BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2018

U.S. DOLLARS IN THOUSANDS

UNAUDITED

INDEX

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BRAINSWAY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands (except share and per share data)

	Unaudited		December 31,
	September 30,		
	2018	2017	2017
			Audited
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$9,502	$5,857	$14,509
Short-term deposits	1,118	25	50
Trade receivables, net	3,098	2,587	2,419
Other accounts receivable	981	798	909
	14,699	9,267	17,887
NON-CURRENT ASSETS:			
Restricted deposit	1,019	—	2,009
Long-term deposit	156	25	25
Property and equipment, net	7,386	7,027	7,109
	8,561	7,052	9,143
	$23,260	$16,319	$27,030
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	$1,240	$943	$1,631
Other accounts payable	2,408	1,307	1,803
Deferred revenues	2,175	2,328	2,448
Loan from bank	375	—	—
Liability in respect of research and development grants	511	250	251
	6,709	4,828	6,133
NON-CURRENT LIABILITIES:			
Loan from bank	2,431	—	2,727
Deferred revenues and other liabilities	327	262	309
Liability in respect of research and development grants	4,712	4,437	5,028
Warrants	229	—	112
	7,699	4,699	8,176
EQUITY:			
Share capital	171	149	171
Share premium	67,193	57,510	65,951
Share-based payment	3,108	3,636	3,889
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,188)	(2,188)
Accumulated deficit	(59,432)	(52,315)	(55,102)
	8,852	6,792	12,721
	$23,260	$16,319	$27,030

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

BRAINSWAY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

U.S. dollars in thousands (except share and per share data)

	Unaudited				Year ended December 31,
	Nine months ended September 30,		Three months ended September 30,		
	2018	2017	2018	2017	2017
					Audited
Revenues	$11,625	$7,543	$4,295	$3,016	$11,145
Cost of revenues	2,484	1,684	926	681	2,595
Gross profit	9,141	5,859	3,369	2,335	8,550
Research and development expenses, net	4,334	3,836	1,353	1,336	5,343
Selling and marketing expenses	5,816	4,571	2,028	1,523	6,331
General and administrative expenses	2,353	1,988	929	742	3,487
Total operating expenses	12,503	10,395	4,310	3,601	15,161
Operating loss	3,362	4,536	941	1,266	6,611
Finance income	33	1,481	(36)	10	186
Finance expense	867	1,170	472	532	460
Loss before income taxes	4,196	4,225	1,449	1,788	6,885
Income taxes	134	42	28	42	169
Net loss and total comprehensive loss	$4,330	$4,267	$1,477	$1,830	$7,054
Basic and diluted net loss per share	$(0.26)	$(0.29)	$(0.09)	$(0.12)	$(0.48)

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

BRAINSWAY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share capital	Share premium	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
	Unaudited					
Balance at January 1, 2018	$171	$65,951	$3,889	$(2,188)	$(55,102)	$12,721
Net loss and total comprehensive loss	—	—	—	—	(4,330)	(4,330)
Forfeiture and expiration of share options	—	1,242	(1,346)	—	—	(104)
Cost of share-based payment	—	—	565	—	—	565
Balance at September 30, 2018	$171	$67,193	$3,108	$(2,188)	$(59,432)	$8,852

	Share capital	Share premium	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
	Unaudited					
Balance at January 1, 2017	$149	$57,502	$2,872	$(2,188)	$(48,048)	$10,287
Net loss and total comprehensive loss	—	—	—	—	(4,267)	(4,267)
Forfeiture and expiration of share options	—	8	(26)	—	—	(18)
Cost of share-based payment	—	—	790	—	—	790
Balance at September 30, 2017	$149	$57,510	$3,636	$(2,188)	$(52,315)	$6,792

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

	Share capital	Share premium	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
	Unaudited					
Balance at July 1, 2018	$171	$65,951	$4,183	$(2,188)	$(57,955)	$10,171
Net loss and total comprehensive loss	—	—	—	—	(1,477)	(1,477)
Expiration of share options	—	1,233	(1,233)	—	—	—
Cost of share-based payment	—	—	158	—	—	158
Balance at September 30, 2018	$171	$67,193	$3,108	$(2,188)	$(59,432)	$8,852

	Share capital	Share premium	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
	Unaudited					
Balance at July 1, 2017	$149	$57,502	$3,361	$(2,188)	$(50,485)	$8,339
Net loss and total comprehensive loss	—	—	—	—	(1,830)	(1,830)
Forfeiture and expiration of share options	—	8	(14)	—	—	(6)
Cost of share-based payment	—	—	289	—	—	289
Balance at September 30, 2017	$149	$57,510	$3,636	$(2,188)	$(52,315)	$6,792

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

	Share capital	Share premium	Reserve for share-based payment transactions	Adjustments arising from translating financial statements from functional currency to presentation currency	Accumulated deficit	Total equity
				Audited		
Balance at January 1, 2017	$149	$57,510	$2,872	$(2,188)	$(48,048)	$10,287
Net loss and total comprehensive loss	—	—	—	—	(7,054)	(7,054)
Issuance 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	$65,951	$3,889	$(2,188)	$(55,102)	$12,721

(*) Net of issuance expenses of $ 133 thousand.

