Sunshine Heart, Inc.

ABN 79 109 440 888

ASX Preliminary final report – 30 June 2008

Lodged with the ASX under Listing Rule 4.3A

This report is to be read in conjunction with any public announcements made by Sunshine Heart, Inc. hereafter 'Sunshine Heart', the 'Company' and the 'Group' during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Contents

About Sunshine Heart:

Sunshine Heart (ASX: SHC) (www.sunshineheart.com) is a global medical device company, committed to the commercialisation of the C-Pulse™ an implantable, non-blood contacting, heart assist device for the treatment of people with heart failure. Sunshine Heart listed on the ASX in September 2004 and has a presence in Australia, New Zealand and the United States of America.

For further information, please contact:

Sunshine Heart
Victor Windeyer
Chief Operating Officer
+61 2 8424 7700 victor.windeyer@sunshineheart.com
or
Brian Bolton
Chief Financial Officer / Company Secretary
+612 8424 7717 brian.bolton@sunshineheart.com

The shares of Sunshine Heart have not been registered under the Securities Act of 1933 (the "US Securities Act") and may not be offered, sold or delivered in the United States, or to, or for the account or benefit of, any US Person, as such term is defined in Regulation S of the US Securities Act. In addition, hedging transactions with regard to the shares may not be conducted unless in accordance with the US Securities Act.

Reporting period: Year ended 30 June 2008
(Previous corresponding period: Year ended 30 June 2007)

<u>Results for announcement to the market</u>

				A$'000
Revenue from ordinary activities	**Down**	**86%**	to	**441**
(Loss) from ordinary activities after tax attributable to members	**Down**	**16%**	to	**(9,738)**
Net (Loss) for the year attributable to members	**Down**	**16%**	to	**(9,738)**

Dividends

It is not proposed to pay a dividend.

<u>Other Appendix 4E information</u>

	30 June 2008	30 June 2007
Net tangible assets per ordinary share	**$0.03**	$0.07

This report has been compiled using the attached Financial Report for the year ended 30 June 2008 which has been prepared using Australian equivalents to International Financial Reporting Standards.

<u>Commentary on results for the period (Appendix 4E item 14)</u>

<u>Overview</u>

Major milestones achieved during the year include:

- Extensive communication with US Food and Drug Administration (FDA) in regards to the Company's Investigational Device Exemption (IDE) application to commence a US clinical trial. The Company remains optimistic that it will be granted approval to commence the US clinical trial during 2008;

- Continued training of surgical and clinical personnel at US clinical trial sites;

- Established independent medical teams to provide clinical trial oversight including Data Safety Monitoring Board (DSMB) and Clinical Events Committee (CEC);

- Completed additional device testing and performance refinements of C-Pulse system to strengthen IDE submission;

- Enhanced medical community awareness by presentations at major US meetings including Heart Failure Society of America and the Northwestern University Heart Failure Symposium;

- Specifications and design requirements completed for fully implanted C-Pulse; and

- Raised $11.4 million comprising $6 million from the final tranche of the September 2006 financing and $5.4 million from a pro rata rights issue to all shareholders which was underwritten by major shareholders GBS Venture Partners and CM Capital.

Financial Highlights

Revenue:
Revenue from ordinary activities for the year ending 30 June 2008 decreased by $2.78 million (86%) to $441,000 (2007 $3.22 million) as Government grant funding concluded in 2007. Under Australian accounting standards government grants are treated as revenue.

The Net Loss for the year ending 30 June 2008 decreased by $1.801 million (16%) to $9.738 million (2007 $11.539 million) due to lower expenses offset by the above mentioned reduced revenue:

Research and development expenses:
Research and development expenses decreased by $4.544 million in 2008 compared to 2007 reflecting lower expenditure on development and testing of a wearable driver unit due to driver completion.

Salaries, consultants and employee benefits:
Salaries and consultants expense decreased by $127,487 in 2008 compared to 2007.

Cash Flow:
The Group's cash at 30 June 2008 was $9.8 million (2007 $7.7 million). The Group's net operating cash usage for the year was $9.2 million which represents a decrease of $845,630 compared to the prior year.

During 2008, the Group received proceeds from the issue of ordinary shares of $11.4 million compared to $13.8 million in 2007.

Sunshine Heart expects to raise further monies during 2009 financial year to complete the US clinical trial following FDA approval of the Company's IDE application and for working capital.

Status of audit (Appendix 4E items 15 to 17)

This preliminary final report is based on accounts which have been audited. The audit report, which was unqualified, will be made available when the Company lodges its complete Directors' and Financial Reports.

Attachment 1

Sunshine Heart, Inc.

ABN 79 109 440 888

Financial Report
30 June 2008

Contents

This financial report covers both Sunshine Heart, Inc. as an individual entity and the consolidated entity which consists of Sunshine Heart, Inc. and its Australian subsidiary, Sunshine Heart Company Pty Limited. The financial report is presented in Australian dollars (A$).

Sunshine Heart, Inc. is a company limited by shares, incorporated in Delaware USA and domiciled in Sydney, Australia. Its registered offices are, and principal place of business is:

Registered Office:	Registered Office:	Principal Place of Business:
United States of America	Australia	Australia
C/o Corporation Service Company 2711 Centreville Road Wilmington Delaware 19808 USA	Unit 3, 12 Frederick Street St Leonards NSW 2065	Unit 3, 12 Frederick Street St Leonards NSW 2065

Income Statement

For the year ended 30 June 2008

	Notes	CONSOLIDATED		SUNSHINE HEART, INC.	
		2008 **$**	2007 $	**2008** **$**	2007 $
Revenue and other income	**3**	**441,121**	3,220,722	**360,914**	485,291
Write-down of investments	3	**-**	-	**(9,357,218)**	(11,243,813)
Depreciation and amortisation	3	**(78,277)**	(64,269)	**-**	-
Insurance		**(110,945)**	(174,878)	**(77,874)**	(106,698)
Listing fees		**(36,112)**	(19,241)	**(36,112)**	(19,241)
Office expenses	3	**(177,259)**	(155,817)	**-**	(3,588)
Professional fees		**(233,280)**	(338,394)	**(166,464)**	(289,180)
Salaries and employee benefits	3	**(2,159,742)**	(2,371,082)	**-**	-
Research and development	3	**(5,834,795)**	(10,295,675)	**-**	-
Travel		**(529,479)**	(554,056)	**(8,257)**	(12,899)
Patents		**(151,364)**	(80,947)	**-**	-
Other expenses		**(868,051)**	(705,776)	**(453,172)**	(349,285)
Loss before income tax		**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Income tax benefit	**4**	**-**	-		-
Loss after income tax		**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Loss for the year attributable to members of Sunshine Heart, Inc.	**12(e)**	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Basic loss per share (cents per share)	**18**	**(4.8)**	(8.3)		
Diluted loss per share (cents per share)	**18**	**(4.8)**	(8.3)		

