

**BRAINSWAY LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2015**

**UNAUDITED**

**INDEX**

	<u>Page</u>
<b>Review of Interim Consolidated Financial Statements</b>	<b>2</b>
<b>Consolidated Statements of Financial Position</b>	<b>3</b>
<b>Consolidated Statements of Comprehensive Income</b>	<b>4</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>5 - 6</b>
<b>Consolidated Statements of Cash Flows</b>	<b>7 - 8</b>
<b>Notes to Interim Consolidated Financial Statements</b>	<b>9 - 12</b>

-----

## **Auditors' review report to the shareholders of Brainsway Ltd.**

### **Introduction**

We have reviewed the accompanying financial information of Brainsway Ltd. and subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as of September 30, 2015 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	September 30,		December 31,
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	45,390	66,878	67,130
Short-term deposits	4,262	7,600	4,196
Trade receivables	7,865	3,838	3,795
Other accounts receivable	2,533	1,406	1,989
	<u>60,050</u>	<u>79,722</u>	<u>77,110</u>
<b>NON-CURRENT ASSETS:</b>			
Long-term leasing deposits	122	99	116
Property, plant and equipment	28,470	20,376	22,902
Intangible assets	69	113	99
	<u>28,661</u>	<u>20,588</u>	<u>23,117</u>
	<u><u>88,711</u></u>	<u><u>100,310</u></u>	<u><u>100,227</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables	4,954	2,959	5,941
Other accounts payable	3,456	3,892	4,607
Deferred revenues	9,192	7,773	10,340
Liability in respect of research and development grants	457	214	385
	<u>18,059</u>	<u>14,838</u>	<u>21,273</u>
<b>NON-CURRENT LIABILITIES:</b>			
Other liabilities	29	36	27
Deferred revenues	750	850	825
Liability in respect of research and development grants	17,428	13,757	14,897
Liability in respect of share options to investors	140	4,608	2,618
	<u>18,347</u>	<u>19,251</u>	<u>18,367</u>
<b>EQUITY:</b>			
Share capital	580	577	577
Share premium	204,182	203,073	203,073
Reserve for transaction with controlling shareholder	3,854	3,854	3,854
Share-based payment	8,932	8,300	8,798
Foreign currency translation reserve	(20)	-	-
Accumulated deficit	(165,223)	(149,583)	(155,715)
	<u>52,305</u>	<u>66,221</u>	<u>60,587</u>
	<u><u>88,711</u></u>	<u><u>100,310</u></u>	<u><u>100,227</u></u>

The accompanying notes are an integral part of the interim consolidated financial statements.

November 10, 2015			
Date of approval of the financial statements	Dr. David Zchut Chairman of the Board	Dr. Guy Ezekiel President and CEO	Hadar Levi CFO

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues	17,669	8,049	7,037	3,096	12,093
Cost of revenues	3,482	1,647	1,203	649	2,347
Gross profit	14,187	6,402	5,834	2,447	9,746
Research and development expenses, net	11,088	15,825	4,173	7,864	23,033
Marketing expenses	8,350	5,004	1,947	2,305	6,784
General and administrative expenses	5,044	4,153	1,546	1,661	5,966
Operating loss	10,295	18,580	1,832	9,383	26,037
Finance income	(2,982)	(9,104)	(993)	(7,132)	(11,432)
Finance expenses	2,195	7,808	317	412	8,811
Loss	9,508	17,284	1,156	2,663	23,416
Other comprehensive loss:					
Amounts that will be reclassified to profit or loss when specific conditions are met:					
Adjustments arising from translating financial statements of foreign operation	(20)	-	(76)	-	-
Total comprehensive loss	9,528	17,284	1,232	2,663	23,416
Basic loss per share (in NIS)	(0.66)	(1.23)	(0.08)	(0.18)	(1.65)
Diluted loss per share (in NIS)	(0.66)	(1.45)	(0.08)	(0.60)	(2.02)

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
	<b>Unaudited</b>						
	<b>NIS in thousands</b>						
Balance at January 1, 2015 (audited)	577	203,073	3,854	8,798	-	(155,715)	60,587
Total comprehensive loss	-	-	-	-	(20)	(9,508)	(9,528)
Forfeiture and expiration of share options	-	277	-	(671)	-	-	(394)
Exercise of share options	3	832	-	(459)	-	-	376
Cost of share-based payment	-	-	-	1,264	-	-	1,264
Balance at September 30, 2015	<u>580</u>	<u>204,182</u>	<u>3,854</u>	<u>8,932</u>	<u>(20)</u>	<u>(165,223)</u>	<u>52,305</u>

