

BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2015

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 June 30, 2015 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six 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

| | June 30, | | December 31, |
|---|----------------------|-----------------------|-----------------------|
| | 2015 | 2014 | 2014 |
| | Unaudited | | Audited |
| | NIS in thousands | | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 49,161 | 77,416 | 67,130 |
| Short-term deposits | 4,089 | 2,593 | 4,196 |
| Trade receivables | 5,344 | 2,847 | 3,795 |
| Other accounts receivable | 2,710 | 1,258 | 1,989 |
| | <u>61,304</u> | <u>84,114</u> | <u>77,110</u> |
| NON-CURRENT ASSETS: | | | |
| Long-term leasing deposits | 116 | 93 | 116 |
| Property, plant and equipment | 26,506 | 19,738 | 22,902 |
| Intangible assets | 82 | 127 | 99 |
| | <u>26,704</u> | <u>19,958</u> | <u>23,117</u> |
| | <u><u>88,008</u></u> | <u><u>104,072</u></u> | <u><u>100,227</u></u> |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Trade payables | 4,192 | 3,818 | 5,941 |
| Other accounts payable | 3,420 | 3,465 | 4,607 |
| Deferred revenues | 8,922 | 6,452 | 10,340 |
| Liability in respect of research and development grants | 258 | 108 | 385 |
| | <u>16,792</u> | <u>13,843</u> | <u>21,273</u> |
| NON-CURRENT LIABILITIES: | | | |
| Other liabilities | 27 | 34 | 27 |
| Deferred revenues | 775 | 875 | 825 |
| Liability in respect of research and development grants | 15,920 | 13,219 | 14,897 |
| Liability in respect of share options to investors | 1,063 | 10,698 | 2,618 |
| | <u>17,785</u> | <u>24,826</u> | <u>18,367</u> |
| EQUITY: | | | |
| Share capital | 580 | 577 | 577 |
| Share premium | 203,943 | 203,073 | 203,073 |
| Reserve for transaction with controlling shareholder | 3,854 | 3,854 | 3,854 |
| Share-based payment | 9,065 | 4,819 | 8,798 |
| Foreign currency translation reserve | 56 | - | - |
| Accumulated deficit | (164,067) | (146,920) | (155,715) |
| | <u>53,431</u> | <u>65,403</u> | <u>60,587</u> |
| | <u><u>88,008</u></u> | <u><u>104,072</u></u> | <u><u>100,227</u></u> |

