

BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

UNAUDITED

INDEX

	<u>Page</u>
Review of Interim Consolidated Financial Statements	2
Consolidated Statements of Financial Position	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Changes in Equity	5 - 7
Consolidated Statements of Cash Flows	8 - 9
Notes to Interim Consolidated Financial Statements	10 - 13

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 September 30, 2016 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine 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

	September 30,		December 31,
	2016	*) 2015	2015
	Unaudited		Audited
U.S. dollars in thousands			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	10,288	11,570	11,355
Short-term deposits	587	1,086	585
Trade receivables, net	2,642	2,005	2,009
Other accounts receivable	456	646	915
	<u>13,973</u>	<u>15,307</u>	<u>14,864</u>
NON-CURRENT ASSETS:			
Long-term leasing deposits	26	31	34
Property, plant and equipment, net	7,258	7,257	7,329
Intangible assets	10	18	16
	<u>7,294</u>	<u>7,306</u>	<u>7,379</u>
	<u>21,267</u>	<u>22,613</u>	<u>22,243</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	888	1,263	944
Other accounts payable	1,328	881	1,228
Deferred revenues	2,014	2,343	2,526
Liability in respect of research and development grants	166	116	198
	<u>4,396</u>	<u>4,603</u>	<u>4,896</u>
NON-CURRENT LIABILITIES:			
Deferred revenues and other liabilities	368	198	193
Liability in respect of research and development grants	5,081	4,442	4,204
Liability in respect of share options to investors	-	36	55
	<u>5,449</u>	<u>4,676</u>	<u>4,452</u>
EQUITY:			
Share capital	147	147	147
Share premium	56,298	55,984	56,016
Reserve for transaction with controlling shareholder	917	917	917
Share-based payment	2,789	2,482	3,654
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,188)	(2,188)
Accumulated deficit	(46,541)	(44,008)	(45,651)
	<u>11,422</u>	<u>13,334</u>	<u>12,895</u>
	<u>21,267</u>	<u>22,613</u>	<u>22,243</u>

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

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

November 30, 2016

Date of approval of the financial statements

Dr. David Zchut
Chairman of the Board
and CEO

Avner Hagai
Vice Chairman of the Board, authorized signatory by the Board (see Note 7)

Hadar Levi
CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	*) 2015	2016	*) 2015	2015
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues	**866	4,542	**340	1,823	6,800
Cost of revenues	1,660	895	649	312	1,466
Gross profit	6,988	3,647	2,758	1,511	5,334
Research and development expenses, net	2,540	2,850	1,303	1,082	4,103
Selling and marketing expenses	3,720	2,146	1,397	509	3,281
General and administrative expenses	1,402	1,297	588	402	2,455
Operating loss	674	2,646	530	482	4,505
Finance income	434	767	51	258	(636)
Finance expenses	650	565	163	85	218
Loss	890	2,444	642	309	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	-	121	-	563	121
Total comprehensive loss	890	2,565	642	872	4,208
Basic and diluted loss per share (in dollars)	(0.06)	(0.17)	(0.04)	(0.02)	(0.28)

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

***) The Company's revenues from lease for the nine and three months periods ended September 30, 2016 include revenues of \$ 475 thousand from payment for termination of agreements for ordering the Company's devices in Brazil. See Note 3h.

