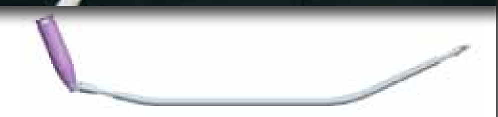
from WHAT IF to WHAT'S NEXT

SUNSHINE HEART

2011 ANNUAL REPORT



CONTENTS

Dear Shareholder,

I am very pleased to report to you that over this past year Sunshine Heart has continued to build on its achievements of last year and that momentum is building in the market and within the Company on all fronts.

To start with the clinical progress: With the implantation of our 20th North American patient in our FDA feasibility trial, we achieved a major milestone. We are now gathering the required follow-up data and our next step on the path to commercialization will be to submit it to the FDA in support of an application for approval to conduct the larger "pivotal trial" which is designed to confirm the safety and efficacy of our C-Pulse® device and the basis on which it can be marketed. We are very encouraged by the results from the feasibility trial.

At the completion of that trial, we approached the FDA for permission to continue implants pending application for the pivotal trial. We were promptly granted approval for up to another 20 patients and to appoint two new clinics for implants. We interpret the FDA response as very encouraging. We have continued with implants and are working with new sites, preparing for the pivotal trial.

The other major clinical development is the progress we have made in working with surgeons to facilitate minimally invasive techniques for the implants. Cardiologists and patients alike are responding very enthusiastically to being able to have the C-Pulse implanted without having to fully open up the chest. This is proving to be a significant factor in our product's acceptance and a real boost to perceptions of the treatment.

In our R&D, we are continuing to work on making the treatment as patient-friendly as possible with progress on the way the product is designed, on possibilities of combining it with CRT ("pacemaker") therapies, and, importantly, on making it fully implantable. There is more information on our technology elsewhere in this report.

During the 2011 fiscal year, we have been successful in broadening our base of financial support, welcoming new North American investors to the Company. We raised AU$ 13.3 million at the end of 2010 and, more recently, we have placed AU$ 7.4 million, mainly with North American institutions. It is essential that we continue to build this broader investor support as we approach the pivotal trial in 2012.

Part of our agreement with our new investors is that, as well as being listed on the ASX, we seek to list the Company's shares on the NASDAQ. The Extraordinary General Meeting held in August, approved a number of changes to our structure to prepare us for this. As reported after that meeting, a significant majority of shareholders supported those changes.

Reflecting the importance of these moves, we are very pleased to have welcomed to the Board of the Company three outstanding individuals with a depth of senior operating experience in the industry in the USA and internationally: Paul Buckman, Greg Waller and Mark Harvey. There are short summaries of their qualifications in this report and further information about them on our website. The Company and the management of Sunshine Heart will benefit greatly from the advice and judgment of these highly qualified professionals.

In more operational areas, as Dave Rosa details, we are adding significant new strength and talent to our management team as we "industrialize" all our processes – manufacturing, purchasing, quality control, logistics, clinical and regulatory support, R&D and engineering. It is fair to say that, since Dave's appointment less than two years ago, the Company has been materially transformed. We are now preparing for the challenges of 2012 and beyond.

While most of our activity next year will be focused on the pivotal trial in North America, we also expect to start addressing international markets. We are applying for CE Mark registration using the data from the FDA feasibility trial. As soon as we have this approval, we will be accelerating our program in key target markets. These markets are structured quite differently than in the United States and need different approaches. We will be updating you on our progress.

I would summarize the past year as one of very satisfactory development by Sunshine Heart across all activities. The Board is very optimistic about the coming year, one in which our focus will be more on execution than on development, the focus of previous years. We now have a device that we believe works well and improves the quality of life of Class III heart failure patients – a very large market for which there are few therapies available. Doctors and patients are now seeing the results from our device and they are becoming more accepting of the treatment, particularly because of the attractive features of the C-Pulse – its flexibility allowing patients to disconnect from it for periods, not having to take medication for clotting, and so on. I very much look forward to bringing you news of our progress during the coming year.

In concluding this letter, I want to pay tribute to one of our original directors, Crispin Marsh, who has recently announced his retirement from the board. Crispin was a co-founder of the Company along with Dr. Will Peters back in late 1999. A patent attorney by profession, Crispin has been an active entrepreneur over many years. His contribution to Sunshine Heart has extended way beyond matters concerned with the important intellectual property that he managed and to which he contributed as part of the early R&D team. Crispin was the first chairman of the Company and, for a number of years, part of the executive management team developing the business operations and playing a major role in the early financings of the Company, including in its IPO on the ASX in 2004. The Board and the Company thank Crispin very much for his major contribution to Sunshine Heart and we wish him well in his retirement.

I thank all our shareholders for their patience and support over the past year. I look forward to bringing you news of our further progress in coming months and I hope to see you at our Annual General Meeting in Sydney on November 23rd.

Sincerely,

Nicholas B Callinan
Chairman
29 September 2011

Dear Shareholder,

Last year I commented that 2011 would be a transitional year for Sunshine Heart, and indeed it has been. We have been transforming the Company from its design and development stage to up-grading its clinical and commercialization execution capabilities in preparation for what we have ahead of us. I am pleased to report we have made tremendous progress during the year, achieving our milestones with a small, dedicated and talented staff.

The major focus we set for the year was the completion of the 20-patient feasibility trial enrollment. This has been done and we are now collecting the data to report to the FDA. Not only is finishing this a significant milestone but also the process of implementing it has driven the up-grading of our operations that I referred to previously. Importantly, too, the trial has given us valuable insights into how the C-Pulse is perceived by doctors and patients and led us to make improvements in some elements of its design. These are being incorporated into the version of the product that will be used in the pivotal trial starting in 2012.

One of the most exciting developments to come out of the feasibility trial has been the use of a minimally invasive surgical procedure for implanting the C-Pulse. It is hard to overstate the importance of this. As the technique has been used in more cases, it has been having a very positive effect on cardiologists, surgeons and patients in their acceptance of the treatment. The doctors, in particular, have emphasized to us the impact this has on their approach to the C-Pulse. We have been and will continue developing our product and tools to enhance this feature.

At the end of the financial year and in the months since, we have been collecting and preparing the data on our feasibility trial that we will shortly submit to the FDA. This submission and approval is necessary to conduct the pivotal trial, which is the next and most important stage of our being able to market C-Pulse in the USA. We will use this same data in the CE Mark application we expect to lodge in coming weeks.

At the same time as we have been busy in these operational areas, we have also been broadening our shareholder base, as the Chairman has outlined, and preparing for the dual listing of our shares on NASDAQ.

As a consequence of our planned listing on NASDAQ, we will be changing our reporting year from June 30 to the calendar year. Around the end of the first quarter in 2012, you will receive the first report in the new format for the calendar year 2011. That report will overlap this one so you will be able to track the changes. Preparing for this change, I have summarized below the main achievements for the present year under review, added comments on what has been happening in the months since then, and outlined what we are planning for calendar 2012.

Key Achievements

Clinical and Regulatory

- Completed FDA feasibility trial; on track to submit data in Q4 2011.
- Received FDA approval to continue implants and add clinical sites.
- Advanced negotiations with the FDA regarding the pivotal trial protocol.
- Negotiated path for CE Mark application using FDA trial data; on track to submit application in Q4 2011.

Research and Product Development

- Initiated five product enhancement development programs; all are on track for completion in Q4 2011. Improvements will be incorporated in product for 2012.
- Developed smaller, lighter, quieter, single unit second-generation driver to replace original dual unit system; to be completed in Q4 2011 release for the pivotal trial in 2012.
- Continued investigation of Sync-Pulse, a combined therapy working with CRT devices.
- Completed feasibility test of a fully implantable wireless system, a year ahead of schedule.

Corporate and Operational Developments

- People: Added key employees in finance, operations, research and development, and regulatory affairs significantly strengthening our capabilities in these critical areas.
- Suppliers: We have added vendors of key components and upgraded suppliers.
- Strengthened board of directors, adding three new members.
- Welcomed new institutional shareholders through stock placements.
- Completed the re-launch of the Sunshine Heart brand and website.

We have either met or are on track to meet all the commitments we outlined for this past year. I assure you this has been no small feat. I am very proud of the Company's accomplishments to date, and commit to you that we will continue to work diligently building value for all shareholders.

Outlook for 2012

Here are the key initiatives for the coming year.

- FDA: Our highest priority is to drive the negotiations for the pivotal trial to a successful conclusion and to begin implants as soon as we have received approval. While we cannot preempt the FDA's actions, we anticipate the trial starting in the first part of 2012.
- CE Mark: Our expectations are to receive CE Mark approval and to develop plans to start marketing the C-Pulse outside the USA in the coming year. We will continue the investigation of the European market that was started this year and look at proposals to gather additional clinical and efficacy data in Europe. We will investigate channels to the European and other markets.
- Product development: We will continue development of the important, fully implantable device, targeting the first-in-man trials of the fully implantable wireless system. We also will continue work on projects for combination therapies.
- Operationally, we plan to begin assembling the C-Pulse cuff in-house. We will be upgrading our quality control and supply and assembly operations to handle the larger volumes of product.
- We will seek financing from appropriate sources to fund the pivotal trial.

In Summary

Sunshine Heart has the potential to offer great value to patients, physicians and shareholders. We have a technology that changes how heart failure patients are managed as C-Pulse is a technology that can have a tremendous impact on a patient's quality of life. On behalf of all Sunshine Heart employees, my team and I remain committed to increasing shareholder value by meeting our commitments to the market. We appreciate and will commit ourselves to retaining your continuing support.