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

August 24, 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

| | Six months ended June 30, | | Three months ended June 30, | | Year ended December 31, |
|--|--|---------|--------------------------------|---------|----------------------------|
| | 2015 | 2014 | 2015 | 2014 | 2014 |
| | Unaudited | | | | Audited |
| | NIS in thousands (except per share data) | | | | |
| Revenues | 10,632 | 4,953 | 5,611 | 2,486 | 12,093 |
| Cost of revenues | 2,279 | 998 | 1,182 | 389 | 2,347 |
| Gross profit | 8,353 | 3,955 | 4,429 | 2,097 | 9,746 |
| Research and development expenses, net | 6,915 | 7,961 | 2,734 | 3,917 | 23,033 |
| Marketing expenses | 6,403 | 2,699 | 3,153 | 1,473 | 6,784 |
| General and administrative expenses | 3,498 | 2,492 | 1,938 | 1,270 | 5,966 |
| Operating loss | 8,463 | 9,197 | 3,396 | 4,563 | 26,037 |
| Finance income | (1,989) | (1,972) | (1,604) | (1,746) | (11,432) |
| Finance expenses | 1,878 | 7,396 | 1,129 | 91 | 8,811 |
| Loss | 8,352 | 14,621 | 2,921 | 2,908 | 23,416 |
| Other comprehensive income (loss): | | | | | |
| Amounts that will be reclassified to profit or loss when specific conditions are met: | | | | | |
| Adjustments arising from translating financial statements of foreign operation | 56 | - | 43 | - | - |
| Total comprehensive loss | 8,296 | 14,621 | 2,878 | 2,908 | 23,416 |
| Basic loss per share (in NIS) | (0.58) | (1.05) | (0.20) | (0.20) | (1.65) |
| Diluted loss per share (in NIS) | (0.58) | (1.05) | (0.20) | (0.32) | (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> |
|--|-------------------------|----------------------|---|---|---|----------------------------|---------------------|
| | Unaudited | | | | | | |
| | NIS in thousands | | | | | | |
| Balance at January 1, 2015 (audited) | 577 | 203,073 | 3,854 | 8,798 | - | (155,715) | 60,587 |
| Total comprehensive loss | - | - | - | - | 56 | (8,352) | (8,296) |
| Forfeiture and expiration of share options | - | 38 | - | (347) | - | - | (309) |
| Exercise of share options | 3 | 832 | - | (459) | - | - | 376 |
| Cost of share-based payment | - | - | - | 1,073 | - | - | 1,073 |
| Balance at June 30, 2015 | <u>580</u> | <u>203,943</u> | <u>3,854</u> | <u>9,065</u> | <u>56</u> | <u>(164,067)</u> | <u>53,431</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> |
|--------------------------------------|-------------------------|----------------------|---|---|----------------------------|---------------|
| | Unaudited | | | | | |
| | NIS in thousands | | | | | |
| Balance at January 1, 2014 (audited) | 532 | 151,464 | 3,854 | 3,588 | (132,299) | 27,139 |
| Total comprehensive loss | - | - | - | - | (14,621) | (14,621) |
| Forfeiture of share options | - | - | - | (48) | - | (48) |
| Exercise of share options | 13 | 10,709 | - | (54) | - | 10,668 |
| Cost of share-based payment | - | - | - | 1,333 | - | 1,333 |
| Issue of shares, net | 32 | 40,900 | - | - | - | 40,932 |
| Balance at June 30, 2014 | <u>577</u> | <u>203,073</u> | <u>3,854</u> | <u>4,819</u> | <u>(146,920)</u> | <u>65,403</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> |
|--|-------------------------|----------------------|---|---|---|----------------------------|---------------------|
| | Unaudited | | | | | | |
| | NIS in thousands | | | | | | |
| Balance at April 1, 2015 | 577 | 203,084 | 3,854 | 9,438 | 13 | (161,146) | 55,820 |
| Total comprehensive loss | - | - | - | - | 43 | (2,921) | (2,878) |
| Forfeiture and expiration of share options | - | 27 | - | (282) | - | - | (255) |
| Exercise of share options | 3 | 832 | - | (459) | - | - | 376 |
| Cost of share-based payment | - | - | - | 368 | - | - | 368 |
| Balance at June 30, 2015 | <u>580</u> | <u>203,943</u> | <u>3,854</u> | <u>9,065</u> | <u>56</u> | <u>(164,067)</u> | <u>53,431</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> |
|-----------------------------|----------------------|----------------------|---|---|----------------------------|---------------|
| Unaudited | | | | | | |
| NIS in thousands | | | | | | |
| Balance at April 1, 2014 | 570 | 202,915 | 3,854 | 4,209 | (144,012) | 67,536 |
| Total comprehensive loss | - | - | - | - | (2,908) | (2,908) |
| Exercise of share options | 6 | 158 | - | (54) | - | 110 |
| Cost of share-based payment | - | - | - | 664 | - | 664 |
| Issue of shares, net | 1 | - | - | - | - | 1 |
| Balance at June 30, 2014 | <u>577</u> | <u>203,073</u> | <u>3,854</u> | <u>4,819</u> | <u>(146,920)</u> | <u>65,403</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> |
|------------------------------|----------------------|----------------------|---|---|----------------------------|---------------|
| Audited | | | | | | |
| NIS in thousands | | | | | | |
| 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

| | Six months ended June 30, | | Three months ended June 30, | | Year ended December 31, |
|---|------------------------------|----------|--------------------------------|---------|----------------------------|
| | 2015 | 2014 | 2015 | 2014 | 2014 |
| | Unaudited | | | | Audited |
| | NIS in thousands | | | | |
| <u>Cash flows from operating activities:</u> | | | | | |
| Loss | (8,352) | (14,621) | (2,921) | (2,908) | (23,416) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | | | |
| Adjustments to the profit or loss items: | | | | | |
| Depreciation and amortization | 1,207 | 592 | 532 | 307 | 1,203 |
| Capital gain | (5) | - | - | - | - |
| Finance expenses (income), net | (111) | 5,424 | (476) | (1,655) | (2,621) |
| Cost of share-based payment | 710 | 1,184 | 105 | 599 | 5,037 |
| Change in employee benefit liabilities, net | - | (4) | - | - | - |
| | 1,801 | 7,196 | 156 | (749) | 3,619 |
| Changes in asset and liability items: | | | | | |
| Increase in trade receivables | (1,807) | (1,546) | (642) | (691) | (2,501) |
| Decrease (increase) in other accounts receivable | (723) | 320 | 229 | (244) | (411) |
| Increase (decrease) in trade payable | (1,242) | 674 | (899) | ** 479 | 1,969 |
| Increase (decrease) in other accounts payable | (1,181) | 239 | (661) | 664 | 1,363 |
| Increase (decrease) in deferred revenues | (1,455) | 1,635 | (538) | 1,401 | 5,473 |
| | (12,959) | 1,322 | (5,276) | 1,609 | 5,893 |
| Cash paid and received during the period for: | | | | | |
| Interest paid | *) - | - | *) - | - | *) - |
| Interest received | 40 | 179 | 18 | 126 | 334 |
| | 40 | 179 | 18 | 126 | 334 |
| Net cash used in operating activities | (12,919) | (5,924) | (5,258) | (1,922) | (13,570) |

