



HEARTWARE LIMITED

ABN 34 111 970 257

**ANNUAL FINANCIAL REPORT &
DIRECTORS' REPORT**

31 DECEMBER 2006

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES**

CONTENTS

	Page No(s)
Directors' Report	3
Corporate Governance Statement	15
Remuneration Report	28
Auditor's Independence Declaration	49
Independent Audit Report	50
Directors' Declaration	52
Income Statement	53
Balance Sheet	54
Statement of Changes In Equity	55
Cash Flow Statement	57
Notes to the Financial Statements	58
ASX Additional Information	105

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

The Board of Directors of HeartWare Limited ("the Company" or "HeartWare") is pleased to submit its Directors' Report for the Company and its controlled entities ("the HeartWare Group" or "the Economic Entity") for the year ended 31 December 2006.

Directors

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

Mr Robert (Rob) B Thomas (Appointed 26 November 2004)	Dr Seth L Harrison (Appointed 26 November 2004)	Mr Douglas E Godshall (Appointed 28 October 2006)
Dr Christine C Bennett (Appointed 15 December 2004)	Dr Denis N Wade AM (Appointed 15 December 2004)	Mr Robert (Bob) B Stockman (Appointed 11 December 2006)
Mr Stuart B McConchie (Appointed 26 November 2004) (Resigned 4 September 2006)		

Directors have been in office from the start of the year to the date of this report unless otherwise stated.

Principal Activities

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

There were no significant changes in the nature of the principal activities of the HeartWare Group during the year ended 31 December 2006.

Financial Results for the Year Ended 31 December 2006

During the year 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 commenced its clinical trials, conducted additional research and development on its future range of products including the intravascular pump or "IV VAD", miniaturised ventricular assist device or "MVAD" and its fully implantable electronics system (i.e. transcutaneous energy transfer system ("TETS")).

Accordingly, the net loss of the HeartWare Group for the year ended 31 December 2006 after providing for income tax was \$25,461,888 (2005: \$17,749,209). The increase in the loss over the preceding year reflects the Company's progression into international clinical trials and early-stage manufacturing. No development costs (2005: \$2,729,726) were capitalised during the year within Intangible Assets in the Balance Sheet.

Total revenue for the year was \$1,143,912 (2005: \$966,326). Revenue comprises interest revenue only. The Company has no sales revenue as it has not received regulatory approval which permits sales of its heart pumps. Sales of the HVAD™ are anticipated in the second half of 2007.

Dividends

As the Company has not made a profit for the year ended 31 December 2006 and has no accumulated retained earnings it is not possible to recommend, declare or pay a dividend. For this reason no dividends have been, or were able to be, recommended, declared or paid during the year.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Review of Operations

Overview

During the 2006 calendar year and over the early months of 2007 HeartWare has achieved a number of significant milestones, the most significant of which is the substantial progress with its European and Australian clinical trial. This clinical trial is anticipated to comprise twenty (20) patients implanted with the HVAD™ at up to 5 clinical centres in Australia and Europe, the primary objective of which is for the Company to secure regulatory approval to sell its HVAD™ in Europe (CE Mark) and Australia (TGA approval). The results of this international clinical trial will then be used to commence a bridge-to-transplant clinical trial in the United States of America during the second half of 2007.

As at the date of this report, HeartWare has implanted eight (8) patients across its four 4 clinical centres, with more than 1,160 accumulative implant days. The early clinical results of the international trial are excellent and the Company expects to complete its enrolment in this regard by no later than June 2007.

The Company also further developed and stabilized its manufacturing processes, particularly towards the end of 2006 with the result that the Company is now in a position to easily meet the needs of its international clinical trial. The progress with manufacturing and the commencement of clinical trials has seen the Company grow accordingly with the Company ending the 2006-year with 65 employees, up from 41 employees for the preceding year.

The Company has opened 2007 with adequate inventory of its products, a stable manufacturing environment and with strong clinical results. These are excellent foundations for the Company as it looks forward to the commencement of US clinical trials and, importantly, "first revenue" later this year.

Regulatory Approvals

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

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

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

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

As noted above, our European and Australian clinical trial calls for the implantation of the HVAD™ in 20 patients with advanced heart failure who are listed for heart transplantation. The end point for the trial is survival to the earlier of 180 days or transplantation. To date, we have implanted the HVAD™ in eight (8) patients in four (4) centers, with cumulative support duration of greater than 1,160 days. Two (2) patients have reached successful completion of the 180-day endpoint, with 1 of these 2 patients also having been supported on the HVAD™ for nearly 1 year. Though early in the study, we have had encouraging clinical outcomes and very positive surgeon review.

While it is difficult to predict the amount of time required for regulatory processes, we anticipate that by filing with the FDA for an Investigational Device Exemption in mid 2007, we expect to have an approval

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

to commence our US trial in 2007. Our plan is to file for a CE mark in September or October 2007 which would lead to commercialization within the European Union at the end of 2007 or beginning of 2008.

Financial Position

HeartWare's cash reserves as at 31 December 2006 were \$21.1 million (2005: \$13.7 million).

Expenditure grew significantly during 2006 as the Company transformed itself from a focus on product development to one that is focussed on developing manufacturing processes required of an early-stage manufacturer of a Class III medical device. The Company also successfully entered clinical trials in both Europe and Australia and further advanced its pipeline of miniaturized pumps through additional research and development and animal trials.

The growth of the Company is reflected in the increase in head count from 41 employees to 65 employees, with a parallel increase in annual employee entitlements costs to \$10 million (2005: \$5.6 million). The 2006 cost was larger than expected due to the unanticipated one-off employee termination costs for two senior employees of approximately \$650,000.

Other notable increases in costs include additional clinical and regulatory consulting costs of \$1.6 million (2005: \$0.3 million) incurred in consequence of the commencement of our international clinical trials. The Company also expensed \$1.6 million of inventory that it will use for its international clinical trial during 2007. This amount was not capitalized in the Balance Sheet because this is not permitted under applicable Australian accounting standards as our international clinical trials are not reimbursed and therefore the product cannot be classified as inventory as it is not "held for resale". This amount is included in the Income Statement in the line item titled "Raw materials and consumables used".

Other non-operating expenses included in this year's loss are the share-based payments expense of \$1.2 million (2005: \$2.6 million), together with amortization and depreciation expense of \$2.9 million (2005: \$2.7 million) which has increased this year largely by virtue of the Company determining to amortize its intangible assets over 15 years, instead of 20 years as was applied previously during 2005 (as is permitted under the Company's accounting policies (see Note 1 to the Financial Statements)).

Significant Changes in State of Affairs

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

- (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 31 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 purchase 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 of the HVAD™. On 22 March 2006 a patient with advanced heart failure received the first ever implant of the device at the Vienna General Hospital.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

- (f) On 19 April 2006 the HVAD™ was successfully implanted in a second patient at Vienna General Hospital.
- (g) On 21 April 2006 the Company announced the appointment of Mr Dozier Rowe as Chief Operating Officer with responsibility for all internal operations of the Company.
- (h) On 22 May 2006 the Company received regulatory approval from the Medicines and Regulatory Healthcare Regulatory Agency ("MHRA") to commence implanting its HVAD™ in the United Kingdom.
- (i) On 23 May 2006 the Company completed a private placement to sophisticated and institutional investors in Australia and the United States, raising approximately \$32.65 million.
- (j) On 4 September 2006 the Company announced the appointment of Mr Douglas Godshall as Chief Executive Officer of the Company replacing Mr Stuart McConchie who also resigned on 4 September 2006. Mr Godshall was subsequently appointed as an executive director of the Company on 28 October 2006.
- (k) On 23 October 2006 the Company recommenced its implant program by implanting its first female patient at the Royal Perth Hospital. This occurred after the Company spent a number of months upgrading elements of its manufacturing and operating processes as part of its transition from a late-stage product development company to an early-stage manufacturing company.
- (l) On 22 November 2006 the Company announced that Ms Jen Foley would assume the position of Vice President, Clinical and Regulatory Affairs with effect from 2 January 2007. Ms Foley, formerly of Boston Scientific, has significant experience in conducting multi-centre clinical trials.
- (m) On 11 December 2006 the Company announced the appointment of US-based Mr Robert (Bob) Stockman to the position of non-executive director of the Company. Mr Stockman has more than 30 years of experience in the US medical device and capital market communities.

Except as stated above there were no material changes to the Economic Entity during the year.

Post-Balance Date Events

The matters or circumstances that have arisen since the end of the year which have 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 are as follows:

- (a) On 2 January 2007 the Company granted 1,150,000 options to new senior appointments under the Company's Employee Share Option Plan, at an exercise price of \$1.10.
- (b) On 31 January 2007 the Australian Stock Exchange released 87,003,221 ordinary shares from escrow. The Company's largest shareholder, Apple Tree Partners, holds all of these shares. In addition, a further 2,264,204 options and the Company's outstanding convertible note were also released from escrow.

Except as stated above, no other matters or circumstances have arisen since the end of the year that have 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 and the expected results of those operations in future financial years are as follows:

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

- (a) Notwithstanding the commencement of human clinical trials in both Europe and Australia, 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 in the second half of 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) HeartWare must raise capital in order to continue to commercialise its technology. It remains the Company's intention to raise funds during 2007. These funds will be primarily applied for the purposes of meeting costs associated with expanding the Company's human clinical trials, product development (including in relation to the Company's transcatheter energy transfer system and its next generation devices, the IV VAD and MVAD™), regulatory and other compliance costs as well as for general working capital. The Company continually monitors its cash position and is confident that a capital raising as contemplated above is achievable (and for this reason the Financial Statements are prepared on a going concern basis).

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

Information regarding the qualifications and experience of each of the directors and the company secretary, together with details concerning the responsibilities of directors and the directorships held by each director in the three years to 31 December 2006 are set out in the Corporate Governance Statement and those details form part of this Directors' Report and are incorporated by reference.

Directors' Interest

The direct and indirect interests of the directors in the shares of the Company (including interests in options) are set out in the Remuneration Report on pages 28 to 48 (inclusive).

Meetings of Directors

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

	Directors' Meeting		Non-Executive Directors' Meeting		Committee Meetings			
					Audit & Compliance Committee		Nomination & Remuneration Committee	
	A	B	A	B	A	B	A	B
Rob Thomas	12 #	12	3 #	3	2	2	1 #	1
Seth Harrison	12	11	3	3	*	*	1	1
Denis Wade	12	12	3	3	2	2	1	1
Christine Bennett	12	12	3	3	2 #	2	1	1
Doug Godshall (C)	2	2	*	*	-	-	*	*
Bob Stockman (D)	1	1	-	-	*	*	*	*
Stuart McConchie (E)	8	8	*	*	2	2	*	*

A - Number of meetings held during the time the director held office during the year.

B - Number of meetings attended.

C - Mr Doug Godshall was appointed Chief Executive Officer on 4 September 2006 (and this became effective on 18 September 2006) . He was appointed a director of the Company on 28 October 2006.

D - Mr Bob Stockman was appointed as a non-executive director of the Company on 11 December 2006.

E - Mr Stuart McConchie resigned as Chief Executive Officer and director of the Company on 4 September 2006.

* - Not a member of the relevant committee.

- Designates the Chair of the relevant committee.

In relation to the above please note that Company announcements are reviewed by either the full Board of Directors or by the Continuous Disclosure Committee ("CDC"). The members of the Continuous Disclosure Committee are Mr Rob Thomas, Dr Seth Harrison, Mr Doug Godshall and, prior to his resignation, Mr Stuart McConchie. In all instances, the Continuous Disclosure Committee reviews and approves recommendations on ASX announcements from senior management, prior to their release to the ASX. Formal meetings of the CDC are held infrequently and on an "as needs" basis. No formal meetings of the CDC were held during the 2006 calendar year.

Indemnification & Insurance

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

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

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

No options were granted during or since the end of the financial year to any director of the HeartWare Group.

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

Shares under Option

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

Grant Date	Expiry Date	Exercise Price	Category	Number Under Option
24 January 2005	24 January 2010	\$0.20	ESOP	4,401,804
24 January 2005	24 January 2010	\$0.60	ESOP	191,051
24 January 2005	24 January 2010	\$0.75	ESOP	191,051
24 January 2005	24 January 2010	\$1.00	ESOP	191,051
24 January 2005	24 January 2010	\$1.50	ESOP	191,051
24 January 2005	24 January 2010	\$0.60	Incentive	600,000
24 January 2005	24 January 2010	\$1.00	Incentive	600,000
24 January 2005	24 January 2010	\$1.50	Incentive	300,000
27 April 2005	27 April 2010	\$0.60	ESOP	191,051
27 April 2005	27 April 2010	\$0.75	ESOP	191,051
27 April 2005	27 April 2010	\$1.00	ESOP	191,051
27 April 2005	27 April 2010	\$1.50	ESOP	191,051
27 April 2005	27 April 2015	\$0.50	ESOP	2,190,510
15 December 2005	15 December 2012	\$0.75	ESOP	764,204
20 April 2006	20 April 2016	\$1.41	ESOP	1,000,000
25 July 2006	25 July 2016	\$1.10	ESOP	2,635,060
27 September 2006	27 September 2016	\$1.10	ESOP	5,581,264
28 October 2006	28 October 2016	\$1.10	ESOP	900,000

20,501,250

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

Shares issued on exercise of options

During and since the year ended 31 December 2006, the following ordinary shares of the Company have been issued on the exercise of options granted under the ESOP:

Grant Date	Exercise Date	Exercise Price	Amount Paid	Number of Shares Issued
27 April 2005	30 June 2006	\$0.50	\$95,575.50	191,151
24 January 2005	25 August 2006	\$0.20	\$44,000.00	220,000
24 January 2005	17 January 2007	\$0.20	\$8,000.00	40,000

No amounts are unpaid on any of the above shares.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Adoption of Australian equivalents of International Financial Reporting Standards

The Company's previous financial year commenced on 26 November 2004 (i.e. prior to 1 January 2005). As a consequence the Company was prohibited from transitioning its accounting and financial reporting from the then current Australian GAAP to Australian equivalents of International Financial Reporting Standards ("AIFRS") in relation to the 2005 Annual Financial Report. This means that this Annual Financial Report for the year ended 31 December 2006 is the first financial report prepared under AIFRS.

As this is the first Annual Financial Report prepared under AIFRS the accounting policies applied are inconsistent with those applied in the 2005 Annual Financial Report as, for the reasons stated above, the 2005 Annual Financial Report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under AIFRS, together with a reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared and is included in Note 2 to the Financial Statements.

