

**BRAINSWAY LTD.**  
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**BRAINSWAY LTD.**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS  
ENDED DECEMBER 31, 2019, 2018 AND 2017**



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Shareholders and the Board of Directors of**

**BRAINSWAY LTD.**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of the financial position of Brainsway Ltd. and its subsidiaries ("the Company") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive loss, changes in equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global  
We have served as the Company's auditor since 2003.

Tel-Aviv, Israel  
March 22, 2020

**BRAINSWAY LTD.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	Note	December 31,	
		2019	2018
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	4	\$ 21,674	\$ 8,968
Short-term deposits	5	221	101
Trade receivables, net	6	5,507	2,904
Other accounts receivable	7	1,427	1,505
		<u>28,829</u>	<u>13,478</u>
<b>NON-CURRENT ASSETS:</b>			
Restricted deposit	12b, 16h	—	1,007
Long-term prepaid expenses	1c	—	1,345
Long-term deposit		168	146
Leased systems	8	5,491	4,690
System components and other property and equipment	8	\$ 4,248	\$ 2,936
		<u>9,907</u>	<u>10,124</u>
		<u>\$ 38,736</u>	<u>\$ 23,602</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables	10	\$ 1,320	\$ 2,243
Other accounts payable	11	3,379	3,459
Deferred revenues	16	1,305	1,333
Loan from bank	12b	—	750
Liability in respect of research and development grants	12c	714	554
		<u>6,718</u>	<u>8,339</u>
<b>NON-CURRENT LIABILITIES:</b>			
Loan from bank	12b	—	2,083
Deferred revenues and other liabilities	16b,e,g	2,353	1,108
Liability in respect of research and development grants	12c	5,367	4,980
Warrants	12b	78	140
		<u>7,798</u>	<u>8,311</u>
<b>EQUITY:</b>			
Share capital	17	233	171
Share premium		93,649	67,193
Share-based payment	18	4,435	3,357
Adjustments arising from translating financial statements from functional currency to presentation currency		(2,188)	(2,188)
Accumulated deficit		(71,909)	(61,581)
		<u>24,220</u>	<u>6,952</u>
		<u>\$ 38,736</u>	<u>\$ 23,602</u>

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

**BRAINSWAY LTD.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

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

	Note	Year ended December 31,		
		2019	2018	2017
Revenues	19a	\$ 23,101	\$ 16,397	\$ 11,145
Cost of revenues	19b	5,129	3,589	2,595
Gross profit		17,972	12,808	8,550
Research and development expenses, net	19c	7,876	6,156	5,343
Selling and marketing expenses	19d	13,269	8,345	6,331
General and administrative expenses	19e	5,303	3,421	3,487
Total operating expenses		26,448	17,922	15,161
Operating loss		8,476	5,114	6,611
Finance expense, net	19f	1,430	1,156	274
Loss before income taxes		9,906	6,270	6,885
Income taxes	15b	422	209	169
Net loss and total comprehensive loss		\$ 10,328	\$ 6,479	\$ 7,054
Basic and diluted net loss per share	20	\$ (0.50 )	\$ (0.39 )	\$ (0.48 )

The accompanying notes are an integral part of the 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
Balance at January 1, 2017	\$ 149	57,502	\$ 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
Expiration of share options	—	26	(26)	—	—	—
Cost of share-based payment	—	—	1,043	—	—	1,043
Balance at December 31, 2017	171	65,951	3,889	(2,188)	(55,102)	12,721
Net loss and total comprehensive loss	—	—	—	—	(6,479)	(6,479)
Expiration of share options	—	1,242	(1,242)	—	—	—
Cost of share-based payment	—	—	710	—	—	710
Balance at December 31, 2018	171	67,193	3,357	(2,188)	(61,581)	6,952
Net loss and total comprehensive loss	—	—	—	—	(10,328)	(10,328)
Issuance of shares, net (**)	62	26,271	—	—	—	26,333
Expiration of share options	—	185	(185)	—	—	—
Cost of share-based payment	—	—	1,263	—	—	1,263
Balance at December 31, 2019	233	93,649	4,435	(2,188)	(71,909)	24,220

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

(\*\*) Net of issuance expenses of \$ 2,290.

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

**BRAINSWAY LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	Year ended December 31,		
	2019	2018	2017
<i>Cash flows from operating activities:</i>			
Total comprehensive loss	\$ (10,328)	\$ (6,479)	\$ (7,054)
Adjustments to reconcile net loss to net cash used in operating activities:			
Adjustments to profit or loss items:			
Depreciation, amortization and impairment	1,741	463	394
Depreciation of leased systems	1,054	765	678
Finance expenses, net	1,430	1,157	274
Cost of share-based payment	1,263	710	1,028
Income taxes	422	209	169
	<u>5,910</u>	<u>3,304</u>	<u>2,543</u>
Changes in asset and liability items:			
Increase in trade receivables	(2,634)	(419)	(21)
Decrease (increase) in other accounts receivable	136	(595)	113
Decrease in long-term prepaid expenses	—	(217)	—
Increase in trade payables	175	859	310
Increase (decrease) in other accounts payable	(385)	482	163
Increase (decrease) in deferred revenues and other liabilities	555	(314)	523
	<u>(2,153)</u>	<u>(204)</u>	<u>1,088</u>
Cash paid and received during the year for:			
Interest paid	(296)	(239)	—
Interest received	175	37	12
Income taxes paid	(552)	(192)	(56)
	<u>(673)</u>	<u>(394)</u>	<u>(44)</u>
Net cash used in operating activities	<u>(7,244)</u>	<u>(3,773)</u>	<u>(3,467)</u>
<i>Cash flows from investing activities:</i>			
Purchase of property and equipment and system components	(3,311)	(1,972)	(985)
Withdrawal of (investment in) short-term deposits, net	(120)	(50)	535
Withdrawal of (investment in) long-term deposits, net	985	886	(2,001)
Net cash used in investing activities	<u>(2,446)</u>	<u>(1,136)</u>	<u>(2,451)</u>
<i>Cash flows from financing activities:</i>			
Receipt (repayment) of loan from bank, net	(3,000)	—	2,702
Receipt of government grants	176	149	186
Repayment of liability in respect of research and development grants	(601)	(414)	(375)
Repayment of lease liability	(434)	—	—
Issuance of warrants	—	—	150
Proceeds from issuance of shares, net	26,333	—	8,445
Net cash (used in) provided by financing activities	<u>22,474</u>	<u>(265)</u>	<u>11,108</u>
Exchange rate differences on cash and cash equivalents	(78)	(367)	145
Increase (decrease) in cash and cash equivalents	12,706	(5,541)	5,335
Cash and cash equivalents at the beginning of the year	8,968	14,509	9,174
Cash and cash equivalents at the end of the year	<u>\$ 21,674</u>	<u>\$ 8,968</u>	<u>\$ 14,509</u>
<i>(a) Significant non-cash transactions:</i>			
Purchase of property and equipment on credit	\$ 183	\$ 280	\$ 469
long-term prepaid expenses not yet paid	<u>\$ —</u>	<u>\$ 1,128</u>	<u>\$ —</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 1: GENERAL**

- a. A general description of the Company and its activity:

Brainsway Ltd. ("the Company") incorporated on November 7, 2006, is a commercial stage medical device company focused on the development and sale of non-invasive Deep Transcranial Magnetic Stimulation ("Deep TMS"), technology for the treatment of neurological and addiction disorders. The Deep TMS system ("system") uses magnetic pulses to stimulate neurons and consequently modulates the physiological activity of the brain.

