HEARTWARE LIMITED
ABN 34 111 970 257

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Appendix 4E
Preliminary Final Report
For the Reporting Period Ended
31 December 2005.

This is the Preliminary Final Report for the HeartWare Group.
The HeartWare Group includes HeartWare Limited (ASX: HTW) and its subsidiary, HeartWare, Inc..

This Preliminary Final Report does not include all of the commentary, notes and information that are typically found in an annual financial report. The financial statements for the HeartWare Group are in the process of being audited.

This Preliminary Final Report provides information as required by Appendix 4E of the ASX Listing Rules.

CONTENTS

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

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

Chief Executive Officer

Stuart McConchie

Company Secretary

David McIntyre

Registered Address

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

US Office

3351 Executive Way
Miramar
MIAMI FLORIDA 33025
UNITED STATES OF AMERICA

Share Registry

Registries Limited
Level 2
28 Margaret Street
SYDNEY NSW 2000
AUSTRALIA

Auditors

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

HEARTWARE LIMITED (ABN 34 111 970 257)
& CONTROLLED ENTITIES
FINANCIAL RESULTS FOR THE REPORTING PERIOD
ENDED 31 DECEMBER 2005

Results for Announcement to the Market

	Period Ended* 31 December 2005 $
Revenues from ordinary activities	1,613,569
Profit / (Loss) before interest, tax, depreciation and amortisation attributable to members ("EBITDA")	(12,863,620)
Profit / (Loss) before interest and tax attributable to members ("EBIT")	(15,623,777)
Income Tax Benefit	-
Net Profit / (Loss) after tax attributable to members ("NPAT")	(14,683,862)
Net tangible assets per ordinary share (cents)	8.28

* The Company was registered on 26 November 2004 and, as such, prior year comparative numbers, including percentage change calculations, cannot be provided.

The Directors do not recommend that a dividend relating to the reporting period ended 31 December 2005 be paid. As such, there is no franking or applicable record date.

Earnings Result

During the period, the HeartWare Group (being HeartWare Limited and its controlled entity) 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.

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, development costs totalling $2,729,725 were capitalised within Intangible Assets in the Statement of Financial Position.

Revenues from Operating Activities were $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.

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ENDED 31 DECEMBER 2005

Management Discussion & Analysis

Highlights up until the reporting date

- **Successful Initial Public Offering**
- **Completion of animal studies for the HVAD**
- **European regulatory approvals to commence human implants and Australian regulatory approval imminent**

Key Achievements

In the period since January 2005, 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 – gain regulatory approval to commence human implants of the HVAD. The Company's achievements over the period are summarised below.

- **Initial Public Offering** – In January 2005 HeartWare successfully completed its listing on the Australian Stock Exchange, raising $32.4 million.

- **Establishment of Executive Team** – During the first quarter of the year HeartWare recruited key management personnel with experienced individuals in the roles of Chief Financial Officer, VP Manufacturing & Product Development, VP Clinical and Marketing and Director Corporate Development joining the HeartWare team.

- **GLP Animal Study for the HVAD** – From March 2005 through October 2005, HeartWare conducted the final series of animal implants for the HVAD under Good Laboratory Practice ("GLP") conditions. The study, conducted at the Texas Heart Institute, involved the implantation of the HVAD in six sheep, each for a period of up to ninety days. Pathological analysis confirmed that the HVAD performed well, with minimal levels of haemolysis and no evidence of pump-related thrombosis.

- **Settlement of Ventracor Dispute** – In December 2004, Ventracor Limited commenced legal action against HeartWare, alleging infringement of two US patents. After filing a comprehensive defence in August 2005, HeartWare settled the dispute out of court in November 2005. The settlement took the form of a "covenant not to sue", with no royalty or monetary consideration payable by either party.

- **Animal trials for the MVAD** – In August 2005 HeartWare commenced animal trials for the first MVAD prototype – a miniaturised full output axial flow pump with a fully suspended impeller and a volume which is approximately one tenth that of the HVAD. Animal trials have continued, with the MVAD demonstrating very pleasing results.