Corporate Governance

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

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

Remuneration Report

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

Life Sciences Code of Best Practice for Reporting

Patents

The Code of Best Practice for Reporting by Life Sciences Companies (published by the ASX and AusBiotech) recommends that the Company make a variety of disclosures across a range of areas of interest. In accordance with those recommendations, the Company provides the following information concerning the Economic Entity's patents (as at 31 December 2006):

TITLE	COUNTRY	STATUS	PATENT OR APPLICATION NUMBER
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	Granted	708476
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Australia	Granted	734310
Rotary Blood Pump	Canada	Granted	2218342
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Europe	Pending	4014527.8
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Israel	Granted	121834

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

TITLE	COUNTRY	STATUS	PATENT OR APPLICATION NUMBER
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	Korea	Granted	351336
Sealless Rotary Blood Pump with Passive Magnetic Radial Bearings and Blood Immersed Axial Bearings	United States	Granted	5695471
Sealless Rotary Blood Pump	Australia	Granted	730235
Sealless Rotary Blood Pump	Australia	Granted	742536
Sealless Rotary Blood Pump	Germany	Granted	69828926.9-8
Sealless Rotary Blood Pump	Europe	Granted	901797
Sealless Rotary Blood Pump	France	Granted	901797
Sealless Rotary Blood Pump	Great Britain	Granted	901797
Sealless Rotary Blood Pump	Japan	Pending	205985/98
Sealless Rotary Blood Pump	Netherlands	Granted	901797
Sealless Rotary Blood Pump	United States	Granted	5840070
Sealless Blood Pump with Means for Avoiding Thrombus Formation	Australia	Granted	768864
Sealless Blood Pump with Means for Avoiding Thrombus Formation	Japan	Pending	19027/99
Sealless Blood Pump with Means for Avoiding Thrombus Formation	United States	Granted	6120537
Sealless Rotary Blood Pump	United States	Granted	6080133
Power System for an Implantable Heart Pump	United States	Granted	6149683
Active Magnetic Bearing System for Blood Pump	Australia	Granted	765716
Active Magnetic Bearing System for Blood Pump	Europe	Granted	1135181
Active Magnetic Bearing System for Blood Pump	France	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Germany	Granted	*
Active Magnetic Bearing System for Blood Pump	Italy	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Spain	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Great Britain	Granted	1135181
Active Magnetic Bearing System for Blood Pump	Japan	Pending	2000-584946
Active Magnetic Bearing System for Blood Pump	United States	Granted	6264635
Rotary Blood Pump with Ceramic Members	Australia	Granted	765033
Rotary Blood Pump with Ceramic Members	Europe	Pending	957558.2
Rotary Blood Pump with Ceramic Members	Japan	Pending	2000-590707
Rotary Blood Pump with Ceramic Members	United States	Granted	6158984
Blood Pump Using Cross-Flow Principles	Australia	Granted	760773
Blood Pump Using Cross-Flow Principles	Germany	Granted	69931960
Blood Pump Using Cross-Flow Principles	Europe	Granted	1146920
Blood Pump Using Cross-Flow Principles	France	Granted	1146920

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

TITLE	COUNTRY	STATUS	PATENT OR APPLICATION NUMBER
Blood Pump Using Cross-Flow Principles	Great Britain	Granted	1146920
Blood Pump Using Cross-Flow Principles	Netherlands	Granted	1146920
Blood Pump Using Cross-Flow Principles	Japan	Pending	2000-594506
Blood pump using Cross-Flow Principles	United States	Granted	6217541
Rotary Blood Pump	Australia	Granted	773136
Rotary Blood Pump	Europe	Pending	923125.9
Rotary Blood Pump	Japan	Pending	2000-613497
Rotary Blood Pump	United States	Granted	6234772
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Australia	Granted	771931
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	Japan	Pending	2001-509146
Method and Apparatus for Controlling Brushless DC Motors in Implantable Medical Devices	United States	Granted	7138776
Sealless Rotary Blood Pump	United States	Granted	6234998
Power System for an Implantable Heart Pump	United States	Granted	6592620
Sealless Rotary Blood Pump	United States	Granted	6368083
Sealless Rotary Blood Pump	United States	Granted	6688861
Ventricular Connector	United States	Granted	6732501
Sealless Rotary Blood Pump	United States	Pending	10/887116
Ventricular Connector	United States	Pending	10/799534
Sensorless Flow Estimation For Implanted Ventricle Assist Device	Australia	Pending	*
Sensorless Flow Estimation For Implanted Ventricle Assist Device	Europe	Pending	*
Sensorless Flow Estimation for Implanted Ventricle Assist Device	United States	Pending	10/853302
Wide Blade, Axial Flow Pump	United States	Pending	11/003810
Multiple Rotor, Wide Blade, Axial Flow Pump	PCT	Pending	PCT/US05/35964
Multiple Rotor, Wide Blade, Axial Flow Pump	United States	Pending	11/118551
Impeller for a Rotary Ventricle Assist Device	United States	Pending	11/243722
Implantation Procedure for Blood Pumps	United States	Pending	11/280030
Implant Connector	PCT	Pending	*
Implant Connector	United States	Pending	11/298410
Surgical Cutting Tool for Making Precise and Accurate Incisions	United States	Pending	11/332455
Surgical Tool for Coring Precise Holes and Providing for Retrieval of Tissue	United States	Pending	11/332016
Hydrodynamic Thrust Bearings for Rotary Blood Pumps	United States	Pending	*
Shrouded Thrust Bearings	United States	Pending	*

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

TITLE	COUNTRY	STATUS	PATENT OR APPLICATION NUMBER
Stabilizing Drive for Contactless Rotary Blood Pump Impeller	United States	Pending	*
Surgical Tool	United States	Pending	11/337708
Axial Flow Pump with Multi-Grooved Rotor	PCT	Pending	PCT/US06/21
Axial Flow Pump with Multi-Grooved Rotor	United States	Pending	11/445963

* number not available

Escrow

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

Intangible Assets

Note 15 of the Company's Financial Statements provide details of the Economic Entity's intangible assets.

Proceedings on Behalf of Company

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

Denomination

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

Filing Requirements in the United States of America

With effect from 1 January 2007, the Company is no longer able to rely on the "foreign private issuer exemption" as set out under the *Securities Exchange Act of 1934* and is therefore subject to the same registration and reporting requirements that are required of domestic U.S. companies. These requirements generally call for the filing of annual, quarterly and current reports with the U.S. Securities and Exchange Commission. The Company will therefore file a Form 10 financial report for the year-ended 31 December 2006 with the U.S. Securities and Exchange Commission on or before 30 April 2007.

Non-audit Services

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

The following non-audit services were paid / payable to the external auditors during the financial year ended 31 December 2006:

	2006 \$	2005 \$
Other Services:		
Auditors of the parent entity – Grant Thornton NSW		
- Tax services	9,190	1,640
- Advisory fees in connection with Company's obligations to lodge US GAAP compliant financial statements with the Securities Exchange Commission	2,650	-
- 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	7,768	819
- Advisory fees in connection with Company's obligations to lodge US GAAP compliant financial statements with the Securities Exchange Commission	2,328	-
- Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company	-	46,825
	21,936	114,546

Auditor's Independence Declaration

The lead auditor's independence declaration for the financial year ended 31 December 2006 has been received and can be found immediately following this Directors' Report (including the Corporate Governance Statement and the Remuneration Report) and forms part of this report.

Auditor

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

This report (and the attaching Corporate Governance Statement and Remuneration Report) is made in accordance with a resolution of the Board of Directors.



Rob Thomas
Chairman
Date 28 February 2007

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
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.

HeartWare supports both the Australian Stock Exchange's ("ASX") Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Guidelines") and the "Code of Best Practice for Reporting by Life Science Companies" ("Code of Best Practice").

Following a year of intensive growth and consolidation within the Company's business, the Board of Directors is pleased to confirm that the Company's corporate governance framework has grown steadily and is generally consistent with the ASX Guidelines (other than as set out below). To this end, the Company provides below a review of its governance framework using the same numbering as adopted for the best practice recommendations as set out in the ASX Guidelines ("Best Practice Recommendation").

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

Principle 1 - Lay solid foundations for management and oversight

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

The primary responsibility of:

- (a) the Board of Directors is to provide effective governance over the business and affairs of HeartWare and its controlled entities ("the HeartWare Group") so that the interests of all stakeholders are protected; and
- (b) the Chief Executive Officer is to oversee the day-to-day performance of the HeartWare Group (pursuant to Board delegated powers).

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

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

- (a) decisions about corporate strategy and policies as well as commitments over prescribed limits;
- (b) setting major capital expenditure, acquisitions, divestments and funding arrangements;
- (c) setting the various internal controls and reporting framework for the management of the risks inherent in the operations of the HeartWare Group;
- (d) setting of discretionary financial and related operating limits for management; and
- (e) establishing and determining the powers and functions of the committees of the Board.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Reporting Requirement

The Company fully complied with Best Practice Recommendation 1.1 during the year ended 31 December 2006.

Principle 2 - Structure the Board to add value

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

Composition

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

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

Name	Position	Date Appointed	Tenure*	Independent
Rob Thomas	Non-executive Chairman	26 Nov 2004	2.1 years	Yes
Seth Harrison	Non-executive Deputy Chairman	26 Nov 2004	2.1 years	No
Denis Wade	Non-executive director	15 Dec 2004	2.0 years	Yes
Christine Bennett	Non-executive director	15 Dec 2004	2.0 years	Yes
Bob Stockman	Non-executive director	11 Dec 2006	0.1 years	Yes
Doug Godshall	Chief Executive Officer / President / Executive Director	28 Oct 2006	0.2 years	No

* Calculated at as at 31 December 2006.

As previously disclosed in the 2005 Annual Report, the Board of Directors actively sought to revise its composition with a view to expanding its skill sets, experiences and capabilities during 2006. This is confirmed by the recent appointment of Mr Bob Stockman to the Board of Directors. Mr Stockman has significant experience and managerial expertise in both the US capital market and the wider medical device market, as well as an extensive and successful track record in the effective commercialization of various medical products and business.

Expertise

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Robert Bain Thomas



Position	Non-executive Chairman
Age	62
Independent	Yes

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

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

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

In the last three years, Rob has been a non-executive director of Virgin Blue Holdings Limited (Appointed 8 September 2006 – Present), non-executive Chairman of Australian Wealth Management Limited (ASX:AUW) (Appointed 15 February 2005 – Present) and Deputy Chairman of Benitec Limited (ASX:BLT) (Appointed 7 May 2004 – Resigned 30 November 2005). In addition, Rob is also the Chairman of the Securities & Derivatives Association, a consultant to Citigroup Corporate and Investment Bank and President of the Library of New South Wales.

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

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

Dr Seth Loring Harrison



Position	Non-executive Deputy Chairman
Age	46
Independent	No

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

Seth is presently Managing General Partner of HeartWare's major shareholder, Apple Tree Partners. Apple Tree Partners is an early stage life sciences venture capital firm, based in New York City, 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.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

Robert (Bob) Bernard Stockman



Position	Non-executive director
Age	53
Independent	Yes

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

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

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

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Dr Denis Newell Wade AM



Position	Non-executive director
Age	69
Independent	Yes

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

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

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

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

In the last 18 years, Denis has acted as a non-executive director of a number of developing health-care companies including Gene Shears Pty Limited, Chemgenex Limited (ASX:CXS) (Appointed 5 December 2006 – Resigned 8 February 2007) and 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. He is the former Chairman of the Innovation Council of New South Wales.

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Dr Christine Constance Bennett



Position	Non-executive director
Age	51
Independent	Yes

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

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

Christine has 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 12 July 2004 – 20 April 2006) and Symbion Health (ASX:SYB) (Appointed 1 February 2007 – Present).

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

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

Douglas (Doug) Evan Godshall



Position	Chief Executive Officer / President / Executive Director
Age	42
Independent	No

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

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

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

From January 2005 until his departure to join HeartWare, Doug was President, Vascular Surgery at Boston Scientific, with overall responsibility for a business division employing some 600 personnel and generating revenues of approximately US\$100 million. Doug previously spent five years as Vice President, Business Development at Boston Scientific, where he was instrumental in developing the acquisition strategies for the cardiology, electrophysiology, neuroradiology and vascular surgery divisions. During this period, he led the negotiation and structuring of over seventy (70) transactions and represented Boston Scientific on the Boards of eleven (11) companies. Prior to assuming the Business Development position, he was Director of Marketing for Boston Scientific's Urology Division where he helped build global sales to over US\$150 million. Doug joined Boston Scientific in 1990.

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

Doug is a member of the Continuous Disclosure Committee.

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

David John McIntyre (Chief Financial Officer & Company Secretary)

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

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

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

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

Independent advice

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

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

Reporting requirement

Having listed on the ASX during early 2005, the Company confirmed in last year's Annual Report that it was unable to comply with requirements of Best Practice Recommendations 2.1 to 2.5 during the year

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

ended 31 December 2005. However, for the year ended 31 December 2006, the Company is pleased to confirm that it has fully complied with the requirements of Best Practice Recommendations 2.1 to 2.5 (inclusive).

Principle 3 – Promote ethical and responsible decision-making

Obligation – Actively promote ethical and responsible decision-making

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

During 2006 the Company also adopted a policy titled “Complaint Procedures for Accounting and Audit Matters”. This policy established procedures that operate in addition to the Code of Conduct and which are primarily focused on dealing with employee complaints concerning any questionable accounting or auditing matters including, without limitation, the following:

- (a) fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Company;
- (b) fraud or deliberate error in the recording and maintaining of financial records of the Company;
- (c) deficiencies in or non-compliance with the Company’s internal accounting controls;
- (d) mis-representation or false statement to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; or
- (e) deviation from full and fair reporting of the Company’s financial condition.

In addition, the above two policies are supplemented by the Company’s Operational Policies, Employee Handbook and other corporate policies such as the Risk Management Policy, Securities Trading Policy and Continuous Disclosure Policy.

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

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

Reporting requirement

The Company fully complied with Best Practice Recommendations 3.1 to 3.3 (inclusive) during the year ended 31 December 2006.

Principle 4 – Safeguard integrity in financial reporting

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

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

Having said the above, the Company recognizes that growing organizations, like HeartWare, are inherently limited in terms of the resources available to it to protect the integrity of its financial reporting mechanism (as compared to larger, more mature organizations). For example, separation of duties, responsibilities and controls in key accounting functions is intrinsically difficult when the finance function comprises relatively few employees.

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

In this regard, it should be noted that the Company adopted an Auditor Selection & Rotation Policy during 2006 (a copy of which is available to be downloaded on the Company's website). On adoption of this policy, the Company then undertook a review of its external audit function and subsequently completed a tender process before determining to re-appoint Grant Thornton NSW as the Company's auditor.

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

Reporting requirement

The Company fully complied with Best Practice Recommendations 4.1 to 4.5 (inclusive) during the year ended 31 December 2006.

Principle 5 – Make timely and balanced disclosure

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

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

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

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Reporting Requirement

The Company fully complied with Best Practice Recommendations 5.1 to 5.2 (inclusive) during the year ended 31 December 2006.

Principle 6 – Respect the rights of shareholders

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

As noted elsewhere in this Corporate Governance Statement, HeartWare is continuing to grow and mature as both a publicly listed company and a manufacturer of quality medical devices. As a consequence of this, the Company's communication strategy is also evolving and maturing. This is best exemplified by the fact that the Company has provided more frequent shareholder communication from September onwards. This includes written communications and webcasts and this communication effort has arguably been more concerted than at any other time since the Company listed on the ASX. This heightened level of communication has arisen, in part, through the Company's recognition that investors were desirous of receiving more detailed corporate information, more often.

In addition to the above, the Company will continue to webcast its Annual General Meeting and, where possible, other events at which the Chief Executive Officer and other HeartWare representatives make presentations on behalf of the Company. The Company is also in the process of redesigning its website and it is hoped that these, and other corporate initiatives, will be well-received by shareholders.

Reporting requirement

The Company complies with Best Practice Recommendations 6.1 to 6.2 (inclusive) for the year ended 31 December 2006.

Principle 7 – Recognise and manage risk

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

The risks that the Company faces are continually changing in line with the development of the Company. In early 2005, the primary risks that the Company faced could be categorized as product development risk associated with the Company's key product, the HVAD™, transitioning through good laboratory practice animal trials. During 2006, the risks broadened to include operational risks associated with the manufacture of an implantable medical device, together with those risks generated by the commencement and maintenance of the Company's human clinical trials.

