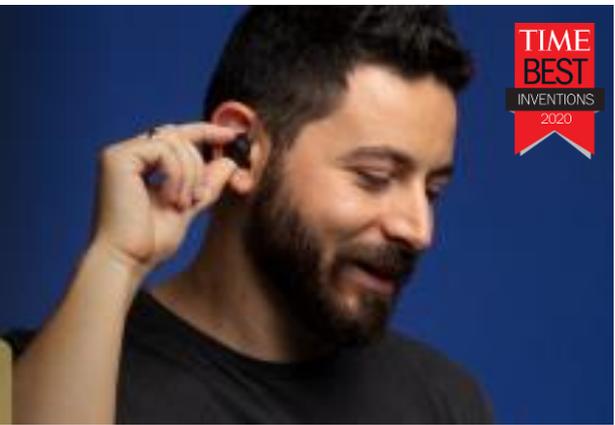


Quarterly Report

For the quarter ended 31 December 2020



Highlights

Nuheara Limited (ASX: NUH)(Company or Nuheara) continues to drive solid growth in FY21 with a strong second quarter (Q2): \$4.81m in customer receipts and invoiced sales revenue of \$3.37m. Total invoiced sales (net of returns) of \$6.9m for the FY21 half year, represents 403% growth over the same 6-month period in FY20, and is a record for the Company.

- **Customer receipts of \$4.81m up 429% on the same period last year.** Driven by strong Direct To Consumer (DTC) cash receipts, where payment is secured on placement of order.
- **Invoiced quarterly revenue up 314% on same period last year:** FY21 half year total of \$6.9m exceeds total FY20-revenue (\$1.74m) by 297%.
- **HP Inc. relationship solidified with three-year umbrella manufacturing and supply agreement:** Nuheara manufactured HP co-branded product expected to commence shipping in Q3.
- **New Q2 orders of 3,696 IQbuds² MAX:** 75% growth from Q1 in DTC new customer orders.
- **Improved DTC Return On Advertising Spend (ROAS) of 2.1x for Q2:** Previous quarter 1.7x.

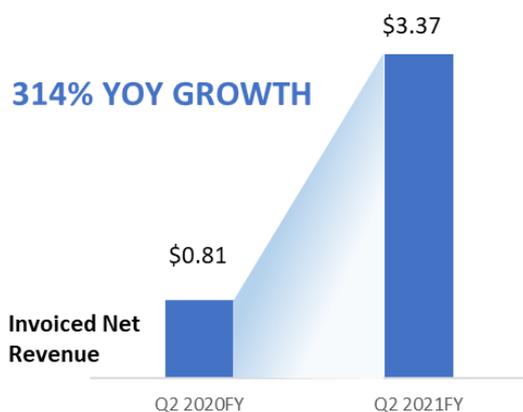
Comments from CEO Justin Miller:

“The Nuheara brand has solidified its global recognition and sales momentum. This was reinforced by a record quarter of new sales for our flagship IQbuds² MAX product and securing a three-year manufacturing and supply agreement with global technology company HP inc.

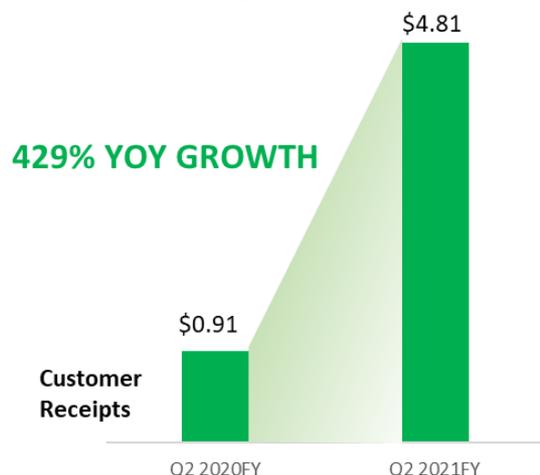
“With manufacturing now in full swing and backorder status removed, our subsequent ability to a ship on order should see further strengthening in our DTC sales.

“Importantly, ship on order status will allow us to implement sales expansion with our traditional global retail partners. Add the expected Q3 HP product shipments into the mix and we are in for an exciting second half of the financial year.”

Q2 Financial Performance
(\$ in millions)



Q2 Cash Receipts
(\$ in millions)



The quarter was characterised by the ongoing fulfillment and strengthening in sales of IQbuds2 MAX and securing a 3-year manufacturing and supply agreement with HP Inc.