In January 2013, the first commercial Deep TMS system received clearance by the United States Food and Drug Administration ("FDA") for the treatment of major depressive disorder ("MDD") in adults who failed to achieve satisfactory improvement from anti-depressant medication. In August 2018, the Company received clearance of marketing authorization by the FDA for the adjunct therapy for the treatment of obsessive-compulsive disorder (OCD) in adults.

Brainsway Ltd. ("the Company") and its wholly owned subsidiaries, Brainsway, Inc. ("Inc"), Moach R&D Services Ltd. ("Moach"), Brainsway USA Inc ("USA Inc"), collectively (the "Group") derive revenues from the sale and lease of its systems.

- b. The Group has negative cash flows from operating activities and an operating loss of \$ 7.2 million and \$ 8.5 million for the year ended December 31, 2019, respectively. The Company's management and board of directors believe that the Company has the current funding to finance its business activity according to its plans in the foreseeable future.
- c. The financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were authorized for issuance in accordance with a resolution of the board of directors on March 22, 2020.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

- a. Basis of presentation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Company's financial statements have been prepared on a cost basis, except for certain financial instruments which are presented at fair value through profit or loss.

The Company has elected to present the profit or loss items using the function of expense method.



**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company ("subsidiaries"). Control is achieved when the Company has power over the subsidiaries, is exposed or has rights to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. In assessing control, the effect of potential voting rights is considered only if they are substantive. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been applied consistently and uniformly with those applied in the financial statements of the Company. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

c. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity and is used to measure its financial position and operating results. The Group determines the functional currency of each Group entity. The Company's functional and presentation currency is the US Dollar for all reported periods.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated to the functional currency using the exchange rate prevailing at the date when the fair value was determined.

d. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

e. Short-term deposits:

Short-term deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents.

f. Allowance for doubtful accounts (accounting policy applied until December 31, 2017):

The allowance for doubtful accounts is determined in respect of specific trade receivables whose collection in the opinion of the Company's management, is doubtful. The Company did not recognize an allowance in respect of groups of customers that are collectively assessed for impairment since it did not identify any groups of customers which bear similar credit risks. Impaired receivables are derecognized when they are assessed as uncollectible.

See Note 2m with respect to accounting policy applied commencing January 1, 2018.

g. Revenue recognition:

On January 1, 2018, the Company initially adopted IFRS 15, "Revenue from Contracts with Customers" ("Standard"). The Company elected to apply the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data. There was no effect of the initial adoption of the new standard on the opening balance of retained earnings as at January 1, 2018.

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:

The Company generates revenues from the sale and lease of its systems. The Company sells its products mainly to end users and to a lesser extent to third-party distributors outside of the United States and does not provide return rights.

*Revenues from sale of systems:*

Revenue from sale of systems are recognized at the point in time when control of the system is transferred to the customer, generally upon delivery of the system to the customer.

*Revenue from rendering of services:*

Revenue from rendering of extended warranty services is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company charges its customers based on payment terms agreed upon in specific agreements. When payments are made before or after the service is performed, the Company recognizes the resulting contract asset or liability. Revenue from services were insignificant for all reported periods.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Contract liabilities:*

A contract liability, presented as deferred revenues, is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. The Company elected to apply the practical expedient in IFRS 15 and does not provide disclosure of the remaining unsatisfied performance obligations with respect to contracts that have a term of up to one year. As of December 31, 2019, the Company has no unsatisfied performance obligation with a contract duration of more than one year.

*Allocating the transaction price:*

For contracts that consist of more than one performance obligation at contract inception, the Company allocates the contract transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. The stand-alone selling price is the price at which the Company would sell the promised goods or services separately to a customer.

*Revenues from lease of systems:*

The Company generates revenue from leasing its systems usually for a term of up to four years either for a fixed annual fee, or a variable fee, which is determined based on the higher of: fees per treatment (i.e. usage based fees) or an annual minimum fee as stated in the contract. The classification of a lease as a finance lease or operating lease is determined based on the substance of the lease agreement, and the assessment is made at the inception date of the lease pursuant to the provisions of the Standard. Leases in which substantially all the risks and rewards incidental to ownership of the leased asset are not transferred to the lessee are classified as operating leases. Revenue from operating leases are recognized on a straight-line basis over the lease term. Usage based fees are recognized as revenue when the Company is entitled to receive such revenue.

**h. Government grants:**

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with all attached conditions.

Government grants received from the Israel Innovation Authority ("IIA") and repayable to the IIA through royalty-bearing sales are recognized upon receipt as a liability if future economic benefits are expected to be derived from the research project, resulting in royalty-bearing sales due to the IIA.

A liability for the grant is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are recorded as a reduction of the liability.

If no economic benefits are expected from the research activity, the grant received are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

In each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid based on the best estimate of future sales and using the original effective interest method and, if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

Grants received from the IIA prior to January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans in accordance with IAS 20, based on the original terms of the loan.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

i. Leases:

As described in Note 2s regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Company elected to apply the provisions of the Standard using the modified retrospective method (without restatement of comparative data).

The accounting policy for leases applied effective from January 1, 2019, is as follows:

The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Company has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Company has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term.

Following are the amortization periods of the right-of-use assets by class of underlying asset:

	<b>Years</b>
Lease facilities	2 to 3
Motor vehicles	3

The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The accounting policy for leases applied until December 31, 2018, is as follows:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and is determined at the inception of the lease in accordance with IAS 17.

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred are classified as operating leases.

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

j. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date, as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Temporary differences that can be deducted for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that utilization is probable.

Taxes that would apply in the event of the disposal of investments in subsidiaries have not been taken into account in computing deferred taxes, as long as the disposal of the investments in subsidiaries is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by subsidiaries as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

k. Leased systems, system components and other property and equipment, net:

The cost of self-constructed systems (leased systems) includes the cost of materials, direct labor and share-based payment, as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

System components are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is based on estimated selling prices less estimated costs to be incurred to completion and disposal. The impairment of leased systems and system components recognized in cost of revenues was \$1,191, \$340 and \$225 for the years ended December 31, 2019, 2018 and 2017, respectively.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Leased systems	15
Laboratory equipment	15
Computers	33
Office furniture and equipment	6-15
Leasehold improvements	(*)

(\*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life and depreciation method of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

l. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset.

The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

m. Financial instruments:

On January 1, 2018, the Company initially adopted IFRS 9, "Financial Instruments" ("the Standard"). The Company elected to apply the provisions of the Standard retrospectively with certain reliefs without restatement of comparative data. 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 evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

- a. Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date; or
- b. Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime 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; or
- 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.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3. 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.

4. 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.

5. Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities that are measured at amortized cost. The proceeds allocated to equity instruments are determined to be the residual amount. Issue costs are allocated to each component pro rata to the amounts determined for each component in the unit.

n. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 — inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

**o. Provisions:**

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**p. Employee benefit liabilities:**

**1. Short-term employee benefits:**

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual and sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

**2. Post-employment benefits:**

The Group has defined contribution plans pursuant to Section 14 of the Severance Pay Law ("Section 14") under which the Group pays fixed contributions and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Israeli Severance Pay Law, 1963 ("Severance Pay Law"), specifies that employees are entitled to severance payment following the termination of their employment. Under the Severance Pay Law, the severance payment is calculated as one month salary for each year of employment, or a portion thereof. The majority of the Company's liability for severance pay is covered by the provisions of. Under Section 14, employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made on behalf of the employee with insurance companies. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. As a result, the Company does not recognize any liability for severance pay due to these employees and the deposits under Section 14 are not recorded as an asset in the Company's balance sheet.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services and no additional provision is required in the financial statements. See also Note 14.

q. Share-based payment transactions:

The Company's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting date includes the Group's best estimate of the number of equity instruments that will ultimately vest.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value of option granted is determined using the Binomial Lattice option-pricing model ("Binomial model"). The Binomial model takes into account variables such as volatility, dividend yield rate, and risk-free interest rate and also allows for the use of dynamic assumptions and considers the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life, and the probability of termination or retirement of the option holder in computing the value of the option.

No expense is recognized for awards that do not ultimately vest.

r. Net loss per share:

Net loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Basic net loss per share includes only shares that are outstanding during the period.

Potential Ordinary shares are included in the computation of diluted net loss per share when such shares are dilutive. Potential Ordinary shares that are converted during the period are included in diluted net loss per share only until the conversion date and from that date in basic net loss per share.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- s. Changes in accounting policies – initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of 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 recognize 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 recognize 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 recognize 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 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.

The Company adopted the modified retrospective approach and that the effect of the first-time adoption of IFRS 16 as of January 1, 2019 resulted in an increase of approximately \$1,400 to the Company’s total assets and corresponding liabilities. In the initial application of the Standard, the Company elected to apply a practical expedient for using a single discount rate to a portfolio of leases with reasonably similar characteristics.

2. Initial adoption of IFRIC 23, “Uncertainty over Income Tax Treatments”

In June 2017, the IASB issued IFRIC 23, “Uncertainty over Income Tax Treatments” (“the Interpretation”). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, “Income Taxes”, in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Interpretation was adopted on January 1, 2019, based on full retrospective adoption, without restating comparative data. There was no impact on the financial statements as a result of adopting the Interpretation.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS**

In the process of applying the significant accounting policies in the financial statements, the Group has made the following judgments, estimates and assumptions, which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

Classification of leases:

Evaluation of whether to classify a lease as a finance lease or an operating lease in accordance with the criteria stipulated in IFRS 16 requires significant judgment.

b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Grants from the IIA:

Government grants received from the IIA are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows and discount rate used to measure the amount of the liability.

- Provision for allowance for doubtful accounts on trade receivables:

The Group uses a provision matrix to calculate the allowance for doubtful accounts based on expected credit losses (ECL's) for trade receivables. The provision rates are based on days past due for its various customers. The provision matrix is initially based on the Group's historical observed default rates as well as forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 6.

- Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined upon initial recognition by the Binomial model. The Binomial model is based on share price and exercise price and assumptions regarding expected volatility, term of share option, dividend yield and risk-free interest rate.

BRAINSWAY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

NOTE 4: CASH AND CASH EQUIVALENTS

	December 31,	
	2019	2018
Cash for immediate withdrawal	\$ 11,640	\$ 5,965
Cash equivalents—short-term deposits (1)	10,034	3,003
	<u>\$ 21,674</u>	<u>\$ 8,968</u>

(1) The deposits earn annual interest at the respective term of the deposits of approximately 1.5%.

NOTE 5: SHORT-TERM DEPOSITS

	December 31,	
	2019	2018
Bank deposits (1)	<u>\$ 221</u>	<u>\$ 101</u>

(1) Short-term deposits at banks are for periods of up to one year. The deposits earn annual interest at the respective term of the deposits of approximately 1.5%.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 6: TRADE RECEIVABLES, NET**

a. Trade receivables, net:

	December 31,	
	2019	2018
Open accounts (1)	\$ 6,279	\$ 3,165
Credit cards	158	74
Less—allowance for doubtful accounts	(930)	(335)
Trade receivables, net	<u>\$ 5,507</u>	<u>\$ 2,904</u>

(1) Trade receivables generally have 90 day credit terms. Certain customers payments are made through monthly credit card transactions. Impaired debts are accounted for through recording an allowance for doubtful accounts.

b. Movement in allowance for doubtful accounts:

	U.S. dollars in thousands
Balance as of January 1, 2018	\$ 288
Provision for the year	335
Derecognition of bad debts	(249)
Reversal in respect of collected doubtful accounts	(39)
Balance as of December 31, 2018	335
Provision for the year	835
Derecognition of bad debts	(240)
Reversal in respect of collected doubtful accounts	—
Balance as of December 31, 2019	<u>\$ 930</u>

Following is information about the credit risk exposure of the Company's trade receivables:

December 31, 2019:

	U.S. dollars in thousands						Total
	Not past due	< 30 days	30-60 days	61-90 days	91 - 120 days	>120 days	
	U.S. dollars in thousands						
Gross carrying amount	\$ 2,619	\$ 1,133	\$ 544	\$ 461	\$ 247	\$ 1,433	\$ 6,437
Allowance for doubtful accounts	\$ 7	\$ 11	\$ 8	\$ 32	\$ 69	\$ 803	\$ 930
Trade receivables, net	2,612	1,122	536	429	178	630	<u>\$ 5,507</u>

December 31, 2018:

	U.S. dollars in thousands						Total
	Not past due	< 30 days	30-60 days	61-90 days	91 - 120 days	>120 days	
	U.S. dollars in thousands						
Gross carrying amount	\$ 1,210	\$ 953	\$ 207	\$ 305	\$ 266	\$ 298	\$ 3,239
Allowance for doubtful accounts	\$ 148	\$ 39	\$ 12	\$ 23	\$ 23	\$ 90	\$ 335
Trade receivables, net	1,062	914	195	282	243	208	<u>\$ 2,904</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 6: TRADE RECEIVABLES, NET (Continued)**

As of December 31, 2019, the Company has over 90 days past due trade receivables, net of \$ 808, of which \$ 568 were paid between the reporting date and the date of the approval of the financial statements. The Company expects to collect the entire net amount of these debts.