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>
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	-	-	-	-	-	(890)	(890)
Forfeiture and expiration of share options	-	282	-	(2,052)	-	-	(1,770)
Cost of share-based payment	-	-	-	1,187	-	-	1,187
Balance at September 30, 2016	<u>147</u>	<u>56,298</u>	<u>917</u>	<u>2,789</u>	<u>(2,188)</u>	<u>(46,541)</u>	<u>11,422</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							
U.S. dollars in thousands							
Balance at January 1, 2015 (audited) *)	146	55,695	917	2,450	(2,067)	(41,564)	15,577
Total comprehensive loss	-	-	-	-	(121)	(2,444)	(2,565)
Forfeiture and expiration of share options	-	71	-	(174)	-	-	(103)
Exercise of share options	1	218	-	(120)	-	-	99
Cost of share-based payment	-	-	-	326	-	-	326
Balance at September 30, 2015 *)	<u>147</u>	<u>55,984</u>	<u>917</u>	<u>2,482</u>	<u>(2,188)</u>	<u>(44,008)</u>	<u>13,334</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 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>
Unaudited							
U.S. dollars in thousands							
Balance at July 1, 2016	147	56,231	917	2,675	(2,188)	(45,899)	11,883
Total comprehensive loss	-	-	-	-	-	(642)	(642)
Forfeiture and expiration of share options	-	67	-	(78)	-	-	(11)
Cost of share-based payment	-	-	-	192	-	-	192
Balance at September 30, 2016	<u>147</u>	<u>56,298</u>	<u>917</u>	<u>2,789</u>	<u>(2,188)</u>	<u>(46,541)</u>	<u>11,422</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							
U.S. dollars in thousands							
Balance at July 1, 2015 *)	147	55,922	917	2,516	(1,625)	(43,699)	14,178
Total comprehensive loss	-	-	-	-	(563)	(309)	(872)
Forfeiture and expiration of share options	-	62	-	(83)	-	-	(21)
Cost of share-based payment	-	-	-	49	-	-	49
Balance at September 30, 2015 *)	<u>147</u>	<u>55,984</u>	<u>917</u>	<u>2,482</u>	<u>(2,188)</u>	<u>(44,008)</u>	<u>13,334</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 CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Share options</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>
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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	*) 2015	2016	*) 2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Loss	(890)	(2,444)	(642)	(309)	(4,087)
Adjustments to reconcile loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Capital loss (gain)	6	(1)	6	-	(1)
Depreciation and amortization	481	445	162	136	611
Finance expenses (income), net	216	(202)	112	(173)	(418)
Cost of share-based payment	(606)	205	174	23	1,416
	97	447	454	(14)	1,608
Changes in asset and liability items:					
Increase in trade receivables	(658)	(1,081)	(417)	(619)	(1,162)
Decrease (increase) in other accounts receivable	459	(140)	414	45	(409)
Decrease in trade payable	(73)	(451)	(2)	(133)	(437)
Increase (decrease) in other accounts payable	100	(296)	(43)	6	51
Increase (decrease) in deferred revenues	(335)	(316)	(208)	56	(133)
	(507)	(2,284)	(256)	(645)	(2,090)
Cash paid and received during the period for:					
Interest received	7	13	2	3	17
Net cash used in operating activities	(1,293)	(4,268)	(442)	(965)	(4,552)
<u>Cash flows from investing activities:</u>					
Proceeds from sale of property, plant and equipment	5	2	5	-	2
Purchase (sale) of property, plant and equipment and intangible assets	(398)	(1,682)	176	(318)	(2,270)
Sale of short-term investments, net	-	(5)	-	-	495
Investment in long-term deposits, net	8	(2)	9	(2)	(5)
Net cash provided by (used in) investing activities	(385)	(1,687)	190	(320)	(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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	*) 2015	2016	*) 2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Receipt of Government grants	642	469	393	262	577
Repayment of liability in respect of Government grants	(326)	(162)	(184)	(96)	(162)
Exercise of share options	-	99	-	-	99
Net cash provided by financing activities	316	406	209	166	514
Exchange differences and commissions on balances of cash and cash equivalents	295	(33)	99	138	(91)
Adjustments arising from translating financial statements from functional currency to presentation currency	-	(109)	-	(493)	1
Increase (decrease) in cash and cash equivalents	(1,067)	(5,691)	56	(1,474)	(5,906)
Cash and cash equivalents at the beginning of the period	11,355	17,261	10,232	13,044	17,261
Cash and cash equivalents at the end of the period	10,288	11,570	10,288	11,570	11,355
 (a) <u>Significant non-cash transaction:</u>					
Purchase of property, plant and equipment on current suppliers' credit	580	1,600	290	1,280	295

