

BRAINSWAY LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2017

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 September 30, 2017 and the related condensed consolidated statements of profit or loss and other 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 these periods 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,
	2017	2016	2016
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5,857	10,288	9,174
Short-term deposits	25	587	585
Trade receivables	2,587	2,642	2,492
Other accounts receivable	798	456	859
	<u>9,267</u>	<u>13,973</u>	<u>13,110</u>
NON-CURRENT ASSETS:			
Long-term leasing deposits	25	26	24
Property, plant and equipment, net	7,009	7,258	6,821
Intangible assets	18	10	9
	<u>7,052</u>	<u>7,294</u>	<u>6,854</u>
	<u><u>16,319</u></u>	<u><u>21,267</u></u>	<u><u>19,964</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	943	888	810
Other accounts payable	1,307	1,328	1,436
Deferred revenues	2,328	2,014	1,861
Liability in respect of research and development grants	250	166	288
	<u>4,828</u>	<u>4,396</u>	<u>4,395</u>
NON-CURRENT LIABILITIES:			
Deferred revenues and other liabilities	262	368	374
Liability in respect of research and development grants	4,437	5,081	4,908
	<u>4,699</u>	<u>5,449</u>	<u>5,282</u>
EQUITY:			
Share capital	149	147	149
Share premium	56,593	56,298	56,585
Reserve for transaction with controlling shareholder	917	917	917
Share-based payment	3,636	2,789	2,872
Adjustments arising from translating financial statements from functional currency to presentation currency	(2,188)	(2,188)	(2,188)
Accumulated deficit	(52,315)	(46,541)	(48,048)
	<u>6,792</u>	<u>11,422</u>	<u>10,287</u>
	<u><u>16,319</u></u>	<u><u>21,267</u></u>	<u><u>19,964</u></u>

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

November 19, 2017			
Date of approval of the financial statements	Dr. David Zchut Chairman of the Board	Yaakov Michelin CEO and Director	Hadar Levi CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues	7,543	*) 8,648	3,016	*) 3,407	11,524
Cost of revenues	1,684	1,660	681	649	2,427
Gross profit	5,859	6,988	2,335	2,758	9,097
Research and development expenses, net	3,836	2,540	1,336	1,303	3,792
Selling and marketing expenses	4,571	3,720	1,523	1,397	5,180
General and administrative expenses	1,988	1,402	742	588	2,194
Operating loss	(4,536)	(674)	(1,266)	(530)	(2,069)
Finance income	1,481	434	10	51	514
Finance expenses	1,170	650	532	163	
Loss before tax expenses	(4,225)	(890)	(1,788)	(642)	(2,397)
Tax expenses	42	-	42	-	-
Total loss and other comprehensive loss	<u>(4,267)</u>	<u>(890)</u>	<u>(1,830)</u>	<u>(642)</u>	<u>(2,397)</u>
Basic and diluted net loss per share (in dollars)	<u>(0.29)</u>	<u>(0.06)</u>	<u>(0.12)</u>	<u>(0.04)</u>	<u>(0.17)</u>

*) The Company's rental income for the periods of nine and three months ended September 30, 2016 includes income totaling \$ 475 thousand deriving from payment for termination of contracts for the sale of the Company's systems in Brazil.

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, 2017 (audited)	149	56,585	917	2,872	(2,188)	(48,048)	10,287
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	<u>149</u>	<u>56,593</u>	<u>917</u>	<u>3,636</u>	<u>(2,188)</u>	<u>(52,315)</u>	<u>6,792</u>
	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	-	-	-	-	-	(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>

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>
<u>Unaudited</u>							
<u>U.S. dollars in thousands</u>							
Balance at July 1, 2017	149	56,585	917	3,361	(2,188)	(50,485)	8,339
Total comprehensive loss	-	-	-	-	-	(1,830)	(1,826)
Forfeiture and expiration of share options	-	8	-	(14)	-	-	(6)
Cost of share-based payment	-	-	-	289	-	-	289
Balance at September 30, 2017	<u>149</u>	<u>56,593</u>	<u>917</u>	<u>3,636</u>	<u>(2,188)</u>	<u>(52,315)</u>	<u>6,792</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>Adjustments arising from translating financial statements from functional currency to presentation currency</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
<u>Unaudited</u>							
<u>U.S. dollars in thousands</u>							
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>

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, 2016	147	56,016	917	3,654	(2,188)	(45,651)	12,895
Total comprehensive loss	-	-	-	-	-	(2,397)	(2,397)
Forfeiture and expiration of share options	-	313	-	(2,081)	-	-	(1,768)
Exercise of share options	2	256	-	(79)	-	-	179
Cost of share-based payment	-	-	-	1,378	-	-	1,378
Balance at December 31, 2016	<u>149</u>	<u>56,585</u>	<u>917</u>	<u>2,872</u>	<u>(2,188)</u>	<u>(48,048)</u>	<u>10,287</u>