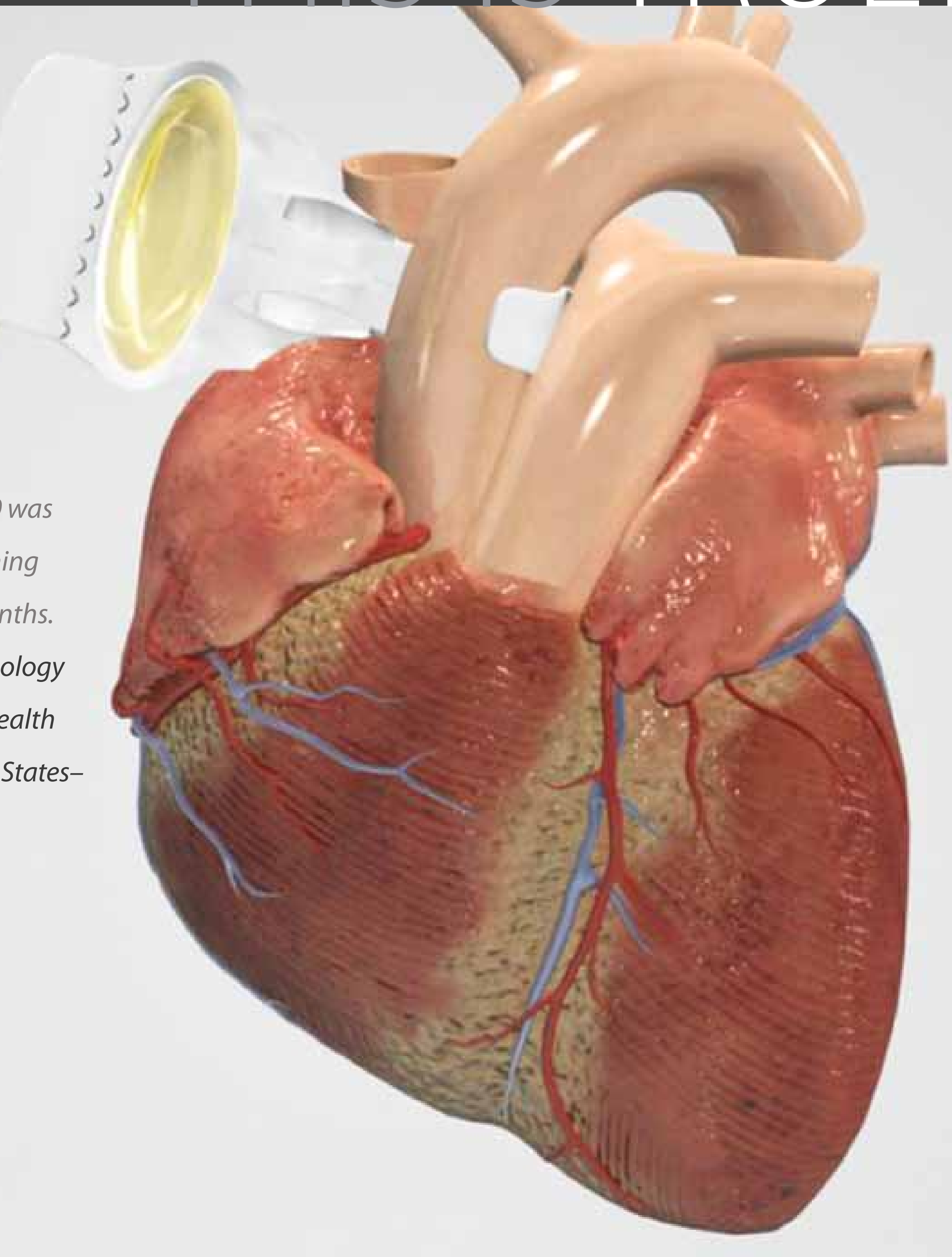
Sincerely,

Dave Rosa
Chief Executive Officer
29 September 2011

P.S. My 13-year-old son, Anthony, and 16-year-old daughter, Samantha, approached me this July to say that they wanted to invest some of their college funds into Sunshine Heart. I asked them why. They told me they believed in what the Company was doing and they believed in me. It is heartwarming to hear they have the confidence in what we are doing to invest their own finances. Yes, they now are investors. And, yes, they have already begun to ask, "Dad, what are you doing to increase the value of our investment?"

We have a TECHNOLOGY that changes how heart failure patients are managed.

THIS IS TRULY



Only one patient out of 20 was re-hospitalized for worsening heart failure prior to 6 months. ***This means that the technology may address the largest health care expense in the United States–*** *re-hospitalization due to worsening heart failure.*

FRUITION: Clinical and Regulatory Affairs

On March 31st, the Company completed what many consider to be the most important milestone to date: completion of the enrollment of our 20-patient feasibility trial. The 20th patient was implanted by Dr. Renzo Cecere of Royal Victoria Hospital in Montreal, Canada. It was a momentous day for Sunshine Heart that also signified the beginning of the process to achieve CE Mark and U.S. commercialization.

Feasibility trials are designed to assess that the device is safe, provide indicators for performance and warrants further study. By the time you read this, the data will have been released. We are confident you will share in the excitement regarding the device's safety and performance. In addition, the notion that patients (also known as super-responders in the heart failure space) may demonstrate signs of recovery that no longer require them to be connected is truly exciting.

EXCITING

While no technology enjoys 100% success, the C-Pulse technology to date has demonstrated a low risk profile when compared to other mechanical support technologies. Success is defined for devices in Stage IIIb heart failure as those that:

- Maintain or improve a patient's current condition
- And/or relieve patients of their heart failure symptoms

The safety and efficacy indicators need to be proven in a larger randomized U.S. trial; however, it is encouraging to see the results achieved with this first-generation system.

With technology improvements in store for the pivotal trial, we expect to see higher enrollment rates with minimally invasive technology and enhanced ease of use.

Physicians are pleased to see the device can:

- Be placed minimally invasively
- Eliminate the need for anti-coagulants due to the device being outside the bloodstream
- Be safely disconnected for short intervals of time

In May, we also submitted a draft of our pivotal trial design to the FDA. We received helpful feedback from the FDA and were encouraged with the response regarding the trial design. We will be submitting the data for CE Mark and the feasibility trial in the fourth quarter of 2011.

We completed feasibility of our wireless fully implantable system
ONE YEAR AHEAD OF SCHEDULE.

A MAJOR LEAP

C-Pulse

The C-Pulse Heart Assist System is designed to treat clinical symptoms associated with Class III and ambulatory Class IV heart failure.

PROGRESS: Research and Development

Many of our latest research and development changes were driven by our experience in the feasibility trial as we received a great deal of feedback from doctors and patients.

FORWARD

Single-unit System

By the end of 2011, we will have completed:

- New single-unit system
- Pre-sutured minimally invasive cuff
- Improved percutaneous interface lead
- C-Patch drive line immobilization patch
- New tunneler

We expect all of these devices to be used in our pivotal trial.

In addition, we completed feasibility of our wireless fully implantable system in May 2011, one year ahead of schedule. This represents a major leap forward in device design as it eliminates the need for any tubing or wiring passing through the skin, thus eliminating the potential for future exit site infections. This device was tested with a direct connection to a pacemaker, another endeavor we have been working on for the past year.

ADVANCEMENT: Marketing and Sales

As the Company approaches CE Mark, we have been evaluating international markets that would represent attractive targets to commercialize the C-Pulse System, and continue to generate clinical safety and efficacy data. To that end, we have recently hired a seasoned executive to drive the worldwide commercialization and marketing. We plan on submitting the data for CE Mark in the fourth quarter of 2011 and expect 2012 approval in Europe.

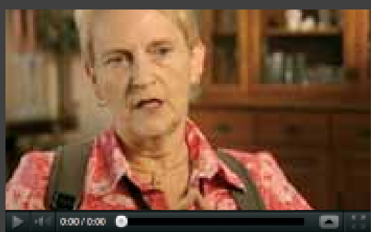
EXPANSION: Manufacturing and Operations

Sunshine Heart has operations in Sydney, Australia, and Eden Prairie, Minnesota. Minnesota is home to Medtronic Inc., St. Jude Medical and Boston Scientifics' cardiovascular operations. Many of our employees have worked previously for these companies and it has proven to be an ideal location to maintain operations.

Now, to gain greater control over finished product, the Company is moving its operations to a larger facility in Eden Prairie to accommodate in-house assembly of the cuff and provide for future hires. With this change and other supplier changes we have made, we expect to recognize significant cost savings.

REALIZATION: Financing

This year we completed financing for AU$ 13.3 million, including U.S. institutional investors new to the Company. Since year end, we have raised an additional AU$ 7.4 million, provided by new and existing investors in Australia, Canada and the U.S. These funds have been instrumental in allowing the Company to aggressively pursue product development and complete our U.S. feasibility trials. Furthermore, our listing on NASDAQ, expected to be completed soon, will greatly expand our investor community and increase our ability to access additional resources as we initiate clinical trials in the U.S. and Europe.



C-Pulse is a technology that can have a tremendous impact on a patient's QUALITY OF LIFE.

We continue to receive feedback from patients that the device has allowed them to:

- Go back to work
- Drive a car
- Achieve a level of highly valued independence by being able to disconnect temporarily from the device

Visit sunshineheart.com or scan the QR code with your smart phone to learn more about C-Pulse patients.

SUNSHINE
HEART

Directors' Report

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows (directors were in office for this entire period unless otherwise stated):

Names, Qualifications, Experience and Special Responsibilities

Mr. Nicholas Callinan BE MBA

Mr. Callinan was appointed Chairman of Sunshine Heart on 30 October 2008. He is a member of the Audit Committee. Mr. Callinan is the founder and managing partner of Collins Hill Pty Ltd which provides advice to institutional investors and funds managers in the global private equity and venture capital markets where he has worked for over 25 years in Australia and in several countries including the UK and USA. In the early 1990's he set up investment funds in the former communist countries of Central Europe. Previously, in the early 1980's, he was founder and was chief executive of the Advent group of companies which were leaders in venture capital investment in Australia. He has worked with many developing companies throughout his career and has served on a number of company boards both private and public, government bodies and charitable foundations in Australia and overseas. He has degrees in Engineering and Business Administration from the University of Melbourne.

Mr. Dave Rosa MSCE MBA

With more than 20 years experience in the medical device industry, Mr. Rosa has spent more than fifteen years with Boston Scientific (Director of WW Marketing for IVUS), St. Jude Medical (VP of WW Marketing, Cardiovascular Division), A-Med Systems (VP of Marketing and Sales, CEO) and Sunshine Heart Inc. (CEO). He has also held roles in sales with Stryker Instruments and marketing with C.R. Bard Inc. in their Patient Care Division.

Dr. Geoff Brooke MBBS MBA

Dr. Brooke became a non-executive director of Sunshine Heart on 25 September 2003. He is the Chairman of the Remuneration and Nomination Committee. Dr. Brooke is managing director of GBS Venture Partners, the manager of $400 million in early staged venture funds. With more than 20 years of venture capital experience, Dr. Brooke has been a founder, lead investor and director of many healthcare and bioscience based companies in the US and Australia, a number of which have been sold or undertaken IPO's on either NASDAQ or ASX. A medical graduate of the University of Melbourne with five years of clinical experience, Dr. Brooke holds an MBA from IMEDE (now IMD) in Switzerland. Dr. Brooke sits on the board of a number of GBS private companies, as well as the Victorian WorkSafe Authority. During the past 3 years Dr. Brooke has served as a director of the following other listed companies:

- Cogstate Limited
- ChemGenex Pharmaceuticals Ltd

Mr. Crispin Marsh BSc FAICD (retired 1 September 2011)

Mr. Marsh became a non-executive director of Sunshine Heart on 1 July 2006 and a member of the Audit, Compliance and Corporate Governance Committee on 17 July 2008. He was the executive director of Corporate Affairs of Sunshine Heart, until 30 June 2006. He has been associated with Sunshine Heart since its inception in 1999, having been the inaugural Chairman of the company. Mr. Marsh has been responsible within Sunshine Heart for administration, legal issues, intellectual property protection, obtaining research grants, contract negotiation and management of corporate relationships.

Mr. Marsh is also managing director of SCP Technology and Growth Pty Ltd, an independent innovation commercialisation consultancy. He has been directly involved in the successful commercialisation of a number of technologies in a variety of technical fields including the medical area. It was in this role that he co-founded Sunshine Heart with Dr. Peters.

An Australian patent attorney for more than 40 years, Mr. Marsh was a partner of an Australian firm of patent attorneys for nearly 30 years before establishing SCP. He has a BSc degree from the University of Sydney, is a registered mediator and a Fellow of the Australian Institute of Company Directors.

Mr. Donal O'Dwyer BE MBA

Mr. O'Dwyer became a non-executive director of Sunshine Heart in July 2004. He is the Chairman of the Audit, Compliance and Corporate Governance Committee. Prior to locating to Australia in 2004 Mr. O'Dwyer served as Worldwide President of Cordis Cardiology, the cardiology division of a Johnson & Johnson subsidiary, Cordis Corporation. In this role Mr. O'Dwyer saw Cordis Cardiology move from number four to number one in market share of coronary stents worldwide. Prior to joining Cordis he worked 12 years for Baxter Healthcare, rising from plant manager in Ireland to president of the Cardiovascular Group, Europe. He brings a wealth of medical device experience to Sunshine Heart. During the past three years Mr. O'Dwyer has also served as a director of the following other listed companies: Cochlear Limited, Mesoblast Limited and AtCor Medical Holdings Limited. He remains a director of each of these companies.

