BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

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Building a better
working world

Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

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, 2018 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.

Tel-Aviv, Israel
May 23, 2018

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2018	March 31, 2017	December 31, 2017
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	13,310	7,221	14,509
Short-term deposits	1,109	587	50
Trade receivables, net	2,218	2,906	2,419
Other accounts receivable	733	942	909
	17,370	11,656	17,887
NON-CURRENT ASSETS:			
Restricted deposit	1,009	-	2,009
Long-term leasing deposits	27	27	25
Property, plant and equipment, net	7,261	7,287	7,091
Intangible assets	16	8	18
	8,313	7,322	9,143
	25,683	18,978	27,030
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	1,676	1,401	1,631
Other accounts payable	1,824	1,321	1,803
Deferred revenues	2,333	1,966	2,448
Liability in respect of research and development grants	414	137	251
	6,247	4,825	6,133
NON-CURRENT LIABILITIES:			
Loan from bank	2,753	-	2,727
Deferred revenues and other liabilities	281	291	309
Liability in respect of research and development grants	4,361	5,326	5,028
Share options	112	-	112
	7,507	5,617	8,176
EQUITY:			
Share capital	171	149	171
Share premium	65,034	56,585	65,034
Reserve for transaction with controlling shareholder	917	917	917
Share-based payment	4,124	3,047	3,889
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,188)	(2,188)
Accumulated deficit	(56,129)	(49,974)	(55,102)
	11,929	8,536	12,721
	25,683	18,978	27,030

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

May 23, 2018			
Date of approval of the financial statements	Dr. David Zachut Chairman of the Board	Yaakov Michelin CEO and Director	Hadar Levy CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31,		Year ended December 31,
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues	3,605	2,148	11,145
Cost of revenues	697	447	2,595
Gross profit	2,908	1,701	8,550
Research and development expenses, net	1,711	1,161	5,343
Selling and marketing expenses	1,881	1,436	6,331
General and administrative expenses	733	586	3,487
Operating loss	1,417	1,482	6,611
Finance income	513	65	(186)
Finance expenses	98	509	460
Loss before tax	1,002	1,926	6,885
Tax expenses	25	-	169
Comprehensive loss	1,027	1,926	7,054
Basic loss per share (in dollars)	(0.06)	(0.13)	(0.48)
Diluted loss per share (in dollars)	(0.06)	(0.13)	(0.48)

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
	Unaudited						
	U.S. dollars in thousands						
Balance at January 1, 2018 (audited)	171	65,034	917	3,889	(2,188)	(55,102)	12,721
Total comprehensive loss	-	-	-	-	-	(1,027)	(1,027)
Forfeiture of share options	-	-	-	(12)	-	-	(12)
Cost of share-based payment	-	-	-	247	-	-	247
Balance at March 31, 2018	171	65,034	917	4,124	(2,188)	(56,129)	11,929

	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
	Unaudited						
	U.S. dollars in thousands						
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	149	56,585	917	3,047	(2,188)	(49,974)	8,536

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, 2017	149	56,585	917	2,872	(2,188)	(48,048)	10,287
Total comprehensive loss	-	-	-	-	-	(7,054)	(7,054)
Issue of shares, net *)	22	8,423					8,445
Forfeiture and expiration of share options	-	26	-	(44)	-	-	(18)
Cost of share-based payment	-	-	-	1,061	-	-	1,061
Balance at December 31, 2017	171	65,034	917	3,889	(2,188)	(55,102)	12,721

*) Net of issue expenses of $ 133 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from operating activities:			
Loss	(1,027)	(1,926)	(7,054)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	261	164	1,072
Finance expenses (income), net	(415)	444	274
Cost of share-based payment	232	169	1,028
Tax expenses	25	-	169
	103	777	2,543
Changes in asset and liability items:			
Decrease (increase) in trade receivables	224	(457)	(21)
Decrease in other accounts receivable	200	14	113
Increase (decrease) in trade payable	74	(41)	310
Increase (decrease) in other accounts payable	12	(127)	163
Increase (decrease) in deferred revenues	(141)	23	523
	369	(588)	1,088
Cash paid and received during the period for:			
Interest received	-	2	12
Interest paid	(54)	-	-
Taxes paid	(17)		(56)
	(71)	2	(44)
Net cash used in operating activities	(626)	(1,735)	(3,467)
Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	(459)	(87)	(985)
Investment in restricted deposit	-	-	(2,000)
Sale (realization) of short-term investments, net	(50)	-	535
Withdrawal of long-term deposits, net	(2)	(3)	(1)
Net cash used in investing activities	(511)	(90)	(2,451)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2018	Three months ended March 31, 2017	Year ended December 31, 2017
	Unaudited		Audited
	U.S. dollars in thousands		
Cash flows from financing activities:			
Receipt of loan from bank, net **)	-	-	2,702
Receipt of Government grants	-	-	186
Repayment of liability in respect of Government grants	-	(217)	(375)
Issue of share options to bank	-	-	150
Proceeds from issue of securities, net *)	-	-	8,445
Net cash provided by (used in) financing activities	-	(217)	11,108
Exchange differences and commissions on balances of cash and cash equivalents	(62)	89	145
Increase (decrease) in cash and cash equivalents	(1,199)	(1,953)	5,335
Cash and cash equivalents at the beginning of the period	14,509	9,174	9,174
Cash and cash equivalents at the end of the period	13,310	7,221	14,509
(a) Significant non-cash transactions:			
Purchase of property, plant and equipment on current suppliers' credit	478	617	469

*) Net of issue expenses of $ 133 thousand.