- **Expansion of Advisory Board** – During 2005 HeartWare was pleased to welcome two new members to the Company's Medical Advisory Board. Professor Gerry O'Driscoll (Medical Head of West Australian Advanced Heart Failure and Cardiac Transplant Services) and Mr Asghar Khaghani (Consultant Cardiac Surgeon at Harefield Hospital in the UK) joined a group of pre-eminent cardiologists and cardiac surgeons helping actively to guide HeartWare's clinical activities.

- **Surgical Training** – In early 2006 HeartWare conducted a formal training session for the surgical teams who will participate in the first phase of the clinical trial of the HVAD. Professor O. Howard "Bud" Frazier, Chief of Transplant Services and Chairman of HeartWare's Medical Advisory Board led the training, conducted at the Texas Heart Institute. The surgical teams from Royal Perth Hospital (Australia), the Vienna General Hospital (Austria), Hannover Medical School (Germany) and Harefield Hospital (UK) attended the sessions.

- **Regulatory Approval in Europe** – 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.

- **Regulatory Approval in Australia** – On 21 February 2006, HeartWare submitted its Clinical Trial Notification to the Therapeutic Goods Administration ("TGA"). Regulatory approval from the TGA allowing implants of the HVAD to proceed in Australia is expected in the next day or so. The approval followed receipt of Ethics Approval from the Royal Perth Hospital.

Outlook for 2006

At the time of HeartWare's initial public offering in January 2005, the Company indicated its primary short term objective as being the start of a clinical trial for the HVAD during the first quarter of 2006. Through 2005, HeartWare successfully completed all pre-clinical activities for the HVAD and remains on track to meeting this important milestone. With regulatory approvals now in place in Austria and Australian approval anticipated in days, HeartWare remains confident of conducting the first human implant of the HVAD in coming weeks.

The HVAD clinical trial is being conducted at four leading international centres – Royal Perth Hospital (Australia), the Vienna General Hospital (Austria), Hannover Medical School (Germany) and Harefield Hospital (UK). HeartWare anticipates the first implant to be conducted at the Vienna General Hospital under the leadership of Dr Georg Wieselthaler, Clinical Director of Mechanical Circulatory Support at the University of Vienna. Once the trial is underway, additional centres will be enlisted sequentially through the first half of 2006.

The implants form part of a combined European and Australian clinical trial aimed at gaining European Union CE mark for the HVAD. The trial calls for the implantation of the HVAD in 20 patients with advanced heart failure, with a requirement for follow up for 90 days. HeartWare's objective is to complete the enrolment and implant of all 20 patients before the end of 2006, allowing submissions for CE mark in early 2007. This is expected to lead to European regulatory approval and consequent commercial sales in Europe and Australia during the third quarter of 2007.

Having successfully satisfied all regulatory requirements necessary to commence the CE mark trial, HeartWare will now focus on initiating an implant program in the US. The Company is presently undertaking collection of additional data required specifically by the US Food and Drug Administration (as compared with equivalent regulatory requirements in the European Union and Australia). HeartWare now expects to commence the IDE process (Investigational Device Exemption) during the third quarter of 2006 with a view to initiating implants in the US before the end of the year or in early 2007, subject to FDA approvals. These US implants will form part of the FDA mandated feasibility study, involving ten patients at three to five hospitals. Upon completion of the pilot trial in 2007, HeartWare will commence a pivotal clinical trial in the US. HeartWare remains on track to achieve its stated timelines for US regulatory approvals and sales for both bridge-to-transplant and destination therapy (as disclosed in the Company's prospectus).

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ENDED 31 DECEMBER 2005

With the HVAD advancing through its clinical trials in both Europe and the US, HeartWare will accelerate the development of its miniaturised device. The current prototype of the Company's miniaturised ventricular assist device (or "MVAD") has commenced a series of long term animal studies and is demonstrating very pleasing results. Through the course of 2006, HeartWare anticipates significant advances with its miniaturisation program.