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

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

During 2006, HeartWare's management further developed its Risk Management Plan which is specifically designed to support the product life cycle of the Company's HVAD™ through until the eventual receipt of marketing approval to commence sales in the United States of America. Initiatives such as this are illustrative of the way in which the Company is actively attempting to mitigate identified risks but it is acknowledged that a high level of commitment to identifying and managing risk will be required in this regard, particularly as the Company continues to move through clinical trials into sales.

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

As HeartWare continues to mature, it is envisaged that it will broaden its risk management processes and capabilities (e.g. by eventually establishing an internal audit program) and ultimately recruit experienced individuals to manage and oversee the Company's risk management function.

Reporting requirement

The Company complies with Best Practice Recommendation 7.1 and 7.2 for the year ended 31 December 2006 and the Chief Executive Officer and the Chief Financial Officer have provided the requisite written sign-offs.

Principle 8 – Encourage enhanced performance

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

The attached Remuneration Report provides detailed information in relation to the manner in which the Company reviewed the effectiveness of the Company's management. This process included a detailed employee performance appraisal, goal setting process and a benchmarking review. This also incorporated a review of the performance of each of the Chief Executive Officer and the Chief Financial Officer.

The above process was undertaken by the Company for the first time in mid 2006 and will be conducted annually. Further details of the relevant review process are set out in the Remuneration Report.

Further, during the year and as noted at Principle 2 above, the Board focused on expanding its capabilities via the appointment of suitably qualified individuals (culminating in the appointment of Mr Bob Stockman to the Board of Directors). With the exception of undertaking this process, the Board has not undertaken any other type of Board review, including a performance evaluation of the Board, its committees or of individual directors.

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

Reporting requirement

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Principle 9 – Remunerate fairly and responsibly

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

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

In addition to the above, the Company acknowledges that the HeartWare Employee Share Option Plan ("ESOP") is used as a form of incentive for all employees. The Company granted ESOP options to new and existing employees during 2006, taking into account retention and motivation and other factors such as dilutionary events to the Company's equity. To this end, the Board notes that all equity grants to employees during 2006 were made at a premium to the then existing share price, with some grants being made at a premium of up to 40%.

As the Company endeavors to penetrate the US medical device market, it is acknowledged that the Board will not be able to continue to offer equity grants with such high premiums if the Company is to continue to maintain, motivate and attract suitably qualified individuals. The Company will, accordingly, seek to modify its approach so as to be more in-line with its competitors, particularly those companies operating in the United States.

The Company notes that the ESOP was approved by shareholders at last year's Annual General Meeting and it does not have any other schemes for retirement benefits for employees or non-executive directors, other than applicable statutory superannuation.

Further information regarding the remuneration practices of the HeartWare Group are set out in the Remuneration Report. Information included in the Remuneration Report is incorporated into this report by reference.

Reporting requirement

The Company fully complied with Best Practice Recommendations 9.1 to 9.5 (inclusive) during the year ended 31 December 2006.

Principle 10 – Recognise the legitimate interests of stakeholders

Obligation – Recognise legal and other obligations to all legitimate stakeholders

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

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

Reporting requirement

The Company complied with Best Practice Recommendation 10.1 during the year ended 31 December 2006.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

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



Rob Thomas
Chairman
Date 28 February 2007

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

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

Nomination & Remuneration Committee

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

The Remuneration Committee advises the Board on remuneration policies and practices generally. In addition, the 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, including experience and qualifications, of the members of the Remuneration Committee are set out in the Directors' Report.

Remuneration Policy

The Board of Directors of HeartWare acknowledges and accepts that the Company's remuneration policies and practices are central to the Company's ability to attract, retain and incentivise its employees. In particular, the Board of Directors recognises that employee attraction and retention are of the utmost importance to HeartWare as it transitions from a late-stage development company to an early-stage manufacturer of implantable precision medical devices.

During this period of intensive growth and development, the Company is dependant on a concentrated pool of employees who, consequently, are imparted with a wider set of responsibilities and obligations than would normally be expected in much larger, more mature organisations. For this reason, the retention of these employees, together with their accrued knowledge and experiences, are of great significance to the Company and directly impact on HeartWare's ability to achieve corporate objectives in a timely manner and to thereby grow shareholder value.

The Company's remuneration policies are therefore designed to address the above and, as best as is possible in current circumstances, align compensation and related (financial) incentives with the interests of shareholders. In so doing, the Board of Directors acknowledges that equity incentives are an important element of compensation, but not the sole element, as different employees are motivated by a variety of forms of compensation.

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;

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

- (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.

Competitive Considerations

HeartWare acknowledges that the market for medical device employees is highly competitive and, accordingly, employees in the medical device sector are generally relatively highly remunerated, particularly in the United States.

Additionally, HeartWare also considers and contends with the following relevant factors when it determines and reviews compensation for its employees:

- (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 specialised and highly technical due to the consequences for patients of product failure. As such, the Company must maintain exceptionally high standards in the manufacturing, training, implanting and securing of regulatory approval for the Company’s implantable products.
- (e) HeartWare does not, for the time being, have revenue or significant levels of detailed long-term human data from its products. For this reason, the Company is perceived as having a higher “risk profile” than other established medical device companies as considered from the perspective of potential new employees and, as such, this can make it difficult to attract new employees to the HeartWare Group, particularly “in-demand” employees with specialised skills and experiences.
- (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.

Philosophy

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

Whilst equity-based compensation has been and remains a strong financial motivator for employees, the Board of Directors accept that the salary component of each employee’s remuneration will, in the short term, constitute the vast majority of total compensation, at least until such time that the Company progresses further into its clinical trial.

It is the Company’s view that the above philosophy is presently appropriate if HeartWare is to:

- (a) attract and retain key executives to manage the business and affairs of the HeartWare Group; and
- (b) be a significant player in the growing circulatory assist market, and thereby increase shareholder value.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

Remuneration & Review Process - Directors

The compensation for directors of HeartWare was determined in late 2004 in consultation with its corporate advisers and by reference to what the Board of Directors then understood to be comparable levels of compensation for substantially similar entities.

In the two-year period since the Company listed on the Australian Stock Exchange the compensation of HeartWare's directors has not changed or otherwise increased. In addition, no incremental equity participation has been afforded to directors in this period.

In consequence of the above no review process was undertaken in relation to the members of the Board of Directors during the year ended 31 December 2006.

Remuneration & Review Process - Employees

During May and June 2006 the Company obtained external (independent) advice for the purposes of undertaking a benchmarking exercise to compare existing employee compensation levels with those of its competitors. Individual job descriptions were analysed on a "job-matching basis" and compared against the Radford International Survey. The Radford International Survey provides comprehensive compensation data for more than 50 countries and is well recognized as being one of the pre-eminent surveys for the medical device/biotechnology industry.

The key element in the analysis was the job description. In all instances the details of the responsibilities, experience and education of the relevant individual were the foundation for the job matching. In this way the actual job title was considered but it was not the overriding factor of the analysis.

Once the job matching was completed each individual was then assessed to determine where that individual's compensation was positioned in relation to the equivalent industry or benchmarked compensation. In this regard, the Company was able to categorise the employee's salary grade position as being lower (i.e. less than 90% of the benchmarked salary), middle (i.e. between 90% and 110% of the benchmarked salary) or upper (i.e. more than 110% of the benchmarked salary).

As a separate exercise, the Company implemented a detailed performance appraisal system. Employees were assessed on a 360 degree review process where consideration was given to a variety of factors including a comparison of responsibilities to the relevant job description. Performance was also broadly considered in areas such as technical capabilities, communication (written and verbal) and core competencies (e.g. problem solving, leadership, coaching, delegation, teamwork, motivation, organisational skills, personal presentation, literacy etc).

This review process utilised the following scale:

- (a) Exceptional Performance where the employee met competency requirements and exceeded on most occasions. Performance was consistently outstanding in terms of timeliness and quality and quantity of outcomes.
- (b) Above Satisfactory Performance where the employee met competency requirements and exceeded on some occasions. Performance was usually above expectations in terms of timeliness and quality and quantity of outcomes.
- (c) Satisfactory Performance where the employee met competency requirements. Performance satisfied expectations in terms of timeliness and quality and quantity of outcomes.
- (d) Needs Improvement where the competency requirement was not always demonstrated. Performance did not always satisfy expectations in terms of timeliness and quality or quantity of outcomes.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

- (e) Not applicable where the employee had not been provided with an opportunity to demonstrate competency or, in the alternative, the competency does not apply to the appraisee.

Once the above was completed the individual salary grade position and actual performance was aggregated and applied in a matrix which establishes indicative merit increase bands; that is, the employees performance and salary position relative to "the market" determines a percentage salary increase (under the salary matrix).

In addition to the above, the following factors were also considered or determined:

- (a) The merit increase matrix was positioned around published merit increase data that indicated that smaller employers (i.e. with less than 100 employees) reported merit and general increases ranging from 3.1% to 4.5%.
- (b) Notwithstanding (a) above, the cost to the Company of the proposed merit increase was determined and capped at 5% in aggregate.
- (c) Merit increases were affected from 1 July 2006.
- (d) Following the Company's review process and in recognition of the substantial efforts, achievements and progress made by the Company and limited pay increases in prior years, the Board of Directors determined to pay a discretionary bonus on 30 June 2006 to forty-six employees (with a total aggregate cost of approximately \$600,000). Only employees who were employed prior to 1 December 2005 were eligible to participate in this discretionary bonus. The bonus paid to eligible employees was determined in parallel with the review process set out above.

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, the lack of Company share price trading history and the inherent volatility in the HeartWare share price means that the base salary component will remain the dominant factor in employee compensation in the short term.

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. non-matching 401(k) in the United States and statutory superannuation in Australia). Further, all US based employees participate in corporate health 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.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

- (a) Key Management Personnel - Section 1 to Appendix A to this Remuneration Report
- (b) Compensation options – Section 2 to Appendix A to this Remuneration Report.
- (c) Option holdings – Section 3 to Appendix A to this Remuneration Report.
- (d) Compensation, including salary and retirement benefits – Section 4 to Appendix A to this Remuneration Report.
- (e) Shareholdings – Section 5 to Appendix A to this Remuneration Report.

Employment Arrangements

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

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

Overview

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

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

Employment Arrangements

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

- (a) Annual salary of \$442,310 being equivalent to US\$350,000.
- (b) A one-off sign-on bonus of \$98,949 (being equivalent to US\$75,000) paid on commencement of employment.
- (c) On commencement of employment the grant of 5,581,264 ESOP options with an exercise price of \$1.10.
- (d) An annual performance bonus of \$98,949 (being equivalent to US\$75,000) subject to satisfaction of agreed annual performance hurdles.

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

Overview

As Chief Financial Officer and Company Secretary, Mr McIntyre is responsible for directing HeartWare's financial, taxation, compliance (non-clinical), 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 Certified Practising Accountant ("CPA") and is admitted as a Legal Practitioner of the Supreme Court of New South Wales.

Until 30 April 2006, Mr McIntyre resided in Sydney, Australia and travelled frequently to the United States of America. With effect from 1 May 2006 Mr McIntyre has temporarily relocated to the Company's Operations Facility located in Florida, in order to assist with, amongst other things, the management of the Company's growth and development.

Employment Arrangements

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

The above agreement does not contain a fixed term and may be terminated by either party on three months' notice. This service agreement, including all accrued (unpaid) leave entitlements, will resume on Mr McIntyre's return to Australia. The above arrangements are denominated in Australian dollars.

With effect from 1 May 2006, Mr McIntyre has a service agreement with HeartWare, Inc.. The arrangements with Mr McIntyre, including relocation benefits, were determined following a detailed external (independent) review. This review, which was conducted by Ernst & Young, compared host country (Miami, Florida) and home country (Sydney, Australia) relativities incorporating a net income comparison, spending and housing cost differentials as well as standards of living comparatives.

In addition, market data provided by recognized relocation experts was also assessed and consideration was given to the additional financial burden associated with an international relocation including, amongst other things, consideration of the loss of income for Mr McIntyre's spouse as a certified practising accountant. Set out below is an overview of the key elements of this agreement:

- (a) Annual salary of \$284,342 per annum (being equivalent to US\$225,000).
- (b) Relocation benefits as follows:
 - (i) A pre-tax one-off relocation allowance of \$36,661 (being equivalent to US\$27,750) on commencement of assignment in the United States. The allowance was provided to assist Mr McIntyre with meeting out of pocket expenses that were incurred on relocation to the United States, such as installation and purchase of electrical appliances, house cleaning, establishment of utilities, telephone installation etc, together with associated costs of leaving Australia (termination of existing services and utilities etc).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

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

Dozier Rowe MGT Sci – Chief Operating Officer

Overview

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

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

Employment Agreement

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

- (a) Annual salary of \$284,342 per annum (being equivalent to US\$225,000).
- (b) On commencement of employment the grant of 1,000,000 ESOP options with an exercise price of \$1.41. Subject to (c) below, these ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the commencement of employment.
- (c) In certain circumstances the termination of Mr Rowe's employment within twelve months of a "Change of Control" (e.g. a merger or takeover) will permit Mr Rowe to exercise those options which would vest within twelve months of the date of termination.

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

Jane Reedy RN MSN– 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 employee arrangements are denominated in US dollars.

Employment Agreement

Ms Reedy has a service agreement with HeartWare, Inc. with an annual salary of \$252,748 per annum (being equivalent to US\$200,000).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

Jeff LaRose MSME – Chief Scientific Officer

Overview

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

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

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

Employment Agreement

Mr LaRose has a service agreement with HeartWare, Inc. with an annual salary of \$284,352 per annum (being equivalent to US\$225,000).

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

Barry Yomtov BS M Eng – Vice President, Product Development

Overview

As Vice President, Product Development, Mr Yomtov is responsible for the Company's development of new products, including implantable electronics and peripheral accessories.

Mr Yomtov holds a Bachelor of Science and Masters of Engineering degrees in Biomedical Engineering from Rensselaer Polytechnic Institute.

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

Employment Agreement

Mr Yomtov has a service agreement with HeartWare, Inc. with the following components:

- (a) Annual salary of \$208,518 per annum (being equivalent to US\$165,000).
- (b) On commencement of employment, the grant of 300,000 ESOP options with an exercise price of \$1.10. These ESOP options vest progressively in four equal annual tranches beginning on the anniversary of the grant date.
- (c) Relocation benefits in connection with relocating Mr Yomtov from his existing residence in Boston to Miami, not exceeding \$92,353 (being equivalent to US\$70,000) as follows:
 - (i) Up to six (6) roundtrips per month for either Mr Yomtov and his spouse between Boston and Miami.
 - (ii) An aggregate of six (6) roundtrips for Mr Yomtov's children between Boston and Miami.
 - (iii) An allowance of \$2,780 per month (being equivalent to US\$2,200 per month) as a rental allowance.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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

Howard Leibman BE(Hons) BA MBA – Director, Corporate Development

Overview

As Director Corporate Development, Mr Leibman is responsible for the Company's investor relations and shareholder liaison functions.

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 employee arrangements are denominated in Australian dollars.

Employment Arrangement

Mr Leibman has a service agreement with HeartWare Limited with an annual salary of \$250,000 per annum, including superannuation.

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 and subject to the approval by the Board of Directors, options may be exercised at any time 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.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

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.