*) Net of transaction costs of $ 148 thousand.

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

NOTE 1:- GENERAL

a. These financial statements have been prepared in a condensed format as of March 31, 2018 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, 2017 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. On May3, 2018, the Group received the FDA approval for marketing the Deep TMS device including the new stimulator developed by the Company.

c. The Company had negative cash flows from operating activities of approximately $ 3.5 million and $ 0.6 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively. Further, the Company had operating loss of approximately $ 6.6 million and $ 1.4 million for the year ended December 31, 2017 and for the three months ended March 31, 2018, respectively. In August 2017, the Company entered into an agreement for the receipt of a bank credit facility ("the agreement") in the amount of up to $ 6 million. In October 2017, the Company withdraw an amount of $ 3 million from said credit facility (for further details regarding the credit terms, see Note 14b and e to the annual consolidated financial statements). As of March 31, 2018, the Company is meeting the financial covenants set in the agreement. The Company's management and Board believe that the Company will have the required financial sources to finance its business activity according to its plans in the foreseeable future

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. 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, except as described below.

b. Revenue from contracts with customers:

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") has been adopted for the first time in these financial statements. The Company chose to adopt the provisions of IFRS 15 retrospectively with certain reliefs and not to restate comparative figures. The first time adoption of IFRS 15 had no impact on retained earnings as of January 1, 2018.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 15 introduces a five-step model that applies to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the distinct performance obligations in the contract.

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the distinct performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

The accounting policy applied from January 1, 2018 regarding revenue recognition is as follows:

1. Revenue recognition:

   According to IFRS 15, revenue from contracts with customers is recognized in profit or loss when the control over the asset or service is transferred to the customer. Revenue is measured and recognized at the fair value of the consideration that is expected to be received based on the contract terms, less the amounts collected in favor of third parties (such as taxes). Revenue is recognized in profit or loss to the extent that it is probable that the economic benefits will flow to the Company and the revenue and costs, if relevant, can be measured reliably.

2. Revenue from sale of goods:

   Revenue from sale of goods is recognized in profit or loss at a point in time when the ownership of the goods is passed to the buyer, normally when the goods are delivered to the buyer.

3. Costs of obtaining a contract:

   In order to obtain some of its contracts with customers, the Company bears the incremental costs of obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Company expects to recover are recognized as an asset and amortized on a systematic basis consistently with the provision of the services under the specific contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company chose to apply the practical expedient according to which incremental costs of obtaining a contract will be recognized as an expense when incurred if the amortization period of the asset is one year or less.

c. Financial instruments:

As detailed in Note 4a to the annual consolidated financial statements, IFRS 9, "Financial Instruments" ("IFRS 9") has been adopted for the first time in these financial statements. The Company chose to adopt the provisions of IFRS 9 retrospectively with certain reliefs and not to restate comparative figures. The first time adoption of IFRS 9 had no impact on retained earnings as of January 1, 2018.

Impairment of financial assets:

The Company reviews at the end of each reporting period the provision for loss of financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of recognizing a provision for losses:

1. Debt instruments whose credit quality has not significantly deteriorated since their initial recognition date or whose credit risk is low - the provision for loss that will be recognized in respect of this debt instrument will take into account expected credit losses within 12 months from the reporting date; or

2. Debt instruments whose credit quality has significantly deteriorated since their initial recognition date or whose credit risk is not low - the provision for loss that will be recognized will take into account expected credit losses over the instrument's remaining term. The Company has adopted the relief in IFRS 9 according to which it assumes the debt instrument's credit risk has not risen significantly from the date of initial recognition if on the reporting date it was determined that the instrument has a low credit risk, for example when the investment in the instrument has been externally rated.

An impairment loss of debt instruments measured at amortized cost is carried to profit or loss against a provision whereas an impairment loss of debt instruments measured at fair value through other comprehensive income will be carried against a capital reserve and will not reduce the carrying amount of the financial asset in the statement of financial position.

The Company has financial assets bearing short-term credit such as trade receivables in respect of which it is required to adopt the relief prescribed in the model i.e., the company will measure the provision for loss in an amount which is equivalent to the expected credit losses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Disclosure of new standards in the period prior to their adoption:

IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"). According to IFRS 16, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The main effects of IFRS 16 are as follows:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

- Variable lease payments that are not dependent on changes in the CPI or interest rates, but are based on performance or use are recognized as an expense by the lessees as incurred.

- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, the effect of the adoption of IFRS 16 at the beginning of the earliest period presented will be carried to equity. Also, the Company will restate the comparative figures in its financial statements. The balance of the liability as of the date of initial adoption of IFRS 16 as per this approach will be calculated using the interest rate implicit in the lease, unless this rate cannot be easily determined in which case the lessee's incremental borrowing rate of interest.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of initial adoption of IFRS 16 will be calculated using the lessee's incremental borrowing rate of interest on the date of initial adoption of IFRS 16. As for the outstanding right-of-use asset, the Company may apply one of the two following alternatives to account for each lease separately:

   - Recognizing an asset in the amount of the recognized liability, with certain adjustments.

   - Recognizing an asset as if the asset had always been measured according to the provisions of IFRS 16.

Any difference arising on the date of first-time adoption of IFRS 16 as a result of the modified retrospective approach will be carried to equity.

At this stage, the Company is evaluating the different alternatives of the retrospective adoption of IFRS 16 and their potential implications on the financial statements, particularly on certain financial ratios and financial covenants.

NOTE 3:- EVENTS DURING THE REPORTING PERIOD

a. During the first quarter of 2018, 6,667 options that had been granted to an employee whose employment in the Company was terminated in 2018 were forfeited.

b. On February 12, 2018, an amendment to the credit facility agreement with Bank Mizrahi, as stated in Note 14b to the annual consolidated financial statements, was signed, according to which loans under the second facility could be withdrawn until March 15, 2019 (instead of until March 15, 2018) and the annual interest rate on each loan given in the framework of the second facility will be lowered to 3-months Libor plus 6%. The other terms of the facility agreement and the second facility remain unchanged.

c. In December 2017, the Company received the approval of the MAGNET committee of the Israel Innovation Authority for a plan with the budget of NIS 1.1 million, of which 66% (approximately NIS 0.7 million) is expected to be given to the Company as a grant. Accordingly, on February 22, 2018, Inc and Yeda Research and Development Company Ltd. ("Yeda") signed an additional addendum to the agreement ("the fifth addendum"), according to which Inc received the right to perform a test on another invention based on a patent in connection with research in the field of circular electric which is owned by Yeda and for which Yeda received funding from the Israel Innovation Authority under the MAGNET plan. In the fifth addendum it was agreed that if Inc finds said invention compatible with its needs, Inc will have the right to integrate said invention and the associated intellectual property, owned by Yeda, under the agreement, and thereby making it part of the license in the agreement ("the right").

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

The right is valid until the earlier of December 31, 2018 and 30 days after the completion of all the milestones that have been agreed upon by the parties. However, under certain circumstances in which the milestones are not completed by December 31, 2018, the expiry date of the right will be postponed until June 30, 2019.

If the Company exercises the option granted to it under the fifth addendum, then in respect of products based on the use of the invention and know-how that is the subject of the fifth addendum, royalties on net sales will be paid to Yeda at increased rates of 1.6%-2% on top of the royalties described in Note 18i(2) to the annual consolidated financial statements and, in certain cases, at a flat rate of 2% and, in respect of products under the fifth addendum that are not based on patents or research results for which the license was granted according to the original agreement (excluding the fifth addendum), royalties on net sales will be at the rate of 5%.

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

	Three months ended March 31,		Year ended December 31,
	2018	2017	2017
	Unaudited		Audited
	U.S. dollars in thousands		
Revenues reported in the financial statements for each group of similar products and services:			
Revenues from lease	2,076	1,430	6,654
Revenues from sale	1,529	718	4,491
	3,605	2,148	11,145
Cost of revenues:			
Cost of lease	303	258	1,483
Cost of sales	394	189	1,112
	697	447	2,595

In the three months ended March 31, 2018 and 2017 and in the year ended December31, 2017, the Company earned about 83%, 92% and 89% of its revenues in North America, respectively.

NOTE 5:- EVENTS AFTER THE REPORTING PERIOD

a. During April and May 2018 until the date of the approval of the financial statements, 47,834 options that had been granted to officers who terminated employment at the Company in 2018 were forfeited.

b. In furtherance to the request from January 15, 2018 which was submitted by Moach to the Israel Innovation Authority at the Ministry of Economy and Industry for a grant for participation in the Company's research and development programs for 2018, on May 9, 2018, Moach obtained from the Innovation Authority at the Ministry of Economy and Industry an approval for two grants for the development of the Company's Deep TMS device. The first grant was approved for funding the multi-channel stimulator development project at a rate of 40% of total budget, which was placed at a total of up to NIS 3 million. It should be clarified that after assigning weights to the relevant criteria, the total grant will be 50% if 10% is added due to development area. The second grant was approved for funding a closed-loop product development project (DTMS-EEG) at the rate of 50% of the project budget, which was placed at a total of up to NIS 0.8 million. It should be clarified that after assigning weights to the relevant criteria, the total grant will be 60% if 10% is added due to development area.

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