Cash Flow

As at the end of the half year, the Company has cash reserves of approximately $13.7 million.

During the reporting period ended 31 December 2005, HeartWare took further steps towards its goals of commercialisation of its range of heart pumps and, to this end, expended funds in the areas of product development and testing, pre-production, life cycle testing and development of the physiological control algorithm, as well as the Company's externals system (e.g. controller, battery pack etc).

Annual Report and Annual General Meeting

HeartWare expects to mail its Annual Report and Notice of Annual General Meeting to shareholders during April 2006.

HeartWare expects to hold its 2005 Annual General Meeting ("AGM") in Sydney during May 2006. It is anticipated that investors who are not able to attend the AGM in Sydney will be able to participate by web cast. Details of the web cast will be provided in the Notice of Meeting.

Dividends

The *Corporations Act 2001* prohibits the Company from declaring a dividend until such time as it has achieved sufficient profits to support such a dividend. The Directors are therefore unable to, and do not (as noted above), recommend that a dividend relating to the reporting period ended 31 December 2005 be declared or paid by the Company.

Earnings Per Share ("EPS")

	31 December 2005
Basic and diluted earnings per share (cents per share)	(11.12)
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	131,992,295

The amount used as the numerator in calculating basic EPS (for 31 December 2005) is the NPAT figure reported in the section titled "Results for Announcement to the Market" above.

HEARTWARE LIMITED (ABN 34 111 970 257)
& CONTROLLED ENTITIES
FINANICAL RESULTS FOR THE REPORTING PERIOD
ENDED 31 DECEMBER 2005

Segment Reporting

The consolidated entity operates in the medical devices sector and conducts integrated operations in Miami, USA and Sydney, Australia. The HeartWare Group is developing and commercialising its range of heart pumps that 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.

The Company is planning to commence human trials in Australia, Europe and the United States of America in 2006. Approvals for sale of the heart pumps in each of these markets will be conditional upon the outcome of these trials at which stage the Company plans to commence sales of its heart pumps.

* * * * *

Please find attached the Company's Preliminary Final Report for the reporting period ended 31 December 2005, together with relevant commentary thereto.

ROB THOMAS
Chairman
28 February 2006

HEARTWARE LIMITED (ABN 34 111 970 257)
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2005

	Note	Period ended 31 December 2005 $
Revenue from ordinary activities	**3**	**1,613,569**
Depreciation and amortisation expenses	**4**	(2,760,157)
Administration and facilities expenses		(293,660)
Audit, financial and taxation services		(138,856)
Consultants – clinical, regulatory and medical		(318,505)
Consultants – corporate advisory and investor relations		(525,019)
Contractor expenses		(524,962)
Employment and directors' expenses		(5,564,635)
Information technology expenses		(203,586)
Insurance expenses		(120,250)
Legal expenses – intellectual property protection, litigation costs and related expenditure		(1,217,070)
Legal expenses – post ASX listing, corporate and commercial advisory		(358,764)
Raw materials and consumables used		(776,255)
Rental expenses and outgoings		(495,116)
Research and development expenses		(282,208)
Travel, accommodation and related expenses		(1,144,001)
Trials – animal and human		(783,826)
Validation and verification expenses		(386,944)
Other expenses from ordinary activities		(403,617)
Profit (loss) from ordinary activities before income tax expense		**(14,683,862)**
Income tax (expense) benefit relating to ordinary activities		-
Net profit (loss) attributable to members of HeartWare Limited		**(14,683,862)**
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		**(14,683,862)**
Basic and diluted earnings per share (cents per share)	**5**	(11.12)

The preliminary financial report should be read in conjunction with the accompanying notes.