SALES AND REVENUE

Nuheara continued to deliver record sales in Q2 with total invoiced sales for the quarter exceeding \$3.3m. The Company has now invoiced revenue (net of returns) of \$6.9m for the half year July 1 2020 to December 31 2020.

Substantial growth was achieved across both strategic sales channels of Product (Hearing Healthcare) and Services (OEM).

Overall, the quarterly results have firmly delivered on Nuheara’s long held strategy to drive sales across multiple sales fronts, within both Product and Services sales channels, with the aim of delivering global scale to the Company’s revenue base.

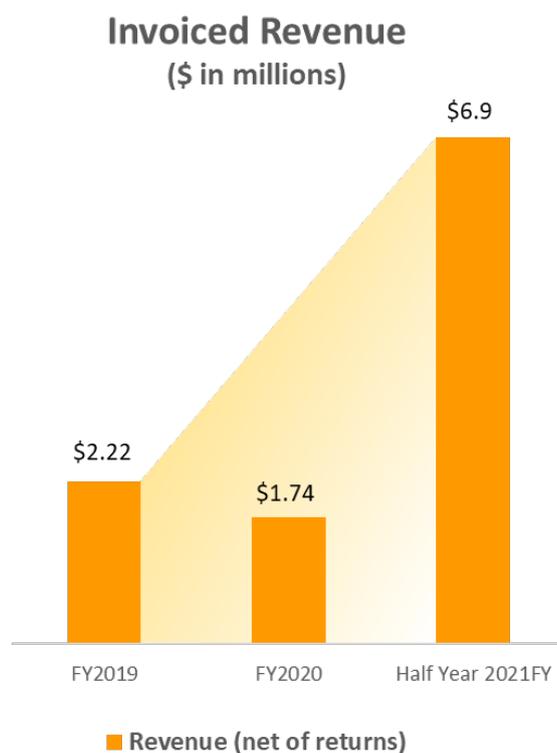


Figure 1: Invoiced Revenue (net of returns) for the half year 2021FY

NUHEARA ACHIEVES RECORD DTC SALES

In the December quarter, Nuheara continued its strong growth, despite initial COVID-19 manufacturing delays, to achieve record DTC sales orders of 3,696 IQbuds² MAX (MAX) units, surpassing total Q1 sales of 2,111 units.

Additionally, the quarter’s Return on Advertising Spend (ROAS) of 2.1x, exceeded the previous quarter average of 1.7x, demonstrating resilience in the Company’s DTC channel.

3-YEAR MANUFACTURE AND SUPPLY AGREEMENT WITH HP INC

The Company's record sales and collections through the current financial year, supported by the Company's rapidly growing DTC business and expanding OEM partnerships, has been further validated with the announcement of the signing of a long term manufacture and supply agreement with USD\$31 billion valued New York Stock Exchange Listed, HP Inc (NYSE: HPQ)(HP).

The Hardware Product Purchase Agreement (Supply Agreement) has a contracted initial term of three years with automatic renewals for successive one-year periods. This umbrella supply agreement is designed to manage the design, manufacture, and supply of multiple products throughout the life of the contract.

The first Nuheara manufactured product to be supplied under the Supply Agreement is a HP branded true wireless earbud with charging case – Elite Wireless Earbuds. Utilising Nuheara owned and developed IP, Elite Wireless Earbuds is designed as a premium, compact audio earbud product that will enhance the user's ability to be productive, provide a personalised experience and can be used comfortably in dynamic and every-changing physical environments. The Product will also carry a Nuheara co-brand.

Elite Wireless Earbuds were developed under a \$3.7 million Scope of Works Agreement, and the Company is on schedule to commence mass shipment to HP in late Q3 2021FY (Jan-Mar 21).



Figure 2: Elite Wireless Earbuds

\$11.5M SHARE PLACEMENT

On 29 December 2020, the Company announced an \$11.5 million capital raising (before costs) through an oversubscribed placement of 287.5 million new fully paid ordinary shares (Placement).

Net proceeds from the Placement will principally be used to fund the acceleration of DTC sales and activities, as well as supporting credit terms for Nuheara's manufacturing and production costs associated with the HP Supply Agreement.

The Placement price was \$0.04. Settlement occurred on 7 January 2021 and the receipt of these funds will be reflected in the Q3 Quarterly report.

With the strongest ever cash balance in the Company's history, a rapidly growing DTC global business and now an embedded strategic partner the size of HP, the Company is well funded and positioned to accelerate its growth and income diversification strategies.

