

BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2017

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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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 March 31, 2017 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three months period 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

	March 31,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	7,221	11,338	9,174
Short-term deposits	587	587	585
Trade receivables, net	2,906	1,998	2,492
Other accounts receivable	942	687	859
	<u>11,656</u>	<u>14,610</u>	<u>13,110</u>
NON-CURRENT ASSETS:			
Long-term leasing deposits	27	29	24
Property, plant and equipment, net	7,287	7,605	6,821
Intangible assets	8	14	9
	<u>7,322</u>	<u>7,648</u>	<u>6,854</u>
	<u><u>18,978</u></u>	<u><u>22,258</u></u>	<u><u>19,964</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	1,401	1,031	810
Other accounts payable	1,321	1,349	1,436
Deferred revenues	1,966	2,514	1,861
Liability in respect of research and development grants	137	112	288
	<u>4,825</u>	<u>5,006</u>	<u>4,395</u>
NON-CURRENT LIABILITIES:			
Deferred revenues and other liabilities	291	184	374
Liability in respect of research and development grants	5,326	4,545	4,908
	<u>5,617</u>	<u>4,729</u>	<u>5,282</u>
EQUITY:			
Share capital	149	147	149
Share premium	56,585	56,110	56,585
Reserve for transaction with controlling shareholder	917	917	917
Share-based payment	3,047	4,254	2,872
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,188)	(2,188)
Accumulated deficit	(49,974)	(46,717)	(48,048)
	<u>8,536</u>	<u>12,523</u>	<u>10,287</u>
	<u><u>18,978</u></u>	<u><u>22,258</u></u>	<u><u>19,964</u></u>

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

May 28, 2017			
Date of approval of the financial statements	Dr. David Zchut Chairman of the Board	Yaakov Michelin CEO and Director	Hadar Levi CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
	(except per share data)		
Revenues	2,148	2,488	11,524
Cost of revenues	447	473	2,427
Gross profit	1,701	2,015	9,097
Research and development expenses, net	1,161	1,044	3,792
Selling and marketing expenses	1,436	1,040	5,180
General and administrative expenses	586	1,103	2,194
Operating loss	1,482	1,172	2,069
Finance income	65	303	(186)
Finance expenses	509	197	514
Loss before tax	1,926	1,066	2,397
Loss	1,926	1,066	2,397
Total comprehensive loss	1,926	1,066	2,397
Basic loss per share (in dollars)	(0.13)	(0.07)	(0.17)
Diluted loss per share (in dollars)	(0.13)	(0.07)	(0.17)

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>Adjustments arising from translating financial statements from functional currency to presentation currency</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
	<u>Unaudited</u>						
	<u>U.S. dollars in thousands</u>						
Balance at January 1, 2017 (audited)	149	56,585	917	2,872	(2,188)	(48,048)	10,287
Total comprehensive loss	-	-	-	-	-	(1,926)	(1,926)
Forfeiture and expiration of share options	-	-	-	(9)	-	-	(9)
Cost of share-based payment	-	-	-	184	-	-	184
Balance at March 31, 2017	<u>149</u>	<u>56,585</u>	<u>917</u>	<u>3,047</u>	<u>(2,188)</u>	<u>(49,974)</u>	<u>8,536</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>Adjustments arising from translating financial statements from functional currency to presentation currency</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
	<u>Unaudited</u>						
	<u>U.S. dollars in thousands</u>						
Balance at January 1, 2016 (audited)	147	56,016	917	3,654	(2,188)	(45,651)	12,895
Total comprehensive loss	-	-	-	-	-	(1,066)	(1,066)
Forfeiture and expiration of share options	-	94	-	(161)	-	-	(67)
Cost of share-based payment	-	-	-	761	-	-	761
Balance at March 31, 2016	<u>147</u>	<u>56,110</u>	<u>917</u>	<u>4,254</u>	<u>(2,188)</u>	<u>(46,717)</u>	<u>12,523</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve for transaction with controlling shareholder	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
Audited							
U.S. dollars in thousands							
Balance at January 1, 2016	147	56,016	917	3,654	(2,188)	(45,651)	12,895
Total comprehensive loss	-	-	-	-	-	(2,397)	(2,397)
Forfeiture and expiration of share options	-	313	-	(2,081)	-	-	(1,768)
Exercise of share options	2	256	-	(79)	-	-	179
Cost of share-based payment	-	-	-	1,378	-	-	1,378
Balance at December 31, 2016	<u>149</u>	<u>56,585</u>	<u>917</u>	<u>2,872</u>	<u>(2,188)</u>	<u>(48,048)</u>	<u>10,287</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(1,926)	(1,066)	(2,397)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Capital gain	-	-	6
Depreciation and amortization	164	155	649
Finance expenses (income), net	444	(106)	328
Cost of share-based payment	169	685	(420)
	<u>777</u>	<u>734</u>	<u>563</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(457)	3	(499)
Decrease in other accounts receivable	14	228	56
Increase (decrease) in trade payable	(41)	63	137
Increase (decrease) in other accounts payable	(127)	121	208
Increase (decrease) in deferred revenues	23	(19)	(482)
	<u>(588)</u>	<u>396</u>	<u>(580)</u>
Cash paid and received during the period for:			
Interest received	2	1	12
Net cash provided by (used in) operating activities	<u>(1,735)</u>	<u>65</u>	<u>(2,402)</u>
<u>Cash flows from investing activities:</u>			
Proceeds from sale of property, plant and equipment	-	-	5
Purchase of property, plant and equipment and intangible assets	(87)	(425)	(408)
Withdrawal of (investment in) long-term deposits, net	(3)	5	10
Net cash used in investing activities	<u>(90)</u>	<u>(420)</u>	<u>(393)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from financing activities:</u>			
Receipt of Government grants	-	239	717
Repayment of liability in respect of Government grants	(217)	(142)	(326)
Exercise of share options	-	-	179
Net cash provided by (used in) financing activities	<u>(217)</u>	<u>97</u>	<u>570</u>
Exchange differences and commissions on balances of cash and cash equivalents	<u>89</u>	<u>241</u>	<u>44</u>
Decrease in cash and cash equivalents	(1,953)	(17)	(2,181)
Cash and cash equivalents at the beginning of the period	<u>9,174</u>	<u>11,355</u>	<u>11,355</u>
Cash and cash equivalents at the end of the period	<u><u>7,221</u></u>	<u><u>11,338</u></u>	<u><u>9,174</u></u>
 (a) <u>Significant non-cash transactions:</u>			
Purchase of property, plant and equipment on current suppliers' credit	<u>617</u>	<u>290</u>	<u>-</u>

