

BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2016

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, 2016 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 29, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2016	*) 2015	December 31, 2015
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	11,338	14,361	11,355
Short-term deposits	587	1,106	585
Trade receivables, net	1,998	1,236	2,009
Other accounts receivable	687	739	915
	14,610	17,442	14,864
NON-CURRENT ASSETS:			
Long-term leasing deposits	29	29	34
Property, plant and equipment, net	7,605	6,418	7,329
Intangible assets	14	25	16
	7,648	6,472	7,379
	22,258	23,914	22,243
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	1,031	1,594	944
Other accounts payable	1,349	1,027	1,228
Deferred revenues	2,514	2,374	2,526
Liability in respect of research and development grants	112	68	198
	5,006	5,063	4,896
NON-CURRENT LIABILITIES:			
Deferred revenues and other liabilities	184	208	193
Liability in respect of research and development grants	4,545	4,016	4,204
Liability in respect of share options to investors	-	600	55
	4,729	4,824	4,452
EQUITY:			
Share capital	147	146	147
Share premium	56,110	55,697	56,016
Reserve for transaction with controlling shareholder	917	917	917
Share-based payment	4,254	2,612	3,654
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,405)	(2,188)
Accumulated deficit	(46,717)	(42,940)	(45,651)
	12,523	14,027	12,895
	22,258	23,914	22,243

*) Retroactively adjusted for change in presentation currency, see Note 1c.

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

<u>May 29, 2016</u> Date of approval of the financial statements	<u>Dr. David Zchut</u> Chairman of the Board	<u>Guy Ezekiel</u> President, CEO and Director	<u>Hadar Levi</u> CFO
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Year ended
	March 31,	*) 2015	December 31,
	2016		2015
	Unaudited		Audited
	U.S. dollars in thousands		
	(except per share data)		
Revenues	2,488	1,273	6,800
Cost of revenues	473	278	1,466
Gross profit	2,015	995	5,334
Research and development expenses, net	1,044	1,060	4,103
Selling and marketing expenses	1,040	824	3,281
General and administrative expenses	1,103	395	2,455
Operating loss	1,172	1,284	4,505
Finance income	303	98	636
Finance expenses	197	190	218
Loss	1,066	1,376	4,087
Other comprehensive loss:			
Amounts that will not be reclassified subsequently to profit or loss:			
Adjustments arising from translating financial statements from functional currency to presentation currency	-	338	121
Total comprehensive loss	1,066	1,714	4,208
Basic and diluted loss per share (in dollars)	(0.07)	(0.10)	(0.28)

*) Retroactively adjusted for change in presentation currency, see Note 1c.

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, 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>
Balance at January 1, 2015 (audited) *)	146	55,695	917	2,450	(2,067)	(41,564)	15,577
Total comprehensive loss	-	-	-	-	(338)	(1,376)	(1,714)
Forfeiture and expiration of share options	-	2	-	(16)	-	-	(14)
Cost of share-based payment	-	-	-	178	-	-	178
Balance at March 31, 2015 *)	<u>146</u>	<u>55,697</u>	<u>917</u>	<u>2,612</u>	<u>(2,405)</u>	<u>(42,940)</u>	<u>14,027</u>

	Share capital	Share premium	Share options	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, 2015 *)	146	55,695	-	917	2,450	(2,067)	(41,564)	15,577
Total comprehensive loss	-	-	-	-	-	(121)	(4,087)	(4,208)
Forfeiture and expiration of share options	-	103	-	-	(247)	-	-	(144)
Exercise of share options	1	218	-	-	(120)	-	-	99
Cost of share-based payment	-	-	-	-	1,571	-	-	1,571
Balance at December 31, 2015	<u>147</u>	<u>56,016</u>	<u>-</u>	<u>917</u>	<u>3,654</u>	<u>(2,188)</u>	<u>(45,651)</u>	<u>12,895</u>

*) Retroactively adjusted for change in presentation currency, see Note 1c.

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,	*) 2015	December 31,
	2016		2015
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(1,066)	(1,376)	(4,087)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Capital gain	-	-	(1)
Depreciation and amortization	155	171	611
Finance expenses (income), net	(106)	93	(418)
Cost of share-based payment	685	153	1,416
	734	417	1,608
Changes in asset and liability items:			
Decrease (increase) in trade receivables	3	(295)	(1,162)
Decrease (increase) in other accounts receivable	228	(241)	(409)
Increase (decrease) in trade payable	63	(87)	(437)
Increase (decrease) in other accounts payable	121	(132)	51
Decrease in deferred revenues	(19)	(232)	(133)
	396	(987)	(2,090)
Cash paid and received during the period for:			
Interest received	1	5	17
Net cash provided by (used in) operating activities	65	(1,941)	(4,552)
<u>Cash flows from investing activities:</u>			
Proceeds from sale of property, plant and equipment	-	-	2
Purchase of property, plant and equipment and intangible assets	(425)	(646)	(2,270)
Sale (purchase) of short-term investments, net	-	(25)	495
Withdrawal of (investment in) long-term deposits, net	5	-	(5)
Net cash used in investing activities	(420)	(671)	(1,778)

*) Retroactively adjusted for change in presentation currency, see Note 1c.