FINALISATION OF LIND CONVERTIBLE SECURITY AGREEMENT

During December, the Company issued a buy-back notice to The Lind Partners (Lind) for the remaining convertible note balance of \$850,000. Under the terms of the Convertible Security Funding Agreement (Agreement), Lind has then elected to convert the buy-back notice into shares at an issue price of \$0.04 per share (the same issue price as the Share Placement noted above).

The Company has now removed all outstanding debt by closing out the Agreement with Lind.

Lind's election to convert the entire funding amount into shares, as well as the purchase of 20 million collateral security shares, has demonstrated confidence in Nuheara's ability to deliver growth for its shareholders.

TIME MAGAZINE – BEST INVENTIONS 2020

On 8 December 2020, the Company announced that IQbuds² MAX had been recognised on the cover of TIME and named as one of the world's Best Inventions of 2020.



Figure 3: IQbuds² MAX achieves record sales assisted by being named one of the world's Best Inventions of 2020

The 2020 list from one of the world's most influential news and current affairs publications, recognises 100 ground-breaking inventions that are making the world better, smarter and even a bit more fun.

After launching IQbuds² MAX at CES in Las Vegas in January 2020, Nuheara have gone on to win a succession of global accolades including three CES Innovation Awards, Australian Financial Review's Best Product Innovation and the Hearing Health Matters Innovator Award. The recognition from TIME puts IQbuds² MAX at the pinnacle of product innovation.

TIME is a multiple award-winning magazine created in 1923. TIME is one of the most authoritative and informative guides to what is happening in the world. Every week, close to 20 million affluent consumers and senior business people turn to TIME for award winning coverage of the key issues.

R&D TAX CASH REBATE RECEIVED

On 5 November 2020, the Company announced the receipt of a Research and Development Tax Incentive cash rebate from the Australian Tax Office of \$1,395,004. The R&D Tax Incentive provides a tax cash rebate to support Australian companies undertaking research and development.

The rebate is representative of the company's ongoing commitment to provide research leadership in the rapidly changing landscape of global hearing healthcare.

NHS UPDATE

During the quarter, the Company announced that the UK National Health Service (NHS) has created a new Audiological Equipment, Services and Related Consumables framework with a “Hearable” related category and has now included Nuheara’s IQbuds BOOST within that category.

IQbuds BOOST has successfully been placed on a new NHS UK contract, reference 2020/S 017-035930 under Lot 4 - Audiological Devices, assistive listening devices, tinnitus therapy devices and hearables. The contract is now live for a 24-month period, with the option to extend for an additional 24 months.

IQbuds BOOST is immediately available under the contract and will be supplied and supported under the contract via Nuheara’s UK distributor, Puretone. Puretone will now look to add IQbuds² MAX to the contract.

MINERAL ASSETS

There has been no change in mineral assets held during the quarter.

Nuheara’s remaining mining asset consists of an 80% interest in a Net Smelter Royalty located in Northern Peru, held by its subsidiary Terrace Gold Pty Ltd. Nuheara intends to divest the asset as soon as it is commercially practical to do so.

SUMMARY OF EXPENDITURE INCURRED

Research and Development

Research expenditure that is directly attributable to development activities is capitalised as an intangible asset under Australian Accounting Standards. As a result, expenditure of \$929k has been capitalised this quarter and is shown as “Payments to Acquire Intellectual Property” under cash flows from investing activities at item 2.1(d).

Product Manufacturing and Operating Costs

The campaign for the sale of Nuheara’s third generation product, IQbuds² MAX, continued during the quarter. The first production run was sold out and orders have been placed for ongoing production runs into 2021. Cash outlay for the quarter included deposits paid on advance production runs for both Nuheara and HP products.

Advertising and Marketing

Advertising and marketing spend is primarily expenditure directly attributable to the generation of online sales (DTC) and traditional retail sales channel support.

Staff Costs

Consistent with research and development expenditure noted above, employment expenses related to employees working on research and development activities have also been capitalised as an intangible asset under Australian Accounting Standards.

The remaining staff costs represent corporate, operations, finance, administration, and marketing employees, including related party payments of \$214k for non-executive Director fees, and salaries paid to executive Directors during the period (refer item 6.1).

Administration and Corporate Costs

Administration and corporate expenses reflect changes made within the business to ensure the Company is well positioned operationally and financially to accommodate the requirements under the Statement of Works and Supply Agreement with HP and ongoing sales of Nuheara’s core products.