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 March 31, 2017 and for the three months period 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, 2016 and for the year then ended and accompanying notes ("annual consolidated financial statements").
- b. On January 9, 2013, the US Food and Drug Administration ("FDA") approved the Company's Deep TMS device for the treatment of depression in patients. The Group earns revenues from the sale and lease of devices since the end of 2009.
- c. The Company had negative cash flows from operating activities of approximately \$ 2.4 million and \$ 1.7 million for the year ended December 31, 2016 and for the three months ended March 31, 2017, respectively. Further, the Company had operating loss of approximately \$ 2.1 million and \$ 1.5 million for the year ended December 31, 2016 and for the three months ended March 31, 2017, respectively. The Company is examining non-bank and bank choices for financing its working capital but, if no funds are raised according to the Company's plans or, alternatively, if the Company does not meet its sales forecasts, the Company has a plan to reduce its expenses and adapt them to the appropriate scope of operation that will enable it to continue its business activity in the foreseeable future. On the basis of the aforesaid, the Company's management and Board believe that the Company will have the financial sources required to finance its business activity according to its plans in the foreseeable future.

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:- EVENTS DURING THE REPORTING PERIOD

During the first quarter of 2017, 8,000 share options that had been granted to an employee who terminated employment at the Company in 2017 were forfeited.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS

	Three months ended		Year ended
	March 31,		December 31,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
Revenues reported in the financial statements for each group of similar products and services:			
Rental income	1,430	1,201	5,327
Revenues from sales	718	1,287	6,197
	<u>2,148</u>	<u>2,488</u>	<u>11,524</u>
Cost of revenues:			
Cost of rent	258	196	1,004
Cost of sales	189	277	1,423
	<u>447</u>	<u>473</u>	<u>2,427</u>

NOTE 5:- EVENTS AFTER THE REPORTING PERIOD

- a. On April 1, 2017, Mr. Yaakov Michelin, a director, started his tenure as the Company's CEO. On that date, after the approval of the general meeting from February 12, 2017, he was allocated 566,262 options that may be exercised into 566,262 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 19.97 per any option as follows: the options vest over four years; 1/4 of the number of options vest after 12 months of the date of allocation (April 1, 2017) and 1/16 of the number of options vest after each subsequent three months. The options are exercisable during a period of 8 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 1.1 million.

The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 44.69%-51.09%, risk-free interest rate of 0.17%-1.94%, share price of NIS 16.37, exercise coefficient of 2.8 and expected dividend of 0.

- b. During April and May 2017 through the date of the approval of the financial statements, 1,650 options that had been granted to an employee who terminated employment at the Company in 2017 were forfeited.