Dr. William Peters MBChB MD (Medical Director and Chief Technical Officer)

Dr. Peters is the inventor of the C Pulse system and was co founder and start up CEO of Sunshine Heart. He has served as a member of the Board since inception, and in his role as Medical Director and Chief Technology Officer is responsible for defining device development appropriate for clinical need, training US clinical sites and for overseeing the conduct of clinical trials in investigating such devices.

Dr. Peters completed a medical degree at Otago University 1989 and a Doctorate of Medicine (MD) at Monash University in 2002. Dr. Peters has a track record of successful invention, clinical uptake and commercialisation in the field of cardiac technologies. He previously invented a system for endovascular cardiopulmonary bypass to allow minimally invasive cardiac surgery. This technology was assigned to Heartport, Inc., which listed on NASDAQ in 1996 and was bought by Johnson & Johnson in 1999. Dr. Peters spent 2 years as a research fellow in minimally invasive cardiac surgery (1994-1995) at Stanford University, California. He was also employed during this time as manager of medical affairs at Heartport, Inc. Dr. Peters has a strong interest in devices to support the failing heart, and has clinical experience in thoracic transplantation and use of various LVADs (including Biomedicus, Abiomed, Thoratec, Novacor and IAB systems). Dr. Peters has authored or co-authored over 20 published articles and 4 book chapters regarding cardiac surgery.

Dr. Peters holds honorary senior clinical research fellowships in the Green Lane Cardiothoracic Surgery Unit at Auckland City Hospital and the Department of Surgery, Auckland University, the latter with supervisory responsibility of a doctorate candidate

Mr. John Brennan LLB (resigned as Director 19 May 2011)

Mr. Brennan was a non-executive director and member of the Remuneration and Nomination Committee of Sunshine Heart from 1 November 2006 until his resignation on 19 May 2011. During that period, Mr. Brennan was a Partner of CM Capital Investments, an Australian venture capital fund manager. CM Capital Investments manages $260 million in early stage venture capital funds focused on the life sciences and technology sectors. Mr. Brennan has more than 20 years of venture capital, corporate finance, commercial and legal experience. Prior to joining CM Capital in 2004, Mr. Brennan had experience in mergers and acquisitions, divestments, capital raisings, venture capital and private equity gained from corporate and advisory roles both internationally and in Australia. Mr. Brennan started his career as a corporate and commercial lawyer in Brisbane. He subsequently gained international experience in the UK where he worked for GE Capital and Ernst & Young Corporate Finance in M&A and corporate finance roles. At GE Capital Mr. Brennan had a Pan-European M&A role focused on acquisitions, strategic equity investments and divestments for one of its main operating businesses. Mr. Brennan holds a Bachelor of Laws degree from Queensland University of Technology.

Mr. Paul Buckman (appointed 1 February 2011)

Mr. Buckman has served as Chief Executive Officer and Director of Pathway Medical Technologies, Inc. since September 2008. From December 2006 until September 2008, Mr. Buckman served as Chief Executive Officer of Devax, Inc., a developer and manufacturer of drug eluting stents, while also serving as Chairman of the Board of Directors for Pathway Medical Technologies, Inc. From August 2004 to December 2006, Mr. Buckman served as President of the Cardiology Division of St. Jude Medical, Inc., a diversified medical products company. Prior to joining St. Jude Medical, Mr. Buckman served as Chairman of the Board of Directors and Chief Executive Officer of ev3, LLC, a Minnesota-based medical device company focused on endovascular therapies that Mr. Buckman founded and developed into an $80 million business, from January 2001 to January 2004. Mr. Buckman has worked in the medical device industry for over 30 years, including 10 years at Scimed Life Systems, Inc. and Boston Scientific Corporation, where he held several executive positions before becoming President of the Cardiology Division of Boston Scientific in January 2000. In addition to Pathway Medical Technologies, Inc., Mr. Buckman also currently serves as a Director for SentreHeart, Inc., and Conventus, and also as a Business Advisory Board member for Bio Star Ventures. In the past, Mr. Buckman has served on the boards of Velocimed, Inc., where he was a co-founder, EndiCor, Inc., Microvena, Inc., and Micro Therapeutics, Inc. Mr. Buckman received a B.A. degree in Business Administration and an M.B.A. degree from Western Michigan University.

Mr. Gregory Waller (appointed 3 August 2011)

Mr. Waller has 35 years of financial and management experience, including serving as the Chief Financial Officer and Treasurer of Universal Building Products, Inc. from 2006 to 2011 and the Vice President of Finance, Chief Financial Officer, and Treasurer for Sybron Dental Specialties, Inc., from 1980 to 2005.

Mr. Waller currently serves on the board of directors of Endologix Inc., which develops and manufactures minimally invasive treatments for vascular disease. In addition, he has previously held board positions with Clarient, Inc. (2006 to 2010), SenoRx, Inc. (2006 to 2010), Alsius, Inc. (2006 to 2009), and Biolase, Inc. (2009 to 2010).

Mr. Mark Harvey (appointed 29 September 2011)

Mr. Harvey has served as a partner of CM Capital Investments since 2006 and has over 15 years experience in medical research, technology transfer and commercialisation.

Prior to joining CM Capital, Mr. Harvey was the Chief Executive Officer of Symbiosis Group Limited, an early-stage life sciences investment company and was Group Manager, Life Sciences for UniQuest, the commercial arm of the University of Queensland. Mr.Harvey was also a member of the Investment Committee of UniSeed, a pre-seed fund.

Mr. Harvey currently serves on the board of directors of Osprey Medical Inc. and Pathway Therapeutics Ltd.

Mr. Harvey has a Ph.D. (Physiology) and M.B.A., and is an Adjunct Associate Professor at the University of Queensland.

COMPANY SECRETARY

Mr. Jeff Mathiesen

Mr. Mathiesen joined Sunshine Heart as Chief Financial Officer (CFO) in March 2011 and was appointed Company Secretary on 30 June 2011. From 2005 to 2010, Mr. Mathiesen served as Vice President and CFO for Zareba Systems, Inc., a publicly held manufacturer and marketer of medical products, perimeter fencing and security systems. Prior to joining Zareba Systems, Mr. Mathiesen served as Vice President and CFO of several publicly held companies including Delphax Technologies, Inc., Micro Component Technologies, Inc., and Recovery Engineering, Inc. Mr. Mathiesen is a certified public accountant who started his career at Deloitte & Touche LLP after completing a B.S. in Accounting at the University of South Dakota.

Mrs. Rowena Hubble B Bus CPA (resigned 30 June 2011)

Mrs. Hubble was the Chief Financial Officer and Company Secretary of Sunshine Heart until her resignation on 30 June 2011. Mrs. Hubble commenced her professional career with the Australian-based Gresham Partners. She has held various senior finance positions over a 15-year period including Company Secretary with McDonald's Australia Ltd and was involved with domestic and global projects for this US multinational. Mrs Hubble is a Director of Laymitch Pty Ltd providing business support to various organisations.

DIRECTORS' INTERESTS

The direct and indirect interests of the directors in the shares of the Company (including interest in options) are set out in Note 18. There has been no change in directors' interests post year end.

EARNINGS PER SHARE

Basic Earnings per Share	Loss 1.4 cents
Diluted Earnings per Share	Loss 1.4 cents

DIVIDENDS

No dividends were paid or recommended to be paid during the year (2010: Nil).

CORPORATE INFORMATION

Corporate Structure

Sunshine Heart, Inc. is a company limited by shares that is incorporated in Delaware, USA. It has prepared a consolidated financial report incorporating the entity that it controlled during the financial year, Sunshine Heart Company Pty Limited.

Nature of Operations and Principal Activities

The principal activity during the year of entities within the consolidated entity was the design and development of heart assist devices.

There have been no significant changes in the nature of those activities during the year.

Employees and Consultants

The consolidated entity employed 21 employees and 2 consultants as at 30 June 2011 (2010: 11 employees and 5 consultants).

OPERATIONAL AND FINANCIAL REVIEW

Group Overview

The Group has continued the development of the C-Pulse heart assist device during the year including activities to support an IDE trial in the United States.

Operating Results for the Year

The Group incurred a net loss for the year of $11,476,774 (2010 loss - $6,532,720). The level of expenditure was more than the prior year due to higher C-Pulse development costs and costs to support the US clinical trial.

Likely Developments and Expected Results

Over the coming year, Sunshine Heart's efforts shall focus on the following key areas:
- Analysing patient data from the US clinical trial
- Defining the next FDA clinical study
- Prepare for FDA application for the Pivotal trial
- Prepare for filing the CE Mark application
- Continue development of the C-Pulse II

The Company expects to make an operating loss for the 2012 financial year. The Company's business plan necessitates continued spending in pursuit of the business objectives. The Company's ongoing success will depend on its continued ability to raise additional capital in the future and successfully commercialise the product being developed.

Cash Used in Operations

Net cash flows used in operating activities was $10,075,520 (2010: $7,266,912).

Liquidity and Funding

The Company is seeking to raise additional capital through a placement to institutional investors announced on 18 July 2011. Further funding will be required in order to commercialise C-Pulse.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 25 July 2011 the Company announced it had completed the placement of $4.6 million with institutional investors, representing the first tranche of a previously announced financing. The Company also announced it intends to raise up to an additional $9.1 million in a second tranche, subject to shareholder approval at an Extraordinary General Meeting.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 24,125,719 employee options and 240,901,020 share options over unissued ordinary shares in Sunshine Heart, Inc.

Employee Options

During the year ended 30 June 2011, 10,000,000 options over unissued ordinary shares were issued as remuneration to consultants and employees of the Company. During the year 1,593,297 options were cancelled, forfeited or expired. 38,800 employee options were exercised during the year.

Placement Options

Refer to Note 10(c) of the financial statements for further details of the options outstanding.

Share Options

During the year ended 30 June 2011, 243,343,033 share options over unissued ordinary shares were issued as part of the 2010 capital raising. During the year 2,442,013 have been exercised.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

ENVIRONMENTAL REGULATION AND PERFORMANCE

There have been no known breaches by the consolidated entity of any significant environmental regulations or obligations.

DIRECTORS' INDEMNITY

During the financial year, Sunshine Heart, Inc. has paid premiums to insure the Directors and Officers against liabilities and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of officer of the Company, other than conduct involving a willful breach of duty in relation to the Company. The amount of the premium is not disclosable under the terms and conditions of the policy.

REMUNERATION REPORT – AUDITED

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3c) of the Act.

For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company and includes the five executives in the parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive and senior executives of the Parent and the Group.

Remuneration Philosophy

The performance of the Group depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Key Management Personnel. To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high-calibre individuals; and
- Link rewards to shareholder value.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Key Management Personnel. The Committee assesses the appropriateness of the nature and amount of remuneration of the Key Management Personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality team.

The Remuneration and Nomination Committee has in place a process to review the performance of the board, sub committees and that of individual Key Management Personnel. To assist in this process an independent advisor may be used. The Committee conducts a survey of directors to review the role of the board, assess the performance of the board since the previous survey and to examine ways of assisting the board in performing its duties more effectively. The issues examined include board interaction with management, the type of information provided to the board by management, and overall management performance in helping the board meet its objectives.