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



Rob Thomas
Chairman
Date 28 February 2007

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 1 - APPENDIX A TO THE REMUNERATION REPORT
KEY MANAGEMENT PERSONNEL**

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

Name	Position	Entity	Tenure
Mr R B Thomas	Non-executive Chairman	(i)	26 November 2004 - Current
Dr S L Harrison	Non-executive Deputy Chairman	(i)	26 November 2004 - Current
Mr R B Stockman	Non-executive director	(i)	11 December 2006 - Current
Dr D N Wade	Non-executive director	(i)	15 December 2004 - Current
Dr C C Bennett	Non-executive director	(i)	15 December 2004 - Current
Mr D E Godshall	Chief Executive Officer Executive Director	(i), (ii)	18 September 2006 - Current 28 October - Current
Mr D J McIntyre	Chief Financial Officer Company Secretary	(i), (ii)	28 February 2005 - Current 28 February 2005 - Current
Mr D A Rowe	Chief Operating Officer	(ii)	17 April 2006 - Current
Mr J A LaRose	Chief Scientific Officer	(ii)	10 July 2003 - Current
Ms J E Reedy	Vice President, Clinical & Marketing	(ii)	16 May 2005 - Current
Mr H Leibman	Director, Corporate Development	(i)	18 April 2005 - Current
Mr B M Yomtov	Vice President, Engineering, Electronic Product Systems	(ii)	31 July 2006 - Current
Mr S B McConchie	Executive Director Chief Executive Officer	(i), (ii)	26 November 2004 - 4 September 2006 26 November 2004 - 4 September 2006
Mr W J Rissmann	Vice President, Manufacturing and Product Development	(b)	25 April 2005 - 1 June 2006

Notes:

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

- (b) **Key management compensation**

Details of the compensation practices that apply in relation to the key management personnel are set out in the Remuneration Report on pages 28 to 31 (inclusive).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 2 – APPENDIX A TO THE REMUNERATION REPORT
COMPENSATION OPTIONS FOR KEY MANAGEMENT PERSONNEL**

	Vested Number	Granted Number	TERMS & CONDITIONS FOR EACH GRANT				
			Grant Date	Value per Option at Grant Date (\$)	Exercise Price (\$)	First Exercise Date	Last Exercise Date
Parent Entity Directors							
Thomas, R	964,204	764,204	24 January 2005	\$0.36	\$0.20	*24 January 2006	24 January 2010
		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	-	-	-	-	-	-	-
Stockman, R	-	-	-	-	-	-	-
Wade, D	100,000	100,000	24 January 2005	\$0.23	\$0.60	*24 January 2006	24 January 2010
		100,000	24 January 2005	\$0.17	\$1.00	*24 January 2007	24 January 2010
		50,000	24 January 2005	\$0.12	\$1.50	24 January 2008	24 January 2010
Bennett, C	100,000	100,000	24 January 2005	\$0.23	\$0.60	*24 January 2006	24 January 2010
		100,000	24 January 2005	\$0.17	\$1.00	*24 January 2007	24 January 2010
		50,000	24 January 2005	\$0.12	\$1.50	24 January 2008	24 January 2010
Godshall, D	-	1,395,316	21 September 2006	\$0.50	\$1.10	27 September 2016	27 September 2016
		1,395,316	21 September 2006	\$0.50	\$1.10	27 September 2016	27 September 2016
		1,395,316	21 September 2006	\$0.50	\$1.10	27 September 2016	27 September 2016
		1,395,316	21 September 2006	\$0.50	\$1.10	27 September 2016	27 September 2016
McConchie, S #	1,146,307	1,146,307	24 January 2005	\$0.23	\$0.60	27 September 2007	2 October 2006
		1,146,307	24 January 2005	\$0.20	\$0.75	27 September 2008	2 October 2006
		1,146,307	24 January 2005	\$0.17	\$1.00	27 September 2009	2 October 2006
		1,146,307	24 January 2005	\$0.12	\$1.50	27 September 2010	2 October 2006

* Options are subject to escrow until 31 January 2007.

First three tranches were cancelled on 4 September 2006. The fourth tranche was cancelled on 4 October 2006.

No options were exercised by directors during the year ended 31 December 2006.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 2 – APPENDIX A TO THE REMUNERATION REPORT (Continued)
COMPENSATION OPTIONS FOR KEY MANAGEMENT PERSONNEL (Continued)**

			TERMS & CONDITIONS FOR EACH GRANT				
	Vested Number	Granted Number	Grant Date	Value per Option at Grant Date (\$)	Exercise Price per Share (\$)	First Exercise Date	Last Exercise Date
Other Key Management Personnel							
Rowe, D	-	1,000,000	20 April 2006	\$0.87	\$1.41	20 April 2006	20 April 2016
		200,000	28 October 2006	\$0.50	\$1.10	28 October 2007	28 October 2016
LaRose, J	1,731,051	764,204	27 April 2005	\$0.26	\$0.50	27 April 2006	27 April 2015
		1,540,000	24 January 2005	\$0.36	\$0.20	31 January 2005	24 January 2010
		200,000	28 October 2006	\$0.50	\$1.10	28 October 2007	28 October 2016
Reedy, J	286,576	1,146,306	27 April 2005	\$0.26	\$0.50	27 April 2006	27 April 2015
		200,000	28 October 2006	\$0.50	\$1.10	28 October 2007	28 October 2016
McIntyre, D	191,051	191,051	24 January 2005	\$0.23	\$0.60	24 January 2006	24 January 2010
		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 2013
		382,102	15 December 2006	\$0.38	\$0.75	31 January 2008	15 December 2013
		200,000	28 October 2006	\$0.50	\$1.10	28 October 2007	28 October 2016
Leibman, H	191,051	191,051	27 April 2005	\$0.23	\$0.60	27 April 2006	27 April 2015
		191,051	27 April 2005	\$0.20	\$0.75	27 April 2007	27 April 2015
		191,051	27 April 2005	\$0.17	\$1.00	27 April 2008	27 April 2015
		191,051	27 April 2005	\$0.12	\$1.50	27 April 2009	27 April 2015
		100,000	28 October 2006	\$0.50	\$1.10	28 October 2007	28 October 2016
Yomtov, B	-	300,000	25 July 2006	\$0.66	\$1.10	25 July 2007	25 July 2016
Rissmann, W	191,151	764,204	27 April 2005	\$0.26	\$0.50	27 April 2006	1 July 2006
Total	4,901,391	20,638,022					

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 3 - APPENDIX A TO THE REMUNERATION REPORT
OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL**

	Note	Balance 1 January 2006	Granted as Compensation	Net Change	Options Exercised	Balance 31 December 2006	Vested 31 December 2006		
							Total	Not Exercisable	Exercisable
Parent Entity Directors									
Thomas, R	(a), (b)	1,264,204	-	-	-	1,264,204	964,204	200,000	764,204
Harrison, S		-	-	-	-	-	-	-	-
Stockman, R		-	-	-	-	-	-	-	-
Wade, D	(a)	250,000	-	-	-	250,000	100,000	100,000	-
Bennett, C	(a)	250,000	-	-	-	250,000	100,000	100,000	-
Godshall, D	(b)	-	5,581,264	-	-	5,581,264	-	-	-
McConchie, S	(b)	4,585,228	-	(4,585,228)	-	-	-	-	-
Total		6,349,432	5,581,264	(4,585,228)	-	7,345,468	1,164,204	400,000	764,204

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 3 – APPENDIX A TO THE REMUNERATION REPORT (Continued)
OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL (Continued)**

	Note	Balance 1 January 2006	Granted as Compensation	Net Change	Options Exercised	Balance 31 December 2006	Vested 31 December 2006		
							Total	Not Exercisable	Exercisable
Other Key Management Personnel									
Rowe, D	(b), (c)	-	1,200,000	-	-	1,200,000	-	-	-
LaRose, J	(b), (c)	2,304,204	200,000	-	-	2,504,204	1,731,051	-	1,731,051
Reedy, J	(b), (c)	1,146,306	200,000	-	-	1,346,306	286,576	-	286,576
McIntyre, D	(b), (c)	1,528,408	200,000	-	-	1,728,408	191,051	-	191,051
Leibman, H	(b), (c)	764,204	100,000	-	-	864,204	191,051	-	191,051
Yomtov, B	(b), (c)	-	300,000	-	-	300,000	-	-	-
Rissmann, W	(b), (c)	764,204	-	(573,053)	(191,151)	-	-	-	-
Total		6,507,326	2,200,000	(573,053)	(191,151)	7,943,122	2,399,729	-	2,399,729

Notes:

- (a) The options refer to Incentive Options, further details of which are set out below under the heading “Options”. In relation to Mr Thomas, 764,204 of his options were granted under the Company’s ESOP with the balance comprising Incentive Options.
- (b) The options refer to ESOP options granted as compensation.
- (c) In accordance with the terms of the Company’s ESOP Rules, each option entitles the holder to purchase one ordinary share at the relevant exercise price.

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 4 – APPENDIX A TO THE REMUNERATION REPORT
COMPENSATION FOR KEY MANAGEMENT PERSONNEL**

		Short-term Benefits			Other Benefits	Notes	Post Employment		Share-based Payments		Total
		Salary & Fees	Cash Bonus	Non-monetary			Super	Retirement Benefits	Options*	% of Total Remun.	
Parent Entity Directors											
Thomas, R	2006	120,000	-	-	-		10,800	-	-	-	130,800
	2005	120,000	-	-	-		10,800	-	62,852	32%	193,652
Harrison, S	2006	100,000	-	-	-		9,000	-	-	-	109,000
	2005	100,000	-	-	-		9,000	-	-	-	109,000
Stockman, R	2006	-	-	-	-		-	-	-	-	-
	2005	-	-	-	-		-	-	-	-	-
Wade, D	2006	35,000	-	-	-		30,400	-	-	-	65,400
	2005	60,000	-	-	-		5,400	-	7,838	11%	73,238
Bennett, C	2006	60,000	-	-	-		5,400	-	-	-	65,400
	2005	60,000	-	-	-		5,400	-	7,838	11%	73,238
Godshall, D	2006	115,441	98,949	-	3,524	(a)	-	-	2,802,962	93%	3,020,876
	2005	-	-	-	-		-	-	-	-	-
McConchie, S	2006	749,129	59,633	-	52,333	(b)	66,451	-	-	-	927,546
	2005	414,526	-	-	177,646	(c)	38,807	-	152,514	19%	783,493
Total Remuneration	2006	1,231,903	158,582	-	3,524		122,051	-	2,802,962	65%	4,319,022
Parent Entity Directors	2005	754,526	-	-	177,646		69,407	-	231,042	19%	1,232,621

* Black-Scholes option valuation incorporating an annualised standard deviation of return of 55.14% (2005: 55.14%) (for European style options).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 4 - APPENDIX A TO THE REMUNERATION REPORT (Continued)
COMPENSATION FOR KEY MANAGEMENT PERSONNEL (Continued)**

		Short-term Benefits			Other Benefits	Notes	Post Employment		Share-based Payments		Total
		Salary & Fees	Cash Bonus	Non-monetary			Super	Retirement Benefits	Options*	% of Total Remun.	
Other Key Management Personnel											
Rowe, D	2006	194,220	-	-	8,946	(d)	-	-	970,071	81%	1,173,237
	2005	-	-	-	-		-	-	-	-	-
LaRose, J	2006	279,088	59,370	-	13,154	(e)	-	-	100,300	22%	451,911
	2005	233,597	-	-	11,976	(d)	-	-	574,329	70%	819,902
Reedy, J	2006	263,865	32,983	-	14,850	(d)	-	-	100,300	24%	411,997
	2005	267,775	52,432	-	9,031	(d), (f)	-	-	20,345	6%	349,583
McIntyre, D	2006	246,494	46,176	4,497	151,205	(d), (g)	6,600	-	100,300	18%	555,272
	2005	184,179	-	11,217	-	(h)	16,576	-	26,843	11%	238,815
Leibman, H	2006	229,358	100,000	-	-	(k)	29,642	-	50,150	12%	409,150
	2005	160,845	-	-	-		14,476	-	12,241	7%	187,562
Yomtov, B	2006	83,726	-	-	31,439	(i)	-	-	196,981	63%	312,361
	2005	-	-	-	-		-	-	-	-	-
Rissmann, W	2006	226,534	-	-	5,201	(d)	-	-	-	-	231,734
	2005	294,927	32,770	-	110,598	(i)	-	-	12,571	3%	450,866
Total Remuneration	2006	1,523,284	238,529	4,497	224,796		36,242	-	1,518,100	43%	3,547,981
Other Key Management Personnel	2005	1,141,323	85,202	11,217	131,605		31,052	-	646,329	32%	2,046,728

* Black-Scholes option valuation incorporating an annualised standard deviation of 55.14% (2005: 55.14%).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 4 – APPENDIX A TO THE REMUNERATION REPORT (Continued)
COMPENSATION FOR KEY MANAGEMENT PERSONNEL (Continued)**

Notes:

- (a) In accordance with the terms of his employment, Mr Godshall was paid a one-off sign-on bonus on commencement of employment of \$98,949 in September 2006 (being US\$75,000).
- (b) On 4 September 2006, the Company announced that it had appointed Mr Godshall as Chief Executive Officer and that Mr McConchie would cease his involvement with the Company effective immediately. In order to facilitate this “changeover”, the Company and Mr McConchie entered into a contractual arrangement whereby the Company agreed to pay him 1 year’s salary, together with outstanding leave and entitlements, in exchange for various undertakings from Mr McConchie (the terms of which are subject to confidentiality). The total amount paid to Mr McConchie in this regard was \$505,212.

Mr McConchie was paid a discretionary bonus of \$59,633 on 30 June 2006 as part of a Company-wide bonus in recognition of the Company progressing into human clinical trials.

Mr McConchie was also paid a rental allowance of \$52,333 during 2006.

- (c) The Other Benefits provided to Mr McConchie in 2005 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. The elements of the Other Benefits in 2005 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.
 - (iv.) Payment of one business class airfare to the United Kingdom for Mr McConchie’s spouse (\$9,565).
- (d) Unless otherwise stated, the Other Benefit refers to the cost of the relevant employee’s participation in the Company’s medical and insurance scheme.
- (e) Mr LaRose was paid a cash bonus of \$59,370 (being US\$45,000) on 30 June 2006 as part of a Company-wide bonus in recognition of the Company progressing into human clinical trials.
- (f) 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 prior to her commencement as a full-time employee. The 2005 Cash Bonus figure refers to a non-recurring sign-on payment on commencement of employment of \$52,432 (US\$40,000). The 2006 Cash Bonus of \$32,983 (being US\$25,000) refers to the discretionary bonus paid on 30 June 2006 as part of a Company-wide bonus in recognition of the Company progressing into human clinical trials.
- (g) Mr McIntyre received a \$46,176 Cash Bonus on 30 June 2006 (being US\$35,000) as part of a Company-wide bonus in recognition of the Company progressing into human clinical trials. In addition, on commencement of Mr McIntyre’s relocation in the United States of America (and pursuant to an independent review undertaken by Ernst & Young), the following payments were made to Mr McIntyre:

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 4 - APPENDIX A TO THE REMUNERATION REPORT (Continued)
COMPENSATION FOR KEY MANAGEMENT PERSONNEL (Continued)**

- (i) A one-off payment of \$36,611 as a relocation allowance, being US\$27,750. This payment is subject to personal income tax in the United States at the normal statutory rate and was provided to assist with meeting out-of-pocket expenses that were incurred on relocation to the United States, such as installation and purchase of electrical appliances, house cleaning, establishment of utilities, telephone installation etc, together with associated costs of leaving Australia (termination of existing services and utilities etc).
- (ii) A monthly after-tax payment of approximately US\$6,000 (gross cost US\$9,000) for the purposes of assisting Mr McIntyre with the provision of comparative housing, financing of motor vehicles, rental shortfall on his Australian residence and other incremental recurring costs associated with his relocation to this United States of America. As at the reporting date, a pre-tax amount of US\$80,077 (\$105,647) has been paid to Mr McIntyre in this regard.
- (h) Non-monetary benefits during 2005 and 2006 refer to the cost to the Company of providing a maintained motor vehicle and car parking space.
- (i) Other Benefits include costs of \$5,438 medical insurance, together with relocation benefits totalling \$25,566 (as specified in the narrative concerning Mr Yomtov's employment contract in the Remuneration Report). These costs and salaries are those that apply since the commencement of Mr Yomtov's employment on 20 July 2006.
- (j) 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. Details are as follows:

- (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.
- (iii.) Payments under Mr Rissmann's employment arrangement ceased on 31 May 2006.
- (k) Mr Leibman was paid a cash bonus of \$100,000 on 30 June 2006 as part of a Company-wide bonus in recognition of the Company progressing into human clinical trials.

