



HEARTWARE LIMITED

ABN 34 111 970 257

INTERIM FINANCIAL REPORT

30 June 2007

Provided in accordance with Section 320 of the *Corporation Act 2001*.



CONTENTS

Consolidated Income Statement	3
Consolidated Balance Sheet	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement	6
Notes to the Financial Statements	7
Directors' Declaration	13
Directors' Report	14
Auditor's Independence Declaration	15
Independent Review Report to the Members	16

CORPORATE DIRECTORY

Board of Directors

Robert Thomas, Non-Executive Chairman
 Seth Harrison, MD, Non-Executive Deputy Chairman
 Douglas Godshall, Chief Executive Officer
 Christine Bennett, MB, Non-Executive Director
 Denis Wade AM, MB, D.Phil., Non-Executive Director
 Robert Stockman, Non-Executive Director

Chief Executive Officer

Douglas Godshall

Registered Address

Level 57, MLC Centre
 19-29 Martin Place
 Sydney NSW 2000
 Australia

Share Registry

Registries Limited
 Level 2
 28 Margaret Street
 SYDNEY NSW 2000
 AUSTRALIA

Advisory Board

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

Company Secretary

David McIntyre

US Office

3351 Executive Way
 Miramar
 MIAMI FLORIDA 33025
 UNITED STATES OF AMERICA

Australian Auditors

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT

	Notes	CONSOLIDATED GROUP 6 months to 30 June 2007 \$	CONSOLIDATED GROUP 6 months to 30 June 2006 \$
Revenue	3	414,568	376,420
Other income		-	116,557
Depreciation and amortisation expenses		(430,581)	(351,142)
Administrative and facilities expenses		(318,870)	(235,986)
Audit, financial and taxation services		(152,780)	(14,043)
Consultants – clinical, regulatory and medical		(912,778)	(580,494)
Consultants – corporate advisory and investor relations		(197,856)	(211,498)
Contractor expenses		(692,181)	(104,543)
Information technology expense		(176,741)	(170,388)
Insurance expenses		(116,541)	(194,401)
Employment and directors' expenses		(4,839,645)	(4,598,780)
Financing costs		(14,873)	(14,684)
Foreign exchange expense		(679,754)	-
Legal expense		(733,829)	(403,720)
Raw materials and consumables used		(323,423)	(157,050)
Rental expense and outgoings		(527,701)	(283,908)
Research and development expenses		(459,857)	(879,499)
Share-based payments		(1,651,893)	(520,442)
Shareholder and ASX listing costs		(192,386)	(152,826)
Travel, accommodation and related expenses		(947,676)	(725,459)
Trials – animal and human		(305,838)	(24,812)
Validation and verification expense		(13,715)	(99,756)
Other expenses		(359,007)	(244,425)
Loss before income tax	4	(13,633,357)	(9,474,879)
Income tax expense		-	-
Loss for the period		(13,633,357)	(9,474,879)
Loss attributable to members of the parent entity		(13,633,357)	(9,474,879)
Basic and diluted earnings/(loss) per share - cents		(0.07)	(0.06)

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET

	Notes	CONSOLIDATED GROUP As At 30 June 2007 \$	CONSOLIDATED GROUP As At 31 December 2006 \$
Current Assets			
Cash and cash equivalents		29,979,273	21,101,693
Trade and other receivables		303,121	315,314
Other current assets		746,306	448,507
Total Current Assets		31,028,700	21,865,514
Non-Current Assets			
Other financial assets		2,357	-
Property, plant and equipment		3,200,967	3,140,329
Intangible assets		2,731,637	2,881,772
Other non-current assets		-	2,527
Total Non-Current Assets		5,934,961	6,024,628
Total Assets		36,963,661	27,890,142
Current Liabilities			
Trade and other payables		1,423,341	1,782,239
Short-term borrowings		1,490,171	1,475,396
Short-term provisions		298,749	200,608
Other current liabilities - capital raise	8	21,689,183	-
Other current liabilities		20,280	20,280
Total Current Liabilities		24,921,724	3,478,523
Non-Current Liabilities			
Other		29,997	20,139
Total Non-Current Liabilities		29,997	20,139
Total Liabilities		24,951,721	3,498,662
Net Assets		12,011,940	24,391,480
Equity			
Issued Capital	6	59,681,110	59,673,110
Reserves		4,752,812	3,506,995
Retained earnings		(52,421,982)	(38,788,625)
Total Equity		12,011,940	24,391,480