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,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Loss	(4,267)	(890)	(1,830)	(642)	(2,397)
Adjustments to reconcile loss to net cash used in operating activities:					
Adjustments to the profit or loss items:					
Capital loss	-	6	-	6	6
Depreciation and amortization	555	481	207	162	649
Finance expenses (income), net	(311)	216	522	112	328
Cost of share-based payment	760	(606)	280	174	(420)
Tax expenses	42	-	42	-	-
	1,046	97	1,051	454	563
Changes in asset and liability items:					
Increase in trade receivables	(151)	(658)	(31)	(417)	(499)
Decrease in other accounts receivable	237	459	250	414	56
Increase (decrease) in trade payable	40	(73)	81	(2)	137
Increase (decrease) in other accounts payable	(167)	100	(164)	(43)	208
Increase (decrease) in deferred revenues	356	(335)	207	(208)	(482)
	315	(507)	343	(256)	(580)
Cash paid and received during the period for:					
Interest received	9	7	1	2	12
Taxes paid	(61)	-	(61)	-	-
	(52)	7	(60)	2	12
Net cash used in operating activities	(2,958)	(1,293)	(496)	(442)	(2,402)
<u>Cash flows from investing activities:</u>					
Proceeds from sale of property, plant and equipment	-	5	-	5	5
Purchase of property, plant and equipment and intangible assets	(790)	(398)	(275)	176	(408)
Withdrawal of short-term deposits	560	-	-	-	-
Withdrawal of (investment in) long-term deposits, net	(1)	8	(3)	9	10
Net cash provided by (used in) investing activities	(231)	(385)	(278)	190	(393)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from financing activities:</u>					
Receipt of Government grants	186	642	186	393	717
Repayment of liability in respect of Government grants	(375)	(326)	(158)	(184)	(326)
Exercise of share options	-	-	-	-	179
Net cash provided by (used in) financing activities	(189)	316	28	209	570
Exchange rate differences and commissions on balances of cash and cash equivalents	61	295	(35)	99	44
Decrease in cash and cash equivalents	(3,317)	(1,067)	(781)	56	(2,181)
Cash and cash equivalents at the beginning of the period	9,174	11,355	6,638	10,232	11,355
Cash and cash equivalents at the end of the period	5,857	10,288	5,857	10,288	9,174
<u>(a) Significant non-cash transactions:</u>					
Purchase of property, plant and equipment on current suppliers' credit	63	580	(240)	290	-

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, 2017 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, 2016 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. The Company had negative cash flows from operating activities of approximately \$ 2.4 million and \$ 3 million for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively. Furthermore, the Company had an operating loss of approximately \$ 2.1 million and \$ 4.5 million for the year ended December 31, 2016 and for the nine months ended September 30, 2017, respectively. In August 2017, the Company entered into an agreement for the receipt of a bank credit facility in the amount of up to \$ 6 million. After the reporting date, the Company received an amount of \$ 3 million from said credit facility (for further details regarding the credit terms, see Note 4c). On the basis of the abovementioned, the Company's management and Board believe that the Company will have the financial sources required 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:- DISCLOSURE OF NEW IFRS IN THE PERIOD PRIOR TO THEIR ADOPTION*IFRS 15, "Revenue from Contracts with Customers":*

In furtherance to that stated in Note 4b to the annual financial statements regarding the possible impact of the adoption of IFRS 15, "Revenue from Contracts with Customers", the Company evaluated the impact of the adoption of IFRS 15 on its financial statements in respect of transactions for the sale of the Company's devices. IFRS 15 does not apply to the Company's revenues from rental contracts. The Company intends to choose the modified retrospective adoption of IFRS 15. The Company currently believes that the initial adoption of IFRS 15 as of January 1, 2018 is not expected to have a material impact. The Company's assessment relates to the effects as they are known to the Company at present and may be revised in the financial statements for the third quarter of 2017 and/or for 2017 after the Company has adopted certain policies resolving the application issues currently under discussion.

IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23"). IFRIC 23 clarifies the principles of recognition and measurement of assets or liabilities in keeping with the provisions of IAS 12, "Taxes on Income" when there is uncertainty over income tax treatments. IFRIC 23 addresses and provides guidance for determining whether some tax treatments should be considered collectively, addresses the position of the tax authorities, measures the implications of uncertainty involving taxes on income in the financial statements and prescribes the accounting treatment of changes in facts and circumstances underlying the uncertainty.

IFRIC 23 is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply IFRIC 23 using one of two approaches:

1. Full retrospective adoption, without restating comparative figures, by carrying the cumulative effect through the date of initial adoption to the opening balance of retained earnings.
2. Full retrospective adoption with restating comparative figures.

The Company believes that IFRIC 23 is not expected to have a material impact on the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- EVENTS DURING THE REPORTING PERIOD

- a. During the nine months ended September 30, 2017, 12,983 options that had been granted to employees who terminated their employment at the Company in 2017 were forfeited and 1,350 options expired.
- b. On April 1, 2017, Mr. Yaakov Michelin, a director, started his tenure as the Company's CEO. On that date, he was allocated 566,262 options that may be exercised into 566,262 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 19.97 per any option as follows: the options vest over four years; 1/4 of the number of options vest after 12 months of the date of allocation (April 1, 2017) and 1/16 of the number of options vest after each subsequent 3 months. The options are exercisable during a period of 8 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 1.1 million.

