HEARTWARE LIMITED

ABN 34 111 970 257

Level 57, MLC Centre
19-29 Martin Place
Sydney NSW 2000
Ph: (+61) 2 9238 2064
Fax: (+61) 2) 92382063
www.heartware.com.au

31 July 2007

Dear Shareholder

The last three months have been a very busy period at HeartWare, with the Company making important progress on several fronts. This letter aims to provide an overview of our activities during the quarter and a summary of our current position.

Key developments include:

- **Successful Capital Raising and Share Purchase Plan - approximately AU$37M**
- **Clinical Trial Enrolment Progress – now 18 patients**
- **First "Bridge to Recovery" Case – Royal Perth successfully explants a device**
- **Longest supported HeartWare patient receives a heart transplant**

Capital Raising

At the Company's Extraordinary General Meeting on 26th July, we announced the completion of a significant capital raising, comprising both a Private Placement to institutional and sophisticated investors and a Share Purchase Plan. Under the Private Placement we raised approximately AU$36 million. Under the Share Purchase Plan we raised an additional AU$1.2 million.

We were particularly pleased by the profile of investors who participated in the financing. Institutional investors in Australia and the United States accounted for over 80% of the total raise. We were also very pleased by the strong support shown by our existing shareholders, approximately 20% of whom participated in the Share Purchase Plan. We are very appreciative of this continued support.

Over the past three years, HeartWare has enjoyed exceptional support from the Australian investor community. However, for a medical device company aiming to establish a significant global presence, the ability to access investment capital in the US is critical. We were therefore pleased to see several leading specialist US healthcare funds participate in the financing. In aggregate, these US investors accounted for approximately 40% of the funds raised.

Following the capital raising, HeartWare is in a strong financial position, with cash holdings of approximately AU$45 million. These funds will enable us to advance our HVAD™ program well into European commercial sales and will take us a long way into our US clinical trial. With the medium term financing risk largely eliminated, we can now focus all of our energies on effectively executing our business plan.

Clinical Trial Update

I am pleased to report that HeartWare's HVAD™ pump has now been implanted in 18 patients. This includes 5 new implants conducted over the past 5 weeks and it gives us great confidence that we will complete our target 20 patient enrolment in the very near future. On a cumulative basis the HeartWare patients have now been supported by the device for over 2,600 days, or 7 years. Seven patients have successfully passed the primary clinical endpoint of the trial.

We continue to be very encouraged by the clinical performance of our pump. More importantly, the enthusiasm and support of our investigating surgeons are reaffirmed with each new implant.

First "Bridge to Recovery" Patient

Approximately two weeks ago, Royal Perth Hospital became our first centre to demonstrate the potential of the HVAD™ pump to be used as a "bridge to recovery" device.

On 18th July, the surgical team at Royal Perth Hospital successfully removed the HVAD™ pump from one of their patients. The 38 year old male patient was implanted with his HVAD™ pump on 23rd October 2006. After 268 days, or approximately 9 months, of support by the device, the patient's heart function had improved to such an extent that the cardiology and cardiac surgery teams at Royal Perth Hospital decided to explant the pump.

HeartWare's primary focus is on the use of the HVAD™ pump as either a bridge to transplantation or as a destination therapy device. However, as our implant numbers grow, it is likely that some meaningful proportion of our patients will respond so well to the therapy that a complete recovery becomes possible. The prospect of pumps being used as a "bridge-to-recovery" has the potential to dramatically expand the market for these devices. Studies are currently underway to establish how best to identify potential recovery patients and to more clearly understand the "bridge-to-recovery" opportunity. We will be keeping a close watch on these findings

This first "recovery" case at Royal Perth provides yet another reminder of the potential of our device to completely transform the lives of our patients. Less than one year ago, this patient was critically ill. He would not have survived without either a mechanical pump or a heart transplant. Today, at 38 years of age, he has largely overcome his heart failure and faces the real prospect of a long and productive life.

First-ever HVAD™ Pump Patient Receives a Transplant

As noted above, to date three HVAD™ pump patients have received heart transplants, all after extended periods of support on their respective pumps. Included in this group is HeartWare's first ever patient, who received his HVAD™ pump implant on 22 March 2006 at the Vienna General

Hospital. After making an extraordinary recovery, this patient underwent successful transplantation on 23 May 2007, having been supported by his pump for 427 days.

Our technical team was particularly excited to receive the explanted pump back into the HeartWare facility for inspection. After 427 days of continuous operation, the impeller and all internal surfaces appeared as pristine as the day they were first released from our manufacturing facility. In some respects this is not unexpected. The pump's internal geometry and wear-less impeller suspension mechanism have been designed specifically to enable long term use – potentially for many years. It is gratifying to see just how well these novel design concepts have translated into clinical performance.

It takes great courage to be the first patient to participate in a clinical trial for a potentially life-sustaining device such as a heart pump. We remain deeply indebted to Mr Petkov who, at the age of only 46, put his faith in the HeartWare system. We were very pleased to hear of his successful transplant and wish him many years of health.

Regulatory Update

HeartWare is pursuing two parallel regulatory tracks. The first relates to our international (non US) opportunity. The key near term milestone in relation to our international regulatory timeline is the completion of enrolment in our current clinical trial. Once we have enrolled 20 patients in the trial and once we have an average of 90 days of support across these 20 patients, we can then submit our technical dossier to our Notified Body in Europe. We remain on track to make these submissions during the fourth quarter of this year. Subject to the time required for the regulatory authorities to process our application, we remain confident of being awarded CE marking for the HVAD™ during the first quarter of 2008. Following receipt of CE mark, HeartWare will be able to market and sell the device throughout Europe and in certain other jurisdictions where the CE mark is recognized. Given the proximity to our commercial launch, HeartWare is now actively developing its marketing and distribution plans for Europe.