A similar review is performed of the Board sub committees, to assist in assessing the performance of each committee and to identify areas where improvement can be made.

The Committee is also responsible for reviewing the performance of Key Management Personnel. This evaluation is based on specific criteria, including the Group's business performance, whether strategic objectives are being achieved and the development of management and personnel.

Further details on the remuneration of Directors and Executives are also provided in Note 18 to the financial statements and Table 1 and 2 of the Directors' Report.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and other Key Management Personnel remuneration is separate and distinct.

REMUNERATION REPORT – AUDITED (continued)

Non-Executive Director Remuneration

Objective

The board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest caliber, whilst incurring a cost which is acceptable to shareholders.

Structure

Remuneration consists of the following key elements:
- Fixed Remuneration; and
- Options - Long Term Incentive ('LTI') - refer below for details of the objective and structure of options granted as LTI.

The amount of fixed remuneration and share-based compensation through options (potential long term incentives) is established for each non-executive director by the Remuneration and Nomination Committee.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 November 2004 when shareholders approved an aggregate remuneration of $250,000 per year. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board may consider advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a fee for being a director of the Company except for Dr. Geoff Brooke. No additional fees are paid for each board committee on which a director sits. Non-executive directors are not required by the board to hold shares in the Company.

The remuneration of non-executive directors for the period ending 30 June 2011 is detailed in Table 1 of this report.

Key Management Personnel and Executive Director Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and makeup of executive remuneration, the Remuneration and Nomination Committee primarily relies upon internal surveying of prevailing market conditions. However it may seek external advice as required.

REMUNERATION REPORT – AUDITED (continued)

It is the Remuneration and Nomination Committee's policy that employment contracts are entered into with the Executive Directors and other Key Management Personnel. Details of these contracts are provided on page 21.

Remuneration consists of the following key elements:
• Fixed Remuneration – Base Salaries;
• Short Term Incentive Plan ('STIP'); and
• Long Term Incentive Plan ('LTIP').

The amount of fixed remuneration and share-based compensation through options (potential long term incentives) is established for each senior manager by the Remuneration and Nomination Committee.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Key Management Personnel receive their fixed (primary) remuneration in cash. The fixed remuneration component of the Key Management Personnel remuneration is detailed in Tables 1 and 2 of the Directors' Report. The Company has no other Key Management Personnel at the date of this Report.

Short Term Incentive Plan (STIP)

Objective

The objective of the STIP is to reward staff including Key Management Personnel in a manner that focuses participants on achieving personal and business goals which contribute to the creation of sustained shareholder value. Bonus differential reflects performance against these goals.

Structure

The STIP facilitates annual cash and/or options bonus opportunities at the Board's discretion. The Board determines the total amount of discretionary variable compensation to be paid to the Group's employees. The amount of variable compensation payable to an individual is dependent on satisfaction of the employee's performance and the discretion of the board.

The variable component of Other Key Management Personnel and Other Executive remuneration is dependent on individual KPI's which are linked to their role in the organisation. The quantum of the variable component is at the discretion of the Board. The variable component is not dependent on the Company's share price, or dividends paid by the Company, and therefore a discussion of the relationship between the Board's remuneration policy and the Group's performance is not provided.

Performance bonuses of $93,234 were issued in the financial year 2011 (2010: $17,063).

Details of the cash bonuses earned under the STIP are provided in Tables 1 and 2 of the Directors' Report for Key Management Personnel.

REMUNERATION REPORT – AUDITED (continued)

Options — Long Term Incentive Plan (LTIP)

Objective

The objective of the LTIP plan is to reward staff, including Key Management Personnel, in a manner that aligns this element of remuneration with the creation of shareholder value. As such LTIP grants are made to directors, Key Management Personnel and staff to promote staff retention for the benefit of shareholder wealth.

Structure

LTIP grants to staff including Key Management Personnel are delivered in the form of options. The Company uses a premium to the market price of the shares under option as the performance hurdle for the long-term incentive plan. Option recipients are required to meet certain length-of-service obligations.

As neither the fixed or variable component of the Other Key Management Personnel and the Other Executive remuneration is dependent on the satisfaction of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company, a discussion of the relationship between the Board's remuneration policy and the Group's performance is not provided. There were no performance options issued during either the financial year 2011 or 2010. There was no long term incentive performance bonus issued in either financial year 2011 or 2010.

Details of options granted, including the value of options and vesting periods under the LTIP plan, are detailed in Note 14 for employees and Note 18(c) for directors.

Employment and Consultancy Contractual Arrangements

Remuneration arrangements for Key Management Personnel are formalised in employment or consulting agreements.

In the event of termination of contract by Sunshine Heart for Dave Rosa and William Peters the Company is required to provide one month's notice of termination, or payment in lieu of actual notice. For all other key management personnel there are no termination provisions in their employment contracts.

REMUNERATION REPORT – AUDITED (continued)
Remuneration of Key Management Personnel ("KMP")

	SALARY & FEES	SHORT TERM NON-MONETARY BENEFITS	CASH STI	POST EMPLOYMENT SUPER ANNUATION AND OTHER	SHARE-BASED PAYMENTS OPTIONS(b)	TOTAL	% PERFORMANCE RELATED
Table 1: Remuneration for the year ended 30 June 2011							
Non-Executive Directors (c)							
N Callinan	100,000	-	-	-	13,002	113,002	-
C Marsh	50,000	-	-	-	6,750	56,750	-
D O'Dwyer	50,000	-	-	-	6,649	56,649	-
G Brooke	-	-	-	-	6,649	6,649	
P Buckman (d)	19,544	-	-	-	10,909	30,453	
Sub-total Non-Executive Directors	219,544				43,959	263,503	
Executive Directors							
W Peters	278,410	-	-	-	77,918	356,328	-
D Rosa	282,721	15,137	70,764	-	191,767	560,389	12.6
Other KMP							
D Kridner	214,548	7,099	22,470	-	30,034	274,151	8.2
S Miller	188,873	-	-	16,998	8,519	214,390	
R Parkin	188,873	-	-	16,998	8,170	214,041	
K Bassett (e)	141,930	11,972	-	-	14,701	168,603	-
J Mathiesen (f)	56,648	4,722	-	-	29,547	90,917	-
Sub-total Executive KMP	1,352,003	38,930	93,234	33,996	360,656	1,878,819	
Total	**1,571,547**	**38,930**	**93,234**	**33,996**	**404,615**	**2,142,322**	

REMUNERATION REPORT – AUDITED (continued)

	SALARY & FEES	SHORT TERM NON-MONETARY BENEFITS	CASH STI	POST EMPLOYMENT SUPER ANNUATION AND OTHER	SHARE-BASED PAYMENTS OPTIONS(b)	TOTAL	% PERFORMANCE RELATED
Table 2: Remuneration for the year ended 30 June 2010							
Non-Executive Directors (c)							
N Callinan	100,000	-	-	-	4,379	104,379	-
C Marsh	50,000	-	-	-	1,036	51,036	-
D O'Dwyer	50,000	-	-	-	-	50,000	-
Sub-total Non-Executive Directors	200,000	-	-	-	5,415	205,415	
Executive Directors							
D Rohrbaugh	123,361	-	-	244,527	2,229	370,117	-
W Peters	265,152	-	-	-	9,193	274,345	-
D Rosa (d)	214,963	16,083	17,063	-	-	248,109	-
Other KMP							
J Weitzner	196,527	-	-	-	6,356	202,883	-
S Miller	183,372	-	-	16,503	4,038	203,913	-
D Kridner (e)	132,334	3,674	-	-	-	136,008	-
Sub-total Executive KMP	1,115,709	19,757	17,063	261,030	21,816	1,435,375	
Total	1,315,709	19,757	17,063	261,030	27,231	1,640,790	

(a) No future maximum or minimum total value of performance related remuneration has been determined as at the date of this report.

(b) Options issued to Director's, related parties and other Key Management Personnel are as described in Note 18(c). The share-based payment expense includes both options granted and the estimate of the 2011 Employee Incentive Plan award as discussed in Note 14.

(c) J Brennan and G Brooke received no cash remuneration for the years ended 30 June 2011 and 30 June 2010. The share-based payment expense in relation to the 2011 Equity Incentive Plan estimated for the period to G Brooke was $6,649, (J Brennan $nil).

(d) P Buckman was appointed a Director on 1 February 2011.

(e) K Bassett's employment contract commenced on 1 October 2010.

(f) J Mathiesen's employment contract commenced on 21 March 2011.

REMUNERATION REPORT – AUDITED (continued)

Table 3: Options granted as part of remuneration for the year ended 30 June 2011

	GRANT DATE	EXERCISE PRICE ($)	GRANT NUMBER	VALUE PER OPTION AT GRANT DATE ($)	VALUE OF OPTIONS GRANTED DURING THE YEAR	% REMUNERATION CONSISTING OF OPTIONS FOR THE YEAR
D Rosa (a)	7 Dec 2010	0.05	10,000,000	0.007	47,559	34.2%

(a) Vesting is 50% at grant date, 25% on 1 November 2011 and 25% on 1 November 2012 when they will be fully vested.

No options were granted as part of remuneration for the year ended 30 June 2010.

For details on the valuation of the options, including models and assumptions used, refer to Note 14. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

For details of options that vested and lapsed during the year refer Note 18(c).

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Sunshine Heart, Inc. support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this annual report.

AUDITOR INDEPENDENCE

We have obtained the independence declaration from our auditors, Ernst & Young, a copy of which is included on page 65 of this annual report.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors' Meetings	Meetings of Committees	
		Audit, Compliance and Governance	*Remuneration and Nomination*
Number of meetings held:			
	12	4	3
Number of meetings attended:			
N Callinan	12	3	-
G Brooke	12	-	3
C Marsh	7	4	-
D O'Dwyer	10	4	-
W Peters	12	-	-
J Brennan	10	-	2
D Rosa	11	-	-
P Buckman	5	-	-

All directors were eligible to attend all meetings held, except for P Buckman who was eligible to attend 5 Directors' meetings and J Brennan who was eligible to attend 10 Directors' meeting.

Committee Membership

The Company established an Audit, Compliance and Governance Committee and a Remuneration and Nomination Committee of the Board of Directors on 20 July 2004. Members acting on the committees of the board are:

Audit, Compliance and Governance - D O'Dwyer (Chairman), C Marsh and N Callinan.

Remuneration and Nomination - G Brooke (Chairman) and P Buckman (J Brennan resigned 19 May and Paul Buckman appointed 18 April 2011).

NON-AUDIT SERVICES

The Company's auditors, Ernst & Young, provided non-audit services during the year ended 30 June 2011. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Refer to Note 17 of the financial statements for details of the remuneration that Ernst & Young received or are due to receive for the provision of audit and other services.

Signed in accordance with a resolution of the Directors.

Dave Rosa
Director
Minneapolis, 1 August 2011

Corporate Governance Statement

Sunshine Heart's corporate governance is the system by which the Company is directed and managed. Within this framework:

- The Board of Directors is accountable to shareholders for the performance of the Company;
- The Company's goals to achieve milestones are set and promulgated;
- The risks of the business are identified and managed; and
- The Company's established values and principles underpin the way in which it undertakes its operations.

Sunshine Heart has in place an entrenched, well developed governance culture which has its foundations in the ethical values that the board, management and staff bring to the Company and their commitment to positioning the Company as a world leader in heart assist technology.