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 5 - APPENDIX A TO THE REMUNERATION REPORT
SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL**

	Note	Balance 1 January 2006	Granted as Remuneration	Options Exercised	Net Change* Other	Balance 31 December 2006
Parent Entity Directors						
Thomas, R	(a)	1,238,000	-	-	520,000	1,758,000
Harrison, S	(b)	91,588,782	-	-	-	91,588,782
Stockman, R		-	-	-	-	-
Wade, D	(c)	700,000	-	-	300,000	1,000,000
Bennett, C		-	-	-	-	-
Godshall, D		-	-	-	37,305	37,305
McConchie, S		-	-	-	-	-
Other Key Management Personnel						
Rowe, D		-	-	-	10,000	10,000
LaRose, J		-	-	-	-	-
Reedy, J		-	-	-	-	-
McIntyre, D		34,000	-	-	(6,000)	28,000
Leibman, H		160,000	-	-	84,955	244,955
Yomtov, B		-	-	-	-	-
Rissmann, W		-	-	-	-	-
Total		93,560,782	-	-	946,260	94,667,042

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
REMUNERATION REPORT**

**SECTION 5 – APPENDIX A TO THE REMUNERATION REPORT (Continued)
SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL (Continued)**

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 2001*, Dr Harrison is deemed to have an indirect interest in this convertible note.

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

Remuneration Benefits

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

At 31 December 2006, there were no amounts receivable from or payable to directors and their director-related entities.

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF HEARTWARE LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of HeartWare Limited for the year ended 31 December 2006, 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

28 February 2007

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtinsw.com.au
W www.grantthornton.com.au

Grant Thornton NSW
ABN 25 034 787 757

Liability limited by a scheme approved
under Professional Standards Legislation.

An independent New South Wales partnership entitled
to trade under the international name Grant Thornton.
Grant Thornton is a trademark owned by Grant
Thornton International and used under licence
by independent firms and entities throughout the world.

INDEPENDENT AUDIT TO THE MEMBERS OF HEARTWARE LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, 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 year ended 31 December 2006. 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.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standards AASB 124 Related Party Disclosures, under the heading "Remuneration Report" on pages 28 to 48 of the directors' report and not in the financial report.

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

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.

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtinsw.com.au
W www.grantthornton.com.au

Grant Thornton NSW
ABN 25 034 787 757

Liability limited by a scheme approved
under Professional Standards Legislation.

An independent New South Wales partnership entitled
to trade under the international name Grant Thornton.
Grant Thornton is a trademark owned by Grant
Thornton International and used under licence
by independent firms and entities throughout the world.

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

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.

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

1. the financial report 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 2006, and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Act 2001; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on the pages 28 to 48 of the directors' report comply with Accounting Standard AASB 124.



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

28 February 2007

**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 53 to 104, are in accordance with the *Corporations Act 2001* and:
 - (i) give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of the Company and Economic Entity; and
 - (ii) comply with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the Chief Executive Officer and Chief Financial Officer have each declared that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (ii) the financial statements and notes for the financial year comply with Australian Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view; and
- (c) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Rob Thomas
Chairman

Date 28 February 2007

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	Economic Entity		Parent Entity	
		2006	2005*	2006	2005*
		\$	\$	\$	\$
Revenue	3	1,143,912	966,326	1,100,864	952,368
Other income	3	-	647,243	-	647,243
Administrative and facilities expenses		(516,717)	(534,160)	(112,014)	(87,836)
Audit, financial and taxation services		(186,468)	(138,856)	(174,622)	(126,159)
Consultants – clinical, regulatory and medical		(1,624,884)	(318,505)	-	-
Consultants – corporate advisory and investor relations		(283,567)	(525,019)	(283,567)	(311,236)
Contractor expenses		(201,952)	(524,962)	-	(8,560)
Depreciation and amortization expenses	4	(2,911,525)	(2,685,467)	(100,259)	(56,459)
Share-based payments to employees and directors	27	(1,174,620)	(2,552,592)	(1,174,620)	(2,552,592)
Other employee and director benefits expenses		(10,043,836)	(5,564,635)	(2,421,829)	(1,596,425)
Net loss on foreign exchange transactions		(770,227)	-	(770,227)	-
Information technology expense		(278,385)	(203,586)	(46,654)	(59,900)
Insurance expenses		(269,700)	(120,250)	(54,322)	(95,911)
Legal expense – intellectual property protection, litigation costs and related expenditure		(584,397)	(1,004,694)	(4,405)	(748,586)
Legal expense – post ASX listing, corporate and commercial advisory		(529,163)	(325,661)	(276,003)	(196,397)
Listing expenses		-	(587,441)	-	(587,441)
Raw materials and consumables used		(2,223,821)	(927,360)	-	-
Rental expense and outgoings		(699,350)	(495,116)	(199,735)	(99,076)
Research and development expenses		(1,695,837)	(282,208)	-	-
Travel, accommodation and related expenses		(1,357,808)	(1,144,001)	(467,143)	(656,833)
Trials expenses – animal and human		(435,839)	(783,826)	(12,649)	-
Validation and verification expense		(228,178)	(386,944)	-	-
Other expenses		(589,526)	(257,495)	(226,619)	(182,652)
(Loss) before income tax expense		(25,461,888)	(17,749,209)	(5,223,804)	(5,766,452)
Income tax expense	6	-	-	-	-
(Loss) attributable to members of HeartWare Limited		(25,461,888)	(17,749,209)	(5,223,804)	(5,766,452)
		Cents	Cents		
Basic and diluted (loss) per share (cents per share)	7	(14.6)	(13.5)		

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

* The 2005 comparative figures represent the results for the 13 month period from registration of HeartWare Limited on 26 November 2004 to 31 December 2005.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
BALANCE SHEET
AS AT 31 DECEMBER 2006**

		Economic Entity		Parent Entity	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	9	21,101,693	13,679,897	20,267,573	13,358,001
Trade and other receivables	10	315,314	157,076	166,658	174,289
Other current assets	11	448,507	336,329	236,350	262,233
Total Current Assets		21,865,514	14,173,302	20,670,581	13,794,523
Non-Current Assets					
Other financial assets	12	-	-	78,897,414	58,901,571
Property, plant and equipment	14	3,140,329	1,870,517	193,409	318,260
Intangible assets	15	43,806,476	46,888,255	4,390	-
Other non-current assets	11	2,527	-	-	-
Total Non-Current Assets		46,949,332	48,758,772	79,095,213	59,219,831
Total Assets		68,814,846	62,932,074	99,765,794	73,014,354
Current Liabilities					
Trade and other payables	16	1,782,239	1,410,982	236,776	294,115
Short-term borrowings	18	1,475,396	-	1,475,396	-
Short-term provisions	17	200,608	145,018	9,329	21,698
Other current liabilities	19	20,280	23,273	20,280	23,273
Total Current Liabilities		3,478,523	1,579,273	1,741,781	339,086
Non-Current Liabilities					
Long-term borrowings	18	-	1,446,205	-	1,446,205
Long-term provisions	17	-	-	9,999	-
Other non-current liabilities	19	20,139	34,909	20,139	34,909
Total Non-Current Liabilities		20,139	1,481,114	30,138	1,481,114
Total Liabilities		3,498,662	3,060,387	1,771,919	1,820,200
Net Assets		65,316,184	59,871,687	97,993,875	71,194,154
Equity					
Issued capital	20	105,256,919	74,408,014	105,256,919	74,408,014
Reserves	21	3,270,362	3,212,882	3,727,212	2,552,592
Retained earnings		(43,211,097)	(17,749,209)	(10,990,256)	(5,766,452)
Total Equity		65,316,184	59,871,687	97,993,875	71,194,154

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2006**

Economic Entity

	Share Capital	Foreign Currency Translation Reserve	Share Option Reserve	Exercised Options Reserve	Retained earnings	Total
	\$	\$	\$	\$	\$	\$
Balance at 26 November 2004	1,000	-	-	-	-	1,000
Currency translation	-	660,290	-	-	-	660,290
Net income recognized directly in equity	-	660,290	-	-	-	660,290
Loss for the period	-	-	-	-	(17,749,209)	(17,749,209)
Total recognized income and expense for the period	-	660,290	-	-	(17,749,209)	(17,088,919)
Shares issued	76,498,518	-	-	-	-	76,498,518
Transaction costs	(2,091,504)	-	-	-	-	(2,091,504)
Employee share based compensation	-	-	2,408,356	144,236	-	2,552,592
Balance at 31 December 2005	74,408,014	660,290	2,408,356	144,236	(17,749,209)	59,871,687
Currency translation	-	(1,117,140)	-	-	-	(1,117,140)
Net income recognized directly in equity	-	(1,117,140)	-	-	-	(1,117,140)
Loss for the period	-	-	-	-	(25,461,888)	(25,461,888)
Total recognized income and expense for the period	-	(1,117,140)	-	-	(25,461,888)	(26,579,028)
Shares issued	32,869,695	-	-	-	-	32,869,695
Transactions costs	(2,020,790)	-	-	-	-	(2,020,790)
Employee share based compensation	-	-	1,044,435	130,185	-	1,174,620
Balance at 31 December 2006	105,256,919	(456,850)	3,452,791	274,421	(43,211,097)	65,316,184

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2006**

	Parent Entity					
	Share Capital	Foreign Currency Translation Reserve	Share Option Reserve	Exercised Options Reserve	Retained earnings	Total
	\$	\$	\$	\$	\$	\$
Balance at 26 November 2004	1,000	-	-	-	-	1,000
Net income recognized directly in equity	-	-	-	-	-	-
Loss for the period	-	-	-	-	(5,766,452)	(5,766,452)
Total recognized income and expense for the period	-	-	-	-	(5,766,452)	(5,766,452)
Shares issued	76,498,518	-	-	-	-	76,498,518
Transaction costs	(2,091,504)	-	-	-	-	(2,091,504)
Employee share based compensation	-	-	2,408,356	144,236	-	2,552,592
Balance at 31 December 2005	74,408,014	-	2,408,356	144,236	(5,766,452)	71,194,154
Net income recognized directly in equity	-	-	-	-	-	-
Loss for the period	-	-	-	-	(5,223,804)	(5,223,804)
Total recognized income and expense for the period	-	-	-	-	(5,223,804)	(5,223,804)
Shares issued	32,869,695	-	-	-	-	32,869,695
Transaction costs	(2,020,790)	-	-	-	-	(2,020,790)
Employee share based compensation	-	-	1,044,435	130,185	-	1,174,620
Balance at 31 December 2006	105,256,919	-	3,452,791	274,421	(10,990,256)	97,993,875

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

		Economic Entity		Parent Entity	
	Note	2006 \$	2005* \$	2006 \$	2005* \$
Cash flows from operating activities					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(22,343,699)	(12,669,804)	(5,054,570)	(3,815,544)
Interest received		1,157,557	831,970	1,114,509	821,320
Finance costs		(488)	(206)	(488)	(206)
Net cash used in operating activities	25(a)	(21,186,630)	(11,838,040)	(3,940,549)	(2,994,430)
Cash flows from investing activities					
Loans to subsidiary		-	-	17,214	(17,214)
Proceeds from disposal of property plant and equipment		3,735	-	-	-
Cash assets acquired on the acquisition of subsidiary	25(b)	-	163,493	-	-
Payments for purchase of property, plant and equipment		(1,827,710)	(1,928,783)	(15,167)	(374,719)
Payments for shares in subsidiary		-	-	(19,995,843)	(13,662,650)
Payments for research and development		-	(2,838,600)	-	-
Payments for intangible assets		(393,072)	(285,187)	(4,988)	-
Net cash used in investing activities		(2,217,047)	(4,889,077)	(19,998,784)	(14,054,583)
Cash flows from financing activities					
Proceeds from issues of shares		32,869,695	32,498,518	32,869,695	32,498,518
Payments for share issue expenses		(2,020,790)	(2,091,504)	(2,020,790)	(2,091,504)
Net cash provided by financing activities		30,848,905	30,407,014	30,848,905	30,407,014
Net increase in cash held		7,445,228	13,679,897	6,909,572	13,358,001
Cash at beginning of the year		13,679,897	-	13,358,001	-
Effect of exchange rates on cash holdings in foreign currencies		(23,432)	-	-	-
Cash at end of the year	9	21,101,693	13,679,897	20,267,573	13,358,001

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

* The 2005 comparative figures represent the cash flows for the 13 month period from registration of HeartWare Limited on 26 November 2004 to 31 December 2005.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Reporting and Comparative Periods

The financial results set out in this Annual Financial Report are the consolidated financial results for the HeartWare Group for the twelve month period ended 31 December 2006.

As the Company was registered on 26 November 2004, the 2005 prior year comparative numbers set out in this Annual Financial Report are for the period from 26 November 2004 to 31 December 2005.

Basis of Preparation

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

The Company's previous financial year commenced on 26 November 2004 (i.e. prior to 1 January 2005). As a consequence the Company was prohibited from transitioning its accounting and financial reporting from the then current Australian GAAP to AIFRS in relation to the 2005 Annual Financial Report. This means that this Annual Financial Report for the year ended 31 December 2006 is the first financial report prepared under AIFRS.

As this is the first Annual Financial Report prepared under AIFRS, the accounting policies applied are inconsistent with those applied in the 2005 Annual Financial Report as the 2005 Annual Financial Report was presented under previous Australian GAAP. For this reason, reconciliations of the transition from previous Australian Generally Accepted Principles ("Australian GAAP") to AIFRS have been included in Note 2 to the Financial Statements. In addition, a summary of the significant accounting policies under AIFRS has been included below.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the Economic Entity and Parent Entity accounts resulting from the introduction of AIFRS have been applied retrospectively to the 2005 comparative figures.

The accounting policies set out below have been consistently applied to all years presented.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Basis and Conventions

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

Denomination

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

Accounting Policies

(a) Principles of Consolidation

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

A list of controlled entities is contained in Note 13 to the Financial Statements. All controlled entities have a December financial year-end.

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

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

For business combinations involving entities under common control, which are outside the scope of AASB 3: Business Combinations, the Company applies the purchase method of accounting by the legal parent.

(b) Income Tax

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

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(c) Inventories

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

(d) Property, Plant and Equipment

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

Plant and Equipment

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

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

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

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

Depreciation

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

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

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Leasehold improvements	33%
Plant and equipment	8-33%

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(e) Leases

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

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

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

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

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

(f) Financial Instruments

Recognition

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

Loans and receivables

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

Investments in subsidiaries

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

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

Impairment

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

(g) Impairment of assets

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

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

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

(h) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patents and trademarks

Patents and trademarks are recognized at cost of acquisition. Patents and trademarks have a definite life and are carried at cost less any accumulated amortization and any impairment losses. Patents and trademarks are amortized on a straight-line basis over their useful life ranging from 10 to 20 years.