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

BRAINSWAY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
Cash flows from operating activities:					
Total comprehensive loss	$(4,330)	$(4,267)	$(1,477)	$(1,830)	$(7,054)
Adjustments to reconcile net loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	981	555	407	207	1,072
Finance expenses (income), net	834	(311)	508	522	274
Cost of share-based payment	461	760	164	280	1,028
Income taxes	134	42	28	42	169
	2,410	1,046	1,107	1,051	2,543
Changes in asset and liability items:					
Increase in trade receivables	(638)	(151)	(248)	(31)	(21)
Decrease (increase) in other accounts receivable	(57)	237	32	250	113
Increase (decrease) in trade payables	(199)	40	(299)	81	310
Increase (decrease) in other accounts payable	637	(167)	596	(164)	163
Increase (decrease) in deferred revenues and other liabilities	(253)	356	4	207	523
	(510)	315	85	343	1,088
Cash paid and received during the period for:					
Interest	(157)	9	(49)	1	12
Taxes	(182)	(61)	(3)	(61)	(56)
	(339)	(52)	(52)	(60)	(44)
Net cash used in operating activities	(2,769)	(2,958)	(337)	(496)	(3,467)
Cash flows from investing activities:					
Purchase of property and equipment	(1,440)	(790)	(533)	(275)	(985)
Investment in restricted deposit	—	—	—	—	(2,000)
Sale of (investment in) short-term deposits, net	(50)	560	—	—	535
Investment in long-term deposits, net	(131)	(1)	(2)	(3)	(1)
Net cash used in investing activities	(1,621)	(231)	(535)	(278)	(2,451)

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
Cash flows from financing activities:					
Receipt of loan from bank, net	—	—	—	—	2,702
Receipt of government grants	132	186	119	186	186
Repayment of liability in respect of research and development grants	(414)	(375)	(218)	(158)	(375)
Issuance of warrants	—	—	—	—	150
Proceeds from issuance of shares, net	—	—	—	—	8,445
Net cash provided by (used in) financing activities	(282)	(189)	(99)	28	11,108
Exchange rate differences on cash and cash equivalents	(335)	61	(18)	(35)	145
Increase (decrease) in cash and cash equivalents	(5,007)	(3,317)	(989)	(781)	5,335
Cash and cash equivalents at the beginning of the period	14,509	9,174	10,491	6,638	9,174
Cash and cash equivalents at the end of the period	$9,502	$5,857	$9,502	$5,857	$14,509
(a) *Significant non-cash transactions:*					
Purchase of property and equipment on credit	$312	$63	$312	$—	$469

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 September 30, 2018 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, 2017 and for the year then ended and accompanying notes ("annual consolidated financial statements").

b. The Group had negative cash flows from operating activities of approximately $ 3,467 and $ 2,769 for the year ended December 31, 2017 and for the nine months ended September 30, 2018, respectively. Furthermore, the Company had an operating loss of $ 6,611 and $ 3,362 for the year ended December 31, 2017 and for the nine months ended September 30, 2018, respectively. In August 2017, the Company entered into an agreement for the receipt of a bank credit facility ("the agreement") of up to $ 6,000. In October 2017, the Company withdrew $ 3,000 from the said credit facility (for further details regarding the credit terms, see Notes 13b and 13d of the annual consolidated financial statements). As of September 30, 2018, the Company meets the financial covenants set in the agreement. The Company's management and board of directors 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."

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 using the modified retrospective method. As a result of the first time adoption of IFRS 15 the cumulative impact to the Company's accumulated deficit as of January 1, 2018 is nil.

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

The accounting policy applied from January 1, 2018 regarding revenue recognition according to IFRS 15 is as follows:

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 from sale of systems is recognized in profit or loss at a point in time when the ownership of the systems is passed to the buyer, normally when the systems are delivered to the buyer. Revenue is measured and recognized at the fair value of the consideration that is expected to be received based on the contract terms, less any trade discounts. 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.

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 accumulated deficit as of January 1, 2018.

1. 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 provision for losses:

a. 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

b. 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.

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.

2. Derecognition of financial assets:

A financial asset is derecognized only when the following criteria are met:

a. The contractual rights to the cash flows from the financial asset expire; or

b. The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

c. The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

3. Derecognition of financial liabilities:

A financial liability is derecognized only when it is extinguished, that is when the obligation is discharged, cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

4. Financial liabilities:

Financial liabilities within the scope of the Standard are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability, excluding financial liabilities measured at fair value through profit or loss whose transaction costs are carried to profit or loss.

On the date of initial recognition, the Company classified financial liabilities measured at fair value through profit or loss. Changes in their fair value which can be attributed to changes in the Company's credit risk profile are carried to other comprehensive income.

After initial recognition, the Company measures all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss such as derivatives.