HEARTWARE LIMITED (ABN 34 111 970 257)
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2005

	Note	As at 31 December 2005 $
Current Assets		
Cash assets	**7(a)**	13,679,897
Receivables		157,076
Other		333,133
Total Current Assets		14,170,106
Non-Current Assets		
Property, plant and equipment	**7(b)**	1,807,096
Intangible assets	**7(c)**	46,151,664
Total Non-Current Assets		47,958,760
Total Assets		62,128,866
Current Liabilities		
Payables	**7(d)**	1,410,980
Provisions		139,639
Other		23,273
Total Current Liabilities		1,573,892
Non-Current Liabilities		
Interest-bearing liabilities	**7(e)**	1,446,205
Other		34,909
Total Non-Current Liabilities		1,481,114
Total Liabilities		3,055,006
Net Assets		**59,073,860**
Equity		
Contributed equity	**7(f)**	73,820,573
Reserves		(62,851)
Accumulated losses		(14,683,862)
Total Equity		**59,073,860**

The preliminary financial report should be read in conjunction with the accompanying notes.

HEARTWARE LIMITED (ABN 34 111 970 257)
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2005

	Note	Period ended 31 December 2005 $
Cash flows from operating activities		
Payments to suppliers and employees		(12,265,611)
Interest received		831,970
Interest paid		(206)
Net cash flows used in operating activities	**8(a)**	(11,433,847)
Cash flows from investing activities		
Cash assets acquired on acquisition of subsidiary		163,493
Payment for purchase of property, plant and equipment		(1,865,348)
Payment for research and development		(2,729,725)
Payment for intangible assets		(274,249)
Net cash flows used in investing activities		(4,705,829)
Cash flows from financing activities		
Proceeds from issue of shares		32,499,229
Payment for share issue expenses		(2,679,656)
Net cash flows provided by financing activities		29,819,573
Net increase in cash held		13,679,897
Cash at the beginning of the financial period		-
Cash at the end of the financial period		**$13,679,897**

The preliminary financial report should be read in conjunction with the accompanying notes.

HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES
NOTES TO THE PRELIMINARY FINAL REPORT
FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2005

1. Important information concerning the financial results

1.1 Reporting period

The financial results set out in this Preliminary Final Report are the consolidated financial results for the HeartWare Group, being HeartWare Limited ("HeartWare" or "the Company") and its subsidiary, HeartWare, Inc..

The period for which these financial results are provided commenced on 26 November 2004 and ended on 31 December 2005 (as required by the *Corporations Act* 2001). The reporting period commenced on 26 November 2004 because this is the date that the Company was first registered with the Australian Securities and Investments Commission. As an additional consequence of the Company being newly registered, prior year comparative numbers, including percentage change calculations, cannot be provided.

Further to the above, investors should be aware that 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.

1.2 Adoption of Australian Equivalents to International Financial Reporting Standards

The Company has commenced transitioning its accounting and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards ("A-IFRS"). The Company intends to retain consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be affected by the transition to A-IFRS.

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 A-IFRS as at 1 January 2006. This will form the basis of accounting for A-IFRS in the future, and is required when the Company prepares its first fully A-IFRS compliant financial report for the reporting period ended 31 December 2006. 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 A-IFRS (as "early adoption" of A-IFRS is not permitted).

1.3 Denomination

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

2. Dividends

The Directors do not recommend that a dividend relating to the reporting period 31 December 2005 be paid. As such, there is no applicable record date.

3. Revenue from ordinary activities

	Period ended 31 December 2005 $
Sale of goods revenue from operating activities - Note (i)	-
Other revenue from ordinary activities:	
From operating activities	
Interest from:	
Other persons / corporations	966,326
Realised gain on foreign exchange transactions	647,243
Total revenue from ordinary activities	1,613,569

Note (i) 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)

4. 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:	Period ended 31 December 2005 $
Depreciation and amortisation:	
Depreciation of plant and equipment	286,832
Amortisation of intellectual property	2,436,118
Amortisation of leasehold improvements	37,204
Total depreciation and amortisation	2,760,154
Borrowing costs:	
Interest expense	26,411
Net expense from movement in provisions:	
Employee entitlements	87,367
Research and development	282,208
Rental expenses on operating leases	356,231

5. Earnings Per Share

	Period ended 31 December 2005
Basic and diluted earnings per share (cents per share)	(11.12)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	131,992,295

The amount used as the numerator in calculating basic and diluted earnings per share is the same as the net loss reported in the Statement of Financial Performance.