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<b>Unaudited</b>					
	<b>NIS in thousands</b>					
Balance at January 1, 2014 (audited)	532	151,464	3,854	3,588	(132,299)	27,139
Total comprehensive loss	-	-	-	-	(17,284)	(17,284)
Forfeiture of share options	-	-	-	(48)	-	(48)
Exercise of share options	13	10,709	-	(54)	-	10,668
Cost of share-based payment	-	-	-	4,814	-	4,814
Issue of shares, net	32	40,900	-	-	-	40,932
Balance at September 30, 2014	<u>577</u>	<u>203,073</u>	<u>3,854</u>	<u>8,300</u>	<u>(149,583)</u>	<u>66,221</u>

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
	<b>Unaudited</b>						
	<b>NIS in thousands</b>						
Balance at July 1, 2015	580	203,943	3,854	9,065	56	(164,067)	53,431
Total comprehensive loss	-	-	-	-	(76)	(1,156)	(1,232)
Forfeiture and expiration of share options	-	239	-	(324)	-	-	(85)
Cost of share-based payment	-	-	-	191	-	-	191
Balance at September 30, 2015	<u>580</u>	<u>204,182</u>	<u>3,854</u>	<u>8,932</u>	<u>(20)</u>	<u>(165,223)</u>	<u>52,305</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Accumulated deficit</u>	<u>Total</u>
<b>Unaudited</b>						
<b>NIS in thousands</b>						
Balance at July 1, 2014	577	203,073	3,854	4,819	(146,920)	65,403
Total comprehensive loss	-	-	-	-	(2,663)	(2,663)
Cost of share-based payment	-	-	-	3,481	-	3,481
Balance at September 30, 2014	<u>577</u>	<u>203,073</u>	<u>3,854</u>	<u>8,300</u>	<u>(149,583)</u>	<u>66,221</u>

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Accumulated deficit</u>	<u>Total</u>
<b>Audited</b>						
<b>NIS in thousands</b>						
Balance at January 1, 2014	532	151,464	3,854	3,588	(132,299)	27,139
Total comprehensive loss	-	-	-	-	(23,416)	(23,416)
Issue of shares, net	32	40,900	-	-	-	40,932
Forfeiture of share options	-	-	-	(90)	-	(90)
Exercise of share options	13	10,709	-	(54)	-	10,668
Cost of share-based payment	-	-	-	5,354	-	5,354
Balance at December 31, 2014	<u>577</u>	<u>203,073</u>	<u>3,854</u>	<u>8,798</u>	<u>(155,715)</u>	<u>60,587</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
<u>Cash flows from operating activities:</u>					
Loss	(9,508)	(17,284)	(1,156)	(2,663)	(23,416)
Adjustments to reconcile loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	1,733	937	526	345	1,203
Capital gain	(5)	-	-	-	-
Finance income, net	(787)	(1,296)	(676)	(6,720)	(2,621)
Cost of share-based payment	798	4,598	88	3,414	5,037
Change in employee benefit liabilities, net	-	(4)	-	-	-
	1,739	4,235	(62)	(2,961)	3,619
Changes in asset and liability items:					
Increase in trade receivables	(4,206)	(2,446)	(2,399)	(900)	(2,501)
Decrease (increase) in other accounts receivable	(544)	172	179	(148)	(411)
Increase (decrease) in trade payable	(1,754)	(172)	(512)	(846)	1,969
Increase (decrease) in other accounts payable	(1,153)	663	28	424	1,363
Increase (decrease) in deferred revenues	(1,230)	2,931	225	1,296	5,473
	(8,887)	1,148	(2,479)	(174)	5,893
Cash paid and received during the period for:					
Interest paid	*) -	*) -	*) -	*) -	*) -
Interest received	50	290	10	111	334
	50	290	10	111	334
Net cash used in operating activities	(16,606)	(11,611)	(3,687)	(5,687)	(13,570)

\*) Represents less than NIS 1 thousand.

