

QUARTERLY REPORT

For the quarter ended 31 March 2020

NUHEARA STRENGTHENS GLOBAL LEADERSHIP IN SMART HEARING HEALTHCARE MARKET WITH 4TH CONSECUTIVE QUARTER OF GROWTH

HIGHLIGHTS

- Nuheara increases March 2020 quarter cash receipts to \$1.23M.
- Quarterly sales are up 35% on December 2019 quarter (\$910K) and 171% up on September 2019 quarter (\$452K).
- Year to date 2020FY unit sales now exceeds total unit sales for 2019FY
- Launched 3rd generation IQbuds² MAX in January at CES 2020 in Las Vegas, USA where it was globally recognised with 3 innovation awards
- IQbuds² MAX unit sales for the quarter exceeded 2,500 units at an Average Sales Price (ASP) above \$450.
- 100% of sales for the quarter were derived from Nuheara's Direct-To-Consumer (DTC) sales channel with 76% of all orders being international.
- Nuheara's DTC sales model proves its robustness amid global COVID-19 retail disruption with a Return on Advertising Spend (ROAS) of 2.5x.

30 April 2020 – Perth, Australia

Nuheara Limited ([ASX: NUH](#)) (Company or Nuheara), is pleased to provide its Quarterly Report for the quarter ended 31 March 2020.

The quarter was dominated by the launch and pre-sale campaign for Nuheara's next generation product, IQbuds² MAX.

Cash receipts for the quarter, including IQbuds² MAX pre-sales, which are recognised as revenue when shipped, were \$1.227M, approximately 35% higher than the December 2019 quarter (\$910K) and 171% higher than the September 2019 quarter (\$452K).

Improved sales results have been achieved almost exclusively via the Company's Direct-To-Consumer (DTC) online sales platform, further validating the sales model's ability to reach and transact with global customers. The DTC model is proving to be a viable alternative as traditional hearing clinics and retailers shutter around the world with the advent of the COVID-19 crisis. Nuheara also continues to pursue other traditional sales channels in accordance with its business strategy, including partnerships and distributor relationships in the healthcare sector to extend brand awareness and drive further sales.

Importantly, the Company has maintained a Return on Advertising Spend (ROAS) of 2.5x for the quarter despite the COVID-19 business disruptions, demonstrating the scalability and suitability of Nuheara's DTC platform.

Another milestone was reached during the quarter when year to date unit sales, including IQbuds² MAX pre-sales, exceeded total units sold for the whole of FY19.

Payments for the quarter included a deposit paid on mass production of IQbuds² MAX, one off costs for the CES launch, development and pre-production of IQbuds² MAX (including some delays), and costs associated with the transfer of production facilities from previous contract manufacturer in China to the new contact manufacturer in Malaysia.

Related party payments of \$250K were paid during the period, which represents non-executive Director fees, and salaries paid to executive Directors.

The Company maintained a strong cash balance of \$2.15M at 31 March 2020.

LAUNCH OF IQBUDS² MAX

On 5 January 2020 at the Consumer Electronics Show (CES) in Las Vegas, Nuheara launched its next generation of hearable technology: IQbuds² MAX.

Built on Nuheara's innovative new smart-hearing platform, the IQbuds² MAX feature hybrid Active Noise Cancellation and unique features for personalising and enhancing the wearer's soundscape. The IQbuds² MAX hearing buds are available for pre-order for AUD\$499. Shipping is expected to commence in May.

Nuheara redesigned the IQbuds² MAX from the ground up with its latest acoustic technology, which enhances normal hearing and allows users to fine-tune their sound environment. Nuheara's EarID technology and Speech in Noise Control (SINC) provides wearers with unrivaled customisation and control over their personal hearing experience, so they can enjoy music, phone calls, conversations or silence wherever they go.

Significant IQbuds² MAX developments from the previous platform include:

- **True Personalisation** — Nuheara's EarID technology uses a convenient mobile app to assess a wearer's hearing and automatically calibrate the buds to their personal hearing profile. EarID uses the clinically-validated NAL-NL2 hearing and fitting procedure, providing research-grade hearing customisation without the need to visit audiology specialists.
- **Hybrid Active Noise Cancellation** — With the most advanced form of ANC, IQbuds² MAX uses three microphones to analyse and process sounds both inside and outside the ear.
- **Situational Sound** — Nuheara's proprietary Speech in Noise Control (SINC) adds unique sound controls for each situation.
- **Advanced Digital Signal Processing** — IQbuds² MAX triple-core DSP system delivers optimal hearing fidelity and reduces occlusion to deliver the most natural enhanced sound ever in a hearing bud.
- **Sonic Accuracy** — A large 9.2mm dynamic driver with vented acoustical design provides pitch-perfect sound fidelity.

