

BRAINSWAY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

U.S. DOLLARS IN THOUSANDS

INDEX

	<u>Page</u>
Auditors' Report - Internal Control over Financial Reporting	2 - 3
Auditors' Report - Annual Financial Statements	4
Consolidated Statements of Financial Position	5
Consolidated Statements of Profit or Loss and Other Comprehensive Income	6
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 59

AUDITORS' REPORT

To the Shareholders of

BRAINSWAY LTD.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Brainsway Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2016. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" as amended ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and closing process controls which include controls related to warrants, options and liabilities, and information technology general controls; (2) controls over treasurership (3) controls over the revenue recognition process; (4) controls over the property, plant and equipment process (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and, therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and, accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.



Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2016.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 and our report dated March 19, 2017 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 19, 2017

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

AUDITORS' REPORT

To the Shareholders of

BRAINSWAY LTD.

We have audited the accompanying consolidated statements of financial position of Brainsway Ltd. ("the Company") as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their results of operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2016 and our report dated March 19, 2017 expressed an unqualified opinion on the effective existence of those components.

Tel-Aviv, Israel
March 19, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2016	2015
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	5	9,174	11,355
Short-term deposits	6	585	585
Trade receivables, net	7	2,492	2,009
Other accounts receivable	8	859	915
		<u>13,110</u>	<u>14,864</u>
NON-CURRENT ASSETS:			
Long-term leasing deposits		24	34
Property, plant and equipment, net	9	6,821	7,329
Intangible assets	10	9	16
		<u>6,854</u>	<u>7,379</u>
		<u>19,964</u>	<u>22,243</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	11	810	944
Other accounts payable	12	1,436	1,228
Deferred revenues	17e	1,861	2,526
Liability in respect of research and development grants	13b	288	198
		<u>4,395</u>	<u>4,896</u>
NON-CURRENT LIABILITIES:			
Deferred revenues and other liabilities	17h, 17j	374	193
Liability in respect of research and development grants	13b	4,908	4,204
Liability in respect of share options to investors	13c	-	55
		<u>5,282</u>	<u>4,452</u>
EQUITY:			
Share capital	18	149	147
Share premium		56,585	56,016
Reserve for transaction with controlling shareholder		917	917
Share-based payment	19	2,872	3,654
Adjustments arising from translating financial statements from functional currency to presentation currency		(2,188)	(2,188)
Accumulated deficit		(48,048)	(45,651)
		<u>10,287</u>	<u>12,895</u>
		<u>19,964</u>	<u>22,243</u>

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

March 19, 2017			
Date of approval of the financial statements	Dr. David Zchut Chairman of the Board and Interim CEO	Avner Hagai Authorized Signatory by the Board (see Note 24)	Hadar Levi CFO

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

	Note	Year ended December 31,		
		2016	2015	*) 2014
		U.S. dollars in thousands (except per share data)		
Revenues	20a	11,524	6,800	3,380
Cost of revenues	20b	2,427	1,466	656
Gross profit		9,097	5,334	2,724
Research and development expenses, net	20c	3,792	4,103	6,438
Selling and marketing expenses	20d	5,180	3,281	1,896
General and administrative expenses	20e	2,194	2,455	1,667
Operating loss		2,069	4,505	7,277
Finance income	20f	(186)	(636)	(3,195)
Finance expenses	20g	514	218	2,463
Loss before tax		2,397	4,087	6,545
Loss		2,397	4,087	6,545
Other comprehensive loss:				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments arising from translating financial statements from functional currency to presentation currency		-	121	2,119
Total comprehensive loss		2,397	4,208	8,664
Basic loss per share (in dollars)	21	(0.17)	(0.28)	(0.46)
Diluted loss per share (in dollars)		(0.17)	(0.28)	(0.56)