*) 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 September 30, 2016 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, 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 \$ 1,293 thousand for the year ended December 31, 2015 and for the nine months ended September 30, 2016, respectively. Also, the Company had operating loss of approximately \$ 4,505 thousand and \$ 674 thousand for the year ended December 31, 2015 and for the nine months ended September 30, 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:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- a. 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.
- b. During 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 (\$ 1,763 thousand) and NIS 2,800 thousand (\$ 741 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.
- c. On May 29, 2016, the Company's president, CEO and director, Dr. Guy Ezekiel, informed of his decision to cease his role as a CEO of the Company. His role as a director discontinued immediately and he served in his position as a CEO until July 28, 2016.

On May 30, 2016, following cessation to hold office as director, 1,318,191 options exercisable into 1,318,191 Ordinary shares of NIS 0.04 par value that had been given to him on November 23, 2015 were forfeited. The total effect on the comprehensive income for the nine months ended September 30, 2016 was approximately \$ 1,112 thousand of which amounts of \$ 445 thousand, \$ 119 thousand and \$ 548 thousand were included in research and development expenses, selling and marketing expenses and general and administrative expenses, respectively.

- d. On June 10, 2016, 410,342 options that had been granted to investors under an agreement from April 26, 2012 expired according to the conditions of the agreement.
- e. During the first nine months of 2016, 277,300 options were forfeited and 87,225 options that had been granted to employees, officers and a consultant of the subsidiary, Brainsway USA Inc., who terminated employment in 2016 and 2015 expired.
- f. On July 14, 2016, the Company's VP of global sales ceased his role.
- g. On September 4, 2016, the Company's general meeting approved to appoint Dr. David Zchut, the chairman of the Board, as an interim CEO of the Company starting July 28, 2016, until the shorter of the day when a new CEO begins his role and a one-year period. Accordingly, since May 30, 2016 (the date of announcement of the former CEO resignation), the scope of employment of Dr. Zchut increased to a 100% time job adhering to the Company's remuneration policy and without giving him additional compensation (except what derives from the scope of his job growth in the relevant period) for his role as an interim CEO.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

- h. In September 2016, the Company entered into an amendment to the original distribution agreement from December 2015 with a third party so, in addition to the distribution of the Company's products in Mexico, the Company's products will also be distributed in Brazil. Concurrently, the Company signed an agreement with the former distributor of the Company's products in Brazil for the termination and assignment of the distribution agreement and the ordering of devices by virtue thereof signed in August 2010, which will allow to fully transfer the distribution activity of the Company's products in Brazil from the previous distributor to the current distributor.

NOTE 4:- FINANCIAL INSTRUMENTS

Fair value:

The carrying amounts of financial instruments as of September 30, 2016 are an approximation of their fair value.

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

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	NIS in thousands				
Revenues reported in the financial statements for each group of similar products and services:					
Rental income	4,147	3,153	1,725	1,136	4,299
Revenues from sales	4,501	1,389	1,682	687	2,501
	<u>8,648</u>	<u>4,542</u>	<u>3,407</u>	<u>1,823</u>	<u>6,800</u>
Cost of revenues:					
Rental income	644	560	243	169	844
Revenues from sales	1,016	335	406	143	622
	<u>1,660</u>	<u>895</u>	<u>649</u>	<u>312</u>	<u>1,466</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- EVENTS AFTER THE REPORTING DATE

On October 27, 2016, the MAGNET committee at the Chief Scientist at the Israel Innovation Authority approved an annual work plan for the fourth year with the budget of approximately NIS 2.3 million, of which 66% (approximately NIS 1.5 million) the MAGNET administration will give the Company as a grant.

NOTE 7:- APPROVAL OF THE FINANCIAL STATEMENTS

On November 20, 2016, the Company's Board authorized Mr. Avner Hagai, a director in the Company who serves as the vice chairman, to sign the financial statements of the Company, as required for purposes of approval of financial statements, because in the Company serves an interim CEO.

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