IQBUDS² MAX PRE-ORDERS SURPASS \$1M

In February, eight weeks after launch, Nuheara announced that IQbuds² MAX pre-orders had surpassed \$1M. Nuheara has achieved this result with a significant uplift in the Average Selling Price (ASP) achieved for all orders now exceeding \$450 per unit. 76% of all orders have been placed by international (non-Australian) customers and of those, 68% are from the US.

RELEASE OF NEXT GENERATION APP

The \$1M pre-order sales milestone also coincided with the release of Nuheara's next generation app on both the Apple App Store and Google Play portals. This is the third major release of the IQbuds app and represents an all-new design backed by millions of hours of IQbuds listening experience and user feedback and testing.

The new app is a generational leap forward in usability and design. It has been specifically designed to improve the customer experience and provide a framework for future app features and upgrades.

The app has been designed to be compatible with all Nuheara's IQbuds and IQstream offerings, so existing users of IQ products will benefit from the new release.

\$2.5M CONVERTIBLE NOTE SECURITY

In January, the Company announced that it had executed an agreement for a 24-month \$2.5M funding (Funding Agreement) with the Lind Global Macro Fund, LP, an entity managed by The Lind Partners (together Lind), a New York-based institutional fund manager.

The funding was provided as a secured convertible note with a 24-month term, the proceeds of which will be used, along with Nuheara's current cash, to fund the mass production and marketing of the IQbuds² MAX and working capital requirements.

The Funding Agreement includes provisions that allow for conversion of securities outstanding to Lind into fully paid ordinary shares in the capital of the Company, optional cash payments by the Company or early repayment, without penalty and subject to Lind's buy back conversion rights for up to 33% of the outstanding face value. A lock-up provision restricts conversion into shares for 120 days after the closing date.

Lind has invested \$2.5M into Nuheara who have issued a secured redeemable convertible security with a face value of \$3.0M. Nuheara has the right to redeem at any time without penalty, which, if repaid within 180 days, the face value will be reduced to \$2.85M.

COVID-19 BUSINESS IMPACT

The global COVID-19 pandemic resulted in major economic disruption around the world during the quarter. This included a Government imposed lock down in Malaysia including the manufacturing sector. This resulted in the temporary suspension of manufacturing and delivery of IQbuds² MAX orders which remained in place at the end of the quarter. The Malaysian Government has since begun lifting certain COVID-19 restrictions, and Nuheara announced on 14 April that manufacturing has recommenced with deliveries expected to commence in May.

Nuheara responded to the COVID-19 crisis with the implementation of several temporary business stabilisation measures to ensure that the company is well positioned operationally and financially to manage the economic uncertainty and business interruption.

In addition to recommended workplace protocols related to staff safety, the company also implemented significant cost reduction measures including standing down staff in non-essential functions and reducing senior executive and Board remuneration by 50%. These measures will be reviewed at 30 June.

MINERAL ASSETS

Nuheara's portfolio of mining assets consists of net smelter royalties located in Northern Peru (El Molino Gold Project and part of the El Galeno Copper Gold Project, currently owned under joint venture by China Minmetals Corporation and Jiangxi Copper) and in Western Australia (Mt Ida South/Quinns gold projects, currently owned by Alt Resources Ltd).

The Western Australian royalty is under contract for sale by way of a binding Royalty Sale and Purchase Agreement with SilverStream SEZC (Silverstream) and Vox Royalty Australia Pty Ltd (Vox), as announced post Quarter end on 3 April 2020.

Vox will purchase the royalty for total aggregate consideration of US\$200,000, satisfied by:

- the issue to Nuheara of US\$100,000 of SilverStream shares on or about the commencement of trading of SilverStream on the TSX or equivalent exchange (anticipated in Q2 2020) at its listing price per share; and
- US\$100,000 in cash payable within seven days of SilverStream listing on the TSX or equivalent exchange.

This announcement has been approved for release by the Nuheara Board.

CORPORATE INFORMATION

Directors

The Hon Cheryl Edwardes AM
Independent Non-Executive Chairman

Justin Miller
Managing Director/CEO

David Cannington
Executive Director/ Chief Marketing Officer

Kathryn Foster
Independent Non-Executive Director

David Buckingham
Independent Non-Executive Director

Company Secretaries

Susan Hunter - Company Secretary
Jean-Marie Rudd - Joint Company Secretary

ASX Code

NUH

Website and Email

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Email: administration@nuheara.com

Registered Office

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Northbridge WA 6003
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Fax: +61 (8) 6555 9998

Principal Place of Business

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Northbridge WA 6003
Phone: +61 (8) 6555 9999
Fax: +61 (8) 6555 9998

Share Registry

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth WA 6000
Phone: 1300 850 505 (within Australia)
+61 (3) 9415 4000 (outside Australia)

Issued Capital

At the date of this report there were 1,082,210,292 ordinary shares and the following unquoted securities on issue:

