

QUARTERLY REPORT

For the quarter ended 30 June 2020

NUHEARA CONTINUES IQBUDS² MAX POSITIVE SALES GROWTH MOMENTUM

HIGHLIGHTS

- Total new orders for the quarter (including all product lines and accessories) were \$1.364m, with 88% of all orders of international origin.
- Positive momentum maintained for IQbuds² MAX despite COVID-19 disruptions
 - surpassed \$2m in pre-sales, outperforming all previous product launches.
 - sales of 2,830 units for the current quarter, up 7% on March 2020 quarter (2,654 units).
 - Average Sales Price (ASP) of \$418 for all IQbuds² MAX pre-sales was approximately \$100/unit higher than the prior year average.
- Direct-To-Consumer (DTC) sales continued to perform well
 - Represented 58% of sales for the quarter (balance was third party distributors and retailers).
 - DTC Return on Advertising Spend (ROAS) for the quarter was marginally down at 1.88x, as direct result of COVID-19 production delays extending the pre-order period.
- June 2020 quarterly receipts were up 143% (\$790K) on same period last year and total FY2020 receipts were 44% higher than FY2019 receipts.
- Successfully completed capital raising of \$4.5M.

31 July 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 COVID-19 related disruptions to global markets. Most critically for Nuheara, this impacted manufacturing ability through extended plant closures and longer timeframes in finished product distribution. Importantly, these logistics disruptions have not impacted demand for Nuheara products, with the company maintaining first quarter sales traction with 7% growth in quarter on quarter sales for the flagship IQbuds² MAX.

A total of \$1.364m in new sales orders were received in the quarter. Nuheara's Direct to Consumer (DTC) sales channel, representing 58% of all sales for the quarter, continued to be the mainstay of these sales and remained a core focus for the Company. With market restrictions slowly easing, and in anticipation of product availability beyond Nuheara's backordered pre-sales, the first of the traditional retail orders have now also been placed.

International sales represented 88% of all sales for the quarter. Significant year on year growth for the quarter was attained in the USA (189%), UK (71%) and Canada (89%).

Nuheara was able to resume manufacturing in the latter part of the quarter with the fulfilment of IQbuds² MAX backorders entering the logistics phase in June. Nuheara worked through the staged delivery of completed product, from the Malaysian manufacturing facility, to its five warehouses located in the UK, USA, Canada, Australia and China. However, COVID-19 logistics are still adversely impacting delivery schedules.

Cash receipts for the quarter, including IQbuds² MAX pre-sales, which are recognised as sales revenue when shipped, were \$790k – growth of 143% over the same period last year. For the year, cash receipts of \$3.4M are 44% higher than FY2019 (\$2.35M).

The Company maintained a strong cash balance of \$4.43M at 30 June 2020.

COVID-19 BUSINESS IMPACT

During March, as a result of the rapidly evolving situation worldwide with regards to COVID-19, the Board implemented a number of temporary business stabilisation measures to ensure that the Company was well positioned operationally and financially to manage the economic uncertainty and business interruption.

Of primary importance was the safety of employees and their families, and the Company was proactive in implementing recommended and required workplace protocols to minimise the risk of spreading the virus. The escalating restrictions imposed by governments worldwide, particularly in Malaysia where Nuheara hardware is manufactured, required the Board to implement further measures to ensure the Nuheara business remained in the strongest possible financial position during the business disruption caused by COVID-19.

Nuheara temporarily stood down employees in non-essential functions and all senior executive remuneration was reduced by 50%. This included the Nuheara CEO and was matched by the Nuheara Board. While manufacturing activities remained constrained, Nuheara also refocused and reduced advertising spend to more effectively manage available distribution capability.

These measures were reviewed on 30 June 2020 and all employees and Directors returned to work at full remuneration from 1 July 2020. However, the COVID-19 situation remains dynamic. The Board will continue to monitor the situation and respond as required.

CAPITAL RAISING

In June 2020, the Company announced the successful completion of a capital raising of \$4.5M (before costs). This was via a Share Purchase Plan (SPP) to existing shareholders raising \$3.0M, with a share placement to SPP underwriters for an additional \$1.5M.