Balance Sheet

As at 30 June 2008

	Notes	CONSOLIDATED		SUNSHINE HEART, INC.	
		2008	2007	**2008**	2007
		$	$	**$**	$
ASSETS					
Current Assets					
Cash and cash equivalents	**13(b)**	**9,772,617**	7,718,498	**8,998,841**	5,248,426
Other current assets	**5**	**94,071**	120,725	**-**	22,654
Other receivables	**6**	**59,056**	183,385	**59,056**	26,536
Total Current Assets		**9,925,744**	8,022,608	**9,057,897**	5,297,616
Non-Current Assets					
Property, plant and equipment	**9**	**252,710**	358,899	-	-
Other financial assets	**7**	**-**	-	**878,697**	2,906,086
Total Non-Current Assets		**252,710**	358,899	**878,697**	2,906,086
Total Assets		**10,178,454**	8,381,507	**9,936,594**	8,203,702
LIABILITIES					
Current Liabilities					
Trade and other payables	**10**	**152,447**	189,242	**1,692**	79,954
Provisions	**11**	**91,105**	68,517	**-**	-
Total Current Liabilities		**243,552**	257,759	**1,692**	79,954
Total Liabilities		**243,552**	257,759	**1,692**	79,954
Net Assets		**9,934,902**	8,123,748	**9,934,902**	8,123,748
EQUITY					
Contributed equity	**12(a)**	**48,293,638**	37,074,128	**48,293,638**	37,074,128
Accumulated losses	**12(e)**	**(39,953,391)**	(30,215,208)	**(39,953,391)**	(30,215,208)
Reserves	**12(f)**	**1,594,655**	1,264,828	**1,594,655**	1,264,828
Total Equity		**9,934,902**	8,123,748	**9,934,902**	8,123,748

Statement of Recognised Income and Expense

For the year ended 30 June 2008

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
Net income recognised directly in equity	**-**	-	**-**	-
Loss for the year	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Total recognised income and expense for the year	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Attributable to: Equity holders of Sunshine Heart, Inc.	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)

Cash Flow Statement

For the year ended 30 June 2008

	Notes	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	SUNSHINE HEART, INC. 2008 $	SUNSHINE HEART, INC. 2007 $
Cash flows from operating activities					
Receipt of government grants		**143,045**	2,633,024	**-**	-
Payments to suppliers and employees		**(9,717,518)**	(13,157,861)	**(806,855)**	(705,854)
Interest received		**422,611**	527,345	**342,404**	486,139
Net cash flow used in operating activities	**13(a)**	**(9,151,862)**	(9,997,492)	**(464,451)**	(219,715)
Cash flows from investing activities					
Investment in subsidiary		-	-	**(7,000,000)**	(11,750,000)
Purchase of property, plant and equipment		**(8,885)**	(174,246)	**-**	-
Net cash flows used in investing activities		**(8,885)**	(174,246)	**(7,000,000)**	(11,750,000)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**11,445,542**	13,802,396	**11,445,542**	13,802,396
Proceeds from repayment of loan by subsidiary		**-**	-	**-**	307,735
Payment of share issue costs		**(226,032)**	(366,726)	**(226,032)**	(366,726)
Net cash flows from financing activities		**11,219,510**	13,435,670	**11,219,510**	13,743,405
Net increase in cash and cash equivalents		**2,058,763**	3,263,932	**3,755,059**	1,773,690
Net foreign exchange differences		**(4,644)**	(77,408)	**(4,644)**	(77,408)
Cash and cash equivalents at beginning of year		**7,718,498**	4,531,974	**5,248,426**	3,552,144
Cash and cash equivalents at end of year	**13(b)**	**9,772,617**	7,718,498	**8,998,841**	5,248,426

1. CORPORATE INFORMATION

The annual report of Sunshine Heart, Inc. ("Company" or "Sunshine Heart") for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 21 August 2008.

Sunshine Heart, Inc. ("Company" or "Sunshine Heart") is a company limited by shares incorporated in Delaware, United States of America. Its shares are publicly traded on the Australian stock exchange, ASX code: SHC.

The nature of the operations and principal activities of the Group are to design and develop a heart assist device.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Sunshine Heart is a foreign company registered under Part 5B.2 of the Corporations Act 2001. The financial report is a general purpose financial report and has been prepared to satisfy the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report is presented in Australian dollars and has been prepared on a historical cost basis.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Certain Australian Accounting Standards and UIG interpretations have been recently issued or amended but are not yet effective. These other standards have not been adopted by the Group for the year ended 30 June 2008. The Directors have yet to finalise their assessment of the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

Adoption of new accounting standard

The Group has adopted AASB 7 Financial Instruments; Disclosures and all consequential amendments. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the Company or Group.

(c) Going Concern

The Group's financial statements have been prepared and presented on a basis assuming it continues as a going concern.

During the years ended 30 June 2008 and 30 June 2007, the Group incurred an operating loss before tax and net cash outflows from operating activities as disclosed in the income statement and cash flow statement, respectively.

The Group's ability to continue as a going concern is dependent on the Group's ability to raise additional capital based on the achievement of its existing milestones as and when required. The directors, after due consideration, believe that the Group will be able to raise new equity capital as required to fund its business plan. Should the future capital raising not be successful, the Group may not be able to continue as a going concern. Furthermore, the ability of the Group to continue as a going concern is subject to the ability of the Group to develop and successfully commercialise the product being developed. If the Group is unable to obtain such funding of an amount and timing necessary to meet its future operational plans, or to successfully commercialise its intellectual property, the Group may be unable to continue as a going concern. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Sunshine Heart, Inc. and its subsidiary as at 30 June each year (the Group). The financial statements of the subsidiary are prepared for the same reporting period as the parent Company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group

(e) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The consolidated Group provides benefits to employees, consultants and directors in the form of share-based payment transactions, whereby employees render services in exchange for share options (‘equity-settled transactions’) under the 2002 Stock Plan (‘the Plan’). The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 15.