This statement is organised under headings based on the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition) dated August 2007. The Company has followed each of the recommendations of the ASX Corporate Governance during the financial year.

1 Lay solid foundations for management and oversight

Establish and publish the respective roles and responsibilities of board and management.

1. Formalise and disclose the functions reserved to the board and those delegated to management.

A copy of the Board Charter is available on the Company's website.

1.2 Disclose the process for performance evaluation of senior executives.

The Board undertakes an annual process of assessing the performance of senior executives. To ensure this process is objective and constructive, external advisors may assist the board and provide independent advice to enhance and improve the process and the board's performance. During the year the performance of the senior executives was assessed in accordance with the Company's usual process. Areas for improvement were identified and strategies adopted to implement improvements.

2 Structure the board to add value

Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

2.1 A majority of the board should be independent directors

The board currently has a majority of non-executive directors comprising six non-executive directors and two executive directors. During the financial year and up to the date of this statement, three non-executive directors, Dr. Brooke, Mr. Brennan (resigned) and Mr. Harvey (appointed 29 September 2011) were not classified as independent directors based on the ASX recommendations due to their association with companies holding a voting interest of more than 5% in Sunshine Heart. The Company consider that Dr. Brooke, Mr. Brennan and Mr. Harvey have operated at all times as independent directors and in the best interests of all shareholders notwithstanding their respective associations with particular shareholders.

The board considers that at the date of this statement and at all times during the financial year it was comprised of a majority of independent directors. The following six current directors are independent: Dr. Brooke, Mr. Buckman, Mr. Callinan, Mr. Harvey, Mr. O'Dwyer, and Mr. Waller. Mr. Brennan resigned as a director on 19 May 2011 and Mr. Marsh retired as a director on 1 September 2011 and accordingly, neither is included in the list of independent directors. However, the board considers that both Mr. Brennan and Mr. Marsh served as independent directors during the financial year.

The Company considers that the composition of the board is appropriate as Dr. Brooke is an experienced venture capital manager who brings to the board particular expertise in the management and development of early stage medical device companies and Mr. Marsh, a co-founder of the Company, offers substantial strategic foresight in commercialising the Company's technology. The Chairman, Mr. Callinan, has extensive experience at board level in Australia and overseas working with high growth early stage companies. The skills, experience and expertise of each director is set out on pages 12 to 14 of the Directors' Report.

2.2 The Chairman should be an independent Director.

The Board Charter requires the chairman to be independent.

2.3 The roles of chairman and chief executive officer should not be exercised by the same individual.

The Board Charter requires the chairman and the chief executive officer to be different individuals.

2.4 The Board should establish a nomination committee.

The Company has a Remuneration and Nomination Committee comprising two non-executive directors being Mr. G. Brooke and Mr. P. Buckman. The combined role is considered appropriate for a company of this size. A copy of the Remuneration and Nomination Committee Charter is available on the Company's website. There were three meetings of the Remuneration and Nomination Committee during the financial year. The attendance of the committee members at those meetings is set out on page 25 of the Directors' Report.

2.5 Disclose the process for evaluating the performance of the board, its committees and individual directors.

The Board undertakes an annual process of assessing both the performance of the board and its committees, as well as the individual performance of directors. To ensure this process is objective and constructive, external advisors may assist the board and provide independent advice to enhance and improve the process and the board's performance. During the year the performance of the board and each committee were assessed as well as the individual performance of directors. The assessments were undertaken in accordance with the Company's usual process. Areas for improvement were identified and strategies adopted to implement improvements.

3 Promote ethical and responsible decision making

Actively promote ethical and responsible decision making.

3.1 Establish a code of conduct to guide and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

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

3.2 Establish a policy concerning trading in company securities by directors, officers and employees.

A copy of the Company's Share Trading Policy is available on the Company's website.

4 **Safeguard integrity in financial reporting**
Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

4.1 The board should establish an audit committee.

The Company has an Audit, Compliance and Corporate Governance ("Audit") Committee.

4.2 The audit committee should be structured so that it consists of:
- only non-executive directors
- majority of independent directors
- an independent chairman, who is not chairman of the board
- at least three members

The Audit Committee has three non-executive members, a majority of independent directors and its chairman is not chairman of the board. The size of the Audit Committee is appropriate to the size of the Company. The members of the Audit Committee are Mr. O'Dwyer, Mr. Marsh and Mr. Callinan. A summary of their respective qualifications are set out on pages 12 to 14 of the Directors' Report. There were four meetings of the Audit Committee during the last financial year. The attendance of the committee members at those meetings is set out on page 25 of the Directors' Report.

4.3 The audit committee should have a formal charter.

The Audit Committee Charter is available on the Company's website.

5 **Make timely and balanced disclosure**
Promote timely and balanced disclosure of all material matters concerning the company.

5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.

The Company has a Continuous Disclosure and Shareholder Communication Policy to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. A copy of the Policy is available on the Company's website.

6 **Respect the rights of shareholders**
Respect the rights of shareholders and facilitate the effective exercise of those rights.

6.1 Design a communications policy to promote effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. The Company's communication policy is contained in the Continuous Disclosure and Shareholder Communication Policy.

Sunshine Heart provides shareholders with quarterly updates of the Company's progress across all areas of the business (in addition to continuous disclosure requirements), and utilises its website to disclose useful and relevant information about the Company. The Company's Continuous Disclosure and Shareholder Communication Policy is available on its website.

7 Recognise and manage risk

Establish a sound system of risk oversight and management and internal control.

7.1 The board or appropriate board committee should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Audit Committee is responsible to the Board for oversight in this area. The Company's Risk Management Statement which provides an overview of the Company's risk profile and management strategies is available on its website.

7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on the effective management of those risks.

The Company's Risk Management Statement which provides an overview of the Company's risk profile and management strategies is available on its website. The board requires a statement in writing from the chief executive officer and chief financial officer (or equivalent) attesting to the risk management and internal control system. The board has received such a statement from the Chief Executive Officer and Chief Financial Officer.

7.3 Assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects.

The board requires a statement in writing from the chief executive officer and chief financial officer (or equivalent) attesting to the above requirements. The board has received such a statement from the Chief Executive Officer and Chief Financial Officer.

8 Remunerate fairly and responsibly

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

8.1 The board should establish a remuneration committee.

The Company has a Remuneration and Nomination Committee. A copy of the Remuneration and Nomination Committee Charter is available on the Company's website.

The current members of the Remuneration and Nomination Committee are Mr. G. Brooke and Mr. P. Buckman.

There were three meetings of the Remuneration and Nomination Committee during the financial year. The attendance of the committee members at those meetings is set out on page 25 of the Directors' Report.

8.2 Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.

The Company's policy is to reward executives with a combination of fixed remuneration and short and long term incentives, structured to drive improvements in shareholder value. Non-executive directors receive no incentive cash payments other than their fixed fee. Non-executive directors have received shareholder approved share options which are normally issued at premium to the then share price. Any benefit to directors will only accrue from an increase in share price.

None of the Company's non-executive directors will be entitled to any retirement benefits.

Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	Consolidated	
		2011	2010
		$	$
Continuing Operations			
Revenue and Other income	3	525,075	470,690
Depreciation and Amortisation	3	(41,819)	(60,216)
Insurance		(210,058)	(177,604)
Office Expenses	3	(260,781)	(199,841)
Professional Fees		(681,887)	(440,036)
Salaries and Employee Benefits	3	(3,602,904)	(2,114,199)
Research and Development	3	(4,975,512)	(3,468,512)
Travel		(819,468)	(513,896)
Patents		(143,017)	(163,728)
Other Expenses	3	(1,266,403)	(650,756)
Loss from Continuing Operations Before Income Tax		(11,476,774)	(7,318,098)
Income Tax Benefit	4	-	785,378
Loss from Continuing Operations After Income Tax	10(e)	(11,476,774)	(6,532,720)
Foreign Currency Translation	10(f)	(74,374)	-
Income Tax on Items of Other Comprehensive Income		-	-
Other Comprehensive Loss After Income Tax		(74,374)	-
Total Comprehensive Loss for the Year Attributable to Members of Sunshine Heart, Inc.		(11,551,148)	(6,532,720)
Basic Loss per Share (cents per share)	16	(1.4)	(1.3)
Diluted Loss per Share (cents per share)	16	(1.4)	(1.3)

Statement of Financial Position

For the year ended as at 30 June 2010

	Notes	Consolidated	
		2011	2010
		$	$
ASSETS			
Current Assets			
Cash and Cash Equivalents	12(b)	6,020,052	3,942,117
Trade and Other Receivables	5	127,314	249,497
Tax Rebate	4	-	785,378
Other Current Assets	6	121,073	154,646
Total Current Assets		6,268,439	5,131,638
Non-Current Assets			
Property, Plant and Equipment	7	125,370	133,858
Total Non-Current Assets		125,370	133,858
Total Assets		6,393,809	5,265,496
LIABILITIES			
Current Liabilities			
Trade and Other Payables	8	306,810	455,852
Provisions	9	228,579	82,501
Total Current Liabilities		535,389	538,353
Total Liabilities		535,389	538,353
Net Assets		5,858,420	4,727,143
EQUITY			
Contributed Equity	10(a)	69,767,912	57,539,953
Accumulated Losses	10(e)	(66,041,940)	(54,565,166)
Reserves	10(f)	2,132,448	1,752,356
Total Equity		5,858,420	4,727,143

Statement of Changes in Equity

For the year ended 30 June 2011

	Ordinary Shares	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Retained Losses	Total
At 30 June 2009	48,293,638	1,767,658	-	(48,032,446)	**2,028,850**
Loss for the Year	-	-	-	(6,532,720)	**(6,532,720)**
Other Comprehensive Income	-	-	-	-	**-**
Total Comprehensive Loss for the Period	-		-	(6,532,720)	**(6,532,720)**
Transactions with Owners in Their Capacity as Owners:					
Shares Issued	9,844,219	-	-	-	**9,844,219**
Share-Based Payment Reserve	-	(15,302)	-	-	**(15,302)**
Transaction Costs on Share Issue	(597,904)	-	-		**(597,904)**
At 30 June 2010	57,539,953	1,752,356	-	(54,565,166)	**4,727,143**
Loss for the Year	-	-	-	(11,476,774)	**(11,476,774)**
Other Comprehensive Income	-	-	(74,374)	-	**(74,374)**
Total Comprehensive Loss for the Period	-	-	(74,374)	(11,476,774)	**(11,551,148)**
Transactions with Owners in their Capacity as Owners:					
Shares Issued	13,442,751	-	-	-	**13,442,751**
Share-Based Payment Reserve	-	454,466	-	-	**454,466**
Transaction Costs on Share Issue	(1,214,792)	-	-	-	**(1,214,792)**
At 30 June 2011	69,767,912	2,206,822	(74,374)	(66,041,940)	**5,858,420**

Statement of Cash Flows

For the year ended 30 June 2011

	Notes	CONSOLIDATED	
		2011	2010
		$	$
Cash Flows from Operating Activities			
Clinical Implant Reimbursement		453,889	249,539
Payments to Suppliers and Employees		(11,574,768)	(7,660,449)
Interest Received		259,981	143,998
Tax Rebate Received		785,378	-
Net Cash Flow Used in Operating Activities	12(a)	(10,075,520)	(7,266,912)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(33,331)	(5,112)
Net Cash Flows Used in Investing Activities		(33,331)	(5,112)
Cash Flows from Financing Activities			
Proceeds from Issue of Ordinary Shares		13,442,753	9,844,219
Payment of Share Issue Costs		(1,214,792)	(597,905)
Net Cash Flows from Financing Activities		12,227,961	9,246,314
Net Increase/(Decrease) in Cash and Cash Equivalents		2,119,110	1,974,290
Net Foreign Exchange Differences		(41,175)	(45,989)
Cash and Cash Equivalents at Beginning of Year		3,942,117	2,013,816
Cash and Cash Equivalents at End of Year	12(b)	6,020,052	3,942,117

Notes to the Financial Statements

For the year ended 30 June 2011

1. CORPORATE INFORMATION

The annual report of Sunshine Heart, Inc. ("Company" or "Sunshine Heart") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 2 August 2011. 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 Company 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 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2011:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009 -10 Amendments to Australian Accounting Standards – Classification of Rights Issues;
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project; and
- Interpretation 19 – Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments.