**NOTE 7: OTHER ACCOUNTS RECEIVABLE**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Government authorities	\$ 378	\$ 738
Accrued income-IIA	71	332
Consumables	306	91
Prepaid expenses and other	672	344
	<u>\$ 1,427</u>	<u>\$ 1,505</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 8: PROPERTY AND EQUIPMENT, NET**

**December 31, 2019:**

	<u>Leased systems</u>	<u>System Components</u>	<u>Laboratory equipment and Computers</u>	<u>Right of use assets</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<i>Cost:</i>							
Balance at January 1, 2019	\$ 6,369	\$ 2,717	\$ 794	\$ 1,414	\$ 82	\$ 52	\$ 11,428
Additions	—	5,521	37	—	8	—	5,566
Transfer to Leased systems	2,150	(2,150)	—	—	—	—	—
Reductions	(368)**	(2,971)***	—	—	—	—	(3,339)
Balance at December 31, 2019	<u>8,151</u>	<u>3,117</u>	<u>831</u>	<u>1,414</u>	<u>90</u>	<u>52</u>	<u>13,655</u>
<i>Accumulated depreciation:</i>							
Balance at January 1, 2019	1,679	—	613	—	44	52	2,388
Additions	1,054	—	81	460	6	—	1,602
Reductions	(73)	—	—	—	—	—	(73)
Balance at December 31, 2019	<u>2,660</u>	<u>—</u>	<u>694</u>	<u>460</u>	<u>50</u>	<u>52</u>	<u>3,916</u>
Depreciated cost at December 31, 2019	<u>\$ 5,491</u>	<u>\$ 3,117</u>	<u>\$ 137</u>	<u>\$ 954</u>	<u>\$ 40</u>	<u>\$ (*)</u>	<u>\$ 9,739</u>

(\*) Represents an amount lower than \$ 1

(\*\*) Derived mainly from systems leased to customers and sold

(\*\*\*) Includes impairment charge of \$1,191 for the year ended December 31, 2019.



**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 8: PROPERTY AND EQUIPMENT, NET (Continued)**

**December 31, 2018:**

	<u>Leased systems</u>	<u>System Components</u>	<u>Laboratory equipment and Computers</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<i>Cost:</i>						
Balance at January 1, 2018	\$ 4,627	\$ 3,553	\$ 633	\$ 75	\$ 52	\$ 8,940
Additions	—	2,645	161	7	—	2,813
Transfer to Leased systems	2,458	(2,458)	—	—	—	—
Reductions	(716)**	(1,023)***	—	—	—	(1,739)
Balance at December 31, 2018	<u>6,369</u>	<u>2,717</u>	<u>794</u>	<u>82</u>	<u>52</u>	<u>10,014</u>
<i>Accumulated depreciation:</i>						
Balance at January 1, 2018	1,187	—	554	38	52	1,831
Additions	817	—	59	6	—	882
Reductions	(325)	—	—	—	—	(325)
Balance at December 31, 2018	<u>1,679</u>	<u>—</u>	<u>613</u>	<u>44</u>	<u>52</u>	<u>2,388</u>
Depreciated cost at December 31, 2018	<u>\$ 4,690</u>	<u>\$ 2,717</u>	<u>\$ 181</u>	<u>\$ 38</u>	<u>\$ —(*)</u>	<u>\$ 7,626</u>

(\*) Represents an amount lower than \$ 1.

(\*\*) Derived mainly from systems leased to customers and sold

(\*\*\*) Includes impairment charge of \$340 for the year ended December 31, 2018.

**NOTE 9: FAIR VALUE MEASUREMENT**

The following table presents the fair value measurement hierarchy for the Group's assets and liabilities.

Quantitative disclosures of the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2019 and 2018:

	<u>Valuation date</u>	<u>Fair value hierarchy</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<i>Liabilities measured at fair value:</i>					
Liability in respect of warrants	31.12.2019	\$ —	\$ 78	\$ —	\$ 78
Liability in respect of warrants	31.12.2018	\$ —	\$ 140	\$ —	\$ 140

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 10: TRADE PAYABLES**

	December 31,	
	2019	2018
Open debt	\$ 1,320	\$ 2,242

Trade payables are non-interest bearing and are normally settled on up to 90 day terms.

**NOTE 11: OTHER ACCOUNTS PAYABLE**

	December 31,	
	2019	2018
Employee and payroll accruals	\$ 1,216	\$ 1,067
Accrued expenses	1,620	2,161
Tax payable	1	130
Liabilities to related parties (1)	128	101
Lease liabilities	414	—
	<u>\$ 3,379</u>	<u>\$ 3,459</u>

(1) A current non-interest bearing account.

**NOTE 12: NON-CURRENT LIABILITIES**

a. Composition:

	December 31,	
	2019	2018
Loan from bank(c)	\$ —	\$ 2,083
Warrants(c)	78	140
Liability in respect of research and development grants(d)	5,367	4,980
Deferred revenues and other liabilities	1,690	1,108
Lease liabilities(b)	663	—
	<u>\$ 7,798</u>	<u>\$ 8,311</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 12: NON-CURRENT LIABILITIES (Continued)**

b. Lease liabilities:

	<u>U.S. dollars in thousands</u>
Maturity analysis:	
Less than one year	525
One to five years	1,106
Total lease commitments	<u>1,631</u>
Impact of discounting remaining lease payments	(217)
Total lease liabilities as of January 1, 2019	<u>1,414</u>
Lease liabilities as of December 31, 2019:	
Current	414
Non-current	<u>663</u>
Total	<u>\$ 1,077</u>

c. Loan from bank:

On August 17, 2017, the Company entered into an agreement for the receipt of a bank credit facility of up to \$ 6,000 (the "Bank Credit Facility"). \$ 3,000 was withdrawn during 2017 ("the first facility") and bear annual interest of 3-months LIBOR plus 6%. The remaining credit facility ("the second facility") may be withdrawn until March 15, 2018 bearing annual interest 3-months LIBOR plus 6.75%. The interest on the loans is payable on a quarterly basis and the loan principal is repayable in eight equal consecutive quarterly installments, whereby the first installment is due 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 agreement, the Company will grant the bank warrants to purchase its ordinary shares for the total exercise price of up to \$ 600. The warrants are exercisable for a period of five years from the date of any grant at an exercise price of \$ 5.02 per share to be settled in cash or a cashless exercise mechanism.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 12: NON-CURRENT LIABILITIES (Continued)**

On October 3, 2017, the Company granted the bank 59,761 warrants at an aggregate exercise price of \$300 as a condition for receiving the first facility.

The fair value of the warrants at the grant date was estimated at \$ 150 and the remaining balance of \$2,850 was attributed to the loan. Transaction costs of \$ 156 were allocated based on to the relative fair value of the warrants and loan. The warrants are classified as a financial liability and measured at fair value through profit or loss.

The remaining warrants will be granted on the date of withdrawal of the loan from the second facility, so that the exercise amount will constitute 10% of the loan actually withdrawn from the second facility. The Company is entitled to make an early repayment of all or part of the loans. In such a case, the Company will pay the bank an early repayment fee as detailed in the agreement.

As part of the agreement, and as a condition for using the first and second facilities, the Group undertook to provide the bank fixed and floating charges on all its assets, including property, cash, goodwill, intellectual property, rights and assets of any kind. In addition, the Group undertook to sign a guarantee letter, unlimited in amount, to secure the loans that will be provided by virtue of the agreement. Also, a senior fixed charge, unlimited in amount, was provided on a specific deposit in which an amount of not less than \$ 2,000 was deposited ("the deposited amount"). It was agreed that if by March 16, 2018, the amount of loans actually withdrawn is less than \$ 6,000, the deposited amount would be placed at one-third of the actual amount of loans outstanding on that date.

In accordance with the amendments to the agreement signed up to March 14, 2019, loans under the Second facility may be withdrawn until May 30, 2019. The other terms of the first and second facility remain unchanged.

On May 5, 2019, following the IPO, the Company repaid the balance of the loan.

d. Government grants:

Moach received from the Israeli Government participation grants in research and development and, in return, it is currently obligated to pay royalties amounting to 3% of sales of products from such grants up to 100% of total grants received.