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed Equity \$	Foreign Currency Translation Reserve \$	Share Option Reserve \$	Exercised Option Reserve \$	Accumulated losses \$	Total \$
Balance as at 1 January 2006	28,824,205	112,209	2,408,356	144,236	(15,537,975)	15,951,031
Currency translation	-	(25,458)	-	-	-	(25,458)
Net income recognised directly in equity	-	(25,458)	-	-	-	(25,458)
Loss for the period	-	-	-	-	(9,474,879)	(9,474,879)
Total recognised income and expense for the period	-	(25,458)	-	-	(9,474,879)	(9,500,337)
Shares issued during the period	30,804,905	-	-	-	-	30,804,905
Employee share based compensation	-	-	470,510	49,932	-	520,442
Balance as at 30 June 2006	59,629,110	86,751	2,878,866	194,168	(25,012,854)	37,776,041
Balance as at 1 January 2007	59,673,110	(220,217)	3,452,791	274,421	(38,788,625)	24,391,480
Currency translation	-	(406,076)	-	-	-	(406,076)
Net income recognised directly in equity	-	(406,076)	-	-	-	(406,076)
Loss for the period	-	-	-	-	(13,633,357)	(13,633,357)
Total recognised income and expense for the period	-	(406,076)	-	-	(13,633,357)	(14,039,433)
Shares issued during the period	8,000	-	-	-	-	8,000
Employee share based compensation	-	-	1,637,302	14,591	-	1,651,893
Balance as at 30 June 2007	59,681,110	(626,293)	5,090,093	289,012	(52,421,982)	12,011,940

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

CONSOLIDATED CASH FLOW STATEMENT

	CONSOLIDATED GROUP 6 Months to 30 June 2007 \$	CONSOLIDATED GROUP 6 Months to 30 June 2006 \$
Cash flows from operating activities		
Payments to suppliers and employees	(12,476,118)	(9,696,056)
Interest received	448,024	388,357
Interest paid	(98)	(201)
Net cash flows used in operating activities	<u>(12,028,192)</u>	<u>(9,307,900)</u>
Cash flows from investing activities		
Proceeds from disposal of property plant & equipment	-	3,735
Purchase of property, plant and equipment	(558,031)	(897,937)
Payment for research and development	(66,293)	-
Payment for intangible assets	(110,672)	-
Net cash flows used in investing activities	<u>(734,996)</u>	<u>(894,202)</u>
Cash flows from financing activities		
Proceeds from capital raising activities (shares not issued at 30 June 2007)	21,689,183	-
Proceeds from issue of shares	8,000	32,825,695
Share issue costs	-	(2,020,790)
Net cash flows provided by financing activities	<u>21,697,183</u>	<u>30,804,905</u>
Net increase in cash held	<u>8,933,995</u>	<u>20,602,803</u>
Cash at the beginning of the financial period	21,101,693	13,679,897
Effect of exchange rates on cash holdings in foreign currencies	(56,415)	(4,157)
Cash at the end of the financial period	<u><u>29,979,273</u></u>	<u><u>34,278,543</u></u>

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2007

1. Basis of Preparation of Half-Year Financial Statements

The half-year consolidated financial statements ("Interim Financial Report") are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the 2006 Annual Report for the year ended 31 December 2006 and any public announcements made by HeartWare Limited ("the Company") and its controlled entities during, and since the end of, the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

Except as set out in Note 2 below, the accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the 31 December 2006 financial report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions

The half-year 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.

2. Change in Accounting Policy

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

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

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



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2007**

3. Change in Accounting Policy (Continued)

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

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

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

	<u>Previously Stated</u>	<u>Adjustment</u>	<u>Revised</u>
Consolidated Income Statement for 6 Months Ended 30 June 2006			
Depreciation and amortisation expense	(1,470,795)	1,119,653	(351,142)
Profit / (Loss) before income tax expense	(10,594,529)	1,119,653	(9,474,876)
Basic and diluted earnings per share	(0.07)	0.01	(0.06)
Consolidated Balance Sheet as at 31 December 2006			
Intangible assets	43,806,476	(40,924,704)	2,881,772
Issued capital	(105,256,919)	45,583,809	(59,673,110)
Reserves	(3,270,362)	(236,633)	(3,506,995)
Accumulated losses	43,211,097	(4,422,472)	38,788,625

The above changes to the Company's accounting policy do not impact the Company's cash flows.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2007

	CONSOLIDATED GROUP 30 June 2007 \$	CONSOLIDATED GROUP 30 June 2006 \$
3. Revenue		
Interest received	414,568	376,420
	414,568	376,420
4. Loss before income tax has been determined after deducting:	CONSOLIDATED GROUP 30 June 2007 \$	CONSOLIDATED GROUP 30 June 2006 \$
Depreciation of property plant and equipment	247,440	177,602
Amortisation of intangible assets	183,141	173,540



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2007**

5. Segment reporting

The Consolidated Group's primary reporting segment is geographical. The Consolidated Group operates in two geographical segments, being Australia and the United States of America.