Certain Australian Accounting Standards 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 2011. The Directors have yet to finalise their assessment of the impact of these new or amended standards and interpretations (to the extent relevant to the 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 2011 and 30 June 2010 the Group incurred an operating loss before tax and net cash outflows from operating activities as disclosed in the Statement of Comprehensive Income and Statement of Cash Flows, 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) 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) Clinical Trial Implant Reimbursement

Revenue from product sales is only recognised when substantially all the risks and rewards of ownership have transferred to our customers (which generally occurs on the date the product is implanted), the selling price is fixed and collection is reasonably assured. Revenue recognised to date is from sales of devices in connection with our US clinical trial.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 fulfillment 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 Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

(g) Cash and Cash Equivalents

Cash and short term deposits in the Statement of Financial Position 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 Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) 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.

(i) Foreign Currency Translation

During 2010 Sunshine Heart, Inc. has progressively changed from being an extension of Sunshine Heart Company Pty Limited to a US operating entity. There were a number of factors which were considered by management and the directors in assessing this position: funds received in USD from the clinical trial implants, capital raised via a US placement in late 2010 together with the Group moving towards a secondary listing on a US exchange and the expansion of the US-based management team. Consequently the functional currency of Sunshine Heart, Inc., the parent entity has been changed from Australian dollars to US dollars effective 1 January 2011.

In accordance with AASB 121, on the date of change in the functional currency, the assets and liabilities in the parent company were translated from AU dollars into the new functional currency, US dollars, using the exchange rate at the date of change. Historical non-monetary balances were effectively valued at this new rate and treated as the new historical cost.

The presentation currency for the financial statements has remained as Australian dollars as the majority of shareholders remain in Australia.

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 Statement of Comprehensive Income. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 Statement of Financial Position date.

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 Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

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.

(k) 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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)

(l) 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 2011/2010):

Office furniture and equipment - 10 - 15 years;
Computer equipment - 3 - 4 years; and
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.

(m) Other Financial Assets (only applicable to the parent entity)

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 loss from operating activities after income tax in Note 11, Parent Entity Information.

(n) 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 Statement of Comprehensive Income 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)

(n) 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, license 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.

(o) 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.

(p) 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 Statement of Comprehensive Income 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable

(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.

(r) 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.

(s) 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"). In addition a new plan has been tabled for approval by the shareholders on 18 August 2011 which is called the 2011 Equity Incentive 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 14. 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 Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Settled Transactions (continued)

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.

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

(t) 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.

(u) 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.

(v) 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.

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:

(a) 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 14.

As at 30 June 2011 there are 119,118,000 options that are subject to the approval of the 2011 Equity Incentive Plan ("the Plan") and in the options that relate to directors are further subjected to shareholder approval. The company has deemed the service period for these options to have commenced as both the employees/ directors and the company have a mutual understanding of the terms and therefore an estimate of the value as at the grant date has been made with the a corresponding cost being recognised in the accounts. Please refer to Note 14 for further detail.

SIGNIFICANT ACCOUNTING JUDGEMENTS

(a) Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

	Notes	CONSOLIDATED	
		2011	2010
		$	$
3. REVENUES AND EXPENSES			
(a) Revenue and Other Income			
Finance Revenue – Bank Interest		254,640	171,891
Clinical Implant Reimbursement		270,435	298,799
		525,075	470,690
(b) Depreciation and Amortisation			
Depreciation – Plant and Equipment		28,201	45,534
Amortisation – Leasehold Improvements		13,618	14,682
		41,819	60,216
(c) Office Expenses			
Lease Payments		260,781	199,841
(d) Employee Benefits Expense			
Share-Based Payments	10(f)	412,209	(15,302)
Employee Benefits		94,281	19,757
Superannuation		78,991	64,937
Salaries and Consultancy Fees		3,017,423	2,044,807
		3,602,904	2,114,199
(e) Research and Development Expenses		4,975,512	3,468,512
(f) Other Expenses			
Net Foreign Exchange Loss		385,586	99,450
Communications, Public Relations and Advertising		384,563	170,684
Other Expenses		496,254	380,622
		1,266,403	650,756

Notes to the Financial Statements continued

For the year ended 30 June 2011

	CONSOLIDATED	
	2011	2010
	$	$
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	(11,476,774)	(7,318,098)
At the Group statutory income tax rate of 39% (2010:39%)	(4,475,942)	(2,854,058)
Expenditure not allowed for income tax purposes – share-based payments	177,241	(5,967)
Difference in overseas tax rates	401,250	598,670
R&D tax offset	-	785,378
Current year tax losses not booked as a future tax benefit as realisation of benefit is not probable	3,897,451	2,261,355
Income tax benefit reported in the consolidated Statement of Comprehensive Income	-	785,378
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	18,473,866	14,473,326

The unrecognised deferred tax assets relating to deductible temporary differences at 30 June 2011 is $123,144 (2010: 123,223). The unrecognised deferred tax liabilities relating to assessable temporary differences at 30 June 2011 is nil (2010: nil).

Consolidated franking account balance at 30 June 2011 nil (2010: nil)

Income tax charged or credited directly to equity at 30 June 2011 nil (2010: nil)

5. TRADE AND OTHER RECEIVABLES		
Clinical Implant Reimbursement – Receivable	-	183,455
Finance Revenue Receivables – Bank Interest	22,554	27,895
Other Receivables	104,760	38,147
	127,314	249,497

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.

6. OTHER CURRENT ASSETS		
Prepayments and Deposits	121,073	154,646

	Notes	CONSOLIDATED 2011 $	2010 $
7. PROPERTY, PLANT AND EQUIPMENT			
Leasehold Improvements			
At Cost		77,241	77,241
Accumulated Amortisation		(68,334)	(54,716)
	7(a)	8,907	22,525
Office Furniture and Equipment			
At Cost		88,443	88,443
Accumulated Depreciation		(35,293)	(28,812)
	7(a)	53,150	59,631
Computer Equipment			
At Cost		118,006	84,675
Accumulated Depreciation		(79,865)	(68,562)
	7(a)	38,141	16,113
Laboratory and Research Equipment			
At Cost		177,083	177,083
Accumulated Depreciation		(151,911)	(141,494)
	7(a)	25,172	35,589
Total Property, Plant and Equipment			
Cost		460,773	427,442
Accumulated Depreciation and Amortisation		(335,403)	(293,584)
Total Written Down Amount		125,370	133,858

7. 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.

	CONSOLIDATED	
	2011	2010
	$	$
Leasehold Improvements		
Carrying Amount at Beginning	22,525	37,207
Amortisation Expense	(13,618)	(14,682)
Net Carrying Amount	8,907	22,525
Office Furniture and Equipment		
Carrying Amount at Beginning	59,631	66,113
Depreciation Expense	(6,481)	(6,482)
Net Carrying Amount	53,150	59,631
Computer Equipment		
Carrying Amount at Beginning	16,113	26,015
Additions	33,331	5,112
Depreciation Expense	(11,303)	(15,014)
Net Carrying Amount	38,141	16,113
Laboratory and Research Equipment		
Carrying Amount at Beginning	35,589	59,627
Depreciation Expense	(10,417)	(24,038)
Net Carrying Amount	25,172	35,589
Total Property, Plant and Equipment		
Carrying Amount at Beginning	133,858	188,962
Additions	33,331	5,112
Depreciation Expense	(41,819)	(60,216)
Net Carrying Amount	125,370	133,858

No property, plant and equipment is impaired.

	2011 $	2010 $
8. TRADE AND OTHER PAYABLES (CURRENT)		
Sundry Creditors	306,810	455,852

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

	2011 $	2010 $
9. PROVISIONS (CURRENT)		
Annual Leave	197,817	58,832
Long Service Leave	30,762	23,669
	228,579	82,501
Movement in Annual Leave Provision		
Balance 1 July 2010	58,832	71,015
Arising During the Year	191,390	50,894
Utilised	(52,405)	(63,077)
Balance at 30 June 2011	197,817	58,832
Movement in Long Service Leave Provision		
Balance 1 July 2010	23,669	12,740
Arising During the Year	7,093	10,929
Balance at 30 June 2011	30,762	23,669
10. CONTRIBUTED EQUITY AND RESERVES		
(a) Issued and Paid Up Capital		
Shares, Fully Paid	68,388,712	56,160,753
Warrants	1,379,200	1,379,200
	69,767,912	57,539,953

10. CONTRIBUTED EQUITY AND RESERVES (continued)
(b) Movement in Shares on Issue

	2011		2010	
	Number of Shares	$	Number of Shares	$
Shares, Fully Paid				
Beginning of the Financial Year	539,078,350	56,160,753	291,724,429	46,914,438
Issued on 17 August 2009 – Private Placement	-	-	43,758,664	1,750,347
Issued on 26 August 2009 – Option Exercise	-	-	194,000	3,610
Issued on 29 September 2009 – Rights Issue	-	-	201,406,334	8,056,243
Transaction Costs on Private Placement and Rights Issue	-	-	-	(597,904)
Issued on 3 December 2009 – Option Exercise	-	-	1,994,923	34,019
Issued on 15 November 2010 – Placement	133,420,518	3,735,774	-	-
Issued on 8 December 2010 – Rights Issue	340,294,600	9,528,249	-	-
Transaction Costs on Rights Issue and Placement	-	(1,214,792)	-	-
Issued on 25 January 2011 – Rights Issue Shortfall Facility	3,571,429	100,000	-	-
Issued on 25 January 2011 – Option Exercise	23,716	759	-	-
Issued on 22 February 2011 – Option Exercise	27,840	891	-	-
Issued on 9 May 2011 – Option Exercise	1,379,921	44,157	-	-
Issued on 23 May – Option Exercise	1,000,000	32,000	-	-
Issued on 6 June – Option Exercise	10,536	335	-	-
Issued on 22 June – Option Exercise	38,800	586	-	-
End of the Financial Year	1,018,845,710	68,388,712	539,078,350	56,160,753
			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

10. CONTRIBUTED EQUITY AND RESERVES (continued)

(c) Share Options

Employee Options

During the financial year Sunshine Heart, Inc. issued 10,000,000 options (2010: nil) over ordinary shares with an issue term of 10 years. During the year 38,800 (2010: 2,188,923) were exercised, 1,593,297 (2010: 8,783,654) options were forfeited and nil (2010: nil) lapsed.

At the end of the year there were 24,125,719 (2010: 15,757,816) unissued ordinary shares in respect of which employee options were outstanding as remuneration to directors, consultants and employees of the Company (refer Note 14).