As of December 31, 2019, the maximum royalties payable by the Company in the future in respect of active projects is \$12,878, including interest at the LIBOR rate. Through December 31, 2019, royalties paid were \$1,983.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 13: FINANCIAL INSTRUMENTS**

a. Classification of financial assets and financial liabilities:

The financial assets and financial liabilities in the statement of financial position are measured at amortized cost, except financial liabilities in respect of warrants at fair value through profit or loss. The balance of financial liabilities in respect of warrants as of December 31, 2019 and 2018 was \$ 78 and \$140, respectively.

b. Financial risks factors:

The Group's activities expose it to various financial risks such as market risks (foreign currency risk, interest risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

The Company's Chief Financial Officer oversees the management of these risks in accordance with the policies approved by the board of directors.

1. Market risks:

*Foreign currency risk:*

The currency exposure arises from current accounts and deposits that are mainly managed in NIS and from liability in respect of employee payroll accruals that are paid in NIS.

2. Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term liabilities in respect of government grants received from IIA.

Regulators in many countries are in the process of replacing benchmark Interbank Offered Rates (IBORs), of which one of the most common is the LIBOR, with risk-free interest rate alternatives (RFRs). The replacement of IBORs with RFRs is expected to occur gradually until the end of 2021.

The repayment of grants received by the Company from 2018 have interest rate that reference LIBOR and are expected to be repaid after 2021. As of December 31, 2019, the carrying amount of the financial liabilities is \$387. Since an alternative interest rate was not determined by the IIA yet, at this stage the Company is unable to determine the effects, if any, that the discontinuance of IBORs will have on its financial instruments that reference the IBORs.

3. Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Group. The Group is exposed to credit risk from its operating activity (primarily trade receivables).

4. Liquidity risk:

The Group monitors its risk of a shortage of cash using a quarterly budget.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 13: FINANCIAL INSTRUMENTS (Continued)**

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

**December 31, 2019:**

	<b>Less than one year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>4 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Trade payables	\$ 1,320	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,320
Other accounts payable	2,965	—	—	—	—	—	2,965
Long-term liabilities	1	1	—	—	—	—	2
Liability in respect of research and development grants	810	1,050	1,335	1,635	1,980	6,792	13,602
Lease liability	572	449	271	—	—	—	1,292
	<u>\$ 5,668</u>	<u>\$ 1,500</u>	<u>\$ 1,606</u>	<u>\$ 1,635</u>	<u>\$ 1,980</u>	<u>\$ 6,792</u>	<u>\$ 19,181</u>

**December 31, 2018:**

	<b>Less than one year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>4 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Trade payables	\$ 2,243	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,243
Other accounts payable	3,394	—	—	—	—	—	3,394
Loan from bank	988	1,637	773	—	—	—	3,398
Long-term liabilities	2	1	—	—	—	—	3
Liability in respect of research and development grants	631	855	1,185	1,545	1,890	7,378	13,484
	<u>\$ 7,258</u>	<u>\$ 2,493</u>	<u>\$ 1,958</u>	<u>\$ 1,545</u>	<u>\$ 1,890</u>	<u>\$ 7,378</u>	<u>\$ 22,521</u>

c. Fair value:

The carrying amount of cash and cash equivalents, short-term deposits, trade receivables, other accounts receivable, trade payables, other accounts payable, warrants, long-term liabilities approximate their fair value.

*Financial liabilities measured at fair value:*

**December 31, 2019:**

	<b>Level 2</b>
Opening balance at January 1, 2019	\$ 140
Amounts transferred to the statement of comprehensive loss as finance income	(62)
Closing balance at December 31, 2019	<u>\$ 78</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 13: FINANCIAL INSTRUMENTS (Continued)**

During 2017, there were no transfers between Level 1 to Level 3 for fair value measurements of financial instruments, however there were transfers into Level 2 for fair value measurements of financial instruments.

d. Sensitivity tests relating to changes in foreign currency:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Sensitivity test to changes in the NIS exchange rate:</b>		
Gain (loss) from the change:		
Increase of 5% in exchange rate	88	3
Decrease of 5% in exchange rate	(88)	(3)

As of December 31, 2019, the Company has excess of financial assets over financial liabilities in NIS in relation to US dollar of \$ 1,761.

As of December 31, 2019, the Company has excess of financial assets over financial liabilities in Euro and Yen in relation to US dollar of \$ 1,487 and \$415, respectively. An increase or decrease of 5% of the US dollar relative to the Euro or Yen would not have a significant effect on the Company.

*Sensitivity tests and principal work assumptions:*

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss in respect of each financial instrument for the relevant risk variables chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

**NOTE 14: EMPLOYEE BENEFITS AND LIABILITIES**

Employee benefits consist of short-term and post-employment benefits.

Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to all of the Company's employees pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions benefits represent defined contribution plans.

Expense in respect of defined contribution plans was \$325 and \$299 for the years ended December 31, 2019 and 2018, respectively.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 15: TAXES ON INCOME**

a. Tax rates applicable to the Company and subsidiaries:

1. Tax rate applicable to Company and Moach:

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2017 was approved, which reduces the corporate income tax rate to 24% (from 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

The Israeli corporate income tax rate was 24% for 2017 and 23% for 2018, 2019 and thereafter. A

company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

2. Tax rate applicable to USA Inc and Inc:

The weighted tax rate for 2017 and thereafter for companies incorporated in the US was 27% and 35%-40% (Federal, State and City tax of the city where the company operates), respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted into law. The income tax effects of changes in tax laws are recognized in the period when enacted. The Act provides for numerous significant tax law changes and modifications with varying effective dates, which include reducing the corporate federal income tax rate from 35% to 21%, creating a semi-territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadening the tax base and allowing for immediate capital expensing of certain qualified property.

The Act also changed to a semi-territorial system. As a result, a one-time transition tax is imposed on the accumulated earnings and profits of the foreign subsidiaries of the US entities. The Company's subsidiaries in the United States do not have any profitable foreign subsidiaries and, therefore, the remaining provisions of the Act have no material impact on the Company's results of operations.

The main differences between the statutory corporate tax rate and the effective tax rate are carryforward losses in Israel in respect of which no deferred taxes were recorded and a current tax expense in respect of income of USA Inc and Inc.

b. Tax benefits under the Israel Law for the Encouragement of Capital Investments, 1959 ("Law") and Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the amendment") was published. According to the amendment, a "beneficiary enterprise" located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).



**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 15: TAXES ON INCOME (Continued)**

The amendment also prescribes special tax tracks for technological enterprises, which became effective in 2017, as follows:

Technological preferred enterprise—an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the amendment, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - 7.5%).

Any dividends distributed to a “foreign company”, as defined in the amendment, deriving from income from the technological preferred enterprise will be subject to tax at a rate of 4%.

*The Law for the Encouragement of Industry (Taxation), 1969:*

Moach has the status of an “industrial company”, as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise’s development or advancement, to deduct issuance expenses for shares listed for trading and to file a consolidated report under certain conditions.