The accompanying notes are an integral part of the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of property, plant and equipment and intangible assets	(6,543)	(3,336)	(1,208)	(922)	(5,351)
Proceeds from sale of property, plant and equipment	6	-	-	-	-
Sale (purchase) of short-term investments, net	(18)	(2,011)	-	(4,454)	1,516
Investment in long-term deposits, net	(6)	(25)	(6)	(6)	(42)
Net cash used in investing activities	(6,561)	(5,372)	(1,214)	(5,382)	(3,877)
<u>Cash flows from financing activities:</u>					
Receipt of Government grants	1,824	1,156	1,015	324	1,493
Repayment of liability in respect of Government grants	(631)	(261)	(374)	(156)	(263)
Exercise of share options	376	4,705	-	-	4,705
Proceeds from issue of securities, net	-	40,932	-	-	40,932
Net cash provided by financing activities	1,569	46,532	641	168	46,867
Exchange differences on balances of cash and cash equivalents	(128)	285	539	363	666
Exchange differences on foreign currency translation reserve	(14)	-	(50)	-	-
Increase (decrease) in cash and cash equivalents	(21,740)	29,834	(3,771)	(10,538)	30,086
Cash and cash equivalents at the beginning of the period	67,130	37,044	49,161	77,416	37,044
Cash and cash equivalents at the end of the period	45,390	66,878	45,390	66,878	67,130
<u>(a) Significant non-cash transaction:</u>					
Exercise of options which were presented as liability to equity	-	5,963	-	-	5,963
Purchase of property, plant and equipment on current suppliers' credit	6,184	1,099	4,978	1,099	1,802

The accompanying notes are an integral part of the interim consolidated financial statements.



**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

---

**NOTE 1:- GENERAL**

- a. These financial statements have been prepared in a condensed format as of September 30, 2015 and for the nine and three months periods then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2014 and for the year then ended and accompanying notes ("annual consolidated financial statements").
- b. The Group earns revenues from the lease of devices since the end of 2009.
- c. On January 9, 2013, the U.S. Food and Drug Administration ("FDA") approved the Group's Deep TMS device for the treatment of depression in patients.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements.

**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**

- a. During the nine months ended September 30, 2015, 22,350 options associated with employees who left during the period have been forfeited and 15,300 options associated with employees who terminated employment in 2015 and 2014 expired.

On May 18, 2015, 297,002 options that had been granted to a former CEO and director in the Company were exercised into 74,250 Ordinary shares of NIS 0.04 par value each for the total consideration of approximately NIS 376 thousand.

- b. On April 30, 2015, Mr. Uzi Sofer terminated his position as a CEO and director in the Company.
- c. On May 18, 2015, the Company informed on the appointment of a new president and CEO for the Company, Dr. Guy Ezekiel, who started his four-year tenure on June 15, 2015 ("the contractual term"). On June 22, 2015, the general meeting approved his conditions of employment which consist of, besides monthly payment, the following bonuses: (1) an annual bonus based on the Company's remuneration policy according to the decision of the Company's Board; (2) bonuses of \$ 500 thousand to be granted based on target achievements as outlined in his agreement. As of the date of the approval of the financial statements, the Company's management anticipates that these targets will not be achieved and, accordingly, no expense was recognized in the financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

---

**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

- d. On June 22, 2015, the general meeting approved also the conditions of Dr. Guy Ezekiel in his position as director of the Company, if appointed a director by the Company's general meeting whose convention date has not yet been determined.

For occupying the position of a director of the Company, if appointed a director by the general meeting, Dr. Guy Ezekiel will be entitled to options to purchase Company's shares based on the vesting terms detailed in the agreement with him as follows: (1) the first portion: subject to and after the service agreement becomes effective - 1,318,191 options to purchase 1,318,191 Ordinary shares of the Company of NIS 0.04 par value each for the exercise price of NIS 33.58 which, as of June 22, 2015, the date on which the general meeting was convened, represented 7.78% of the Company's issued and outstanding capital on a fully diluted basis; (2) the second portion: subject to and after the term of the agreement is extended by three additional years ("the extension period") and subject to all approvals required under the law, including the approvals of the authorized organs of the Company and the stock exchange - Dr. Guy Ezekiel will be entitled to receive additional options to purchase Ordinary shares of the Company of NIS 0.04 par value each which, as of the date of grant, will represent 3.5% of the Company's issued and outstanding capital on a fully diluted basis for the exercise price to be determined according to the average closing market price of the share during 30 days before the Board's resolution on the allocation of the portion.