Impairment of investment in subsidiary

The Group assesses impairment of its investment in its subsidiary at each reporting date by evaluating conditions specific to the Group and to the subsidiary that may lead to impairment. This includes product performance, technology, economic and political environment and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. The assumptions used in determining the recoverable amount are discussed in Note 8.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Grant income

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs it intends to compensate. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where government payments are received in advance of expenditure, a present obligation exists to repay the government under the conditions of the grant. This is recognised as deferred income. Where government grants are received in arrears of expenditure, a future economic benefit exists with funds owed by the government under the conditions of the grant. This is recognised within other receivable, refer Note 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Interest income
Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(i) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Other receivables

Other receivables generally have 30-90 day terms and are recognised and carried at nominal contractual amounts less an allowance for any uncollectible amounts. The doubtful debts allowance is made when objective evidence suggests the Group will be unable to collect the debts and bad debts are written off when identified.

(k) Foreign currency translation

Both the functional and presentation currency of Sunshine Heart, Inc. and it Australian subsidiary is Australian dollars (A$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences in the consolidated report are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(l) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Deferred income tax liabilities are recognised for all taxable differences except when the taxable temporary difference is associated with an investment in a subsidiary and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the asset. The depreciation rates used for each class of asset are as follows (applicable for 2008/2007):

Office furniture and equipment - 10 - 15 years
Computer equipment - 3 - 4 years
Laboratory and research equipment - 3 - 15 years

Leasehold improvements are stated at cost less accumulated amortisation and any impairment in value. Amortisation is calculated on a straight line basis over the shorter of the estimated useful life of the asset or the lease term.

(i) Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

(ii) Derecognition and disposal
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

(o) Other financial assets

Investment in a controlled entity is carried at the lower of cost or recoverable amount and reviewed at each balance date to reflect the Company’s interest in the underlying net asset value of the controlled entity.

Impairment
The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The amount of the loss is recognised in the Income Statement

(p) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred. The amortisation period and method are reviewed annually, to ensure that they reflect the expected pattern of consumption of embodied, future economic benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets (continued)

(i) Research and development expenditure
The consolidated Group expenses all research expenditure as incurred including expenditure made on the C-Pulse and other related technologies. Development expenditure is carried forward when its future recoverability can be regarded as assured.

(ii) Patents and trademarks
All patent, licence and trademarks expenditure is expensed as incurred as the Group has not yet developed a commercial product.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

(q) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(s) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee leave benefits (continued)

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(t) Pensions and other post employment benefits

All Australian employees are entitled to varying levels of benefits on retirement, disability or death. The superannuation plans provide accumulated benefits. Employees contribute to the plans at various percentages of their wages and salaries. Contributions by the consolidated entity of up to 9% of employees' wages and salaries are legally enforceable in Australia.

(u) Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees (including Directors) in the form of share-based payments, whereby employees render services in exchange for options over shares (equity settled transactions) under Sunshine Heart's 2002 Stock Plan ("the Plan").

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model, details of which are given in Note 15. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Sunshine Heart (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Share-based payment transactions (continued)

Equity settled transactions (continued)

The dilutive effect, if any of options is reflected as additional share dilution in the computation of earnings per share.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

(w) Warrants

Warrants are classified as equity as the number of ordinary shares that will be issued upon their exercise is fixed. The fair value was determined using the Black-Scholes model.

(x) Earnings Per Share

Basic EPS is calculated as a net loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net loss attributable to members, adjusted for:

- Costs of servicing equity (other than dividends)
- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

At present the potential ordinary shares are anti-dilutive and have not been included in the dilutive earnings per share calculation.

For the year ended 30 June 2008

	Notes	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	SUNSHINE HEART, INC. 2008 $	SUNSHINE HEART, INC. 2007 $
3. REVENUES AND EXPENSES					
(a) Revenue and other Income					
Government grants		-	2,694,224	-	-
Finance revenue – bank interest		441,121	526,498	360,914	485,291
		441,121	3,220,722	360,914	485,291
(b) Write-down of investments in subsidiary		-	-	9,357,218	11,243,813
(c) Depreciation and amortisation					
Depreciation – plant and equipment		63,289	55,747	-	-
Amortisation – leasehold improvements		14,988	8,522	-	-
		78,277	64,269	-	-
(d) Operating lease rental					
Lease payments		177,259	155,817	-	3,588
(e) Employee benefits expense					
Share based payments	12(f)	329,827	319,760	-	-
Employee benefits		75,978	27,908	-	-
Superannuation		116,840	97,820	-	-
Salaries		1,637,097	1,925,594	-	-
		2,159,742	2,371,082	-	-
(f) Research and development expenses		5,834,795	10,295,675	-	-
(g) Foreign exchange differences					
Net foreign exchange (gain)/loss		(4,644)	(20,875)	(4,644)	(20,875)

For the year ended 30 June 2008

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
4. INCOME TAX				
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting loss before tax from continuing operations	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
At the Group statutory income tax rate of 39% (2007:39%)	**(3,797,891)**	(4,500,371)	**(3,797,891)**	(4,500,371)
Expenditure not allowed for income tax purposes				
– share based payments	**128,633**	124,706	**-**	-
– write-down of investment in subsidiary	**-**	-	**3,649,315**	4,385,088
Difference in overseas tax rates	**35,531**	974,837	**-**	-
Other	**303,967**	40,134	**(1,183)**	96,378
Current year tax losses not booked as a future tax benefit as realisation of benefit is not probable	**3,329,760**	3,360,694	**149,760**	18,905
Income tax benefit reported in the consolidated income statement	**-**	-	**-**	-
Income Tax Losses				
Future deferred tax asset arising from tax losses not recognised at reporting date as realisation of the benefit is not regarded as probable	**10,475,152**	7,601,576	**612,899**	650,188

The unrecognised deferred tax assets relating to deductible temporary differences at 30 June 2008 is $87,674 (2007:$46,558). The unrecognised deferred tax liabilities relating to assessable temporary differences at 30 June 2008 is nil (2007: nil). The aggregate temporary differences associated with the investment in Sunshine Heart Company Pty Limited are nil (2007: nil).

Consolidated franking account balance at 30 June 2008 nil (2007: nil)

5. OTHER CURRENT ASSETS				
Prepayments and deposits	**94,071**	120,725	**-**	22,654

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
6. OTHER RECEIVABLES (CURRENT)				
Other receivables	**26,256**	26,051	**26,256**	12,246
Finance revenue receivables–bank interest	**32,800**	14,290	**32,800**	14,290
Government grant (Note 16)	**-**	143,044	**-**	-
	59,056	183,385	**59,056**	26,536

Other receivables are non-interest bearing and generally on 30-90 day terms.
Financial revenue receivable relates to a 30 day term deposit.
No receivables are impaired.

7. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at cost comprise:				
Investment in controlled entity	-	-	**34,763,244**	27,763,244
Share based payments – options issued (i)	-	-	**1,594,655**	1,264,828
Less provision for write-down in investment	-	-	**(35,479,202)**	(26,121,986)
Total investments (Note 8)	-	-	**878,697**	2,906,086

(i) Share options issued to employees in Sunshine Heart Company Pty Limited. Refer to Note 12.

8. INTERESTS IN SUBSIDIARIES

Name	**Country of incorporation**	**Equity interest held by the consolidated entity**	**Investment**	
		2008/2007	**2008**	2007
		%	**$**	$
Sunshine Heart Company Pty Limited	Australia	**100**	**878,697**	2,906,086

During the year ended 30 June 2008, Sunshine Heart, Inc. subscribed for an additional 7,000,000 ordinary fully paid shares in Sunshine Heart Company Pty Limited. The cost of acquisition was $7,000,000. Furthermore, Sunshine Heart, Inc. made additional non-cash investments into its wholly owned subsidiary during the year in recognition of the share based payments expense (options remuneration) that was charged to the subsidiary’s income statement for $329,827 and accumulated amount for prior years for $1,264,828. The carrying value of this investment has been written down to its recoverable amount, as regulatory approval has not yet been obtained. The Directors have determined the recoverable amount to be the fair value by reference to the stage of development of the Company being the net asset position of the subsidiary at balance date.

For the year ended 30 June 2008

	Notes	CONSOLIDATED		SUNSHINE HEART, INC.	
		2008	2007	**2008**	2007
		$	$	**$**	$
9. PROPERTY, PLANT AND EQUIPMENT					
Leasehold improvements					
At cost		**77,241**	77,241	**-**	-
Accumulated amortisation		**(25,086)**	(10,098)	**-**	-
	9(a)	**52,155**	67,143	**-**	-
Office furniture and equipment					
At cost		**88,443**	87,942	**-**	-
Accumulated depreciation		**(15,849)**	(9,357)	**-**	-
	9(a)	**72,594**	78,585	**-**	-
Computer equipment					
At cost		**56,523**	126,450	**-**	-
Accumulated depreciation		**(17,713)**	(65,702)	**-**	-
	9(a)	**38,810**	60,748	**-**	-
Laboratory and research equipment					
At cost		**177,083**	288,757	**-**	-
Accumulated depreciation		**(87,932)**	(136,334)	**-**	-
	9(a)	**89,151**	152,423	**-**	-
Total property, plant and equipment					
Cost		**399,290**	580,390	**-**	-
Accumulated depreciation and amortisation		**(146,580)**	(221,491)	**-**	-
Total written down amount		**252,710**	358,899	**-**	-

9. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

	2008	2007
	$	$
Leasehold Improvements		
Carrying amount at beginning	**67,143**	32,100
Additions	**-**	43,565
Amortisation expense	**(14,988)**	(8,522)
Net Carrying Amount	**52,155**	67,143
Office furniture and equipment		
Carrying amount at beginning	**78,585**	55,762
Additions	**500**	28,395
Depreciation expense	**(6,491)**	(5,572)
Net Carrying Amount	**72,594**	78,585
Computer equipment		
Carrying amount at beginning	**60,748**	45,629
Additions	**8,385**	33,175
Depreciation expense	**(20,499)**	(18,056)
Disposals	**(9,824)**	-
Net Carrying Amount	**38,810**	60,748
Laboratory and research equipment		
Carrying amount at beginning	**152,423**	115,430
Additions	**-**	69,112
Depreciation expense	**(36,299)**	(32,119)
Disposals	**(26,973)**	-
Net Carrying Amount	**89,151**	152,423
Total Property, plant and equipment		
Carrying amount at beginning	**358,899**	248,921
Additions	**8,885**	174,247
Depreciation expense	**(78,277)**	(64,269)
Disposals	**(36,797)**	-
Net Carrying Amount	**252,710**	358,899

No property, plant and equipment is impaired.

For the year ended 30 June 2008

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
10. TRADE AND OTHER PAYABLES (CURRENT)				
Sundry creditors	**152,447**	189,242	**1,692**	79,954
	152,447	189,242	**1,692**	79,954

Sundry creditors are non-interest bearing and are normally settled on 30 day terms.

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
11. PROVISIONS (CURRENT)				
Annual leave	**84,705**	66,517	**-**	-
Long service leave	**6,400**	2,000	**-**	-
	91,105	68,517	**-**	-
Movement in annual leave provision				
Balance 1 July 2007	**66,517**	40,608	**-**	-
Arising during the year	**95,784**	85,041	**-**	-
Utilised	**(77,596)**	(59,132)	**-**	-
Balance at 30 June 2008	**84,705**	66,517	**-**	-
Movement in long service leave provision				
Balance 1 July 2007	**2,000**	-	**-**	-
Arising during the year	**4,400**	2,000	**-**	-
Balance at 30 June 2008	**6,400**	2,000	**-**	-

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
12. CONTRIBUTED EQUITY AND RESERVES				
(a) Issued and paid up capital				
Shares, fully paid	**46,914,438**	35,694,928	**46,914,438**	35,694,928
Warrants	**1,379,200**	1,379,200	**1,379,200**	1,379,200
	48,293,638	37,074,128	**48,293,638**	37,074,128

12. CONTRIBUTED EQUITY AND RESERVES (continued)

(b) Movement in shares on issue

	2008		2007	
	Number of shares	**$**	Number of shares	$
Shares, fully paid				
Beginning of the financial year	**173,930,969**	**35,694,928**	81,917,328	22,259,263
Issued on 15 November 2006 for cash as first tranche of placement	**-**	**-**	92,013,641	13,802,391
Issued on 1 October 2007 for cash as second tranche of placement	**20,000,000**	**3,000,000**	-	-
Issued on 15 November 2007 for cash as second tranche of placement	**20,000,000**	**3,000,000**	-	-
Issued on 16 and 19 June 2008 for cash – rights issue	**77,793,460**	**5,445,542**	-	-
Transaction costs on share issue	**-**	**(226,032)**	-	(366,726)
End of the financial year	**291,724,429**	**46,914,438**	173,930,969	35,694,928
	Number of warrants	$		
Warrants				
Beginning of the financial year	**800**	**1,379,200**	800	1,379,200
Issued during the year	-	**-**	-	-
End of the financial year	**800**	**1,379,200**	800	1,379,200

(c) Share Options

Employee Options

During the financial year Sunshine Heart, Inc. issued 691,000 options over ordinary shares with an issue term of 10 years. The options had an average exercise price of $0.30 and average vesting period of three years. During the year 7,605,858 options were cancelled or forfeited including 6,446,000 options where performance milestones were not achieved

At the end of the year there were 19,895,344 (2007: 26,810,202) unissued ordinary shares in respect of which employee options were outstanding as remuneration to directors, consultants and employees of the Company (refer Note 15).

