



HEARTWARE LIMITED

ABN 34 111 970 257

INTERIM FINANCIAL REPORT

30 June 2008

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



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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
 Timothy Barberich, 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
 Gerry O'Driscoll, MD
 Georg Wieselthaler, MD
 Leslie Miller, MD
 Asghar Khaghani, MD

Company Secretary

David McIntyre

US Office

205 Newbury Street
 FRAMINGHAM MA 01701
 UNITED STATES OF AMERICA

Australian Auditors

Grant Thornton NSW
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 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 2008 \$	CONSOLIDATED GROUP 6 months to 30 June 2007 \$
Revenue	2	627,358	414,568
Other income		-	-
Depreciation and amortisation expenses		(407,166)	(430,581)
Administrative and facilities expenses		(441,278)	(318,870)
Audit, financial and taxation services		(278,849)	(152,780)
Consultants – clinical, regulatory and medical		(1,531,072)	(912,778)
Consultants – corporate advisory and investor relations		(297,438)	(197,856)
Contractor expenses		(836,423)	(692,181)
Information technology expense		(173,986)	(176,741)
Insurance expenses		(113,203)	(116,541)
Employment and directors' expenses		(5,872,838)	(4,839,645)
Financing costs		(15,952)	(14,873)
Foreign exchange expense		(1,390,189)	(679,754)
Legal expense		(974,603)	(733,829)
Raw materials and consumables used		(1,299,278)	(323,423)
Rental expense and outgoings		(492,392)	(527,701)
Research and development expenses		(457,147)	(459,857)
Share-based payments		(627,655)	(1,651,893)
Shareholder and ASX listing costs		(133,365)	(192,386)
Travel, accommodation and related expenses		(821,085)	(947,676)
Trials – animal and human		(251,398)	(305,838)
Validation and verification expense		(44,881)	(13,715)
Other expenses		(572,449)	(359,007)
Loss before income tax	3	(16,405,289)	(13,633,357)
Income tax expense		-	-
Loss for the period		(16,405,289)	(13,633,357)
Loss attributable to members of the parent entity		(16,405,289)	(13,633,357)
Basic and diluted earnings/(loss) per share - cents		(0.07)	(0.07)

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 2008 \$	CONSOLIDATED GROUP As At 31 December 2007 \$
Current Assets		
Cash and cash equivalents	16,069,977	32,073,942
Trade and other receivables	374,243	180,035
Other current assets	529,336	705,785
Total Current Assets	16,973,556	32,959,762
Non-Current Assets		
Property, plant and equipment	3,485,822	3,072,874
Intangible assets	2,379,261	2,592,089
Other non-current assets	299,636	-
Total Non-Current Assets	6,164,719	5,664,963
Total Assets	23,138,275	38,624,725
Current Liabilities		
Trade and other payables	2,321,504	1,665,561
Short-term borrowings	1,510,418	1,517,689
Short-term provisions	366,076	311,870
Other current liabilities	60,283	-
Total Current Liabilities	4,258,281	3,495,120
Total Liabilities	4,258,281	3,495,120
Net Assets	18,879,994	35,129,605
Equity		
Issued capital	5 94,647,107	94,647,107
Reserves	5,803,448	5,647,770
Retained earnings	(81,570,561)	(65,165,272)
Total Equity	18,879,994	35,129,605

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 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
Balance as at 1 January 2008	94,647,107	(841,761)	6,168,418	321,113	(65,165,272)	35,129,605
Currency translation	-	(471,977)	-	-	-	(471,977)
Net income recognised directly in equity	-	(471,977)	-	-	-	(471,977)
Loss for the period	-	-	-	-	(16,405,289)	(16,405,289)
Total recognised income and expense for the period	-	(471,977)	-	-	(16,405,289)	(16,877,266)
Shares issued during the period	-	-	-	-	-	-
Employee share based compensation	-	-	627,655	-	-	627,655
Balance as at 30 June 2008	94,647,107	(1,313,738)	6,796,073	321,113	(81,570,561)	18,879,994