Placement Options

Sunshine Heart, Inc. issued 66,710,259 options over ordinary shares with an issue term of 4 years as part of the placement. These options were issued on 13 November 2010 and had an exercise price of $0.032.

Attached to these options is a requirement to lodge a Form 10-12G registering the share of the Company's common stock with the SEC and file an application to list on a U.S. Stock exchange by 30 September 2011. In the event the Company does not satisfy these requirements, the number of options issued in this placement will increase by 10%.

During the year 16,000,000 placement options expired.

Rights Issue Options

As part of the 2010 rights issue Sunshine Heart, Inc. issued 170,147,300 options over ordinary shares with an issue term of 4 years. These options were issued on 8 December 2010 and had an exercise price of $0.032. As part of the 2010 rights issue short fall facility Sunshine Heart, Inc issued 1,785,715 options over ordinary shares with an issue term of 4 years. These options were issued on 25 January 2011 and had an exercise price of $0.032.

(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.

10. CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED	
	2011	2010
	$	$
(e) Accumulated Losses		
Movement in accumulated losses were as follows:		
Balance 1 July	(54,565,166)	(48,032,446)
Net Loss Attributable to Members of Sunshine Heart, Inc.	(11,476,774)	(6,532,720)
Balance 30 June	(66,041,940)	(54,565,166)

(f) Reserves

Movement in Reserves were as Follows:

	Share-based Payments	Foreign Exchange Translation	Total
	$	$	$
At 30 June 2009	1,767,658	-	1,767,658
Share-Based Payments	(15,302)	-	(15,302)
At 30 June 2010	1,752,356	-	1,752,356
Share-Based Payments	454,466	-	454,466
Foreign Exchange Translation	-	(74,374)	(74,374)
At 30 June 2011	2,206,822	(74,374)	2,132,448

(g) Dividends

No dividends were paid or recommended to be paid during the year (2010: Nil).

11. PARENT ENTITY INFORMATION

	PARENT	
	2011	2010
	$	$
Current Assets	5,860,378	3,713,053
Total Assets	6,075,834	4,807,046
Current Liabilities	217,414	79,903
Total Liabilities	217,414	79,903
Issued Capital	69,767,912	57,539,953
Reserves	2,132,448	1,752,356
Total Shareholder's Equity	5,858,420	4,727,143
Loss from Operating Activities after Income Tax	11,476,774	6,532,720
Total Comprehensive Loss	11,551,148	6,532,720

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries. The parent entity has no contingent liabilities and has no contractual commitments for the acquisition of property, plant or equipment.

12. CASH AND CASH EQUIVALENTS

	Notes	CONSOLIDATED 2011 $	2010 $
(a) Reconciliation of the Net Loss After Tax to the Net Cash Flows From Operations			
Net Loss		(11,476,774)	(6,532,720)
Non-Cash Items			
Depreciation and Amortisation of Non-current Assets	3(b)	41,819	60,216
Share-Based Payments Expense		454,466	(15,302)
Unrealised Net Foreign Exchange Differences		(33,200)	45,983
Changes in Assets and Liabilities			
Increase In Prepayments and Other Receivables		941,134	(935,279)
Increase In Trade and Other Payables		(149,042)	111,444
Decrease In Provisions		146,077	(1,254)
Net Cash Outflow from Operating Activities		(10,075,520)	(7,266,912)
(b) Reconciliation of Cash			
Cash Balance Comprises:			
– Cash at Bank		3,099,155	1,051,040
– Term Deposits		2,920,897	2,891,077
Closing Cash Balance		6,020,052	3,942,117
(c) Non-Cash Financing and Investing Activities			
Share-Based Payments		454,466	(15,302)

(d) Terms and Conditions

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

13. COMMITMENTS

	CONSOLIDATED	
	2011	2010
	$	$
(a) Lease Expenditure Commitments – Group as Lessee		
(i) Operating Leases (non-cancellable):		
Minimum Lease Payments		
– Not Later Than One Year	107,909	108,969
– Later Than One Year and Not Later than Five Years	19,357	-
– Aggregate Lease Expenditure Contracted for at Reporting Date	127,266	108,969

Operating lease expenditure commitments relate to the St Leonards property where the lease expires on 30 September 2011. The lease is expected to be renewed on similar terms at expiration.

(ii) Research and Development Commitments:		
– Not Later Than One Year	1,236,090	1,220,322
– Later Than One Year and Not Later Than Five Years	-	-
– Aggregate Other Expenditure Contracted for at Reporting Date	1,236,090	1,220,322

Research and development commitments are purchase orders where the work has been committed but not yet completed.

14. 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 2011 there were 10 retained Key Management Personnel and 8 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 U.S. dollars, it has been translated to Australian dollars using the exchange rate applicable on 30 June 2011, being $0.9593. All options issued and outstanding under the Plan do not carry dividend and/or voting rights.

	2011		2010	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance at Beginning of Year	15,757,816	0.18	26,730,393	0.19
- Granted	10,000,000	0.05	-	-
- Exercised	(38,800)	0.02	(2,188,923)	0.02
- Forfeited	(1,593,297)	0.17	(8,783,654)	0.25
Balance at End of Year	24,125,719	0.13	15,757,816	0.18

Options were exercised on 21 June 2011.

14. 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 2011. 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
1,695,497	31 Jan 03	31 Jan 03	30 Jan 13	0.07
38,800	29 Apr 03	31 Jan 03	28 Apr 13	0.12
562,600	19 May 04	30 Mar 04	18 May 14	0.08
3,210,000	23 Jun 04	28 Sep 04	23 Jun 14	0.28
485,000	20 Jul 04	28 Sep 04	20 Jul 14	0.50
300,000	21 Apr 06	31 Mar 06	20 Apr 16	0.37
58,200	2 Jun 06	1 Jun 06	1 Jun 16	0.25
698,784	1 Nov 06	1 Nov 06	31 Oct 16	0.20
269,000	31 Jan 07	31 Jan 07	30 Jan 17	0.29
706,000	18 Apr 07	30 Jun 07	17 Apr 17	0.30
50,000	24 May 07	24 May 07	23 May 17	0.20
291,000	18 Dec 07	18 Dec 08	17 Dec 17	0.30
170,000	14 Feb 08	14 Feb 08	13 Feb 18	0.18
2,097,500	10 Jul 08	10 Jul 08 to 30 Oct 08	9 Jul 18	0.11
3,493,338	21 Aug 08	21 Aug 09	20 Aug 18	0.08
10,000,000	7 Dec 10	7 Dec 10	28 Nov 20	0.05

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:

	2011	2010 (No options granted)
Dividend Yield (%)	-	-
Risk-free Interest Rate (%)	4.97%	-
Expected Volatility (%)	65%	-
Expected Life of Option (years)	5	-
Weighted Average Exercise Price	$0.05	-

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

14. 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 Statement of Comprehensive Income with a corresponding adjustment to equity.

Weighted Average Fair Value

The weighted average fair value of options granted during the year was $0.05
(2010: $nil – no options granted)

Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is years 6.78 (2010: 6.07 years).

Share Options

On 17 March 2011, the Directors approved 119,118,000 stock options under the 2011 Equity Incentive Plan ("the Plan") to be issued to employees and Directors subject to the shareholders approval of the 2011 Equity Incentive Plan and shareholder approval of the option issue where applicable.

An expense in relation to these options has been recognised in the 30 June 2011 accounts even though the Plan has yet to receive shareholder approval as there was a mutual understanding of the terms of the options to be issued between the company and the employees/directors. Where there are service conditions attached to the options AASB 2 requires the cost of the award to be recognised over a period starting at the earlier of the grant date and the date at which the terms of the award are fully understood. This has resulted in an expense being recognised prior to the granting of the stock options.

The fair value of these options has been estimated using the Black-Scholes formula taking into accounting the terms and conditions of the options. The assumptions used when determining the fair value of the options are as follows:

Dividend yield	- %
Risk-free interest rate	5.1%
Expected volatility	65%
Expected life of option	5 years
Weighted average exercise price	0.04

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

The fair value estimate of the options issued under the 2011 Equity Incentive Plan will be reassessed on their grant date which may result in the final assumptions used in the Black-Scholes formula being different to those documented above.

Total share-based payment expense recognised in the financial statements 2011: $454,466
(2010: credit $15,302).

15. SUBSEQUENT EVENTS

On 25 July 2011 the Company announced it had completed the placement of $4.6 million with institutional investors, representing the first tranche of a previously announced financing. The Company also announced it intends to raise up to an additional $9.1 million in a second tranche, subject to shareholder approval at an Extraordinary General Meeting.

16. EARNINGS PER SHARE

	2011 $	2010 $
The following reflects the income and share data used in the calculations of basic and diluted loss per share: Net loss	(11,476,774)	(6,532,720)
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):	815,409,990	482,227,231

17. AUDITORS' REMUNERATION

	2011 $	2010 $
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	111,755	106,605
– other services in relation to the entity and any other entity in the consolidated entity - Tax compliance services	68,248	20,000
	180,003	126,605

18. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Mr. Nicholas Callinan	Chairman (non-executive)
Dr. Geoff Brooke	Director (non-executive)
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) (resigned 19 May 2011)
Mr. Dave Rosa	Chief Executive Officer
Mr. Paul Buckman	Director (non-executive) (appointed 1 February 2011)

(ii) Executives

Ms Debra Kridner	Vice President Clinical Research and Regulatory Affairs
Mr. Kevin Bassett	Vice President R&D / Quality
Mr. Jeff Mathiesen	Chief Financial Officer

18. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)
(b) Compensation of Key Management Personnel

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Short-Term	1,325,965	1,352,529
Post Employment	-	261,030
Share-based Payment	387,926	27,231
	1,713,891	1,640,790

(c) Option holdings of Key Management Personnel

JUNE 2011	BALANCE AT BEGINNING	OPTIONS GRANTED	OPTIONS CANCELLED/ FORFEITED	BALANCE AT END OF PERIOD 30 JUNE 2011	AS AT 30 JUNE 2011 NOT EXERCISABLE	AS AT 30 JUNE 2011 VESTED AND EXERCISABLE
Directors						
N Callinan	2,000,000	-	-	2,000,000	148,555	1,851,445
G Brooke (1)(3)	7,563,667	-	(7,466,667)	97,000	-	97,000
C Marsh	1,106,665	-	-	1,106,665	21,802	1,084,863
D O'Dwyer	97,000	-	-	97,000	-	97,000
W Peters	3,712,482	-	-	3,712,482	269,936	3,442,546
D Rosa	-	10,000,000		10,000,000	5,000,000	5,000,000
Total	14,479,814	10,000,000	(7,466,667)	17,013,147	5,440,293	11,572,854

JUNE 2010	BALANCE AT BEGINNING	OPTIONS GRANTED	OPTIONS CANCELLED/ FORFEITED	BALANCE AT END OF PERIOD 30 JUNE 2011	AS AT 30 JUNE 2010 NOT EXERCISABLE	AS AT 30 JUNE 2010 VESTED AND EXERCISABLE
Directors						
N Callinan	2,000,000	-	-	2,000,000	592,999	1,407,001
G Brooke (1)(3)	15,963,667	-	(8,400,000)	7,563,667	-	7,563,667
C Marsh(3)	2,106,665	-	(1,000,000)	1,106,665	21,802	1,084,863
D O'Dwyer	97,000	-	-	97,000	-	97,000
W Peters	3,712,482	-	-	3,712,482	663,280	3,049,202
J Brennan (2)(3)	18,133,333	-	(9,600,000)	8,533,333	-	8,533,333
D Rohrbaugh (4)	8,768,341	(1,994,923)	(4,833,418)	1,940,000	-	1,940,000
Total	50,781,488	(1,994,923)	(23,833,418)	24,953,147	1,278,381	23,675,066

No options were exercised during the year.