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”) , which replaces IAS 17, “Leases”, IFRIC 4, “Determining whether an Arrangement contains a Lease”, SIC 15, “Operating Leases Incentives” and SIC 27, “Evaluating the Substance of Transactions Involving the Legal Form of a Lease.” IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees—leases of ‘low value’ assets (e.g., personal computers) and short term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right of use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right of use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Company expects to adopt the modified retrospective approach and that the effect of the first time adoption of IFRS 16 as of January 1, 2019 will result in an increase ranging from $1,300 $1,500 of the Company’s total assets and corresponding liabilities.

Also, the effect of the first time adoption of IFRS 16 in 2019 is expected to result in a decrease ranging of approximately $500 in the Company’s operating lease expense, an increase ranging of approximately $450 and an increase ranging of approximately $100 in the Company’s depreciation and amortization expense and finance expense, respectively. The total effect of the first time adoption of IFRS 16 in 2019 is expected to result in a decrease of approximately $50 in operating loss, an increase of approximately $50 in loss before taxes, an increase of approximately $400 in cash flows from operating activities and a corresponding decrease in cash flows from financing activities.

The above quantitative disclosures refer to the impact known to the Company as of today based on the existing lease contracts as of January 1, 2019. The accounting treatment of transactions in which the Company is the lessor will remain without any material change. The Company has a bank credit facility that contains certain financial covenants. The first time adoption of IFRS 16 is not expected to have an effect on these covenants. The Company’s forecast of the effects of IFRS 16 on the financial statements depends on additional contracts that will be signed during the period up to the first time adoption of IFRS 16 and changes in various economic variables that may affect the discount rates used for the calculation of the liabilities during the period up to the first time adoption of IFRS 16.

NOTE 3:—EVENTS DURING THE REPORTING PERIOD

a. On February 12, 2018, an amendment to the credit facility agreement with the bank, as stated in Note 13b above was signed according to which loans under the second facility may 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 decreased to 3 months Libor plus 6%. The other terms of the first and second facility remain unchanged.

b. On February 22, 2018, Inc and Yeda signed an additional addendum to the agreement ("the fifth addendum") (See Note 17h), according to which Inc received the right to examine an additional invention based upon the patent issued in connection with research in the field of rotational field TMS owned by Yeda. Under the fifth addendum, the Company has the right to include the aforementioned invention and the intellectual property accompanying it under the Yeda license agreement. The right may be exercised until the earlier of December 31, 2018 or 30 days after completion of all the milestones agreed between the parties; however, in certain circumstances where the milestones were not completed by December 31, 2018, the date of expiry of the right may be extended to a date not later than June 30, 2019, unless otherwise agreed to by the parties. In respect of the performance of the milestones under the fifth addendum, in December 2017, the Company received the approval of the MAGNET committee of the IIA ("Magneton") for a development plan to be performed jointly with Yeda. The Company's approved budget for the development plan is NIS 1.1 million, of which 66% (approximately NIS 0.7 million) will be provided to the Company as a non royalty bearing grant over the term of the plan.

If the Company exercises the right granted to it under the fifth addendum, royalties on net sales of products which are based on the use of the invention and know how subject to the fifth addendum will be paid to Yeda at increased rates of 1.6% 2% in addition to the royalties described in Note 17h above and, in certain cases, at a flat rate of 2%. 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 fixed rate of 5%.

c. During 2018 and until the date of the approval of the financial statements, 58,668 and 199,499 of options granted to officers who terminated employment at the Company in 2018 forfeited and expired, respectively.

NOTE 4:—ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS ITEMS

	Unaudited				
	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
					Audited
Revenues reported in the financial statements for each group of similar products and services:					
Revenues from lease	$6,796	$4,745	$2,453	$1,722	$6,654
Revenues from sale	4,829	2,798	1,842	1,294	4,491
	$11,625	$7,543	$4,295	$3,016	$11,145
Percentage of revenue derived from North America	87%	92%	90%	92%	89%
Cost of revenues:					
Cost of lease	$1,297	$926	$434	$344	$1,483
Cost of sales	1,187	758	492	337	1,112
	$2,484	$1,684	$926	$681	$2,595

NOTE 5:- EVENTS AFTER THE REPORTING PERIOD

a. Through November 1, 2018, Moach obtained from the IIA an approval for two grants for the development of the Company's system. The first grant was approved for funding the multi-channel stimulator development project at a rate of 50% of total budget, at a total of up to NIS 4 million subject to meeting certain criteria relating to the Company's activity in a development area. The second grant was approved for funding a closed-loop product development project (DTMS-EEG) at the rate of 60% of the project budget, at a total of up to NIS 1.1 million, subject to meeting certain criteria relating to the Company's activity in a development area.

b. On November 12, 2018, the Company's board of directors granted 110,000 options to purchase ordinary shares to directors, approved by the general shareholders meeting held on December 19, 2018, at an exercise price of NIS 23.41.

In addition, the board of the directors approved a grant of options to purchase ordinary shares of 348,000 and 550,000 to key management personnel and employees, respectively, at exercise prices of NIS 23.41-24.22.

The options vest over four years: 1/12 of the number of options vest after 15 months of the date of grant and 1/12 of the number of options vest each subsequent three months. The options are exercisable over a period of eight years.

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