Non-compete agreements

Non-compete agreements are recognized at cost. These agreements have a finite life and are amortized on a systematic basis matched to the time period from which the Company is expected to benefit from the contractual covenant not to compete with the Company. Non-compete agreements are currently amortized on a straight-line basis over 5 years.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Copyright

Copyright is recognized at cost of acquisition. It has a finite life and is amortized on a systematic basis matched to the future benefits of the asset. Copyright is currently amortized on a straight-line basis over 10 years.

Software

Software is recognized at cost. It has a finite life and is amortized on a systematic basis matched to the future benefits of the asset. Software is currently amortized on a straight-line basis over 15 years.

Research and development

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

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

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

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Economic Entity companies

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(j) Employee Benefits

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

(k) Equity-settled compensation

The Economic Entity operates a share-based compensation plan, being a share option arrangement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(l) Provisions

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

(m) Cash and Cash Equivalents

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

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

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

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

(o) Comparative Figures

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Critical Accounting Estimates and Judgments

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

Key Estimates – Impairment

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

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

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“AIFRS”)

AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires that a reconciliation of equity reported under Australian Generally Accepted Accounting Principles (“Australian GAAP”) to equity under AIFRS be prepared for the date of transition to AIFRS, where the date of transition is defined as the beginning of the earliest annual reporting period for which an entity presents full information under AIFRS as comparative information in its first AIFRS financial report.

On this basis, the date of transition for the Economic Entity is 26 November 2004. This is because the Company was first registered on 26 November 2004 (i.e. prior to 1 January 2005) and therefore the 2005 Annual Financial Report was prepared for the 13-month period from registration to 31 December 2005 under Australian GAAP rather than AIFRS.

On registration on 26 November 2004, the Balance Sheet comprised only \$1,000 of issued capital and receivables. As there is no difference in treatment from AGAAP to AIFRS, no reconciliation has been provided.

HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Reconciliation of Equity as at 31 December 2005

		Economic Entity		
		Previous AGAAP	Effect of	AIFRS
		as at	transition to	as at
		31 December 2005	AIFRS	31 December 2005
Notes		\$	\$	\$
Current Assets				
		13,679,897	-	13,679,897
		157,076		157,076
		333,133	3,196	336,329
		14,170,106	3,196	14,173,302
Non-Current Assets				
		1,807,096	63,421	1,870,517
		46,151,664	736,591	46,888,255
		47,958,760	800,012	48,758,772
		62,128,866	803,208	62,932,074
Current Liabilities				
		1,410,980	2	1,410,982
		139,639	5,379	145,018
		23,273	-	23,273
		1,573,892	5,381	1,579,273
Non-Current Liabilities				
		1,446,205	-	1,446,205
		34,909	-	34,909
		1,481,114	-	1,481,114
		3,055,006	5,381	3,060,387
		59,073,860	797,827	59,871,687
Equity				
		73,820,573	587,441	74,408,014
		(62,851)	3,275,733	3,212,882
		(14,683,862)	(3,065,347)	(17,749,209)
		59,073,860	797,827	59,871,687

HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Reconciliation of Equity as at 31 December 2005

	Notes	Parent Entity		
		Previous AGAAP as at 31 December 2005 \$	Effect of transition to AIFRS \$	AIFRS as at 31 December 2005 \$
Current Assets				
Cash and cash equivalents		13,358,001	-	13,358,001
Trade and other receivables		174,289	-	174,289
Financial assets		262,233	-	262,233
Total Current Assets		13,794,523	-	13,794,523
Non-Current Assets				
Other financial assets		58,901,571	-	58,901,571
Property, plant and equipment		318,260	-	318,260
Intangible assets		-	-	-
Total Non-Current Assets		59,219,831	-	59,219,831
Total Assets		73,014,354	-	73,014,354
Current Liabilities				
Trade and other payables		294,115	-	294,115
Short-term provisions		21,698	-	21,698
Other current liabilities		23,273	-	23,273
Total Current Liabilities		339,086	-	339,086
Non-Current Liabilities				
Long-term liabilities		1,446,205	-	1,446,205
Other non-current liabilities		34,909	-	34,909
Total Non-Current Liabilities		1,481,114	-	1,481,114
Total Liabilities		1,820,200	-	1,820,200
Net Assets		71,194,154	-	71,194,154
Equity				
Issued capital	(b)	73,820,573	587,441	74,408,014
Reserves	(c)	-	2,552,592	2,552,592
Retained earnings	(b)(c)	(2,626,419)	(3,140,035)	(5,766,452)
Total Equity		71,194,154	-	71,194,154

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS) (Continued)

Reconciliation of Loss for the Year Ended 31 December 2005

	Notes	Economic Entity \$	Parent Entity \$
Net loss in accordance with AGAAP		(14,683,862)	(2,626,419)
Effect of adoption of AIFRS:			
- Listing expenses	(b)	(587,441)	(587,441)
- Options	(c)	(2,552,592)	(2,552,592)
- Business combinations	(d)	74,686	-
Net loss under AIFRS		(17,749,209)	(5,766,542)

Notes to the Reconciliations of Equity and Loss as at 31 December 2005

	Economic Entity 31 December 2005 \$	Parent Entity 31 December 2005 \$
(a) The movement in assets and liabilities in the balance sheet relates to the adoption of AASB 121: The Effects of Changes in Foreign Exchange Rates. Previously the assets and liabilities of integrated operations were translated using temporal rates, with exchange differences being recorded in the income statement. Under AASB 121, the assets and liabilities of foreign operations are translated at the exchange rate prevailing at reporting date, with exchange differences arising on translation being recognized in the foreign currency translation reserve.	702,467	-
(b) Under previous AGAAP 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 is an increase in share capital, with a corresponding reduction in retained earnings.	(587,441)	(587,441)
(c) Under AASB 2: Share-based Payments, the Company has recognized an expense for all share-based remuneration, including deferred shares and options, which have been fair valued and expensed over the relevant vesting periods.	2,552,592	2,552,592

HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS) (Continued)

Notes to the Reconciliations of Equity and Loss as at 31 December 2005 (Continued)

	Economic Entity 31 December 2005 \$	Parent Entity 31 December 2005 \$
(d) AASB 3: Business Combinations requires that an acquirer shall recognise separately the acquiree's identifiable intangible assets, liabilities and contingent liabilities at the acquisition date, which includes any separately identifiable intangible assets. As a result, the Company engaged an independent consultant, Stenton Leigh Group, Inc., to value the intangible assets as at 24 January 2005, being the date on which HeartWare Limited acquired HeartWare Inc. As a result of this valuation there have been reclassifications between categories of intangible assets, including goodwill, and resulting changes in amortization.	74,686	-

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. REVENUE AND OTHER INCOME				
Operating activities				
Sales	-	-	-	-
Interest received from other persons / corporations	<u>1,143,912</u>	<u>966,326</u>	<u>1,100,864</u>	<u>952,368</u>
Total Revenue	<u>1,143,912</u>	<u>966,326</u>	<u>1,100,864</u>	<u>952,368</u>
Non-operating activities				
Realised gain on foreign exchange transactions	<u>-</u>	<u>647,243</u>	<u>-</u>	<u>647,243</u>
Total Other Income	<u>-</u>	<u>647,243</u>	<u>-</u>	<u>647,243</u>

Sales – the Company has not yet sold any of its heart pumps as it does not yet have regulatory approval. Regulatory approval and revenue are anticipated in 2007 (as reimbursement is expected through clinical trials conducted in the United States of America).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
4. LOSS FOR THE YEAR				
(a) Expenses				
Finance costs - external	29,679	26,411	29,679	26,411
Net Foreign exchange losses	770,227	-	770,227	-
Rental expenses on operating leases - minimum lease payments	631,590	356,231	155,645	78,926
Research and development costs	1,695,837	282,208	-	-
Raw materials and consumables used - write down of inventories to net realisable value	1,621,556	-	-	-
(b) Significant Expenses				
The following significant expense items are relevant in explaining the financial performance:				
Depreciation of plant and equipment	349,733	286,832	26,303	19,618
Amortization of intangible assets	<u>2,561,792</u>	<u>2,398,635</u>	<u>73,956</u>	<u>36,841</u>
Total depreciation and amortization	<u>2,911,525</u>	<u>2,685,467</u>	<u>100,259</u>	<u>56,459</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
5. AUDITORS' REMUNERATION				
Remuneration of the auditor of the parent entity and economic entities:				
Auditing or reviewing the Australian financial reports				
- Grant Thornton NSW	79,587	72,726	79,587	72,726
Auditing of HeartWare, Inc. in connection with the preparation of the Australian financial report				
- Grant Thornton LLP	59,670	51,793	-	-
Auditing or reviewing the US financial report (SEC Form 10)				
- Grant Thornton LLP	25,275	-	25,275	-
Taxation services				
- Grant Thornton NSW	9,190	1,640	9,190	1,640
Taxation services				
- Grant Thornton LLP	7,764	819	-	-
Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company				
- Grant Thornton NSW	-	65,262	-	65,262
Advisory fees in connection with ASX listing and acquisition of HeartWare, Inc. by the Company				
- Grant Thornton LLP	-	46,825	-	46,825
Advisory fees in conjunction with US SEC reporting requirements during the year				
- Grant Thornton NSW	2,650	-	2,650	-
Advisory fees in conjunction with US SEC reporting requirements during the year				
- Grant Thornton LLP	2,332	-	-	-
	<u>186,468</u>	<u>239,065</u>	<u>116,702</u>	<u>186,453</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
6. INCOME TAX EXPENSE				
(Loss) before income tax	(25,461,888)	(17,749,209)	(5,223,804)	(5,766,452)
The prima facie tax on (loss) before income tax is reconciled to the income tax as follows:				
Prima facie tax benefit on (loss) at 30% (2005: 30%)				
- Economic entity	(7,638,566)	(5,324,763)	-	-
- Parent entity	-	-	(1,567,141)	(1,729,936)
Add:				
Tax effect of:				
Non deductible depreciation and amortization	873,458	805,640	30,078	16,938
Other non allowable items	3,115	8,629	3,115	8,629
Adjusted income tax benefit attributable to the entity	(6,761,993)	(4,510,494)	(1,533,948)	(1,704,369)
Deferred tax asset not brought to account	6,761,993	(4,510,494)	1,533,948	1,704,369
Income tax attributable to entity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
The applicable weighted average effective tax rates are as follows:	0%	0%	0%	0%
Deferred tax assets in respect of tax losses not brought to account:	11,272,487	4,510,494	3,238,317	1,704,369
Potential deferred tax assets will only be obtained in certain limited circumstances. Specifically, a deferred tax asset cannot be obtained unless:				
(a)	the relevant company derives future assessable income of a nature and an amount sufficient to enable the asset to be realised, or the asset can be utilised by another company in the Economic Entity in accordance with Division 170 of the Income Tax Assessment Act 1997;			

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

6. INCOME TAX EXPENSE (Continued)

- (b) the relevant company and/or the Economic 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 Economic 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 deferred tax assets to be accrued with a substantial degree of certainty. This issue will be closely monitored as the Company moves toward the commercialisation of its range of implantable circulatory assist devices.

	Economic Entity 2006	Economic Entity 2005
	\$	\$
	No.	No.
7. EARNINGS PER SHARE ("EPS")		
Earnings used in the calculation of basis EPS and dilutive EPS	(25,461,888)	(17,749,209)
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	174,689,977	131,992,295
Weighted average number of options outstanding not treated as dilutive	2,652,745	1,743,904
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	174,689,997	131,992,295

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

8. SEGMENT INFORMATION

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

	Sydney, Australia		Miami, USA		Eliminations		Economic Entity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$
Total Segment Revenue:								
Total revenue	1,100,864	1,599,610	43,048	13,959	-	-	1,143,912	1,613,569
Segment Result:								
Segment result								
(Loss) before income tax expense	(5,223,804)	(5,766,452)	(17,987,614)	(9,771,523)	(2,250,470)	(2,211,234)	(25,461,888)	(17,749,209)
Income tax expense	-	-	-	-	-	-	-	-
(Loss) after income tax	(5,223,804)	(5,766,452)	(17,987,614)	(9,771,523)	(2,250,470)	(2,211,234)	(25,461,888)	(17,749,209)
Assets:								
Segment assets	99,765,794	73,014,354	17,017,355	15,139,927	(47,968,303)	(25,222,207)	68,814,846	62,932,0742
Liabilities:								
Segment liabilities	1,771,919	1,820,200	1,726,743	1,240,187	-	-	3,498,662	3,060,387
Other:								
Acquisition of non-current segment assets	-	59,276,290	-	15,160,722	-	(23,549,990)	-	50,887,022
Depreciation and amortization of segment assets	100,259	56,459	600,032	417,774	2,221,234	2,211,234	2,911,525	2,685,467

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
9. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	916,076	390,945	81,956	69,048
Short-term bank deposits	20,185,617	13,288,952	20,185,617	13,288,953
	<u>21,101,693</u>	<u>13,679,897</u>	<u>20,267,573</u>	<u>13,358,001</u>

The effective interest rate on short-term bank deposits was 5.44% (2005: 3.99%); these deposits have an average maturity of 32 days.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
10. TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	-	595	-	595
Other receivables	315,314	153,531	166,658	153,531
Amounts receivable from:				
- Subsidiary of parent entity	-	-	-	17,213
- Key management personnel	-	2,950	-	2,950
	<u>315,314</u>	<u>157,076</u>	<u>166,658</u>	<u>174,289</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
11. OTHER ASSETS				
Current				
Prepayments	255,728	146,840	77,693	101,053
Security and other deposits	192,779	189,489	158,657	161,180
	<u>448,507</u>	<u>336,329</u>	<u>236,350</u>	<u>262,233</u>
Non Current				
Security and other deposits	<u>2,527</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
12. OTHER FINANCIAL ASSETS				
Unlisted investments at cost – shares in controlled entities	<u>-</u>	<u>-</u>	<u>78,897,414</u>	<u>58,901,571</u>

13. CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Percentage Owned		Carrying Value	
			2006	2005	2006	2005
			%	%	\$	\$
HeartWare, Inc.	USA	Series B	100	100	45,238,921	45,238,921
HeartWare, Inc.	USA	Series C	100	100	33,658,493	13,662,650
			<u>100</u>	<u>100</u>	<u>78,897,414</u>	<u>58,901,571</u>

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.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
14. PROPERTY, PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	3,735,228	2,154,844	120,651	154,040
Accumulated depreciation	(746,423)	(474,192)	(37,722)	(19,618)
	<u>2,988,805</u>	<u>1,680,652</u>	<u>82,929</u>	<u>134,422</u>
Leasehold improvements:				
At cost	264,268	227,085	220,679	220,679
Accumulated amortization	(112,744)	(37,220)	(110,199)	(36,841)
	<u>151,524</u>	<u>189,865</u>	<u>110,480</u>	<u>183,838</u>
Total plant and equipment	<u>3,140,329</u>	<u>1,870,517</u>	<u>193,409</u>	<u>318,260</u>

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Movements in carrying amounts				
Movement in the carrying amount for each class of plant and equipment between the beginning and end of the current financial year				
Plant and equipment:				
Balance at the beginning of the year	1,680,652	-	134,422	-
Exchange differences	(52,975)	-	-	-
Additions	1,790,061	1,701,698	15,167	154,040
Additions through acquisition of subsidiary	-	265,786	-	-
Disposals	(79,200)	-	(40,357)	-
Depreciation expense	(349,733)	(286,832)	(26,303)	(19,618)
Carrying amount at the end of the year	<u>2,988,805</u>	<u>1,680,652</u>	<u>82,929</u>	<u>134,422</u>
Leasehold Improvements:				
Balance at the beginning of the year	189,865	-	183,838	-
Exchange differences	(359)	(16)	-	-
Additions	37,649	227,085	-	220,679
Disposals	-	-	-	-
Amortization expense	(75,631)	(37,204)	(73,358)	(36,841)
Carrying amount at the end of the year	<u>151,524</u>	<u>189,865</u>	<u>110,480</u>	<u>183,838</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
15. INTANGIBLE ASSETS				
Goodwill – at cost	19,648,522	20,433,238	-	-
Patents and Trademarks – at cost	20,356,511	20,333,109	-	-
Accumulated amortization	(2,707,164)	(1,350,787)	-	-
	17,649,347	18,982,322	-	-
Non-compete agreements – at cost	3,828,708	3,828,708	-	-
Accumulated amortization	(1,385,008)	(692,504)	-	-
	2,443,700	3,136,204	-	-
Copyright – at cost	1,822,022	1,822,022	-	-
Accumulated amortization	(364,404)	(182,202)	-	-
	1,457,618	1,639,820	-	-
Development – at cost	2,631,833	2,838,601	-	-
Accumulated amortization	(310,108)	(141,930)	-	-
	2,321,775	2,696,671	-	-
Software – at cost	348,910	-	4,988	-
Accumulated amortization	(63,396)	-	(598)	-
	285,514	-	4,390	-
	43,806,476	46,888,255	4,390	-

Intangible assets, other than goodwill, have finite useful lives. The current amortization charges for intangible assets are included under depreciation and amortization expense in the Income Statement. Goodwill has an infinite life.