6. Segment Reporting

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 HeartWare Group 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 $000	Miami, USA $000	Elimination $000	Economic Entity $000
Total Segment Revenue:				
Revenue from ordinary activities	1,600	14	-	1,614
Segment Result:				
Profit from ordinary activities before income tax expense	(2,626)	(10,290)	(1,767)	(14,683)

7. Notes to the Statement of Financial Position

(a) Cash Assets

	Period ended 31 December 2005 $
Cash	390,945
Deposits at call	13,288,952
	13,679,897

(b) Property, Plant and Equipment

	Period ended 31 December 2005 $
Plant and equipment - at cost	2,072,399
Accumulated depreciation	(454,937)
	1,617,462
Leasehold improvements – at cost	226,838
Accumulated amortisation	(37,204)
	189,634
	1,807,096

7. Notes to the Statement of Financial Position (continued)

(c) Intangible Assets

	Period ended 31 December 2005 $
Intellectual property – at cost	45,583,808
Accumulated amortisation	(2,285,920)
	43,297,888
Research and development – at cost	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

(d) Payables

	Period ended 31 December 2005 $
Trade creditors	467,730
Other creditors and accruals	943,250
	1,410,980

(e) Interest bearing liabilities

	Period ended 31 December 2005 $
Convertible Note – Loan to related party – Note (i)	1,446,205

Note (i) As disclosed in the Company's Prospectus, 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 principle 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.

7. Notes to the Statement of Financial Position (continued)

(f) Contributed Equity

	31 December 2005 $
Issued and paid-up capital:	
156,096,274 ordinary shares, fully paid	73,820,573

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 pursuant to Company's ESOP	(e)	$0.20	147,400	29,480
Share Issue – exercise of options pursuant to Company's ESOP	(f)	$0.20	76,000	15,200
Share Issue – exercise of options pursuant to Company's ESOP	(g)	$0.20	172,000	34,400
Issue costs	(h)	-	-	(2,678,945)
Total			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 (collectively, "the IPO Prospectus"). This is the number of ordinary shares issued by the Company on 24 January 2005 under the Australian allotment of the IPO Prospectus.

(b) See Note (a) above. This is the number of ordinary shares issued by the Company on 24 January 2005 under the U.S. allotment, further details of which are set out in the IPO Prospectus.

(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 Section 9.2 of the IPO Prospectus).

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

(e) These shares were issued to employees of the Company pursuant to the exercise of 147,400 options granted under the Company's Employee Share Option Plan.

7. Notes to the Statement of Financial Position (continued)

(f) These shares were issued to employees of the Company pursuant to the exercise of 76,000 options granted under the Company's Employee Share Option Plan.

(g) These shares were issued to employees of the Company pursuant to the exercise of 172,000 options granted under the Company's Employee Share Option Plan.

(h) The issue costs relate to the capital raising carried out by the Company pursuant to the IPO Prospectus.

Restricted Securities

At 31 December 2005, the following securities are subject to escrow:

(a) 996,779 ordinary shares fully paid escrowed until 24 January 2006.

(b) 87,003,221 ordinary shares fully paid escrowed until 31 January 2007.

(c) 1,500,000 Incentive Options exercisable between $0.60 and $1.50 escrowed until 31 January 2007.

(d) 4,585,228 ESOP options exercisable between $0.60 and $1.50 escrowed until 31 January 2007.