Placement Options

During the financial year Sunshine Heart, Inc. issued 16,000,000 options over ordinary shares with an issue term of 3 years as part of tranche 2 of the capital raising. These options were issued on 1 October 2007 (10,000,000) and 15 November 2007 (6,000,000) and had an exercise price of $0.20.

At the end of the year there were 43,604,079 (2007: 27,604,079) unissued ordinary shares in respect of which placement options were outstanding.

12. CONTRIBUTED EQUITY AND RESERVES (continued)

(d) Terms and conditions of contributed equity

Ordinary shares

Holders of shares have the right to receive dividends as and when declared and, in the event of a winding up of the Company, to participate in proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Warrants

Warrants to purchase ordinary shares were issued in connection with an $800,000 29 June 2004 convertible promissory notes issued as a bridging loan prior to the Initial Public Offer. These warrants were issued to related party entities affiliated with directors Dr Geoff Brooke, Crispin Marsh and Dr William Peters and to one unrelated party. The Warrants entitle the holders to subscribe for a total of 3,200,000 shares at $0.25. The warrants have an exercise period of ten years and expire on 20 June 2014. No warrants were exercised during the year.

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008 $	2007 $	**2008 $**	2007 $
(e) Accumulated Losses				
Movement in accumulated losses were as follows:				
Balance 1 July	**(30,215,208)**	(18,675,795)	**(30,215,208)**	(18,675,795)
Net loss attributable to members of Sunshine Heart, Inc.	**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Balance 30 June	**(39,953,391)**	(30,215,208)	**(39,953,391)**	(30,215,208)

(f) Reserves

Movement in reserves were as follows:

Reserves	CONSOLIDATED		SUNSHINE HEART, INC.	
	Employee equity benefits reserve	*Total*	*Employee equity benefits reserve*	*Total*
At 1 July 2006	945,068	945,068	945,068	945,068
Share-based payments	319,760	319,760	319,760	319,760
At 30 June 2007	1,264,828	1,264,828	1,264,828	1,264,828
Share-based payments	329,827	329,827	329,827	329,827
At 30 June 2008	1,594,655	1,594,655	1,594,655	1,594,655

(g) Dividends

No dividends were paid or recommended to be paid during the year (2007: Nil).

	Notes	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	SUNSHINE HEART, INC. 2008 $	SUNSHINE HEART, INC. 2007 $
13. CASH AND CASH EQUIVALENTS					
(a) Reconciliation of the net loss after tax to the net cash flows from operations					
Net loss		**(9,738,183)**	(11,539,413)	**(9,738,183)**	(11,539,413)
Non-Cash Items					
Write down of investments in subsidiaries	3(b)	**-**	-	**9,357,218**	11,243,813
Depreciation and amortisation of non-current assets	3(c)	**78,277**	64,269	**-**	-
Loss on disposal of non-current assets		**36,796**	-	**-**	-
Share based payments expense		**329,827**	319,760	**-**	-
Unrealised net foreign exchange differences		**4,644**	77,408	**4,644**	77,408
Changes in assets and liabilities					
(Increase)/decrease in prepayments and other receivables		**150,984**	1,316,682	**(9,867)**	13,873
(Decrease)/increase in trade and other payables		**(36,795)**	(264,106)	**(78,263)**	(15,396)
Increase in provisions		**22,588**	27,908	**-**	-
Net cash outflow from operating activities		**(9,151,862)**	(9,997,492)	**(464,451)**	(219,715)
(b) Reconciliation of cash					
Cash balance comprises:					
– cash at bank		**2,320,313**	2,878,884	**1,446,537**	408,812
– term deposits		**7,452,304**	4,839,614	**7,452,304**	4,839,614
Closing cash balance		**9,772,617**	7,718,498	**8,898,841**	5,248,426
(c) Non-cash financing and investing activities					
Share based payments		329,827	319,760	-	**-**

(d) Terms and conditions

For the purposes of the cash flow statement, cash comprises short term deposits with an original maturity of three months or less and cash at bank.

For the year ended 30 June 2008

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	2007	**2008**	2007
	$	$	**$**	$
14. COMMITMENTS				
(a) Lease expenditure commitments – Group as lessee				
(i) Operating leases (non-cancellable):				
Minimum lease payments				
– not later than one year	**176,850**	105,165	**-**	-
– later than one year and not later than five years	**136,379**	-	**-**	-
– Aggregate lease expenditure contracted for at reporting date	**313,229**	105,165	**-**	-

Operating lease expenditure commitments include two property leases. The St Leonards property lease expires on 31 March 2010. The Orange County, California property lease expires on 2 April 2010. Both property leases are expected to be renewed on similar terms at expiration.

(b) Other expenditure commitments

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

– not later than one year	**387,916**	81,897	-	-
– later than one year and not later than five years	**-**	-	-	-
– Aggregate other expenditure contracted for at reporting date	**387,916**	81,897	-	-

15. SHARE BASED PAYMENTS PLAN

Employee Share Incentive Scheme

The 2002 Stock Plan ("the Plan") has been established, pursuant to which Sunshine Heart may, at the discretion of the Board or a committee appointed by the Board to administer the Plan, grant options to purchase Shares of Sunshine Heart to directors, employees, advisors and consultants ("employees") of the consolidated entity.

The options are issued for a term stated in the option agreement, not exceeding ten years from the date of the grant. The options are not quoted on the ASX.

At 30 June 2008 there were 11 retained Key Management Personnel and 7 staff members eligible for the Plan. Any vesting requirements are set out in the option agreements and are determined at the discretion of the Board or a Board-appointed administration committee.

Information with respect to the number of options granted under the Plan is as follows. It is noted that where the exercise price is dominated in US dollars, it has been translated to Australian dollars using the exchange rate applicable on 30 June 2008, being $0.9615. All options issued and outstanding under the Plan do not carry dividend and/or voting rights.

	2008		2007	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance at beginning of year	**26,810,202**	**0.26**	**11,817,418**	**0.25**
- granted	**691,000**	**0.30**	**15,398,784**	**0.27**
- cancelled	**(1,104,858)**	**0.39**	**(406,000)**	**0.39**
- forfeited	**(6,501,000)**	**0.28**	**-**	**-**
Balance at end of year	**19,895,344**	**0.24**	**26,810,202**	**0.26**

For the year ended 30 June 2008

15. SHARE BASED PAYMENTS PLAN (continued)

Employee Share Incentive Scheme (continued)

Options held as at the end of the reporting period:

The following table summarises information about options held by the employees as at 30 June 2008. The options granted do not provide dividend and or voting rights. No consideration was paid to the entity from employees on granting of the options.

