporate Offices:
HeartWare Limited
Suite 4
Level 46
2 Park Street
SYDNEY NSW 2000

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

ASX Additional Information for the Reporting Period Ended 31 December 2005

Additional information required by the Australian Stock 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 24 February 2006.

Distribution of equity security holders

	ORDINARY SHARES		OPTIONS (UNLISTED)	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS
1 – 1,000	38	32,047	–	–
1,001 – 5,000	198	691,226	–	–
5,001 – 10,000	260	2,354,352	–	–
10,001 – 100,000	506	18,148,644	11	996,000
100,001 – and over	93	134,870,005	17	13,649,410
	1,095	**156,096,274**	**28**	**14,645,410**

The number of shareholders holding less than a marketable parcel was 2 (two).

Twenty largest shareholders

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD %
Apple Tree Partners	91,588,782	58.67%
J Platt	8,000,000	5.13%
ANZ Nominees Limited	5,248,085	3.36%
GPG Nominees Pty Ltd	3,152,016	2.02%
Merrill Lynch Nominees Pty Ltd	2,402,498	1.54%
M Rosenthal	1,760,939	1.13%
ASIA Union Investments Pty Ltd	1,500,000	0.96%
S & K Siejka Medical Pty Ltd	1,300,000	0.83%
Warman Investments	800,000	0.51%
P Burgess Cave	800,000	0.51%
Australian Executor Trustees Limited	718,000	0.46%
R Thomas	598,000	0.38%
National Nominees Limited	590,000	0.38%
Jott Finance Pty Ltd	450,000	0.29%
Minnetronix Inc	431,393	0.28%
Bow Lane Nominees Pty Ltd	430,000	0.28%
Lyrebird Pty Ltd	410,000	0.26%
W Knezevic	400,000	0.26%
R and K Thomas	400,000	0.26%
Peter Arundel Vial	400,000	0.26%
Total	**121,379,713**	**77.77%**

ASX Additional Information
for the Reporting Period Ended 31 December 2005 (continued)

Options Unlisted

NAME	NUMBER OF OPTIONS HELD	PERCENTAGE OF OPTIONS HELD %
S McConchie	4,585,228	28.40%
J LaRose	2,304,204	14.27%
D McIntyre	1,528,408	9.47%
R Thomas	1,264,204	7.83%
J Reedy	1,146,306	7.10%
H Leibman	764,204	4.73%
W Rissman	764,204	4.73%
S Boyce	545,600	3.38%
Inteq Limited	500,000	3.10%
R Pandey	411,052	2.55%
C Bennett	250,000	1.55%
D Wade	250,000	1.55%
R Paz	220,000	1.36%
C Owens	176,000	1.09%
C Reyes	176,000	1.09%
M Ashenuga	132,000	0.82%
C Shambaugh	132,000	0.82%
L Rivera	100,000	0.62%
D Tamez	100,000	0.62%
D Bucknam	100,000	0.62%
De La Sales	88,000	0.55%
J Diaz	88,000	0.55%
E Rodriquez	88,000	0.55%
H Rubright	88,000	0.55%
A Toranzo	88,000	0.55%
D Williams	88,000	0.55%
I Garcia	88,000	0.55%
D White	80,000	0.50%
	16,145,410	**100%**

Escrowed Securities

NAME	RESTRICTION PERIOD	NUMBER OF ORDINARY SHARES HELD
Apple Tree Partners 1 LP	31 January 2007	87,003,221
Garrett Thunen and Carol Thunen	24 January 2006	194,304
Anthony Low-Beer	24 January 2006	316,715
Edward Nerssissian as joint tenant	24 January 2006	48,576
Edward Nerssissian	24 January 2006	97,152
Edward Nerssissian MD PSP Act	24 January 2006	48,576
Weiss Peck & Gallagher as trustee	24 January 2006	291,456
		88,000,000

NAME	RESTRICTION PERIOD	NUMBER OF OPTIONS HELD
S McConchie	31 January 2007	4,585,228
R Thomas	31 January 2007	1,264,204
Dr C Bennett	31 January 2007	250,000
Dr D Wade	31 January 2007	250,000
Inteq Limited	31 January 2007	500,000
		6,849,432

The convertible note issued in favour of Apple Tree Partners which is discussed throughout this Annual Report is escrowed until 31 January 2007.

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	58.67%
J Platt	8,000,000	5.13%

ASX Additional Information
for the Reporting Period Ended 31 December 2005 (continued)

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 Suite 4, Level 46, 2 Park Street, Sydney NSW 2000, telephone (02) 8215 7600.

Registers of securities are held at Registries Limited, Level 2, 28 Margaret 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 Stock 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 Stock Exchange Limited on 31 January 2005, 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

Seth Harrison, MD,
Non-Executive
Deputy Chairman

Stuart McConchie,
Chief Executive Officer

Christine Bennett, MB,
Non-Executive Director

Denis Wade AM, MB, D.Phil.,
Non-Executive Director

Chief Executive Officer

Stuart McConchie

Registered Address

Suite 4, Level 46
2 Park Street
SYDNEY NSW 2000
AUSTRALIA

Share Registry

Registries Limited
Level 2
28 Margaret Street
SYDNEY NSW 2000
AUSTRALIA

Advisory Board

O. Howard "Bud" Frazier, MD (Chairman)

Steven Boyce, MD

Laman Gray Jr., MD

Stephen Westaby, 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

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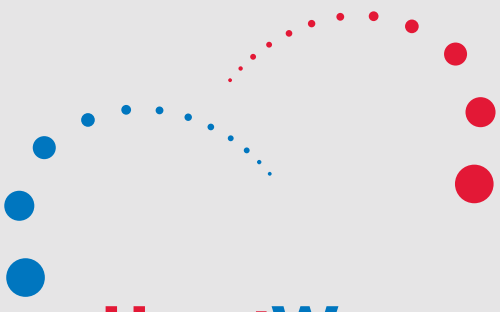

HeartWare

www.heartware.com.au