Subject to meeting criteria determined in the Law and amendment, at the time Moach becomes profitable for tax purposes, Moach will be entitled to various corporate tax benefits, as implied by the Law and amendment.

c. Tax assessments:

The Company received final tax assessments through the 2011 tax year. The subsidiary, Moach, received final tax assessments through 2012. The subsidiary, Inc, received final tax assessments through the 2014 tax year.

d. Carryforward losses for tax purposes:

Carryforward losses for tax purposes as of December 31, 2019 are approximately \$3.5 million in Brainsway Ltd. and approximately \$47 million in Moach.

e. Deferred taxes:

As it is not probable that taxable income will be derived in the next years, a valuation allowance was established in respect of deferred taxes of the above carryforward losses.

**NOTE 16: CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES**

a. As for contingent liability in respect of payment of royalties to the IIA, see Note 12c.

b. The Company entered into a few distribution agreements with third parties regarding different territories around the world. According to these distribution agreements, the third parties are granted the exclusive right to market, distribute, lease and/or sale, use and promote sales of the systems in the different territories up to a 15 year period. The Company will supply the systems to the distributors and they will install, train and maintain the systems in the territory they operate. The different distributors are committed to minimum quantities as stated in the agreements.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 16: CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Continued)**

- c. In September 2013, the Company entered into a distribution agreement in Japan with Century Medical Inc., a member of the Itochu concern, which specializes in the import and distribution of medical systems and equipment in Japan. According to the agreement, the distributor was granted the exclusive right to market the Company's system for the treatment of major depression in patients in Japan for a ten year period which begins after the required regulatory approvals for marketing the system in Japan and after either obtaining reimbursement or deployment of a commercial product to a clinical site. If the distributor meets the minimum quantities which it has committed during the contractual term, the agreement will be extended for an additional five years period. The distributor is granted a right of first offer to distribute the Company's system in Japan without further codification.

In consideration for the above, the distributor is obligated to pay the Company distribution fees of 190 million Yen (approximately \$1.8 million), whereby 100 million Yen (approximately \$1 million as of December 31, 2019) paid in September 2013 and 90 million Yen (approximately \$0.8 million as of December 31, 2019) paid in 2019.

In each year of the agreement in which the distributor meets the respective annual predetermined revenue target, 10% of the distribution fees are returned to the distributor. The distribution fee which the Company expects to be entitled to is presented in deferred revenues and is recognized as revenue during the estimated exclusivity term. The distributor will pay the Company for any treatment made with the Company's system (pay-per-use), but in no case less than the pre-determined annual amount. The agreement prescribes conditions in which the Company or the distributor can cancel the agreement, including the authorities' demand to require a clinical trial and non-compliance with the requirement to purchase minimum predetermined quantities.

The agreement sets a minimum payment threshold to the Company that is examined every few years throughout the contractual term. If the distributor does not qualify for the minimum payment threshold at the end of each period, the Company will be entitled to terminate the distribution agreement, unless the parties reach another agreement between them. The agreement further determines that the distributor will act on its account to receive the regulatory approvals that are required to market the Company's system for the treatment of depression in patients in Japan and to receive reimbursement coverage at the price range established in the agreement.

On January 22, 2018, the distributor in Japan applied to the Pharmaceutical and Medical Devices Agency ("PMDA"), which is responsible for all import and export licenses of pharmaceuticals and medical equipment to Japan, for approval of marketing and selling the Company's systems in Japan. On January 2019, approval of the PMDA was received.

The Company is currently working through its distributor in Japan with the relevant bodies in Japan to update the local society guidelines to include Deep TMS in order to obtain reimbursement coverage under the Japanese National Health Insurance Plan.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 16: CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Continued)**

- d. On August 25, 2013, the Company received the approval of the MAGNET committee of the IIA for the development plan of the BSMT tool (brain stimulate and monitor tool). The plan was approved for three years and extended up to five years, in the framework of which the Company was approved work plans with participation rate of up to 66% of a non-royalty bearing grant.

In September 2017 and October 2018, the MAGNET committee approved an annual work plan for the fifth year with the budget of NIS 2,300, of out of which 55% (NIS 1,300) was provided to the Company as non-royalty bearing grants to date. The execution of this plan was completed by December 31, 2018.

- e. In March 2014, the Company entered into an exclusive marketing and distribution agreement of the Company's system with a third party in Israel for a maximum period of 15 years, subject to meeting minimum sales targets as set in the agreement. In April 2014, the distributor paid the Company a one-time exclusivity fee of NIS 1 million. Effective July 2019, the Company assumed direct operations for customers in Israel, after terminating its distribution agreement with the third-party distributor, pursuant to which a portion of the exclusivity fee (up to NIS 600) was determined to be refundable depending on future sales.

- f. License agreements:

1. In July 2003, Inc signed a license agreement with the agencies of the U.S. Public Health Service within the U.S. Department of Health and Human Services ("PHS"), according to which the Company was granted an exclusive license to develop, manufacture, make use of, market, sell and import products and processes to be developed in the framework of the license agreement with respect to TMS and a right to enter into sublicense agreements, subject to approval of the PHS. In return, Inc is committed to pay PHS royalties at fixed annual amount of \$2 from January 1, 2004 and royalties of 2% of net sales beyond this amount as defined in the agreement.

In addition, if Inc enters into a sub-license agreement, it is committed to pay royalties of 8% of the net consideration received for the grant of the sub-license. The current provision for royalties as of December 31, 2019 is \$248.

The agreement is valid until the expiration of the last to expire of the licensed patent rights under the agreement. PHS is entitled to cancel the agreement if Inc does not comply with the conditions detailed in the agreement.

2. In June 2005 and March 2010, Inc signed a research and licensing agreement and addendum with Yeda Research and Development Company Ltd. ("Yeda"), according to which Inc was granted an exclusive license to intellectual property that can be used for research, development, marketing and manufacturing of products in the field of TMS treatment and may have the right to grant sublicenses subject to conditions specified in the agreement in consideration of royalty payment as follows:
- a) 1% of net sales systems based upon certain patents (which include technology licensed from PHS);
  - b) 3% for the first \$10,000 of net sales, and 2% for net sales over \$10,000, for all other Deep TMS products solely based on certain patents licensed exclusively from Yeda provided however in the event that the products are sold to a sublicensee and are thereafter sold by such sublicensee, the royalties paid to Yeda will be based on the higher of the net sales by the licensee or the net sales of the sale by the sublicensee.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 16: CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Continued)**

- c) 4%-8% of the net cash proceeds that the Company receives in respect of granting sublicenses or options for sublicenses dependent on the patents licensed.

The balance of provision for royalties as of December 31, 2019 is \$ 124.

Royalties are payable at the later of 15 years after the first commercial sale or the patent life (20 years through October 2021). The agreement expires at the later of: the expiration of the last patent, 15 years after Inc starts to sell products integrating the patent and after a period of 20 years during which no sales are made.

The license agreement with Yeda may be subject to modifications in the event that the license agreement with PHS is modified (see 1, above) and may be cancelled based on various conditions, including the cancellation of the PHS agreement.