Number of options	Grant date	Vesting commencement date	Expiry date	Weighted average exercise price
2,033,238	19 Dec 02 to 13 Oct 03	19 Dec 02 to 1 Nov 03	18 Dec 12 to 12 Oct 13	0.01
1,783,282	31 Jan 03	31 Jan 03	30 Jan 13	0.07
38,800	29 Apr 03	31 Jan 03	28 Apr 13	0.12
795,400	19 May 04	30 Mar 04	18 May 14	0.08
3,691,490	23 Jun 04	28 Sep 04	23 Jun 14	0.28
485,000	20 Jul 04	28 Sep 04	20 Jul 14	0.50
19,400	31 May 05	31 May 05	30 May 10	0.60
179,000	21 Jun 05	10 Jan 05 to 21 Jun 05	20 June 10	0.48
909,000	9 Feb 06	7 Nov 05 to 3 Jan 06	8 Feb 16	0.35
330,417	21 Apr 06	31 Mar 06	20 Apr 16	0.37
58,200	2 Jun 06	1 Jun 06	1 Jun 16	0.25
1,338,784	1 Nov 06	1 Nov 06	31 Oct 16	0.20
2,016,333	31 Jan 07	31 Jan 07	30 Jan 07	0.29
1,690,000	16 Apr 07	30 Jun 07	15 Apr 17	0.30
3,786,000	18 Apr 07	30 Jun 07	17 Apr 17	0.30
50,000	24 May 07	24 May 07	23 May 17	0.20
400,000	10 Oct 07	10 Oct 08	9 Oct 17	0.30
291,000	18 Dec 07	18 Dec 08	18 Dec 17	0.30

Options granted as part of employee remuneration have been valued using the Black-Scholes option pricing methodology, to provide the fair value of the options. This methodology takes into account factors such as the share price at grant date, the exercise price, the term of the option, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. With regards to the performance conditions, options to individuals are assumed to vest, and therefore it is not appropriate to reduce fair value estimates of options that may not vest.

Fair value of options

The fair value of each option is estimated on the grant date using a Black-Scholes option pricing model with the following weighted average assumptions used:

	2008	2007
Dividend yield (%)	0%	0%
Risk-free Interest rate (%)	6.33%	6.10%
Expected volatility (%)	45%	45%
Expected life of option (years)	5 years	5 years
Weighted average exercise price	$0.26	$0.26

Historical data is used as the main component to determine expected volatility.

15. SHARE BASED PAYMENTS PLAN (continued)

Employee Share Incentive Scheme (continued)

Fair value of options (continued)

The amount of options remuneration is determined on a pro-rata basis, by amortising the fair value estimate of each option, over the vesting period of the individual option grant. The fair value of options granted as compensation is recognised as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity.

Weighted average fair value

The weighted average fair value of options granted during the year was $0.09 (2007: $0.09)

Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is 7.18 years (2007: 8.16 years).

16. CONTINGENT LIABILITIES

Commercial Ready Grant

On 21 October 2005, Sunshine Heart Company Pty Limited (SHCP) received a Commercial Ready Grant from the Australian Government through AusIndustry. The grant contributed fifty cents for each dollar spent on eligible project spends, to a maximum funding of $2.23 million.

On 13 June 2006, SHCP received a further Commercial Ready Grant from the Australian Government through AusIndustry. The grant contributes fifty cents for each dollar spent on eligible project spends, to a maximum funding of $2.16 million.

Under the terms of both agreements, the government may require SHCP to repay all or some of the amount, including interest, in any of the following circumstances:

(a) SHCP fails to use its best endeavours to commercialise the relevant grant project within a reasonable time of completion of the project; or
(b) Upon termination of a grant due to breach or insolvency; or
(c) At any time for up to five years, a change in control occurs whereby either Sunshine Heart, Inc.'s ownership of the subsidiary (grant recipient) falls below fifty percent or Australian ownership of Sunshine Heart, Inc falls below fifty per cent.

SHCP continues the development and commercialisation of all projects funded by the Commercial Ready program. The total amount received under the Commercial Ready Programs as at 30 June 2008 was $4.07 million.

17. SUBSEQUENT EVENTS

There were no material events occurring after balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

	2008 $	2007 $
18. EARNINGS PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
Net loss	**(9,738,183)**	**(11,539,412)**
Weighted average number of ordinary shares used in calculating basic and dilutive earnings per share (Note that, had the dilutive shares been factored, this would have reduced the net loss per share):	**204,203,178**	139,142,250

The following type and number of shares are not included in the weighted average number of ordinary shares noted above as they are anti-dilutive in nature:

- Warrants 3,200,000 - Options 60,499,423

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008 $	2007 $	2008 $	2007 $
19. AUDITORS' REMUNERATION				
Amounts received or due and receivable by Ernst & Young Australia for:				
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	**111,662**	128,780	**111,662**	128,780
– an audit or review of the financial report of the entity and any other entity in the consolidated entity that relates to prior year	**-**	34,880	**-**	34,880
– other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance services	**8,383**	23,372	**-**	14,022
- Advisory services	**17,140**	2,500	**-**	-
	137,185	189,532	**111,662**	177,682

20. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Mr Malcolm McComas	Chairman (non-executive)
Dr Geoff Brooke	Director (non-executive)
Dr Richard Lin	Director (non-executive) (resigned 15 November 2007)
Mr Crispin Marsh	Director (non-executive)
Mr Donal O'Dwyer	Director (non-executive)
Dr William Peters	Medical Director and Chief Technology Officer
Mr John Brennan	Director (non-executive)
Mr Donald Rohrbaugh	Chief Executive Officer
Dr Conrad Wang	Director (non-executive) (appointed 15 November 2007, resigned 10 July 2008)
Mr Nicholas Callinan	Director (non-executive) (appointed 10 July 2008)

(ii) Executives

Mr Victor Windeyer	Chief Operating Officer
Mr Brian Bolton	Chief Financial Officer and Company Secretary
Mr Gary Frugard	VP of Regulatory and Quality Affairs to 26 March 2008
Ms Mary Beth Kepler	Director of Regulatory and Quality Affairs from 26 March 2008

20. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008	**2007**	**2008**	**2007**
	$	$	**$**	$
Short-Term	1,566,820	1,450,617	175,000	200,719
Post Employment	39,996	24,467	-	-
Share-based Payment	301,815	256,266	5,688	12,143
Long-Term	-	-	-	-
	1,908,631	1,731,350	180,688	212,862

Sunshine Heart, Inc. has applied the option under Corporations Amendments Regulation 2007 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. These transferred disclosures have been audited.