Impairment test for goodwill

For the purposes of impairment testing, goodwill acquired through business combinations has been allocated to one individual cash generating unit, being the Company's US subsidiary, which is a reportable segment (refer to Note 8 to the Financial Statements).

The recoverable amount of goodwill above has been determined based on a value-in-use calculation using cash flow projections based on financial estimates prepared by management covering a five-year period.

The pre-tax discount rate applied to the cash flow projections was 32.5% (2005: 32.5%), and the cash flows beyond the five-year period are extrapolated using a 7.25% growth rate (2005: 7.5%). This sustainable growth rate has been determined by Stenton Leigh Valuation Group, Inc., who was engaged by the Company to value the identifiable intangible assets acquired on the acquisition of HeartWare, Inc (refer to note 25(b)).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

15. INTANGIBLE ASSETS (Continued)

The discount rate reflects management's estimate of the time value of money and the risks specific to the US subsidiary. In determining the appropriate discount rate, regard has been given to the yield on a long-term US Treasury Coupon Bond.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Movements in carrying amounts				
Movement in the carrying amount for each class of intangible assets between the beginning and end of the current financial year				
Goodwill at cost:				
Balance at the beginning of the year	20,433,238	-	-	-
Exchange differences	(784,716)	548,081	-	-
Additions through acquisition of subsidiary	-	19,885,157	-	-
Carrying amount at the end of the year	<u>19,648,522</u>	<u>20,433,238</u>	<u>-</u>	<u>-</u>
Patents and trademarks at cost:				
Balance at the beginning of the year	18,982,322	-	-	-
Exchange differences	(18,763)	(548)	-	-
Additions through acquisition of subsidiary	44,162	20,333,109	-	-
Amortization charge	(1,358,374)	(1,350,239)	-	-
Carrying amount at the end of the year	<u>17,649,347</u>	<u>18,982,322</u>	<u>-</u>	<u>-</u>
Non-compete agreements at cost:				
Balance at the beginning of the year	3,136,204	-	-	-
Additions through acquisition of subsidiary	-	3,828,708	-	-
Amortization charge	(692,504)	(692,504)	-	-
Carrying amount at the end of the year	<u>2,443,700</u>	<u>3,136,204</u>	<u>-</u>	<u>-</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

15. INTANGIBLE ASSETS (Continued)

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Movements in carrying amounts (Continued)				
Copyright at cost:				
Balance at the beginning of the year	1,639,820	-	-	-
Additions through acquisition of subsidiary	-	1,822,022	-	-
Amortization charge	(182,202)	(182,202)	-	-
Carrying amount at the end of the year	<u>1,457,618</u>	<u>1,639,820</u>	<u>-</u>	<u>-</u>
Development at cost:				
Balance at the beginning of the year	2,696,671	-	-	-
Exchange differences	(188,095)	(5,444)	-	-
Additions	-	2,838,601	-	-
Amortization charge	(186,801)	(136,486)	-	-
Carrying amount at the end of the year	<u>2,321,775</u>	<u>2,696,671</u>	<u>-</u>	<u>-</u>
Software at cost:				
Balance at the beginning of the year	-	-	-	-
Exchange differences	2,884	-	-	-
Additions	348,910	-	4,988	-
Amortization charge	(66,280)	-	(598)	-
Carrying amount at the end of the year	<u>285,514</u>	<u>-</u>	<u>4,390</u>	<u>-</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

		Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
16.	TRADE AND OTHER PAYABLES				
	Current				
	Trade payables	435,216	467,730	64,013	117,749
	Sundry payables and accrued expenses	1,347,023	943,252	172,763	176,366
		<u>1,782,239</u>	<u>1,410,982</u>	<u>236,776</u>	<u>294,115</u>
17.	PROVISIONS				
	Current				
	Employee benefits	<u>200,608</u>	<u>145,018</u>	<u>9,329</u>	<u>21,698</u>
	Non-current				
	Employee benefits	<u>-</u>	<u>-</u>	<u>9,999</u>	<u>-</u>
	Number of employees				
	Number of employees at year end	65	41	3	5
	Movements in provisions				
	Employee benefits:				
	Opening balance	145,018	-	21,698	-
	Additions through acquisition of subsidiary	-	52,272	-	-
	Additional provisions	246,726	198,561	62,429	73,567
	Amounts used	<u>(191,136)</u>	<u>(105,815)</u>	<u>(64,799)</u>	<u>(51,869)</u>
	Closing balance	<u>200,608</u>	<u>145,018</u>	<u>19,328</u>	<u>21,698</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
18. BORROWINGS				
Short-term borrowings				
Convertible note	<u>1,475,396</u>	<u>-</u>	<u>1,475,396</u>	<u>-</u>
Long-term borrowings				
Convertible note	<u>-</u>	<u>1,446,205</u>	<u>-</u>	<u>1,446,205</u>

The Company issued a convertible note in the amount of \$1,420,000 that accrues interest at 2.0% per annum (capitalised monthly in arrears). The conversion price is \$1.00 per ordinary share in the capital of the Company. The principal and capitalised interest on the convertible note is repayable to the holder on the secondary anniversary of the date of issue of the convertible note. The Company issued the convertible note in favour of Apple Tree Partners as part of the consideration for the acquisition of HeartWare, Inc..

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
19. OTHER LIABILITIES				
Current				
Lease incentive	<u>20,280</u>	<u>23,273</u>	<u>20,280</u>	<u>23,273</u>
Non-Current				
Lease incentive	<u>20,139</u>	<u>34,909</u>	<u>20,139</u>	<u>34,909</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
20. ISSUED CAPITAL				
186,262,097 (2005: 156,096,274) fully paid ordinary shares	<u>105,256,919</u>	<u>74,408,014</u>	<u>105,256,919</u>	<u>74,408,014</u>
Movements during the reporting period ended 31 December 2005	Note	Issue Price	No. of Shares	\$
Opening balance on registration of the Company on 26 November 2004		\$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 - US 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 on exercise of options by Dr Fine	(d)	-	2,859,998	-
Share issue on exercise of options under the Company's Employee Share Option Plan ("ESOP")		\$0.20	147,400	29,480
Share issue on exercise of options granted under the Company's ESOP		\$0.20	76,000	15,200
Share issue on exercise of options granted under the Company's ESOP		\$0.20	172,000	34,400
Issue costs relating to (a), (b) and (c) above		-	-	(2,091,504)
Closing balance as at 31 December 2005			<u>156,096,274</u>	<u>74,408,014</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

20. ISSUED CAPITAL (Continued)

Movements during the year ended 31 December 2006	Note	Issue Price	No. of Shares	\$
Opening balance as at 1 January 2006			156,096,274	74,408,014
Share issue pursuant to a private placement	(e)	\$1.10	29,679,220	32,647,142
Share issue pursuant to shareholder share purchase plan	(f)	\$1.10	75,452	82,977
Share issue on exercise of options granted under the Company's ESOP		\$0.50	191,151	95,576
Share issue on exercise of options granted under the Company's ESOP		\$0.20	220,000	44,000
Issue costs relating to (e) above		-	-	(2,020,790)
			<hr/>	<hr/>
Closing balance as at 31 December 2006			186,262,097	105,256,919

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. The shares were issued on 27 January 2005.
- (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. The shares were issued on 27 January 2005.
- (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). The shares were issued on 27 January 2005.
- (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 exercised these warrants on a "cashless" basis. This concludes all obligations of HeartWare in relation to the warrants issued to Dr Fine. The shares were issued on 20 April 2005.
- (e) The shares were issued pursuant to a private placement to sophisticated and institutional investors on 23 May 2006.
- (f) The shares were issued to shareholders pursuant to the Company's Shareholder Share Purchase Plan on 15 June 2006.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

20. ISSUED CAPITAL (Continued)

Share options

For information relating to the HeartWare Limited Employee Share Option Plan ("ESOP"), including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, please refer to Note 27 to the Financial Statements.

For information relating to share options issued to key management personnel during the financial year, please refer to Note 29 to the Financial Statements.

21. RESERVES

(a) Foreign currency translation reserve

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

(b) Share options reserve

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

(c) Exercised options reserve

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

22. FINANCIAL INSTRUMENTS

(a) Financial risk management

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

(b) Foreign currency risk

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

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

(c) Liquidity risk

Liquidity risk represents the ability of the Economic Entity to meet its obligations as and when they fall due.

The Economic Entity manages liquidity risk by monitoring forecast cash flows.

(d) Credit risk

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

Recognized financial instruments

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

(e) Interest rate risk

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

22. FINANCIAL INSTRUMENTS (Continued)

Economic Entity	Fixed interest rate maturing		Floating interest rate \$	Non-interest bearing \$	Total \$
	Within Year \$	Over 1 to 5 years \$			
2006 Financial Year					
<i>Financial assets</i>					
Cash and cash equivalents	-	-	915,576	500	916,076
Deposit at call	20,185,617	-	-	-	20,185,617
Receivables	-	-	-	315,314	315,314
Other current assets	158,006	-	-	290,501	448,507
	20,343,623	-	915,576	606,315	21,865,514
Weighted Average Effective Interest Rate	5.44%	-	4.04%	-	-
<i>Financial liabilities</i>					
Payables	-	-	-	1,782,239	1,782,239
Provisions	-	-	-	200,608	200,608
Borrowings	1,475,396	-	-	-	1,475,396
	1,475,396	-	-	1,982,847	3,458,243
Weighted Average Effective Interest Rate	2.00%	-	-	-	-

	Fixed interest rate maturing		Floating interest rate \$	Non-interest bearing \$	Total \$
	Within Year \$	Over 1 to 5 years \$			
2005 Financial Year					
<i>Financial assets</i>					
Cash and cash equivalents	-	-	390,445	500	390,945
Deposit at call	13,288,952	-	-	-	13,288,952
Receivables	-	-	-	157,076	157,076
Other current assets	158,006	-	-	178,323	336,329
	13,446,958	-	390,445	335,899	14,173,302
Weighted Average Effective Interest Rate	4.03%	-	3.90%	-	-
<i>Financial liabilities</i>					
Payables	-	-	-	1,410,980	1,410,980
Provisions	-	-	-	145,018	145,018
Borrowings	1,446,205	-	-	-	1,446,205
	1,446,205	-	-	1,555,998	3,002,203
Weighted Average Effective Interest Rate	2.00%	-	-	-	-

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

22. FINANCIAL INSTRUMENTS (Continued)

Parent Entity	Fixed interest rate maturing		Floating interest rate \$	Non-interest bearing \$	Total \$
	Within Year \$	Over 1 to 5 years \$			
2006 Financial Year					
<i>Financial assets</i>					
Cash and cash equivalents	-	-	81,456	500	81,956
Deposit at call	20,185,617	-	-	-	20,185,617
Receivables	-	-	-	166,658	166,658
Other current assets	158,006	-	-	78,344	236,350
	20,343,623	-	81,456	245,502	20,670,581
Weighted Average Effective Interest Rate	5.44 %	-	2.60%	-	-
<i>Financial liabilities</i>					
Payables	-	-	-	236,776	236,776
Provisions	-	-	-	19,328	19,328
Borrowings	1,475,396	-	-	-	1,475,396
	1,475,396	-	-	256,104	1,731,500
Weighted Average Effective Interest Rate	2.00%	-	-	-	-

	Fixed interest rate maturing		Floating interest rate \$	Non-interest bearing \$	Total \$
	Within Year \$	Over 1 to 5 years \$			
2005 Financial Year					
<i>Financial assets</i>					
Cash and cash equivalents	-	-	68,549	500	69,049
Deposit at call	13,288,952	-	-	-	13,288,952
Receivables	-	-	-	174,289	174,289
Other current assets	158,006	-	-	104,227	262,233
	13,446,958	-	68,549	279,016	13,794,523
Weighted Average Effective Interest Rate	3.90%	-	2.45%	-	-
<i>Financial liabilities</i>					
Payables	-	-	-	294,115	294,115
Provisions	-	-	-	21,698	21,698
Borrowings	1,446,205	-	-	-	1,446,205
	1,446,205	-	-	315,813	1,762,018
Weighted Average Effective Interest Rate	2.00%	-	-	-	-

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

22. FINANCIAL INSTRUMENTS (Continued)

(f) Net fair values

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

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

	Economic Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
23. CAPITAL AND LEASING COMMITMENTS				
Capital expenditure commitments contracted for:				
Plant and equipment purchases	<u>73,043</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital expenditure commitments payable:				
Not later than 12 months	<u>73,043</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating lease commitments				
Non-cancellable operating leases contracted for but not capitalised in the Financial Statements				
Payable – minimum lease payments:				
Not later than 12 months	910,343	372,629	183,593	160,692
Between 12 months and 5 years	<u>404,183</u>	<u>561,617</u>	<u>160,805</u>	<u>279,035</u>
	<u>1,314,526</u>	<u>934,246</u>	<u>344,398</u>	<u>439,727</u>

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

24. CONTINGENT LIABILITIES

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

- (a) a milestone payment of US\$750,000 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.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

25.	CASH FLOW INFORMATION	Economic Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
(a)	Reconciliation of Cash Flow from Operations with Loss After Income Tax				
	(Loss) after income tax	(25,461,888)	(17,749,209)	(5,223,804)	(5,766,452)
	Non-cash flows in (Loss):				
	Depreciation	349,733	286,832	26,303	19,618
	Amortization	2,561,792	2,398,635	73,956	36,841
	Share Based Payment	1,174,620	2,552,592	1,174,620	2,552,592
	Loss on disposal of plant and equipment	17,539	-	13,912	-
	Proceeds of sale asset not yet received	26,445	-	26,445	-
	Changes in assets and liabilities, net of the effects of the purchase of HeartWare, Inc.:				
	Increase / (decrease) in accrued expenses/employee benefits	55,590	92,746	(2,370)	21,698
	(Increase)/decrease in trade and term receivables	(166)	(301,436)	(21,388)	70,577
	(Decrease) / increase in other provisions	(17,763)	58,182	(17,763)	58,182
	Increase / (decrease) in other creditors	384,282	559,537	(36,278)	201,053
	Increase in interest payable	29,191	26,205	29,191	26,205
	(Increase) / decrease in other debtors	(190,557)	(112,940)	(20,378)	17,355
	Decrease / (increase) in interest receivable	13,645	(131,047)	13,645	(131,047)
	(Increase)/decrease in prepaid expenses	(108,889)	137,767	23,360	(101,052)
	Exchange rate adjustment	(20,204)	344,096	-	-
	Cash Flow from Operations	<u>(21,186,630)</u>	<u>(11,838,040)</u>	<u>(3,940,549)</u>	<u>(2,994,430)</u>
	Reconciliation of Cash:				
	Cash - Note 9	916,076	390,945	81,956	69,048
	Deposits at call - Note 9	<u>20,185,617</u>	<u>13,288,952</u>	<u>20,185,617</u>	<u>13,288,953</u>
		<u>21,101,693</u>	<u>13,679,897</u>	<u>20,267,573</u>	<u>13,358,001</u>