*) Represents less than NIS 1 thousand.

**) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30, | | Three months ended June 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 | (5,335) | (2,414) | (2,785) | **) (1,458) | (5,351) |
| Proceeds from sale of property, plant and equipment | 6 | - | 6 | - | - |
| Sale (purchase) of short-term investments, net | (18) | 2,443 | 82 | 13 | 1,516 |
| Investment in long-term deposits, net | - | (19) | - | (9) | (42) |
| Net cash provided by (used in) investing activities | (5,347) | 10 | (2,697) | (1,454) | (3,877) |
| <u>Cash flows from financing activities:</u> | | | | | |
| Receipt of Government grants | 809 | 832 | 274 | 763 | 1,493 |
| Repayment of liability in respect of Government grants | (257) | (105) | - | (105) | (263) |
| Exercise of share options | 376 | 4,705 | 376 | 110 | 4,705 |
| Proceeds from issue of securities, net | - | 40,932 | - | 1 | 40,932 |
| Net cash provided by financing activities | 928 | 46,364 | 650 | 769 | 46,867 |
| Exchange differences on balances of cash and cash equivalents | (667) | (78) | (713) | (139) | 666 |
| Exchange differences on foreign currency translation reserve | 36 | - | 22 | - | - |
| Increase (decrease) in cash and cash equivalents | (17,969) | 40,372 | (7,996) | (2,746) | 30,086 |
| Cash and cash equivalents at the beginning of the period | 67,130 | 37,044 | 57,157 | 80,162 | 37,044 |
| Cash and cash equivalents at the end of the period | 49,161 | 77,416 | 49,161 | 77,416 | 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 | 1,206 | 1,116 | (1,313) | **) (3) | 1,802 |

**) Reclassified.

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 June 30, 2015 and for the six 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 first half of 2015, 18,350 options associated with employees who left during the quarter have been forfeited and 1,650 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 share 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 share 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 share 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 deputy CEO for marketing ceased his role.
- g. Allocation of options in the U.S.:

On December 22, 2014, the Company's Board approved to allocate 110,808 share 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 share option as follows (1) 100,800 share options to the consultant will vest in equal parts over three years on a monthly basis starting January 1, 2015. The exercise period for stock options that will vest until December 31, 2015 ends on December 31, 2017; the exercise period for stock options that will vest until December 31, 2016 ends on December 31, 2018 and the exercise period for stock options that will vest until December 31, 2017 ends on December 31, 2019 (2) 10,008 share 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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 June 30, 2015 are an approximation of their fair value.

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

| | Six months ended June 30, | | Three months ended June 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 | 7,886 | 3,703 | 4,209 | 1,958 | 9,689 |
| Revenues from sales | 2,746 | 1,250 | 1,402 | 528 | 2,404 |
| | <u>10,632</u> | <u>4,953</u> | <u>5,611</u> | <u>2,486</u> | <u>12,093</u> |
| Cost of revenues: | | | | | |
| Rental income | 1,527 | 575 | 746 | 215 | 1,447 |
| Revenues from sales | 752 | 423 | 436 | 174 | 900 |
| | <u>2,279</u> | <u>998</u> | <u>1,182</u> | <u>389</u> | <u>2,347</u> |

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- EVENTS AFTER THE REPORTING DATE

- a. During July and August 2015 up until the date of the approval of the financial statements, 4,000 and 3,150 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 July 7, 2015, the Company's deputy CEO for business development ceased his role.
- c. On August 16, 2015, the Company's deputy CEO for global sales ceased his role.

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