(c) Option holdings of Key Management Personnel

June 2008	Balance at beginning of period 1 July 2007	Granted under Capital Raising	Options Forfeited *	Balance at end of Period 30 June 2008	Vested at 30 June 2008 Not Exercisable	Vested and Exercisable
Directors						
M McComas	388,000	-	-	388,000	-	388,000
G Brooke (1)	8,497,000	7,466,667	-	15,963,667	-	15,963,667
R Lin/C Wang (2)	2,116,400	-	-	2,116,400	2,000,000	116,400
C Marsh	2,106,665	-	-	2,106,665	1,156,349	950,316
D O'Dwyer	97,000	-	-	97,000	-	97,000
W Peters	4,013,881	-	(1,344,000)	2,669,881	690,833	1,979,048
J Brennan (3)	9,600,000	8,533,333	-	18,133,333	-	18,133,333
D Rohrbaugh	9,574,923	-	(1,920,000)	7,654,923	2,197,408	5,457,515
Executives						
V Windeyer	2,840,000	-	(960,000)	1,880,000	937,500	942,500
B Bolton	1,800,000	-	(110,000)	1,690,000	1,080,208	609,792
G Frugard	1,141,490	-	(340,800)	800,690	180,625	620,065
M Kepler	550,000	-	(264,000)	286,000	166,146	119,854
Total	42,725,359	16,000,000	(4,938,800)	53,786,559	8,409,069	45,377,490

* Options forfeited due to milestones not being achieved.

No options were exercised during the year.

For the year ended 30 June 2008

20. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Option holdings of Key Management Personnel (continued)

June 2007	Balance at beginning of period 1 July 2006	Granted as Remuneration *	Granted as Placement Options	Balance at end of Period 30 June 2007	Vested at 30 June 2007 Not Exercisable	Vested and Exercisable
Directors						
M McComas	388,000	-	-	388,000	-	388,000
G Brooke (1)	97,000	-	8,400,000	8,497,000	8,400,000	97,000
R Lin (2)	116,400	-	2,000,000	2,116,400	2,000,000	116,400
C Marsh	797,881	308,784	1,000,000	2,106,665	1,258,784	847,881
D O'Dwyer	97,000	-	-	97,000	-	97,000
W Peters	1,573,881	2,440,000	-	4,013,881	2,749,801	1,264,080
J Brennan (3)	-	-	9,600,000	9,600,000	9,600,000	-
D Rohrbaugh	3,934,923	5,640,000	-	9,574,923	7,001,389	2,573,534
Executives						
V Windeyer	800,000	2,040,000	-	2,840,000	2,493,333	346,667
B Bolton	-	1,800,000	-	1,800,000	1,789,000	11,000
A Blunden	350,000	-	-	350,000	35,417	314,583
G Frugard	506,490	635,000	-	1,141,490	819,067	322,423
Total	8,661,575	12,863,784	21,000,000	42,525,359	36,146,791	6,378,568

(1) Options issued to GBS Venture Partners Limited in its capacity as manager and trustee of the GBS Bioventures II and III Trusts. Dr G Brooke has an indirect interest as a member and the Managing Director of GBS Venture Partners Limited.
(2) Options issued to Three Arch Management III L.P. Dr C Wang is an associate and Dr R Lin a member.
(3) Options issued to CM Capital Investments in its capacity as trustee of CM Capital Venture Trust 4A and CM Capital Venture Trust 4B. Mr J Brennan has an indirect interest as a member and Partner of CM Capital Investments.

20. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Ordinary Shareholdings of Key Management Personnel in Sunshine Heart, Inc.

	Balance 1 July 2006	Purchased 1 July 2006 – 30 June 2007	Balance 30 June 2007	Purchased/ (Sold) 1 July 2007 – 30 June 2008	Balance 30 June 2008
Directors					
M McComas	100,000	-	100,000	36,364	136,364
G Brooke (1)	13,184,835	28,000,000	41,184,835	50,963,074	92,147,909
C Wang/R Lin (2)	9,205,801	6,666,667	15,872,468	-	15,872,468
C Marsh	3,930,235	3,333,333	7,263,568	735,714	7,999,282
D O'Dwyer	305,000	320,000	625,000	-	625,000
W Peters	7,001,161	-	7,001,161	500,000	7,501,161
J Brennan (3)	-	32,000,000	32,000,000	50,112,479	82,112,479
Executives					
B Bolton	-	-	-	290,608	290,608
V Windeyer	28,825	-	28,825	71,429	100,254
Total	**33,755,857**	**70,320,000**	**104,075,857**	**102,709,668**	**206,785,525**

(1) Shares are held by GBS Venture Partners Limited in its capacity as manager and trustee of the GBS Bioventures II and III Trusts. Dr G Brooke has an indirect interest as a member and the Managing Director of GBS Venture Partners Limited.
(2) 809,816 shares are held by Three Arch Associates III LP and 15,052,652 shares held by Three Arch Partners III LP. Dr C Wang is an associate (2007: Dr R Lin a member) of the general partner of each entity, Three Arch Management III, LLC.
(3) 32,000,000 shares are held by CM Capital Investments. Mr J Brennan has an indirect interest as a member and Partner of CM Capital Investments

(e) Other transactions and balances with Key Management Personnel

During the year ended 30 June 2008, Sunshine Heart Company Pty Limited paid $27,125 (2007: $13,219) to SCP Technology and Growth Pty Limited, a company controlled by C Marsh, for the provision of intellectual property and patent services. As at 30 June 2008, there were no monies outstanding with Key Management Personnel (2007: $nil).

21. RELATED PARTY DISCLOSURES

(a) Ultimate parent

Sunshine Heart, Inc. (incorporated in Delaware, USA) is the ultimate parent entity.

The following related party transactions occurred with the wholly-owned group during the financial year:

During the year ended 30 June 2008, Sunshine Heart, Inc. subscribed for an additional 7,000,000 ordinary fully paid shares in Sunshine Heart Company Pty Limited. The cost of acquisition was $7,000,000. Furthermore, Sunshine Heart, Inc. made additional non-cash investments into its wholly owned subsidiary during the year in recognition of the share based payments expense (options remuneration) of $329,827 (2007: $319,760), refer Note 12.

All transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

21. RELATED PARTY DISCLOSURES (continued)

(b) Other related parties
During the year ended 30 June 2008 Sunshine Heart, Inc. paid GBS Venture Partners and CM Capital Investments underwriting fees of $86,387 and $76,978 respectively, being equal to 3% of the sum of monies underwritten by each party as part of the rights issue completed on 19 June 2008.