(e) 764,204 ESOP options exercisable at $0.20 escrowed until 31 January 2007.

Share Options

At 31 December 2005, the following share options are issued:

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

7. Notes to the Statement of Financial Position (continued)

The terms of the Incentive Options are as follows:

(a) Each Incentive Option entitles the holder to subscribe for fully paid ordinary shares 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 Robert Thomas has resigned 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 Robert's directorship with the Company.

8. Notes to Statement of Cash Flow

(a) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities	Period ended 31 December 2005 $
Profit/(Loss) from ordinary activities after income tax	(14,683,862)
Non-cash flows in profit from ordinary activities:	
Depreciation	286,832
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
(Decrease) in trade creditors	(301,436)
Increase in other provisions	58,182
Increase in other creditors	559,537
Increase in interest payable	26,205
Decrease in other debtors	114,379
(Increase) in interest receivable	(131,047)
Decrease in prepaid expenses	139,522
Exchange rate adjustment	(62,851)
Cash flow from operations	(11,433,847)

8. Notes to Statement of Cash Flow (continued)

(b) Non-Cash Financing and Investing Activities

	Period ended 31 December 2005 $
Acquisition of Controlled Entities during 2005	
On 24 January 2005 the Company acquired 100% of the voting stock of HeartWare, Inc., a company incorporated in the United States of America (further details of the acquisition are set out in the Company's prospectus).	
Consideration	
Shares issued - 88 million shares at 50 cents each	44,000,000
Issue of convertible note	1,420,000
Write-off 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
Property, plant and equipment	265,786
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)
Total Consideration	45,238,921
Cash paid	
Net cash acquired on acquisition of controlled entity	(163,493)

9. Events Subsequent To Balance Date

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.

This approval allows the HeartWare Group to commence its planned European human clinical trials in early 2006.

(b) On 5 January 2006 the Company also announced it had received conditional ethical committee approval from the Royal Perth Hospital in Australia. Final ethics committee approval and approval from the Australian Therapeutic Goods Administration is being sought for early 2006 to allow the HeartWare Group to commence its planned Australian human clinical trials in early 2006

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

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

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.

10. Net Tangible Asset ("NTA") Backing per Share

	Period Ended 31 December 2005
Net assets backing per share (cents per share)	8.28

11. Contingent Liabilities

As disclosed in the Company's Prospectus and subsequent ASX Announcements, a subsidiary of Ventracor Limited ("Ventracor") commenced legal action against HeartWare, Inc. in the United States District Court for the Southern District of Florida alleging patent infringement in relation to two of Ventracor's US patents.

The above proceedings were vigorously defended by HeartWare. HeartWare also filed six counterclaims against Ventracor including counterclaims seeking damages and costs.

On 10 November 2005, Ventracor Limited and HeartWare jointly announced that they had signed an agreement settling the patent disputes between their respective entities. The settlement agreement resulted in the complete and final cessation of all existing legal proceedings involving Ventracor and HeartWare.

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 above matters.

Except as set out above, 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 stated in this Preliminary Final Report, the Company has received no written notice of any claim against the HeartWare Group which could be properly categorised as a "contingent liability" for the purposes of Australian Accounting Standards.

12. Non-Cash Financing And Investing Activities

There has been no non-cash financing and investing activities in the reporting period ended 31 December 2005 other than the acquisition of HeartWare, Inc. as outlined in Note 14 below.

13. Controlled Entities

On 24 January 2005, HeartWare Limited 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, 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.

HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES
NOTES TO THE PRELIMINARY FINAL REPORT
FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2005

14. Compliance Statement

(a) This report is based on the financial statements to which one of the following applies:

☐	The financial statements have been audited.	☐	The financial statements have been supplied to review.
☒	The financial statements are in the process of being audited or subject to review.	☐	The financial statements have not yet been audited or reviewed.

(b) The entity has a formally constituted audit committee.

Rob Thomas
Chairman

Date: 28 February 2006