Unquoted Security	Number on issue
Unlisted Options – exercisable at 9 cents on or before 22/5/2020	2,500,000
Unlisted Options – exercisable at 9 cents on or before 14/7/2020	500,000
Unlisted Options – exercisable at 11.5 cents on or before 24/7/2020	3,000,000
Unlisted Options – exercisable at 9 cents on or before 10/11/2020	500,000
Unlisted Options – exercisable at 9 cents on or before 1/3/2021	3,000,000
Unlisted Options – exercisable at 9 cents on or before 17/9/2021	3,000,000
Unlisted Options – exercisable at 9 cents on or before 10/12/2021	500,000
Unlisted Options – exercisable at 9 cents on or before 18/3/2022	6,000,000
Unlisted Options – exercisable at 9 cents on or before 17/04/2022	2,500,000
Unlisted Options – exercisable at 5 cents on or before 03/02/2024	24,264,706
TOTAL	45,764,706

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

NUHEARA LIMITED

ABN

29 125 167 133

Quarter ended ("current quarter")

31 MARCH 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers ⁽¹⁾	1,227	2,589
1.2 Payments for		
(a) research and development ⁽²⁾	(122)	(351)
(b) product manufacturing and operating costs ⁽³⁾	(857)	(1,282)
(c) advertising and marketing ⁽⁴⁾	(1,231)	(2,714)
(d) leased assets	-	-
(e) staff costs	(887)	(2,065)
(f) administration and corporate costs	(891)	(2,180)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	30	35
1.5 Interest and other costs of finance paid	(3)	(4)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	1,674
1.8 Other (provide details if material)		
Proceeds from the sale of mining assets held for sale	1	366
1.9 Net cash from / (used in) operating activities	(2,733)	(3,932)

1) Includes paid pre-sale orders from customers on IQbuds² MAX not recognised as income until product has been shipped.

2) These numbers exclude expenditure directly attributable to development activities that are capitalised as an intangible asset under Australian Accounting Standards. These capitalised development costs are shown as "Payments to Acquire Intellectual Property" under cash flows from investing activities at 2.1(d).

3) Includes deposit paid on mass production of IQbuds² MAX, one off costs for the development and pre-production of IQbuds² MAX, and costs associated with the transfer of production facilities from previous contract manufacturer in China to the new contract manufacturer in Malaysia.

4) Includes \$495k in Direct-to-Consumer (DTC) marketing spend.

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(15)	(31)
	(d) investments	-	-
	(e) intellectual property ⁽¹⁾	(1,015)	(3,138)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	--
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1,030)	(3,169)

1) Comprising capitalised development costs of \$975k (YTD \$2,933k) and capitalised patent and trademark expenditure of \$40k (YTD \$205k).

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,000
3.2	Proceeds from issue of convertible debt securities	2,500	2,500
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(131)	(470)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,369	6,030

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
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4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,543	3,220
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,733)	(3,932)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,030)	(3,169)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,369	6,030
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,149	2,149

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	580	850
5.2	Call deposits	1,569	2,693
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,149	3,543

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
250
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Directors' fees paid to non-executive Directors and salaries paid to executive Directors

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	2,500	2,500
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,500	2,500

7.5 Unused financing facilities available at quarter end

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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Secured Redeemable Convertible Security

Lender: Lind Global Macro Fund, LP

Amount: \$2.5 million with a face value of \$3.0 million (if repaid within 180 days, the face value will be reduced to \$2.85 million)

Interest: Nil

Maturity Date: 23/01/2022

Security: Security provided by way of the issue of 20 million collateral shares that will be credited or returned to the Company upon expiration or termination of the Funding Agreement.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,733)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,149
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,149
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.8

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

No. As a result of the rapidly evolving situation worldwide with regards to COVID-19, the Nuheara Board has implemented a number of temporary business stabilisation measures to ensure that the company is well positioned operationally and financially to manage the current economic uncertainty and business interruption. Nuheara will temporarily stand down employees in non-essential functions. In addition, all board and senior executive remuneration have been reduced by 50% and other employees have had their hours reduced.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

The company continues to review appropriate funding opportunities in accordance with its growth strategy that are in the long-term interests of shareholders.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Pre-orders for IQbuds² MAX sales have remained strong and ongoing since they were launched at CES in January 2020, reaching more than 2,500 units. Daily sales are continuing and Return On Advertising Spend (ROAS) has also remained resilient at over 2x. As these sales are all originated by Nuheara's direct to consumer (DTC) online platform, COVID-19 related restrictions are not expected to significantly restrict Nuheara's ability to continue generating sales.

Despite manufacturing activities being constrained by the Malaysian government lock-down until mid-April, the Company has now resumed manufacturing and is expecting to recommence product deliveries over the course of the current quarter.

Nuheara has also refocused and reduced business expenditure to prudently manage its capital during the COVID-19 disruptions. This includes a reduction in advertising spend and a reduction in senior executive and Board remuneration by 50%. These measures will be reviewed at 30 June 2020. As this remains a rapidly evolving situation, the Board will continue to monitor and respond as appropriate.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 APRIL 2020

Authorised by: BY THE BOARD
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.