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 2008 \$	CONSOLIDATED GROUP 6 Months to 30 June 2007 \$
Cash flows from operating activities		
Payments to suppliers and employees	(15,313,843)	(12,476,118)
Interest received	570,265	448,024
Interest paid	(10,709)	(98)
Net cash flows used in operating activities	<u>(14,754,287)</u>	<u>(12,028,192)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,046,999)	(558,031)
Payment for research and development	(130,140)	(66,293)
Payment for intangible assets	(1,127)	(110,672)
Net cash flows used in investing activities	<u>(1,178,266)</u>	<u>(734,996)</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
Net cash flows provided by financing activities	<u>-</u>	<u>21,697,183</u>
Net (decrease) increase in cash held	<u>(15,932,553)</u>	<u>8,933,995</u>
Cash at the beginning of the financial period	32,073,942	21,101,693
Effect of exchange rates on cash holdings in foreign currencies	(71,412)	(56,415)
Cash at the end of the financial period	<u><u>16,069,977</u></u>	<u><u>29,979,273</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 2008**

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 2007 Annual Report for the year ended 31 December 2007 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*.

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.

	CONSOLIDATED GROUP 30 June 2008 \$	CONSOLIDATED GROUP 30 June 2007 \$
2. Revenue		
Interest received	627,358	414,568
	627,358	414,568
3. Loss before income tax has been determined after deducting:	CONSOLIDATED GROUP 30 June 2008 \$	CONSOLIDATED GROUP 30 June 2007 \$
Depreciation of property plant and equipment	268,195	247,440
Amortisation of intangible assets	138,971	183,141



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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2008**

4. 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 2008				
Total Segment Revenue:				
Revenue	600,872	26,486	-	627,358
Segment Result:				
Profit / (Loss) before income tax expense	(3,131,692)	(13,273,597)	-	(16,405,289)
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)

5. Issued Capital

There were no movements in issued capital for the six months ended 30 June 2008.

As noted above, the Company announced on 23 May 2008 that it had received commitments to raise in excess of \$30 million. This capital raising was subject to shareholder approval, which was obtained on 11 July 2008. As shareholder approval was not obtained until after 30 June 2008, there is no change to issued capital for this transaction as at 30 June 2008.



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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2008

6. Contingent liabilities

As set out in the Company's prospectus (dated 17 December 2004), the Consolidated Group 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 within 6 months of the date when the first circulatory assist device is approved for sale in Europe, provided that the Company has at least US\$15,000,000 in cash on hand and, if the Company does not have US\$15,000,000 in cash on hand at that time, then the payment is deferred until such that the Company has \$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, if the Company does not have US\$25,000,000 in cash on hand at that time, then the payment is deferred until such that the Company has US\$25,000,000 in cash on hand;
- (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.

7. Subsequent events

On 11 July 2008, 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 and Australia. The Company issued 62,256,562 ordinary shares for aggregate proceeds to the Company of approximately \$31.1 million.

On 25 July 2008, Apple Tree Partners I, L.P. redeemed the convertible note which the Company issued on 15 December 2004 in the principal amount of \$1,420,000. The accrued liability as at the redemption date, inclusive of interest in arrears, was \$1,512,728.

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

8. Non-cash financing and investing activities

There has been no non-cash financing and investing activities in the half-year to 30 June 2008.



**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 9
 - (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 2008 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: 13 August 2008



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 2008.

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
Timothy Barberich, Non-Executive Director – director since 29 April 2008

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 12 for the half-year ended 30 June 2008 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: 13 August 2008



Grant Thornton NSW
ABN 25 034 787 757

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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 2008, 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

C F Farley
Partner

Sydney, 13 August 2008



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

We have reviewed the accompanying half-year financial report of HeartWare Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, and other selected explanatory notes and the directors' declaration. The consolidated entity comprises both the company and the entities it controlled at the half-year's end or from time to time during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company 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



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

Auditor's responsibility (cont)

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 2008 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.

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 2008 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Grant Thornton NSW

GRANT THORNTON NSW

Chartered Accountants

C F Farley
Partner