(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 CM Capital Investments in its capacity as trustee of CM Capital Venture Trust 4A and CM Capital Venture Trust 4B. Mr. J Brennan had an indirect interest as a member and Partner of CM Capital Investments.
(3) Options cancelled due to expiry.
(4) Options forfeited due to termination of employment.

18. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

	BALANCE 1 JULY 2009	PURCHASED 1 JULY 2009 – 30 JUNE 2010	BALANCE 30 JUNE 2010	PURCHASED 1 JULY 2010 – 30 JUNE 2011	BALANCE 30 JUNE 2011
Directors					
N Callinan	-	1,500,000	1,500,000	4,129,054	5,629,054
G Brooke (1)	92,147,909	47,240,736	139,388,645	99,563,319	238,951,964
C Marsh	7,999,282	1,296,900	9,296,182	3,576,336	12,872,518
D O'Dwyer	625,000	1,000,000	1,625,000	3,660,716	5,285,716
W Peters	7,882,300	6,564	7,888,864	762,152	8,651,016
Executives					
D Kridner	-	-	-	397,728	397,728
Total	108,654,491	51,044,200	159,698,691	112,089,305	271,787,996

(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.

(e) Other Transactions and Balances with Key Management Personnel

During the year ended 30 June 2011, Sunshine Heart Company Pty Limited paid $nil (2010: $10,875) 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 2011, there were no monies outstanding with Key Management Personnel (2010: $nil).

19. RELATED PARTY DISCLOSURES

Ultimate Parent

Sunshine Heart, Inc. (incorporated in Delaware, USA) is the ultimate parent entity and Sunshine Heart Company Pty Ltd (incorporated in Australia) is the wholly owned subsidiary.

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.

20. SEGMENT INFORMATION

The consolidated entity has only one operating segment which is the research and development of heart assist devices.

The chief operating decision maker only obtains information regarding cash flows and does not consider segment revenues, results or assets due to the entity's stage of development in its life-cycle. The focus is ensuring the Group has enough funds to reach the next stage of the FDA approval ladder.

The directors believe there is sufficient disclosure in the financial statements to allow users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates

Information About Geographical Areas

Finance revenue (bank interest) is generated by funds held in Australia. Clinical implant reimbursement is received from hospitals where implants have occurred. In the years ended 30 June 2010 and 2011 all reimbursements received or receivable have been from hospitals in the US.

21. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Board determines and regularly reviews the Group'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 Group's 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. The Group policy is only to deal with accredited teaching hospitals so the credit risk is minimal. The maximum exposure to credit risk at balance date is the clinical implant reimbursement receivable, refer Note 5.

21. 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 2011 or 30 June 2010) exposed to Australian variable interest rate not designated in cash flow hedges:

	2011 $	2010 $
Financial Assets		
Cash and Cash Equivalents	6,020,052	3,942,117
	6,020,052	3,942,117

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Statement of Financial Position date. At 30 June 2011, 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)	
	2011 $	2010 $	2011 $	2010 $
Consolidated				
+1% (100 basis points)	60,201	39,421	-	-
-0.5% (50 basis points)	(30,100)	(19,711)	-	-

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 purchased US dollars during the period to hedge the falling exchange rate. 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.

21. FINANCIAL INSTRUMENTS (continued)

(b) Risk Exposures and Responses (continued)

At 30 June 2011, the Group had the following exposure to US$ foreign currency in the Australian Subsidiary that is not designated in cash flow hedges:

	2011 $	2010 $
Financial Assets		
Cash and Cash Equivalents	-	385,851
Clinical Implant Reimbursement Receivable	-	183,454
Financial Liabilities		
Sundry Creditors	-	296,303

At 30 June 2011, the Group had the following exposure to AU$ foreign currency in the US parent entity that is not designated in cash flow hedges:

	2011 $	2010 $
Financial Assets		
Cash and Cash Equivalents	-	-
Clinical Implant Reimbursement Receivable	3,192,645	-
Financial Liabilities		
Sundry Creditors	-	-

Net Exposure

The following sensitivity is based on the foreign currency risk exposures in existence at the Statement of Financial Position date. At 30 June 2011, 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)	
	2011 $	2010 $	2011 $	2010 $
Consolidated				
AUS/USD +10%	(319,265)	27,300	-	-
AUS/USD -5%	159,632	(13,650)	-	-

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

21. FINANCIAL INSTRUMENTS (continued)

(b) Risk Exposures and Responses (continued)

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 and capital raising.

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 cash flow. The directors will continue to raise capital as and when needed to meet its ongoing capital commitments.

Directors' Declaration

In accordance with a resolution of the directors of Sunshine Heart, Inc. I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.

On behalf of the Board

Dave Rosa
Director
Minneapolis, 1 August 2011

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Auditor's Independence Declaration to the Directors of Sunshine Heart, Inc.

In relation to our audit of the financial report of Sunshine Heart, Inc. for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
Sydney
Date: 1 August 2011

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Independent auditor's report to the members of Sunshine Heart, Inc.

Report on the financial report

We have audited the accompanying financial report of Sunshine Heart, Inc., which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Sunshine Heart, Inc. is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(c) "Going Concern" in the financial report which indicates there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Sunshine Heart, Inc. for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
Sydney
2 August 2011

ASX Additional Information

Additional information required by ASX Ltd (ASX) and not shown elsewhere in this report is as follows.

For the purposes of this report, Chess Depositary Instrument (CDI) holders and certificated shareholders are shown as one class of shareholder, notwithstanding CDI holders having beneficial interests in the underlying shares, rather than legal title.

Chess Depositary Nominees Pty Ltd (CDN) as a subsidiary of ASX holds the legal title in the Company's shares, for and on behalf of CDI holders, to effect broker-to-broker settlement of trading in the underlying shares. Holders of CDIs are entitled to all the economic benefits of the underlying shares as though they were holders of the legal title. For the purposes of the information below, CDN has been excluded and the terms CDI/fully paid ordinary shares or shares are interchangeable.
This information is current as at 17 July 2011.

(a) Distribution of Equity Securities

(i) Ordinary Share Capital

- 1,018,845,710 fully paid ordinary shares are held by 1,165 individual security holders.

CDI holders are not entitled to vote at shareholder meetings as CDN holds legal title to the Company's shares, for and on their behalf. CDI holders should direct CDN on how to vote on proposed resolutions at shareholder meetings. CDN must exercise its right to vote by proxy at shareholder meetings in accordance with the directions of CDI holders. All issued ordinary shares carry one vote per share without restriction. Holders of CDIs have one vote for every CDI held.

(ii) Warrants

- 3,200,000 unquoted warrants over ordinary shares are held by 4 individual security holders. Warrants do not carry a right to vote.

(iii) Options

- 31,757,816 unquoted options over ordinary shares are held by 36 individual security holders. Options do not carry a right to vote.

The number of security holders, by size of holding, in each class are:

	Fully paid ordinary shares	Warrants	Options
1 - 1,000	27	-	-
1,001 - 5,000	92	-	1
5,001 - 10,000	119	-	-
10,001 - 100,000	580	-	16
100,001 - and Over	347	4	15
	1165	4	32
Holding Less than a Marketable Parcel of Shares are:	191	-	-

ASX Additional Information

(b) Substantial Shareholders

Ordinary Shareholders	FULLY PAID Number	Percentage
Australian Executor Trustees Ltd (CM Capital Vent. 4A & 4B)	275,142,260	27.01
GBS Venture Partners Pty Ltd (GBS Bioventures II & III A/C)	238,951,964	23.45
	514,094,224	50.46

(c) Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholders	FULLY PAID Number	Percentage
Australian Executor Trustees Ltd (CM Capital Vent. 4A & 4B)	275,142,260	27.01
GBS Venture Partners Pty Ltd (GBS Bioventures II & III A/C)	238,951,964	23.45
Straus (HSBC Custody Nominees)	76,240,896	7.48
HSBC Custody Nominees	31,963,854	3.14
Asia Union Investments Pty Ltd (2 a/cs)	29,350,528	2.88
RRC Bio Fund LP	26,684,314	2.62
JP Morgan Nominees Australia Limited	18,159,534	1.78
Mr. Bruce Rodney Pettit (3 a/cs) Pty Ltd	17,335,285	1.70
Merrill Lynch (Australia)	16,172,468	1.59
David Frederick Oakley	13,100,000	1.29
PCLM Investments Pty Ltd	12,872,518	1.26
UBS Nominees	11,497,048	1.13
Riverdwell Pty Ltd	8,824,062	0.87
Dr. William Peters Apollo Trustee & Szigetvary Trustee (2 a/cs)	8,651,016	0.85
Dr. Jason Wesley Armstrong	7,653,988	0.75
Maryfair Pty Ltd, Honeywill A/c	6,922,245	0.68
Beraleigh Pty Ltd (Callinan Family Super A/c) (2 a/c's)	5,629,054	0.55
Diamond Building Products Pty Ltd	5,300,000	0.52
Donal O'Dwyer and Dundrum Investments (6 a/c's)	5,285,716	0.52
Berne No. 132	5,000,000	0.49
	820,736,750	80.56

(d) Other Required Information

(i) There is no current on-market buy-back of the Company's securities.

(ii) Sunshine Heart, Inc. was incorporated in the state of Delaware in the United States of America.

(iii) The Company is not subject to Chapters 6, 6A, 6B or 6C of the Corporations Act 2001 (Cth) dealing with the acquisitions of shares (ie, substantial shareholdings and takeovers).

(iv) Under the Delaware General Corporation Law, shares are generally freely transferable subject to restrictions imposed by U.S. federal or state securities laws, by the certificate of incorporation or by-laws of the Company or by an agreement signed with the holders of the shares at issue. The Company's certificate of incorporation and by-laws do not impose any specific restrictions on transfer.

Corporate Directory

ABN 79 109 440 888

Directors

Mr. Nicholas Callinan (Chairman)
Dr. Geoff Brooke
Mr. Paul Buckman
Mr. Mark Harvey
Mr. Donal O'Dwyer
Dr. William Peters
Mr. Dave Rosa (Chief Executive Officer)
Mr. Greg Waller

Company Secretary

Mr. Jeff Mathiesen

Registered Office in Australia

3/12 Frederick Street
St Leonards NSW 2065
Phone: 61 2 8424 7717

Principal Place of Business

7651 Anagram Drive
Eden Prairie, MN 55344

Internet Address

www.sunshineheart.com

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Phone: 61 2 8280 7111

Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

SUNSHINE HEART

OUR DEDICATED TEAM

Left to right

Berk Tas
Chad Wilhelmy
Chanda Wampler
Dan LaFontaine
Dave Rosa

Debra Kridner
Donna Brown
Jeanette Thul
Jeff Mathiesen

Kenneth Lee
Kevin Bassett
Khamporn Phanthanivong
Kirk Stremke

Martin Cook
Nathan Murphy
Rodney Parkin

Sandy Campbell-Smith
Scott Miller
Sophia Rubalcaba
Sue Raddatz

Tammy Davis
Warrick Heald
Will Peters

Corporate Offices

United States of America

Sunshine Heart, Inc.
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Eden Prairie, MN 55344
Phone +1 952 345 4200

Australia

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