The more extensive regulatory process is that relating to our US clinical trial. HeartWare has allocated significant resources over recent months to preparing for our US Investigational Device Exemption ("IDE") submission. We hope to confirm a pre-IDE meeting with the FDA during this quarter and aim to submit our regulatory filings during September or October. We will be discussing with the FDA several novel elements to our clinical trial design. I hope to be able to provide further details in my next shareholder update.

Subject to successfully completing our IDE application process within the next 3 months, we hope to begin our US implants in late 2007 or during the first quarter of 2008. We expect first to conduct a pilot trial involving ten patients at up to five investigational centres and subsequently to initiate our pivotal Bridge to Transplant and Destination Therapy trials involving up to 40 hospitals. We expect to be reimbursed for these pumps implanted during our US clinical trials.

Manufacturing Update

The HeartWare HVAD™ pump is manufactured to very tight tolerances. Approximately two months ago at our Annual General Meeting we described a finding by our technical team which indicated that pumps manufactured within a narrow "window" within our then broader range of specifications appeared to produce superior bench test data than those manufactured outside of this range. As a consequence we decided to tighten our acceptance criteria such that only pumps manufactured within this tighter range of tolerances would be released for clinical use.

It is never easier to manufacture within a narrower specification range but I am pleased to report that we are seeing very steady progress in creating new processes that can produce pumps within this tight range. This is best evidenced by the fact that we have conducted five implants over the past five weeks, reflecting our highest monthly implant rate to date.

We anticipate a significant increase in demand once we begin our US clinical trial and once we initiate European commercial sales. Our operations team has in place a clear plan by which to scale our production capability through the balance of this year so as to be prepared for this expected increased volume within the next 6 months.

Summary

Over the past quarter HeartWare has substantially advanced its clinical program. We are now on the verge of meeting our most important short term milestone – the enrolment of the 20th patient in our CE mark clinical trial. Through the course of our CE mark trial program we have continued to iron out the primary manufacturing challenges of the past 12 months and have significantly upgraded our manufacturing capability. Having completed a successful financing and are encouraged by the clinical performance of our device, we are now well positioned as we move towards the start of our US clinical trial.

Thank you for your continued support of HeartWare.

Yours sincerely

Doug Godshall
Chief Executive Officer

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

HEARTWARE LIMITED

ABN

34 111 970 257

Quarter ended ("current quarter")

30 June 2007

Consolidated statement of cash flows

		Current quarter $A'000	Year to date (6 months) $A'000
Cash flows related to operating activities			
1.1	Receipts from customers		
1.2	Payments for (a) staff costs	(2,260)	(4,649)
	(b) advertising and marketing		
	(c) research and development	(214)	(459)
	(d) leased assets	(233)	(502)
	(e) other working capital	(3,978)	(6,851)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	126	448
1.5	Interest and other costs of finance paid	(8)	(15)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
	Net operating cash flows	**(6,567)**	**(12,028)**

+ See chapter 19 for defined terms.

		Current quarter $A'000	Year to date (6 months) $A'000
1.8	Net operating cash flows (carried forward)	**(6,567)**	**(12,028)**
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)		
	(b) equity investments		
	(c) intellectual property	-	(177)
	(d) physical non-current assets	(150)	(558)
	(e) research and development		
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)		
	(b) equity investments		
	(c) intellectual property		
	(d) physical non-current assets		
	(e) other non-current assets		
1.11	Loans to other entities		
1.12	Loans repaid by other entities		
1.13	Other – cash assets acquired on acquisition of business		
	Net investing cash flows	**(150)**	**(735)**
1.14	**Total operating and investing cash flows**	**(6,717)**	**(12,763)**
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	-	8
1.16	Proceeds from sale of forfeited shares		
1.17	Proceeds from borrowings	21,689	21,689
1.18	Repayment of borrowings		
1.19	Dividends paid		
1.20	Other – expenses of the issue of shares	-	-
	Net financing cash flows	**21,689**	**21,697**
	Net increase (decrease) in cash held	**14,972**	**8,934**
1.21	Cash at beginning of quarter/year to date	15,047	21,102
1.22	Exchange rate adjustments to item 1.20	(40)	(56)
1.23	**Cash at end of quarter**	**29,979**	**29,979**

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	210
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Costs referred to at item 1.24 include directors' fees and employment costs for the Chief Executive Officer (Douglas Godshall).

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

+ See chapter 19 for defined terms.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
4.1	Cash on hand and at bank	881	464
4.2	Deposits at call	7,409	14,583
4.3	Bank overdraft		
4.4	Other (provide details)	21,689	-
	Total: cash at end of quarter (item 1.22)	29,979	15,047

Acquisitions and disposals of business entities

		Acquisitions *(Item 1.9(a))*	Disposals *(Item 1.10(a))*
5.1	Name of entity		
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

+ See chapter 19 for defined terms.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: ..31 July 2007

(Director)

Print name: Douglas Godshall.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.

   - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
   - 9.2 - itemised disclosure relating to acquisitions
   - 9.4 - itemised disclosure relating to disposals
   - 12.1(a) - policy for classification of cash items
   - 12.3 - disclosure of restrictions on use of cash
   - 13.1 - comparative information

+ See chapter 19 for defined terms.