The Company has provided guarantees and indemnities totalling \$258,006 (2005: \$258,006) to its bankers in respect to banking facilities provided to the Company.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

25. CASHFLOW INFORMATION (Continued)

(b) Acquisition of Entities

**Economic Entity
2005
\$**

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
Intangible assets – patents	20,047,921
Intangible assets – copyright	1,822,022
Intangible assets – non-compete agreement	3,828,708
Trade creditors	(721,994)
Other current creditors	(331,306)
Other non-current creditors	(129,366)
Property, plant & equipment	265,786
	25,353,764

Goodwill on consolidation	19,885,157
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).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

26. KEY MANAGEMENT PERSONNEL INFORMATION

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

Name	Position	Entity	Tenure
Mr R B Thomas	Non-executive Chairman	(i)	26 November 2004 - Current
Dr S L Harrison	Non-executive Deputy Chairman	(i)	26 November 2004 - Current
Mr R B Stockman	Non-executive director	(i)	11 December 2006 - Current
Dr D N Wade	Non-executive director	(i)	15 December 2004 - Current
Dr C C Bennett	Non-executive director	(i)	15 December 2004 - Current
Mr D E Godshall	Chief Executive Officer Executive Director	(i), (ii)	18 September 2006 - Current 28 October - Current
Mr D J McIntyre	Chief Financial Officer Company Secretary	(i), (ii)	28 February 2005 - Current 28 February 2005 - Current
Mr D A Rowe	Chief Operating Officer	(ii)	17 April 2006 - Current
Mr J A LaRose	Chief Scientific Officer	(ii)	10 July 2003 - Current
Ms J E Reedy	Vice President, Clinical & Marketing	(ii)	16 May 2005 - Current
Mr H Leibman	Director, Corporate Development	(i)	18 April 2005 - Current
Mr B M Yomtov	Vice President, Engineering, Electronic Product Systems	(ii)	31 July 2006 - Current
Mr S B McConchie	Executive Director Chief Executive Officer	(i), (ii)	26 November 2004 - 4 September 2006 26 November 2004 - 4 September 2006
Mr W J Rissmann	Vice President, Manufacturing and Product Development	(b)	25 April 2005 - 1 June 2006

Notes:

(i) HeartWare Limited

(ii) HeartWare, Inc.

(b) Key management compensation

The Company has applied the provisions of the *Corporations Amendments Regulation 2006* that allow the Company to transfer key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

27. SHARE-BASED PAYMENTS

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

- (a) On 20 April 2006 and following the appointment of Mr Dozier Rowe as Chief Operating Officer of the Company, 1,000,000 ESOP options were granted to Mr Rowe at an exercise price of \$1.41.
- (b) On 25 July 2006, the Company issued 2,635,060 ESOP options to 49 of its employees. The exercise price of these options was \$1.10 per option.
- (c) On 27 September 2006, the Company granted 5,581,264 ESOP Options to Mr Doug Godshall pursuant to the terms of his engagement as incoming Chief Executive Officer of the Company. The exercise price of these options was \$1.10.
- (d) On 28 October 2006, the Company issued 900,000 ESOP options to its senior management team. The exercise price of these options was \$1.10.

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

	Economic Entity				Parent Entity			
	2006		2005		2006		2005	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	16,145,410	0.64	-	-	16,145,410	0.64	-	-
Granted	10,116,324	1.13	16,808,462	0.63	10,116,324	1.13	16,808,462	0.63
Forfeited	(5,349,333)	0.90	(267,652)	0.41	(5,349,433)	0.90	(267,652)	0.41
Exercised	(411,151)	0.34	(395,400)	0.20	(411,051)	0.34	(395,400)	0.20
Outstanding at year-end	<u>20,501,250</u>	<u>0.82</u>	<u>16,145,410</u>	<u>0.64</u>	<u>20,501,250</u>	<u>0.82</u>	<u>16,145,410</u>	<u>0.64</u>
Exercisable at year-end	<u>5,524,880</u>	<u>0.41</u>	<u>3,931,600</u>	<u>0.33</u>	<u>5,524,880</u>	<u>0.41</u>	<u>3,931,600</u>	<u>0.33</u>

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

27. SHARE-BASED PAYMENTS (Continued)

There were 411,051 options exercised during the year ended 31 December 2006. These options had a weighted average share price of \$0.34 at exercise date.

The options outstanding at 31 December 2006 had a weighted average exercise price of \$0.82 and a weighted average remaining contractual life of 6.98 years. Exercise prices range from \$0.20 to \$1.41 in respect of options outstanding at 31 December 2006.

The weighted average fair value of the options granted during the year was \$1.13.

This price was calculated by using a Black Scholes option pricing model applying the following inputs:

- (a) Weighted average exercise price.
- (b) Weighted average life of the option.
- (c) Underlying share price.
- (d) Expected share price volatility.
- (e) Risk free interest rate.

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

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

Included under employee benefits expense in the Income Statement is \$1,174,620 (2005: \$2,552,592) and relates, in full, to equity-settled share-based payment transactions.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Detail of number of shares issued on exercise of remuneration options during the year:				
Proceeds from shares issued	139,576	79,080	139,576	79,080
Fair value of shares issued during the period	352,057	222,172	352,057	222,172

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

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

27. SHARE-BASED PAYMENTS (Continued)

Fair value of shares issued during the year at their issue date is estimated to be the market price of shares of HeartWare Limited on the Australian 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 2006	173,857	191,052
25 August 2006	178,200	220,000
	352,057	411,052

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

28. COMPENSATION OPTIONS FOR KEY MANAGEMENT PERSONNEL

The Company has applied the provisions of the *Corporations Amendments Regulation 2006* that allow the Company to transfer key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

In accordance with the above, information concerning the compensation options for key management personnel may be found in the Remuneration Report (see Section 3 to Appendix A to the Remuneration Report).

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

29. OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

	Note	Balance 1 January 2006	Granted as Compensation	Net Change	Options Exercised	Balance 31 December 2006	Vested 31 December 2006		
							Total	Not Exercisable	Exercisable
Parent Entity Directors									
Thomas, R	(a), (b)	1,264,204	-	-	-	1,264,204	964,204	200,000	764,204
Harrison, S		-	-	-	-	-	-	-	-
Stockman, R		-	-	-	-	-	-	-	-
Wade, D	(a)	250,000	-	-	-	250,000	100,000	100,000	-
Bennett, C	(a)	250,000	-	-	-	250,000	100,000	100,000	-
Godshall, D	(b)	-	5,581,264	-	-	5,581,264	-	-	-
McConchie, S	(b)	4,585,228	-	(4,585,228)	-	-	-	-	-
Total		6,349,432	5,581,264	(4,585,228)	-	7,345,468	1,164,204	400,000	764,204

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

29. OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL (Continued)

	Note	Balance 1 January 2006	Granted as Compensation	Net Change	Options Exercised	Balance 31 December 2006	Vested 31 December 2006		
							Total	Not Exercisable	Exercisable
Other Key Management Personnel									
Rowe, D	(b), (c)	-	1,200,000	-	-	1,200,000	-	-	-
LaRose, J	(b), (c)	2,304,204	200,000	-	-	2,504,204	1,731,051	-	1,731,051
Reedy, J	(b), (c)	1,146,306	200,000	-	-	1,346,306	286,576	-	286,576
McIntyre, D	(b), (c)	1,528,408	200,000	-	-	1,728,408	191,051	-	191,051
Leibman, H	(b), (c)	764,204	100,000	-	-	864,204	191,051	-	191,051
Yomtov, B	(b), (c)	-	300,000	-	-	300,000	-	-	-
Rissmann, W	(b), (c)	764,204	-	(573,053)	(191,151)	-	-	-	-
Total		6,507,326	2,200,000	(573,053)	(191,151)	7,943,122	2,399,729	-	2,399,729

Notes:

- (a) The options refer to Incentive Options, further details of which are set out below under the heading "Options". In relation to Mr Thomas, 764,204 of his options were granted under the Company's ESOP with the balance comprising Incentive Options.
- (b) The options refer to ESOP options granted as compensation.
- (c) In accordance with the terms of the Company's ESOP Rules, each option entitles the holder to purchase one ordinary share at the relevant exercise price.

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

30. COMPENSATION FOR KEY MANAGEMENT PERSONNEL

The Company has applied the provisions of the *Corporations Amendments Regulation 2006* that allow the Company to transfer key management personnel remuneration disclosures required by AASB 124: Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report.

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

31. SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

	Note	Balance 1 January 2006	Granted as Remuneration	Options Exercised	Net Change* Other	Balance 31 December 2006
Parent Entity Directors						
Thomas, R	(a)	1,238,000	-	-	520,000	1,758,000
Harrison, S	(b)	91,588,782	-	-	-	91,588,782
Stockman, R		-	-	-	-	-
Wade, D	(c)	700,000	-	-	300,000	1,000,000
Bennett, C		-	-	-	-	-
Godshall, D		-	-	-	37,305	37,305
McConchie, S		-	-	-	-	-
Other Key Management Personnel						
Rowe, D		-	-	-	10,000	10,000
LaRose, J		-	-	-	-	-
Reedy, J		-	-	-	-	-
McIntyre, D		34,000	-	-	(6,000)	28,000
Leibman, H		160,000	-	-	84,955	244,955
Yomtov, B		-	-	-	-	-
Rissmann, W		-	-	-	-	-
Total		93,560,782	-	-	946,260	94,667,042

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

31. SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL (Continued)

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 2001*, Dr Harrison is deemed to have an indirect interest in this convertible note.

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

Remuneration Benefits

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

At 31 December 2006, there were no amounts receivable from or payable to directors and their director-related entities.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

32. RELATED PARTIES

There were no transactions between the Economic Entity and related parties during the year.

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 49.17% 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.

33. 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 Economic Entity.

34. CHANGE IN ACCOUNTING POLICY

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

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Economic Entity
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 January 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 January 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 January 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 January 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 January 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 January 2007

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

34. CHANGE IN ACCOUNTING POLICY (Continued)

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Economic Entity
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 January 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2007	1 January 2007
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 January 2007
Interpretation 11	AASB 2: Share-based payment – Group and Treasury Share Transactions	No change, no impact	1 March 2007	1 January 2008

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

35. CHANGE IN ACCOUNTING ESTIMATES

As discussed at Note 2 to the Financial Statements (and pursuant to the adoption of AASB 3: Business Combinations), the Company engaged an independent consultant, Stenton Leigh Group, Inc., to value the intangible assets as at 24 January 2005, being the date on which HeartWare Limited acquired HeartWare Inc. As a result of this valuation there have been reclassifications between categories of intangible assets such that the intellectual property figure disclosed in the 2005 Annual Report has now been divided between goodwill, patents, copyright and non-compete agreements.

Under the Company's accounting policy (see Note 1 to the Financial Statements), the Company amortizes its intangible assets on a straight-line basis over the relevant estimated useful life. The estimated useful life ranges from 10 to 20 years.

In the 2005 Annual Report, the Company determined to amortize its intellectual property over a 20 year period. With the reclassification on intellectual property into goodwill, patents, copyright and non-compete agreements, the Company is required to amortize these intangible assets (excluding goodwill) over their estimated useful lives.

For the year-ended 31 December 2006, the Company has determined to amortize its intangible assets over periods of less than 20 years (as applied in the 2005 Annual Report), being periods that equate to the estimated useful life of each category of intangible asset. On this basis, the Company has determined that patents shall be amortized over 15 years, copyright shall be amortized over 10 years and the non-compete agreements shall be amortized over 5 years.

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

35. CHANGE IN ACCOUNTING ESTIMATES (Continued)

This shorter period of amortization is consistent with the amortization period that the Company has determined to adopt in relation to the financial statements that it must lodge with the US Securities and Exchange Commission (and otherwise in accordance with US Generally Accepted Accounting Principles). In this way, the Company has sought to apply a consistent methodology in the preparation of Australian and US financial statements.

As a consequence of adopting a shorter amortization period (as noted above), and the reclassification of intellectual property (also noted above), the Company has reduced amortization expense by \$1,556,147 for the year-ended 31 December 2006 (2005: \$74,717).

36. 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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
ASX ADDITIONAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

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 3 February 2007.

Distribution of equity security holders

	Ordinary Shares		Options (unlisted)	
	Number of holders	Number of shares	Number of holders	Number of options
1 - 1,000	111	89,603	-	-
1,001 - 5,000	352	1,206,285	-	-
5,001 - 10,000	319	2,784,288	12	120,000
10,001 - 100,000	644	23,325,393	24	1,334,000
100,001 - and over	133	158,897,028	28	19,047,250
	1,556	186,302,597	64	20,501,250

The number of shareholders holding less than a marketable parcel was twenty eight (28).

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held %
Apple Tree Partners	91,588,782	49.17%
ANZ Nominees Limited	9,778,459	5.25%
Jon B Platt	8,000,000	4.30%
Merrill Lynch (Australia) Nominees Pty Ltd	2,899,326	1.56%
Equity Trustees Limited	2,789,091	1.50%
UBS Nominees Pty Ltd	2,509,149	1.35%
GPG Nominees Pty Ltd	2,000,000	1.07%
Matthew Rosenthal	1,879,120	1.01%
Warman Investments Pty Ltd	1,650,000	0.89%
Cogent Nominees Pty Ltd	1,646,133	0.88%
National Nominees Limited	1,609,244	0.86%
Rob Thomas	1,298,000	0.70%
Grahger Capital Investment Pty Ltd	1,122,400	0.60%
ASIA Union Investments Pty Ltd	1,061,359	0.57%
Nickeli Holdings Pty Ltd (as trustee for D Wade Superannuation)	1,000,000	0.54%
Sarah Brown Pty Ltd	909,090	0.49%
Mandurah Automatic Transmissions Pty Ltd	900,000	0.48%
S & K Siejka Medical Pty Ltd	864,820	0.46%
Paul Burgess Cave	800,000	0.43%
Wally Knezevic	600,000	0.32%
Mr Stephen Lambert & Associates	573,103	0.31%
TOTAL	135,478,076	72.73%

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
ASX ADDITIONAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

Options Unlisted

HeartWare Limited Employee Share Option Plan

The Company has 19,000,250 options on issue under the Company's Employee Share Option Plan. These options are held by 61 individuals.

Incentive Options

Name	Number of Options Held	Number of Options Vested
Thomas, Robert	500,000	400,000
Inteq Limited	500,000	500,000
Wade, Dennis	250,000	200,000
Bennett, Christine	250,000	200,000
	1,500,000	

Escrowed Securities

Name	Restriction Period	Number of ordinary shares held
Apple Tree Partners 1 LP	31 January 2007	87,003,221
		87,003,221

Name	Restriction Period	Number of options held
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
		2,264,204

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

**HEARTWARE LIMITED ABN 34 111 970 257
AND CONTROLLED ENTITIES
ASX ADDITIONAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2006**

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	49.17%
ANZ Nominees Limited	9,778,459	5.25%

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.