	Australia \$	USA \$	Eliminations \$	Consolidated Group \$
Half-Year 30 June 2007				
Total Segment Revenue:				
Revenue	385,201	29,367	-	414,568
Segment Result:				
Profit / (Loss) before income tax expense	(3,502,515)	(10,130,842)	-	(13,633,357)
Half-Year 30 June 2006				
Total Segment Revenue:				
Revenue	360,342	16,078	-	376,420
Segment Result:				
Profit / (Loss) before income tax expense	(2,451,478)	(7,023,401)	-	(9,474,879)



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2007**

6. Issued capital	30 June 2007		
	\$		
Issued and paid-up capital			
186,302,597 ordinary shares, fully paid			59,681,110
Movements during the period	Issue Price	No. of Shares	\$
Opening balance – 1 January 2007		186,262,597	59,673,110
Exercise of Options under the Company's Employee Share Option Plan – 30 June 2007	\$0.20	40,000	8,000
Total		186,302,597	59,681,110

As noted above, the Company announced on 14 June 2007 that it had received commitments to raise in excess of \$30 million. This capital raising was subject to shareholder approval, which was obtained on 26 July 2007. As shareholder approval was not obtained until after 30 June 2007, there is no change to issued capital for this transaction as at 30 June 2007 and any amounts received by the Company in this regard are recorded as a short-term liability.

7. Contingent liabilities

As set out in the Company's prospectus (dated 17 December 2004), the consolidated group 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 has received no written notice of any claim against the HeartWare Group that could be properly categorised as a "contingent liability" for the purposes of Australian Accounting Standards.



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2007

8. Subsequent events

Since 30 June 2007, the Company has completed a capital raising for gross proceeds of approximately \$37 million, of which \$21.7 million had been received prior to 30 June 2007. The amount received before 30 June 2007 was treated as a liability at the balance sheet date as the issuance of shares was subject to shareholder approval and this was not received until 26 July 2007. Further details are set out below.

On July 24, 2007, the Company completed a share purchase plan pursuant to which the Company issued and sold an aggregate of 2,002,933 of its ordinary shares for aggregate proceeds to the Company of approximately \$1.2 million. The ordinary shares were issued to existing shareholders of the Company resident in Australia and New Zealand only.

On July 26, 2007, the Company completed an offering of its ordinary shares in a private placement to a group of institutional and sophisticated investors in the United States, Europe and Australia. The Company issued 59,706,747 ordinary shares for aggregate proceeds to the Company of approximately \$35.8 million.

Except as disclosed above, there have been no events subsequent to the reporting date that would have a material effect on the financial report.

9. Non-cash financing and investing activities

There has been no non-cash financing and investing activities in the half-year to 30 June 2007.



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

DIRECTORS' DECLARATION

The Directors of HeartWare Limited declare that:

1. The financial statements and notes, as set out on pages 3 to 12:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the consolidated group's financial position as at 30 June 2007 and of its performance for the half-year ended on that date.
2. 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 Board of Directors:

A handwritten signature in blue ink, appearing to read "Rob Thomas".

**Rob Thomas
Chairman
HeartWare Limited**

DATED: 31 August 2007



HEARTWARE LIMITED (ABN 34 111 970 257) & CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of HeartWare Limited ("Company"), being the Company and its controlled entities, for the half-year ended 30 June 2007.

DIRECTORS

The names of directors who held office during or since the end of the half-year are as follows:

Robert Thomas, Non-Executive Chairman - director since 26 November 2004
Seth Harrison, MD, Non-Executive Deputy Chairman - director since 26 November 2004
Douglas Godshall, CEO - director since 26 October 2006
Christine Bennett, MB, Non-Executive Director - director since 15 December 2004
Denis Wade AM, MB, D.Phil., Non-Executive Director - director since 15 December 2004
Robert Stockman, Non-Executive Director - director since 8 December 2006

REVIEW OF OPERATIONS

The Review of Operations is contained on Page 2 of the Half-Year Report provided in accordance with ASX Listing Rule 4.2A.3.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 15 for the half-year ended 30 June 2007 and forms part of this report.

Signed in accordance with a resolution of the Board of Directors:

A handwritten signature in blue ink, appearing to read "Rob Thomas".

Rob Thomas
Chairman
HeartWare Limited

Date: 31 August 2007

**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 review of HeartWare Limited for the half-year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

31 August 2007

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF HEARTWARE LIMITED

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of HeartWare Limited (the company) and the entities it controlled (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of HeartWare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of HeartWare Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and of its performance for the half-year ended on that date.
- (b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

31 August 2007