MINERAL ASSETS

On 24 January 2020, Nuheara announced the sale of a royalty interest to SilverStream SEZC and Vox Royalty Australia Pty Ltd (“Vox”) for US\$200,000, subject to the completion of documentation. The royalty sold was a 1.5% Net Smelter Return Royalty over the Mt Ida South/Quinns gold projects located in Western Australia and currently owned by Alt Resources Ltd (ASX:ARS).

During May, payment for the Royalty was satisfied by the issuance of US\$100,000 of Vox Royalty Corp shares on the TSX-V at a listing price of CAD\$3.00 per share; and US\$100,000 (A\$154,321) in cash.

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 \$339k has been capitalised in full 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 pre-sale campaign for Nuheara’s next generation product, IQbuds² MAX, continued and by year end the first production run had almost been sold out. Accordingly, the next order was placed with the contract manufacturer during June and cash outlay for the quarter included deposits paid on both production orders, as well as orders for the next production run of IQstream TV units.

Product manufacturing and operating costs also include one off costs for the development and pre-production of IQbuds² MAX prior to mass production, and legacy costs associated with the transfer of production facilities from previous contract manufacturer in China to the new contract manufacturer in Malaysia.

Advertising and Marketing

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

Staff Costs

Salaries and employee benefits expenditure was approximately half that of previous quarters following the temporary stand down of employees in non-essential functions, a reduction in pay for other employees in essential roles, and a 50% reduction in all senior executive remuneration including the Nuheara CEO and the Nuheara Board.

Included in staff costs are related party payments of \$126K which represented 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 were less than half that of previous quarters with the temporary business stabilisation measures introduced in response to COVID-19, to ensure that the Company was well positioned operationally and financially to manage the economic uncertainty and business interruption that ensued.

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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Registered Office

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Principal Place of Business

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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 1,329,811,585 ordinary shares and the following unquoted securities on issue:

Unquoted Securities	Number on issue
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 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
Unlisted Options – exercisable at 2.6 cents on or before 04/06/2023	3,750,000
TOTAL	43,014,706

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")

30 JUNE 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers ⁽¹⁾	790	3,379
1.2	Payments for		
	(a) research and development ⁽²⁾	0	(351)
	(b) product manufacturing and operating costs ⁽³⁾	(927)	(2,209)
	(c) advertising and marketing	(1,032)	(3,746)
	(d) leased assets	-	-
	(e) staff costs	(487)	(2,552)
	(f) administration and corporate costs	(438)	(2,617)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	34	69
1.5	Interest and other costs of finance paid	1	(3)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	403	2,077
1.8	Other (provide details if material) ⁽⁴⁾	155	520
1.9	Net cash from / (used in) operating activities	(1,501)	(5,433)

1) Includes paid pre-sale orders from customers on IQbuds² MAX not recognised as income until product has been shipped. As at 30 June 2020, 268 units had 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 deposits paid on mass production of IQbuds² MAX and IQstream TV, 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 \$155k (YTD: \$518k) proceeds from the sale of mining assets held for sale.

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	(23)
	(d) investments	-	-
	(e) intellectual property ⁽¹⁾	(374)	(3,511)
	(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	(365)	(3,534)

1) Comprising capitalised development costs of \$339k (YTD \$3,271k) and capitalised patent and trademark applications of \$35k (YTD \$240k).

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	4,507	8,507
3.2	Proceeds from issue of convertible debt securities	-	2,500
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(359)	(829)
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	4,148	10,178

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	2,149	3,220
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,499)	(5,433)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(365)	(3,534)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,148	10,178
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	4,431	4,431

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	4,245	580
5.2	Call deposits	186	1,569
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)	4,431	2,149

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	126
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

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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	2,300	2,300
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,300	2,300

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.

Secured Redeemable Convertible Security

Lender: Lind Global Macro Fund, LP

Original Funded Amount: \$2.5 million with a face value of \$3 million

Conversions: On 05/06/20, \$200k was converted into 12,500,000 shares at \$0.016/share.

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)	(1,501)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,431
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (Item 8.2 + item 8.3)	4,431
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.0

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:

N/A

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:

N/A

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:

N/A

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: 31 JULY 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.