The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 44.69%-51.09%, risk-free interest rate of 0.17%-1.94%, share price of NIS 16.37, exercise coefficient of 2.8 and expected dividend of 0.

- c. On August 17, 2017, Moach R&D Services Ltd., a wholly-owned sub-subsiary of the Company ("Moach"), entered into an agreement for the receipt of a bank credit facility in the amount of up to \$ 6 million. An amount of \$ 3 million could be withdrawn until October 15, 2017 ("the first facility") bearing 3-months Libor interest rate plus 6%. The remaining credit facility ("the second facility") may be withdrawn from October 15, 2017 to March 15, 2018 bearing 3-months Libor interest rate plus 6.75%. The interest on the loans is payable on a quarterly basis and the loan principal is repayable in 8 equal consecutive quarterly installments where the first installment is at the end of 18 and 12 months from the date of withdrawal of the loans from the first and second facilities, respectively. Also, according to the credit agreement, the Company will allocate the bank unquoted options to purchase its shares for the total exercise price of up to \$ 600 thousand. The options are exercisable immediately upon allocation for a period of 5 years from the date of any allocation at an exercise price of \$ 5.02 per share in cash or under a cashless exercise mechanism. The Company undertook to allocate to the bank options for the purchase of shares in the amount of up to \$ 300 thousand as a condition for the provision of the first facility. The remaining options will be allocated on the date of withdrawal of each loan from the second facility, so that the exercise amount will constitute 10% of the loan actually withdrawn from the second facility. Moach is entitled to make an early repayment of all or part of the loans. In such a case, Moach will pay the bank an early repayment fee as detailed in the loan agreement.

As part of the credit agreement, and as a condition for using the first and second facilities, the Company and its investees undertook to provide the bank with fixed and floating charges on all their assets, including property, money (including money received from borrower's clients), goodwill, intellectual property rights and assets of any kind. In addition, the Company and its U.S. investees, Brainsway Inc. and Brainsway USA Inc., undertook to sign a guarantee letter, unlimited in amount, to secure the loans that will be provided by virtue of the credit agreement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- EVENTS DURING THE REPORTING PERIOD (Cont.)

After the reporting date, on October 3, 2017, the Company allocated the bank 59,761 options as a condition for receiving the first facility and the entire first facility amount was withdrawn.

The withdrawal of the loan and the credit facility are conditional on the Company meeting the following financial covenants: (1) total customer debt and the cash balance will not be less than \$ 4 million provided that the total cash is not less than \$ 2 million; (2) minimum rental fees expected to be received from all signed rental contracts of the Company during a period of 4 years commencing from the calendar year in which the trial date occurs shall be no less than \$ 15 million; (3) minimum rental fees expected to be received from all signed rental contracts of the Company during a period 4 years commencing from the calendar year in which the trial date occurs offset by amounts that may not be received from customers for early termination of the rental contract, shall be no less than \$ 7.5 million and (4) total short-term and long-term financial credit shall not exceed \$ 6 million.

As of the date of receipt of the loan, October 3, 2017, and as of the date of signing the financial statements, the Company is in compliance with all the above financial covenants.

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

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	U.S. dollars in thousands				
Revenues reported in the financial statements for each group of similar products and services:					
Rental income	4,745	4,147	1,722	1,725	5,327
Revenues from sales	2,798	4,501	1,294	1,682	6,197
	<u>7,543</u>	<u>8,648</u>	<u>3,016</u>	<u>3,407</u>	<u>11,524</u>
Cost of revenues:					
Cost of rent	926	644	344	243	1,004
Cost of sales	758	1,016	337	406	1,423
	<u>1,684</u>	<u>1,660</u>	<u>681</u>	<u>649</u>	<u>2,427</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- EVENTS AFTER THE REPORTING PERIOD

- a. On October 26, 2017, subject to the approval of the general meeting which is scheduled to convene on December 3, 2017, the Company's Board approved the appointment of a new director in the Company, Mrs. Keren Sarid. Insofar as her appointment is approved, Mrs. Sarid will be entitled to the following: (a) annual remuneration based on the "minimum amount" and participation fee based on half of the "maximum amount", all as determined in the Israeli Companies Regulations, and (b) the allocation of 27,500 options which are exercisable into Company shares of NIS 0.04 par value each, representing as of October 26, 2017, the date of scheduling the general meeting, 0.17% of the Company's issued and outstanding share capital on a fully diluted basis for an exercise price of NIS 21.372. The options will vest and be exercisable over a period of four years from the allocation date on the dates agreed upon with in the agreement with Mrs. Sarid.
- b. After the reporting date, 6,667 options that had been granted to an employee whose employment in the Company was terminated in 2017 expired.

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