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,	*) 2015	December 31,
	2016	*) 2015	2015
	Unaudited	Unaudited	Audited
	U.S. dollars in thousands		
<u>Cash flows from financing activities:</u>			
Receipt of Government grants	239	136	577
Repayment of liability in respect of Government grants	(142)	(65)	(162)
Exercise of share options	-	-	99
Net cash provided by financing activities	<u>97</u>	<u>71</u>	<u>514</u>
Exchange differences and commissions on balances of cash and cash equivalents	<u>241</u>	<u>12</u>	<u>(91)</u>
Adjustments arising from translating financial statements from functional currency to presentation currency	<u>-</u>	<u>371</u>	<u>1</u>
Decrease in cash and cash equivalents	(17)	(2,900)	(5,906)
Cash and cash equivalents at the beginning of the period	<u>11,355</u>	<u>17,261</u>	<u>17,261</u>
Cash and cash equivalents at the end of the period	<u><u>11,338</u></u>	<u><u>14,361</u></u>	<u><u>11,355</u></u>
 (a) <u>Significant non-cash transactions:</u>			
Purchase of property, plant and equipment on current suppliers' credit	<u>290</u>	<u>640</u>	<u>295</u>

*) Retroactively adjusted for change in presentation currency, see Note 1c.

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, 2016 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, 2015 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. Until September 30, 2015, the functional currency and presentation currency of Brainsway Ltd., Inc and Moach was the NIS. Since October 1, 2015, the US dollar constitutes the functional currency of Brainsway Ltd., Inc and Moach because the Company focuses on the US market and the subsidiary commenced significant activity in the US and because it is expected that sales will continue to be in US dollars.

Considering the above, since October 1, 2015, the functional currency of the Company and its subsidiaries was changed prospectively from NIS to US dollars. Also, since that date the Company changed the presentation currency in the financial statements to US dollar. This change was made retroactively. Comparative data were restated so now they are presented in the new presentation currency (the US dollar). The effect of the change in the presentation currency on prior periods was recorded in capital reserve from translation into the presentation currency in the statement of comprehensive income.

- d. The Company had negative cash flows from operating activities of approximately \$ 4,552 thousand and positive cash flows of \$ 65 thousand for the year ended December 31, 2015 and for the three months ended March 31, 2016, respectively. Also, the Company had operating loss of approximately \$ 4,505 thousand and \$ 1,172 thousand for the year ended December 31, 2015 and for the three months ended March 31, 2016, respectively. The Company's management and Board believe that the Company will have the required sources 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- EVENTS DURING THE REPORTING PERIOD

- a. During the first quarter of 2016, 12,800 and 32,725 share options that had been granted to employees who terminated employment at the Company in 2015 and 2016, respectively, were forfeited and expired.
- b. On January 1, 2016, 67,200 share options that had been granted to a consultant of the subsidiary, Brainsway USA Inc., who terminated employment were forfeited and the remaining 33,600 share options expired after the reporting date, on April 1, 2016.
- c. In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016. The change in the tax rate does not have a material impact on the financial statements.

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

	Three months ended		Year ended
	March 31,		December 31,
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
Revenues reported in the financial statements for each group of similar products and services:			
Rental income	1,201	932	4,299
Revenues from sales	1,287	341	2,501
	<u>2,488</u>	<u>1,273</u>	<u>6,800</u>
Cost of revenues:			
Cost of rent	196	198	844
Cost of sales	277	80	622
	<u>473</u>	<u>278</u>	<u>1,466</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- EVENTS AFTER THE REPORTING PERIOD

- a. During April and May 2016 through the date of the approval of the financial statements, 6,550 and 9,500 share options that had been granted to employees who terminated employment at the Company in 2016, respectively, were forfeited and expired.
- b. On April 1, 2016, 33,600 share options that had been granted to a consultant of the subsidiary, Brainsway USA Inc., who terminated employment on December 31, 2015, expired.
- c. On May 9, 2016, 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 6,662 thousand and NIS 4,291 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.

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