On February 22, 2018, Inc and Yeda signed an additional addendum to the agreement ("the fifth addendum"), 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 electrical fields 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. While initially valid up to the earlier of December 31, 2018 or 30 days after completion of all the milestones agreed between the parties, in order to provide more time for the defined milestones, the parties extended this date until December 31, 2019. 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) which 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 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%.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 17: EQUITY**

- a. Composition of share capital:

	December 31, 2019		December 31, 2018	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.04 par value each	25,000,000	22,236,368	25,000,000	16,640,446

- b. Movement in share capital:

Issued and outstanding capital:

	Number of shares	NIS par value
Balance at January 1, 2019	16,640,446	170,897
Issuance of shares (e)	5,595,922	62,270
Balance at December 31, 2019	22,236,368	233,167
Balance at December 31, 2018	16,640,446	170,897

- c. Rights attached to shares:

Ordinary shares confer their holders rights to receive dividends in cash and in Company's shares, right to nominate the Company's directors and rights to participate in distribution of dividends upon liquidation in proportion to their holdings. Also, Ordinary shareholders have one vote at the shareholders' meeting such that each share confers one vote to its holder.

- d. In December, 2017, the Company entered into a private placement agreement with a group of investors according to which the Company issued 1,924,662 Ordinary in consideration for NIS 29,928 (\$8,578). Issuance expenses amounted to \$133.

It should be noted that if the Company wishes to raise capital during the twelve months after the closing date, by way of a public offering or private placement of shares and/or securities convertible into shares ("the additional offering") and if the effective price per share in the additional offering is less than the share price according to this private placement then, the investors will be entitled to receive additional Ordinary shares in respect of the shares issues as part of this private placement which are still held by such investor in consideration for NIS 0.3 per Ordinary share such that the price per share in respect of the total shares issued in this private placement equal to the effective price in the additional offering. For the purpose of calculating the adjustment, the effective price according to this private placement will be adjusted for distribution (as defined in the Companies Law), rights issuance, split or consolidation of capital and issuance of bonus shares. All changes are taken into account in the computation of the effective price in the additional offering.

- e. In April 2019, the Company closed its initial public offering in Nasdaq of 2,500,000 American Depositary Shares ("ADSs"), each representing two ordinary shares of Brainsway, at a public offering price of \$11.00 per ADS. The gross proceeds to the Company from the offering, before deducting the underwriting discounts and commissions and estimated offering expenses, are approximately \$27.5 million.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 17: EQUITY (Continued)**

e. Capital management in the Company:

The Company's capital management objectives are to preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.

The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

**NOTE 18: SHARE-BASED PAYMENT**

a. The expense recognized in the financial statements for services received is shown in the following table:

	Year ended December 31,		
	2019	2018	2017
Equity-settled share-based payment plans to employees, directors and consultants	\$ 1,263	\$ 710	\$ 1,028

b. The share-based payment transactions that the Company granted to its employees, directors and consultants are shown in the following table:

Issuance Date	Grantee	Options outstanding as of December 31, 2019	Exercise price NIS	Exercise price \$*)	Exercisable as of December 31, 2019	Exercisable Through	Total Fair Value \$
December 8, 2015	Employees and Consultant	292,250	25.99	6.70	292,250	December 8, 2025	1,053
December 8, 2015	Employees and Consultant	270,000	31.19	8.04	270,000	December 8, 2025	1,247
April 1, 2017	Chief Executive Officer and Director	566,262	19.97	5.47	566,262	April 1, 2025	1,100
December 3, 2017	Director	27,500	21.37	6.12	9,167	December 3, 2027	54
November 12, 2018	Directors	110,000	23.39	6.36	—	November 12, 2026	298
November 12, 2018	Employees and officers	672,600	23.39 - 24.22	6.36 - 6.59	—	November 12, 2026	2,299
October 1, 2019	Chief Financial and Operating Officer	50,000	19.08	5.48	—	October 1, 2027	100

\*) As of grant date.

c. The fair value of the Company's options granted for the years ended December 31, 2019, 2018 and 2017 was estimated using the Binomial model with the following assumptions:

	Year ended December 31,		
	2019	2018	2017
Dividend yield (%)	0	0	0
Expected volatility (%)	40.06 - 48.09	40.51 - 48.25	40.58 - 56.77
Risk-free interest rate (%)	1.61 - 1.73	0.28 - 2.22	0.11 - 2.00
Expected exercise factor	2.8	2.8	2.8
Post-vesting forfeiture rate (%)	5	5	5-10

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 18: SHARE-BASED PAYMENT (Continued)**

d. Movement during the year:

	Year ended December 31,			
	2019		2018	
	Number of options	Weighted average exercise price(*) \$	Number of options	Weighted average exercise price(*) \$
Outstanding at January 1,	2,425,192	\$ 6.6	1,721,059	\$ 7.9
Granted	50,000	5.5	962,300	6.3
Expired	(59,765)	7.5	(199,499)	10.8
Forfeited	(201,615)	7.0	(58,668)	7.9
Outstanding at December 31,	<u>2,213,812</u>	<u>\$ 7.1</u>	<u>2,425,192</u>	<u>\$ 6.6</u>
Exercisable at December 31,	<u>1,362,879</u>	<u>\$ 7.38</u>	<u>912,893</u>	<u>\$ 7.17</u>

(\*) The exercise price of all options denominated in NIS and was translated to USD in the table above using the exchange rate as of December 31, 2019 and 2018, respectively.

The weighted average remaining contractual life for the options outstanding as of December 31, 2019 and 2018 was approximately six years.

The range of exercise prices for options outstanding as of December 31, 2019 and 2018 was NIS 19.08-59.13.

**NOTE 19: ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS**

a. Additional information on revenues:

Revenues reported in the financial statements for each group of similar products and services:

	Year ended December 31,		
	2019	2018	2017
Revenues from lease	\$ 13,218	\$ 9,569	\$ 6,654
Revenues from sale	9,883	6,828	4,491
	<u>\$ 23,101</u>	<u>\$ 16,397</u>	<u>\$ 11,145</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 19: ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS (Continued)**

*Geographic information:*

Revenues reported in the financial statements derived from the Company's country of domicile (Israel) and foreign countries based on the location of the customers, are as follows:

	Year ended December 31,					
	2019	%	2018	%	2017	%
U.S.	\$ 20,636	89	\$ 14,478	88	\$ 9,957	89
Europe	1,353	6	1,102	7	871	8
Israel	267	1	371	2	180	2
Other	845	4	446	3	137	1
	<u>\$ 23,101</u>	<u>100</u>	<u>\$ 16,397</u>	<u>100</u>	<u>\$ 11,145</u>	<u>100</u>

The total amounts of future minimum lease payments to be received under non-cancellable operating leases as of December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	2018
Not later than one year	\$ 8,527	\$ 7,884
Later than one year and not later than five years	12,723	13,402
Later than five years	571	148
Total future minimum lease payments under non cancellable operating leases	<u>\$ 21,821</u>	<u>\$ 21,434</u>

b. Cost of revenues:

	Year ended December 31,		
	2019	2018	2017
Cost of revenues—lease	\$ 2,656	\$ 1,923	\$ 1,483
Cost of revenues—sales	2,473	1,666	1,112
	<u>\$ 5,129</u>	<u>\$ 3,589</u>	<u>\$ 2,595</u>



**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 19: ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS (Continued)**

c. Research and development expenses, net:

	Year ended December 31,		
	2019	2018	2017
Salaries and related benefits	\$ 3,338	\$ 3,365	\$ 2,954
Subcontractors	2,620	2,241	1,584
Laboratory materials	687	491	453
Patents	334	198	134
Share-based payment	399	31	180
Travel	112	65	35
Depreciation	39	31	35
Other	604	658	362
Less—Government grants	(257)	(924)	(394)
	<u>\$ 7,876</u>	<u>\$ 6,156</u>	<u>\$ 5,343</u>

d. Selling and marketing expenses:

	Year ended December 31,		
	2019	2018	2017
Salaries and related benefits	\$ 6,419	\$ 4,252	\$ 3,597
Agent commissions	221	215	138
Marketing	5,239	2,891	1,690
Travel	1,176	865	777
Share-based payment	214	122	129
	<u>\$ 13,269</u>	<u>\$ 8,345</u>	<u>\$ 6,331</u>

e. General and administrative expenses:

	Year ended December 31,		
	2019	2018	2017
Salaries and related benefits	\$ 1,774	\$ 1,235	\$ 1,179
Professional fees and office expenses	1,770	1,176	1,002
Depreciation	81	30	20
Travel	222	127	64
Allowance for doubtful accounts	835	296	503
Share-based payment	621	557	719
	<u>\$ 5,303</u>	<u>\$ 3,421</u>	<u>\$ 3,487</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 19: ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE LOSS (Continued)**

f. Finance income and expense:

	Year ended December 31,		
	2019	2018	2017
Finance income:			
Interest-income revaluation of bank deposits	\$ 175	\$ 44	\$ 22
Revaluation of warrants	62	—	38
Exchange rate differences	—	—	73
	<u>\$ 237</u>	<u>\$ 44</u>	<u>\$ 133</u>
Finance expense:			
Liability in respect of research and development grants	\$ 969	\$ 519	\$ 273
Interest expense and amortization of deferred costs- loan from bank	283	354	87
Bank commissions	108	41	47
Revaluation of warrants	—	28	—
Exchange rate differences	192	258	—
Interest expense of lease liability	115	—	—
	<u>\$ 1,667</u>	<u>\$ 1,200</u>	<u>\$ 407</u>

**NOTE 20: NET LOSS PER SHARE**

Number of shares and loss used in the computation of net loss per share:

	Year ended December 31,					
	2019		2018		2017	
	Weighted number of shares*)	Loss attributable to equity holders of the Company	Weighted number of shares*)	Loss attributable to equity holders of the Company	Weighted number of shares*)	Loss attributable to equity holders of the Company
Used in the computation of basic and diluted net loss	<u>20,506,202</u>	<u>\$ 10,328</u>	<u>16,640,446</u>	<u>\$ 6,479</u>	<u>14,768,514</u>	<u>\$ 7,054</u>

\*) Computation of diluted loss per share did not include potential ordinary shares that would result from conversion of outstanding options and warrants, since their conversion has anti-dilutive effect.

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 21: BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

a. Balances with interested and related

parties: Composition:

**As of December 31, 2019**

	<b>Key management personnel</b>	<b>Other interested and related parties</b>
Other accounts payable	\$ 102	\$ 26

**As of December 31, 2018**

	<b>Key management personnel</b>	<b>Other interested and related parties</b>
Other accounts payable	\$ 95	\$ 6

b. Benefits to interested and related parties:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Salary to those employed by the Company or on its behalf	\$ 945	\$ 654	\$ 593
Directors' fees to those not employed by the Company or on its behalf	\$ 90	\$ 100	\$ 98
Number of individuals to whom the salary and benefits relate:			
Related and interested parties employed by the Company or on its behalf	3	4	4
Directors not employed by the Company	8	6	7
	<u>11</u>	<u>10</u>	<u>11</u>

**BRAINSWAY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTE 21: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)**

c. Key management personnel:

	Year ended December 31,		
	2019	2018	2017
Short-term benefits	\$ 3	\$ 16	\$ 11
Share-based payment to those employed by the Company or on its behalf	\$ 190	\$ 394	\$ 501
Share-based payment to those not employed by the Company or on its behalf	\$ 147	\$ 41	\$ 2

d. Transactions with interested and related parties:

**Year ended December 31, 2019**

	Key management personnel*)	Other interested and related parties
Research and development expenses	\$ 113	\$ 81
General and administrative expenses	943	238
	<u>\$ 1,056</u>	<u>\$ 319</u>

**Year ended December 31, 2018**

	Key management personnel*)	Other interested and related parties
Research and development expenses	\$ 207	\$ 81
General and administrative expenses	776	140
	<u>\$ 983</u>	<u>\$ 221</u>

**Year ended December 31, 2017**

	Key management personnel*)	Other interested and related parties
Research and development expenses	\$ 200	\$ 81
General and administrative expenses	821	99
	<u>\$ 1,021</u>	<u>\$ 180</u>

\*) Some of the key management personnel are interested parties by virtue of holdings.

e. Mr. Yaakov Michlin commenced his role as the Company's Chief Executive Officer (CEO) on April 1, 2017. On February 12, 2017, (the general shareholders meeting), his employment terms, including bonuses incremental to his monthly compensation were approved as follows: (1) bonuses of NIS 1 million based on target achievements as outlined in his agreement. No expense recorded during the years ended December 31, 2017 and 2018 with respect to these bonuses; (2) an annual bonus based on the Company's remuneration policy according to the decision of the Company's Board of directors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## NOTE 21: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

In addition, upon commencement of his role, Mr. Michlin was granted 566,262 options to purchase Ordinary shares of the Company at an exercise price of NIS 19.97, representing 3.6% and 3.1% of the Company's issued and outstanding capital on a fully diluted basis as of January 5, 2017, the date on which the board of directors approved the employment terms, and December 31, 2017, respectively. The price was determined according to the average closing market price of the Ordinary share 30 days before the date of grant. The options vest over four years from the date of grant as outlined in the agreement. In September 2019 Yaacov Michlin resigned as CEO, and after conducting an executive search, the Company's Board of Directors appointed a U.S.-based CEO effective January 2020, see Note 22.

For information regarding the fair value of the options granted to Mr. Michlin, see Note 18b.

- f. On December 3, 2017, at the general shareholders meeting, the Company granted a director of the Company, Ms. Karen Sarid, 27,500 options to purchase Ordinary shares at an exercise price of NIS 21.37 per share.

For information regarding the fair value of the options granted to Ms. Sarid, see Note 18b.

- g. On November 12, 2018, at the general shareholders meeting, the Company granted directors of the Company, 110,000 options to purchase Ordinary shares at an exercise price of NIS 23.39 per share.

For information regarding the fair value of the options granted, see Note 18b.

## NOTE 22: EVENTS AFTER THE REPORTING PERIOD

In January 2020 the general shareholders meeting approved the compensation for Christopher R. von Jako, Ph.D., following his appointment by the Company's Board of Directors effective January 2020 as the Company's President and CEO. The shareholders as well as the compensation committee and the Board of Directors approved the compensation package which includes annual gross base salary, bonus and equity grant of 240,000 performance-based Restricted Stock Units ("RSU's"). The RSU's will be granted during a four years period, subject to the defined terms, conditions, and vesting schedules. In addition, the shareholders approved the grant of 55,000 options to directors.