Issued Capital

At the date of this report there were 1,722,837,526 ordinary shares and the following unquoted securities on issue:

| Unquoted Securities | Number on issue |
|---|------------------------|
| Unlisted Options – exercisable at 9 cents on or before 17/9/2021 | 1,000,000 |
| 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 |
| Unlisted Options – exercisable at 2.6 cents on or before 04/06/2023 | 3,750,000 |
| Unlisted Options – exercisable at 2.5 cents on or before 21/08/2023 | 32,219,999 |
| Unlisted Options – exercisable at 5 cents on or before 21/08/2023 | 2,000,000 |
| Unlisted Options – exercisable at 10 cents on or before 21/08/2023 | 2,000,000 |
| TOTAL | 67,734,705 |

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 December 2020

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers ⁽¹⁾ | 4,812 | 5,344 |
| 1.2 Payments for | | |
| (a) research and development ⁽²⁾ | (67) | (67) |
| (b) product manufacturing and operating costs ⁽³⁾ | (1,658) | (3,002) |
| (c) advertising and marketing | (1,011) | (1,418) |
| (d) leased assets | - | - |
| (e) staff costs ⁽²⁾ | (625) | (969) |
| (f) administration and corporate costs | (1,106) | (1,936) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | 4 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | 1,494 | 1,841 |
| 1.8 Other (provide details if material) | 1 | 145 |
| 1.9 Net cash from / (used in) operating activities | 1,840 | (58) |

1) Includes prepaid 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(e).

3) Includes deposits paid on advanced production of IQbuds² MAX and HP Elite earbuds.

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire or for: | | |
| (a) entities | - | - |
| (b) businesses | - | - |
| (c) property, plant and equipment | (9) | (26) |
| (d) investments | - | - |
| (e) intellectual property ⁽¹⁾ | (977) | (2,006) |
| (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 | (986) | (2,032) |

1) Comprising capitalised development costs of \$929k (YTD \$1,932k) and capitalised patent and trademark applications of \$48k (YTD \$74k).

| | | |
|---|----------|-----------|
| 3. Cash flows from financing activities | | |
| 3.1 Proceeds from issues of equity securities (excluding convertible debt securities) | - | 220 |
| 3.2 Proceeds from issue of convertible debt securities | - | - |
| 3.3 Proceeds from exercise of options | 5 | 85 |
| 3.4 Transaction costs related to issues of equity securities or convertible debt securities | - | (40) |
| 3.5 Proceeds from borrowings | - | - |
| 3.6 Repayment of borrowings | - | (210) |
| 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 | 5 | 55 |

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--------------------------------------|----------------------------|---------------------------------------|
|--------------------------------------|----------------------------|---------------------------------------|

| | | | |
|------------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 1,537 | 4,431 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | 1,840 | (58) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (986) | (2,032) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 5 | 55 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 2,396 | 2,396 |

| 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 | 2,229 | 1,370 |
| 5.2 | Call deposits | 167 | 167 |
| 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) | 2,396 | 1,537 |

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**

214

-

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 | - | - |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | - | - |

7.5 **Unused financing facilities available at quarter end** -

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.

| 8. Estimated cash available for future operating activities | \$A'000 |
|---|----------------|
| 8.1 Net cash from / (used in) operating activities (item 1.9) | 1,840 |
| 8.2 Cash and cash equivalents at quarter end (item 4.6) | 2,400 |
| 8.3 Unused finance facilities available at quarter end (item 7.5) | - |
| 8.4 Total available funding (Item 8.2 + item 8.3) | 2,400 |
| 8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1) | 1.30 |

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

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

8.6.1 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:

The current quarter included one off cash inflows from government grants and services revenue from the OEM statement of works with HP Inc. Future operating cashflows will reflect continued sales of the Company's products as well as new revenue from the manufacture and sale of OEM products.

8.6.2 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:

Nuheara completed a share placement of \$11.5M on 7 January 2021.
The Company continues to review appropriate funding opportunities in accordance with its growth strategy that are in the long-term interests of its shareholders.

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

Answer:

Nuheara has refocused and reduced business expenditure to prudently manage its capital since COVID-19 disruptions over the last six months. Meanwhile, orders for IQbuds² MAX sales have remained strong and continue to grow via the DTC online and the retail channels. With the added potential of services revenue and OEM opportunities, together with the recently announced \$11.5M share placement, the Company will be in a robust position to continue its operations and to meet its business objectives.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 22 JANUARY 2021

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.

Further Information

Webinar/Conference Call

Nuheara Managing Director and CEO Justin Miller will hold a webinar to discuss the quarterly results.

Date: Thursday 28th January 2021

Time: 8.30am (AWST)

Registration Link :

<https://attendee.gotowebinar.com/register/2727888760915279115>

Authorised by:

Justin Miller

Managing Director and CEO

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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

Securities Exchange

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