22. SEGMENT INFORMATION

(a) Segment products and locations
The consolidated entity operates in one industry segment, which is the research and development of heart assist devices, and in two geographical segments, which are Australia and the United States.

(b) Segment accounting policies
Segment accounting policies are the same as the consolidated entity policies described in note 2. During the year there have been no changes in segment accounting policies that had a material effect on the segment information.

(c) Geographic Segments

2008	**Australia $A**	**United States $A**	**Unallocated $A**	**Elimination $A**	**Consolidation $A**
Segment Revenue	-	-	441,121	-	441,121
Segment Results	(9,738,183)	(10,186,254)	441,121	9,357,218	(10,126,099)
Other segment information:					
Depreciation	63,289	-	-	-	63,289
Amortisation	14,988	-	-	-	14,988
Investments write-down	-	9,357,218	-	(9,357,218)	-
Segment assets	10,120,593	515,842	32,800	(490,781)	10,178,454
Segment liabilities	629,770	1,703	-	-	631,473
Acquisition of plant and quipment	8,885	-	-	-	8,885
Net Cash flow information:					
Used in operating activities	(7,358,369)	(2,216,099)	422,611	-	(9,151,857)
Used in investing activities	(8,885)	-	-	-	(8,885)
From financing activities	11,219,505	-	-	-	11,219,505

All non current assets are located in Australia.

22. SEGMENT INFORMATION (continued)

(c) Geographic Segments (continued)

2007	Australia $A	United States $A	Unallocated $A	Elimination $A	Consolidation $A
Segment Revenue	2,694,224	-	526,498	-	3,220,722
Segment Results	(11,368,894)	(11,940,830)	526,498	11,243,813	(11,539,413)
Other segment information:					
Depreciation	55,747	-	-	-	55,747
Amortisation	8,522	-	-	-	8,522
Investments write-down	-	11,243,813	-	(11,243,813)	-
Segment assets	8,362,200	2,953,651	14,290	(2,948,634)	8,381,507
Segment liabilities	177,805	79,954	-	-	257,759
Acquisition of plant and uipment	174,246	-	-	-	174,246
Net Cash flow information:					
Used in operating activities	(9,827,820)	(697,017)	527,345	-	(9,997,492)
Used in investing activities	(174,246)	-	-	-	(174,246)
From financing activities	13,435,670	-	-	-	13,435,670

23. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Board determines and regularly reviews the Groups's financial instrument policy and performance. The Group's principal financial instruments comprise cash and short-term bank deposits. The Group does not utilise derivatives, holds no debt and does not trade in financial instruments. The Group has other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The main risks arising from the Groups financial instruments are foreign currency risk and liquidity risk. The Board policies for managing these risks are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

Interest rate risk
The Group is only exposed to interest rate risk in the area of cash at bank as it has no borrowings.

Credit risk management

Credit risk arises from the cash and cash equivalents of the Group. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The consolidated entity measures credit risk on a fair value basis.

23. FINANCIAL INSTRUMENTS (continued)

(b) Risk exposures and responses

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

At balance date, the Group has the following financial assets (no financial liabilities at 30 June 2008 or 30 June 2007) exposed to Australian variable interest rate not designated in cash flow hedges:

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008 **$**	2007 $	**2008** **$**	2007 $
Financial Assets				
Cash and cash equivalents	**9,772,617**	7,718,498	**8,998,841**	5,248,426
	9,772,617	7,718,498	**8,998,841**	5,248,426

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. At 30 June 2008, if interest rates moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2008 **$**	2007 $	**2008** **$**	2007 $
Consolidated				
+1% (100 basis points)	**97,726**	77,184	**97,726**	77,184
-0.5% (50 basis points)	**(48,863)**	(38,592)	**(48,863)**	(38,592)
Parent				
+1% (100 basis points)	**89,988**	52,484	**89,988**	52,484
-0.5% (50 basis points)	**(44,994)**	(26,242)	**(44,994)**	(25,242)

The movements in profit are due to the higher/lower interest income from variable rate term deposits and cash balances. There is no equity movement as there are no financial assets or financial liabilities which are designated as cash flow hedges.

Foreign Currency Risk
The Group is exposed to a small amount of foreign currency risk as a result of holding a US bank account and paying some expenses in US dollars. The Group did not seek to hedge this exposure in the current or prior year, primarily due to the uncertainty of the magnitude and timing of foreign denominated expenses being incurred. Where the Group can reasonably forecast likely future US Dollar denominated expenses being incurred in advance, it may consider holding a similar magnitude of funds in the US dollar bank account for ease of administration. The Board reviews the ongoing appropriateness of the Group's policy on managing foreign currency risk based on the level of foreign operations.

23. FINANCIAL INSTRUMENTS (continued)

(b) Risk exposures and responses (continued)
At 30 June 2008, the group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	CONSOLIDATED		SUNSHINE HEART, INC.	
	2008 $	2007 $	**2008 $**	2007 $
Financial Assets				
Cash and cash equivalents	**25,062**	47,565	**25,062**	47,565
Financial Liabilities				
Sundry creditors	**472,790**	1,127	**472,790**	1,127

Net exposure
The following sensitivity is balance on the foreign currency risk exposures in existence at the balance sheet date. At 30 June 2008, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2008 $	2007 $	**2008 $**	2007 $
Consolidated & Parent				
AUS/USD +10%	**42,630**	4,869	**42,630**	4,869
AUS/USD -5%	**(24,898)**	(2,435)	**(24,893)**	(2,435)

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Liquidity risk exposure
The Group's objective is to maintain a balance between continuity of funding for meeting its operating costs and maximising financing revenue through at call bank deposits in line with budget requirements. The Group's policy is to minimise its forward commitments in achieving this objective.

All liquid assets are less than 60 days represented by cash and cash equivalents, other current assets and other receivables.

All liquid liabilities contractual maturities are less than 60 days represented by trade and other payables. The contractual maturity amounts are the current carrying value.

The group monitors its liquidity by reviewing a 12 month rolling forecast in conjunction with its overall strategy.

Fair value of financial instruments
The fair value of assets and liabilities approximates the carrying amount.

Capital Management
When managing capital, the Board's objective is to ensure the Company continues as a going concern and to optimise the returns to shareholders and benefits to other stakeholders. The Company is in early stage development and its primary source of funding is via the equity market. The Company continually reviews market trends and the impact that this may have on the capital markets and the ability to raise capital when managing its risk cashflow. During the year the Company raised $11.4 million and further details are contained in Note 12(b). The directors will continue to raise capital as and when needed to meet its ongoing capital commitments.