- e. On May 18, 2015, the subsidiary received the approval of the Chief Scientist of the State of Israel to support research and development projects in the scope of approximately NIS 11,100 thousand and NIS 7,704 thousand at participation rates of 50% and 30%, respectively, pursuant to the provisions of the Law for the Encouragement of Industrial Research and Development, 1984.
- f. On June 25, 2015, the Company's VP of marketing ceased his role.
- g. On July 7, 2015, the Company's VP of business development ceased his role.
- h. On August 16, 2015, a VP of global sales started serving in the Company. On August 6, 2015, the remuneration committee approved his conditions of employment which consist of, besides monthly payment and subject to the approval of the Board, options to purchase shares of the Company for the exercise price to be determined according to the average closing market price of the share during 30 days before the allocation plus a premium of 20%. The options will be granted based on the vesting terms detailed in the agreement with him as follows: (1) 160,000 options which vest over four years will be granted based on the Company's remuneration policy as approved in the general meeting of June 25, 2015 and (2) up to 40,000 options that will vest based on the achievement of the predetermined operating targets.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

- i. On September 10, 2015, a VP of sales US started serving in the sub-subsidiary, Brainsway USA Inc. According to the his employment contract and subject to the approval of the Board, he would be granted 75,000 options which vest gradually over four years as outlined in his agreement for the exercise price to be determined according to the average closing market price of the share during 30 days before the allocation.
- j. On December 22, 2014, the Company's Board approved to allocate 110,808 options to a consultant and an employee of the sub-subsidiary, Brainsway USA Inc., that may be exercised into 110,808 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 43 per any option as follows (1) 100,800 options to the consultant will vest in equal parts over three years on a monthly basis starting January 1, 2015. The exercise period for options that will vest until December 31, 2015 ends on December 31, 2017; the exercise period for options that will vest until December 31, 2016 ends on December 31, 2018 and the exercise period for options that will vest until December 31, 2017 ends on December 31, 2019 (2) 10,008 options to the employee will vest in equal parts on a monthly basis from January 1, 2015 to December 31, 2015 and may be exercised until December 31, 2017.

The options were allocated to the optionees on March 22, 2015. The grant date fair value of the options using the binomial model was determined at approximately NIS 1.2 million. The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 43.53%-53.41%, risk-free interest rate of 0.06%-0.82%, share price of NIS 36.95, exercise coefficient of 2.3-2.8 and expected dividend of 0.

**NOTE 4:- FINANCIAL INSTRUMENTS**

*Fair value:*

The carrying amounts of financial instruments as of September 30, 2015 are an approximation of their fair value.

**NOTE 5:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
Revenues reported in the financial statements for each group of similar products and services:					
Rental income	12,264	6,186	4,378	2,483	9,689
Revenues from sales	5,405	1,863	2,659	613	2,404
	<u>17,669</u>	<u>8,049</u>	<u>7,037</u>	<u>3,096</u>	<u>12,093</u>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
Cost of revenues:					
Rental income	2,177	894	650	319	1,447
Revenues from sales	1,305	753	553	330	900
	<u>3,482</u>	<u>1,647</u>	<u>1,203</u>	<u>649</u>	<u>2,347</u>

## NOTE 6:- EVENTS AFTER THE REPORTING DATE

- a. During October and November 2015 up until the date of the approval of the financial statements, 3,075 and 4,000 options that had been granted to officers and employees who terminated employment at the Company in 2015 have been forfeited and expired, respectively.
- b. On October 18, 2015, the Company's Board approved, subject to the approval of the general meeting which is to convene on November 23, 2015, to appoint a new director for the Company. Mr. Yaakov Michelin. If his appointment is approved, Mr. Michelin will be entitled to: (1) annual compensation and participation compensation based on the "minimum amount" as listed in the Companies Regulations and (2) allocation of 37,597 options that may be exercised into shares of the Company of NIS 0.04 par value each for the exercise price of NIS 27.97 which, as of October 18, 2015, the date on which the general meeting was convened, represented 0.24% of the Company's issued and outstanding capital on a fully diluted basis. The options vest and become exercisable over four years starting from the date of allocation at dates as outlined in his agreement.
- c. On October 18, 2015, the Company's remuneration committee and Board approved, subject to the approval of the general meeting which is to convene on November 23, 2015, to change the consulting fees to Dr. David Zchut, the chairman of the Board, as follows: for the period from September 1, 2014 to June 30, 2015, the consulting fees will be raised from NIS 25 thousand a month for consulting services at the scope of 20% of full time employment to NIS 52.5 thousand a month for consulting services at the scope of 70% of full time employment. After July 1, 2015, his salary was raised to NIS 30 thousand a month for consulting services at the scope of 40% of full time employment.
- d. On October 26, 2015, a Chief Medical Officer US started serving in the sub-subsiary, Brainsway USA Inc. According to the his employment contract and subject to the approval of the Board, he would be granted 75,000 options which vest gradually over four years as outlined in his agreement for the exercise price to be determined according to the average closing market price of the share during 30 days before the allocation.

-----