*) Retroactively adjusted for change in presentation currency, see Note 2d.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for transaction with controlling shareholder</u>	<u>Reserve for share-based payment transactions</u>	<u>Adjustments arising from translating financial statements from functional currency to presentation currency</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
U.S. dollars in thousands							
Balance at January 1, 2014	133	40,879	917	959	52	(35,019)	7,921
Total comprehensive loss	-	-	-	-	(2,119)	(6,545)	(8,664)
Issue of shares, net	9	11,756	-	-	-	-	11,765
Forfeiture of share options	-	-	-	(24)	-	-	(24)
Exercise of share options	4	3,060	-	(16)	-	-	3,048
Cost of share-based payment	-	-	-	1,531	-	-	1,531
Balance at December 31, 2014	146	55,695	917	2,450	(2,067)	(41,564)	15,577
Total comprehensive loss	-	-	-	-	(121)	(4,087)	(4,208)
Forfeiture and expiration of share options	-	103	-	(247)	-	-	(144)
Exercise of share options	1	218	-	(120)	-	-	99
Cost of share-based payment	-	-	-	1,571	-	-	1,571
Balance at December 31, 2015	147	56,016	917	3,654	(2,188)	(45,651)	12,895
Total comprehensive loss	-	-	-	-	-	(2,397)	(2,397)
Forfeiture and expiration of share options	-	313	-	(2,081)	-	-	(1,768)
Exercise of share options	2	256	-	(79)	-	-	179
Cost of share-based payment	-	-	-	1,378	-	-	1,378
Balance at December 31, 2016	149	56,855	917	2,872	(2,188)	(48,048)	10,287

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	*) 2014
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(2,397)	(4,087)	(6,545)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Capital loss (gain)	6	(1)	-
Depreciation and amortization	649	611	336
Finance expenses (income), net	328	(418)	(732)
Cost of share-based payment	(420)	1,416	1,408
	563	1,608	1,012
Changes in asset and liability items:			
Increase in trade receivables	(499)	(1,162)	(699)
Decrease (increase) in other accounts receivable	56	(409)	(115)
Increase (decrease) in trade payable	137	(437)	550
Increase in other accounts payable	208	51	381
Increase (decrease) in deferred revenues	(482)	(133)	1,530
	(580)	(2,090)	1,647
Cash paid and received during the year for:			
Interest received	12	17	93
	12	17	93
Net cash used in operating activities	(2,402)	(4,552)	(3,793)
<u>Cash flows from investing activities:</u>			
Proceeds from sale of property, plant and equipment	5	2	-
Purchase of property, plant and equipment and intangible assets	(408)	(2,270)	(1,496)
Sale of short-term investments, net	-	495	423
Investment in (withdrawal of) long-term deposits, net	10	(5)	(12)
Net cash used in investing activities	(393)	(1,778)	(1,085)
<u>Cash flows from financing activities:</u>			
Receipt of Government grants	717	577	383
Repayment of liability in respect of Government grants	(326)	(162)	(67)
Exercise of share options	179	99	1,346
Proceeds from issue of securities, net	-	-	11,765
Net cash provided by financing activities	570	514	13,427
Exchange differences and commissions on balances of cash and cash equivalents	44	(91)	186
Adjustments arising from translating financial statements from functional currency to presentation currency	-	1	(2,146)
Increase (decrease) in cash and cash equivalents	(2,181)	(5,906)	6,589
Cash and cash equivalents at the beginning of the year	11,355	17,261	10,672
Cash and cash equivalents at the end of the year	9,174	11,355	17,261
(a) <u>Significant non-cash transactions:</u>			
Exercise of options which were presented as equity liability	-	-	1,702
Purchase of property, plant and equipment on current suppliers' credit	-	295	463

*) Retroactively adjusted for change in presentation currency, see Note 2d.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

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

Brainsway Ltd. ("the Company") was formed on November 7, 2006 with the purpose of holding 100% of the rights to shares of Brainsway Inc.

- b. Brainsway Inc. ("Inc") was formed in March 2003 in Delaware, US. In August 2003, Inc formed a wholly owned sub-subsidiary, Moach R&D Services Ltd., which is engaged in research, development, production and marketing of a non-invasive medical device for treatment of a wide range of brain disorders ("Moach"). As of December 31, 2015, pursuant to an investment agreement entered between the parties on December 31, 2012 and revised in 2014, Moach is 54.13% held by the Company and 45.87% by Inc.
- c. In November 2014, Inc formed a wholly owned subsidiary, Brainsway USA Inc. in Delaware, US with the purpose of developing an independent array of marketing, support and logistics services in the US. The company started its operation in January 2015.
- d. On January 9, 2013, the US Food and Drug Administration ("FDA") approved the Company's Deep TMS device for the treatment of depression in patients. The Group earns revenues from the sale and lease of devices since the end of 2009.
- e. The Company has negative cash flows from operating activities and operating loss of approximately \$ 2.4 million and \$ 2.1 million for the year ended December 31, 2016, respectively. The Company's management and Board believe that the Company will have the required financial sources to finance its business activity according to its plans in the foreseeable future.
- f. Definitions:

In these financial statements:

The Company	- Brainsway Ltd.
The Group	- The Company and its investees, as indicated in this Note.
Subsidiaries	- Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
Related parties	- As defined in IAS 24.
Interested parties and controlling shareholder	- As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Dollar	- US dollar.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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"). Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

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.

b. The operating cycle:

The Company's operating cycle is one year.

c. 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 investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

d. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the US dollar.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Until September 30, 2015, the functional currency and presentation currency of Brainsway Ltd., Inc and Moach was the NIS. Since October 1, 2015, the US dollar constitutes the functional currency of Brainsway Ltd., Inc and Moach due to the focusing on the US market as well as commencement of significant activity of the US subsidiary commenced in the US and since it is expected that revenue will continue to be nominated in US dollars.

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

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 into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

e. 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.

f. Short-term deposits:

Short-term bank 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. The deposits are presented according to their terms of deposit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Allowance for doubtful accounts:

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.

h. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration less any trade discounts and volume rebates.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from sale of devices:

Revenues from sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

Revenues from lease of devices:

Rental income is recognized on a straight-line basis over the lease term.

i. 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 Office of the Chief Scientist in Israel are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for the loan 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 treated as a reduction of the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If no economic benefits are expected from the research activity, the grant receipts 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 Chief Scientist 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.

Amounts paid as royalties are recognized as settlement of the liability.

j. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee:

Finance leases:

A lease that transfers all the risks and rewards incidental to ownership of the leased asset to the Group is classified as a finance lease. At the commencement of the lease term, the leased asset is measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The leased asset is depreciated over the shorter of its useful life and the lease term.

Operating leases:

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group as lessor:

Finance leases:

In finance leases, all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee. The leased asset is derecognized and recognized as a financial asset, "receivables for finance lease", at the present value of the lease payments. After initial recognition, the lease payments are apportioned between finance income and collection of the receivable for the lease. The financial asset, "receivables for finance lease", is tested for impairment and derecognized as prescribed in IAS 39.

Operating leases:

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. Rental income is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in respect of the lease agreement are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income. Contingent rent is recognized as income in the statement of profit or loss when the Company is entitled to receive such income.

k. 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 by 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 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 their utilization is probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Property, plant and equipment:

Items of property, plant and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation and excluding day-to-day servicing expenses.

The cost of self-constructed assets 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.

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

	<u>%</u>	<u>Mainly %</u>
Laboratory equipment	15	
Motor vehicles	15	
Computers	33	
Office furniture and equipment	6 - 15	7
Leased equipment	14 - 15	15
Leasehold improvements	see below	

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, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

m. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The useful life of intangible assets is as follows:

	<u>%</u>
Computer software license	3
License	18

Research and development expenditures:

Research and development expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from an internal development is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company does not recognize an intangible asset as above because it does not meet the above criteria.

Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

License:

The Company has 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 detailed in Note 17j.

n. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

o. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus direct transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at cost plus direct transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

2. Financial liabilities:

Financial liabilities within the scope of IAS 39 are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs. After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

a) Financial liabilities at amortized cost:

After initial recognition, loans and other liabilities are measured based on their terms at cost less direct transaction costs using the effective interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

A liability may be designated upon initial recognition at fair value through profit or loss, subject to the provisions of IAS 39.

3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

4. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

5. Impairment of financial assets:

The Group assesses at each reporting date whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

p. 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.

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. 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.

r. Employee benefit liabilities:

The Group has several employee benefit plans:

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 leave, paid 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 plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have 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.

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 15.

s. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)*Equity-settled transactions:*

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 is determined using an acceptable option pricing model.

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 until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

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

t. Loss per share:

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

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

Potential Ordinary shares are included in the computation of diluted loss per share when their effect decreases loss per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted loss per share only until the conversion date and from that date in basic loss per share. The Company's share of losses of investees is included based on its share of loss per share of the investees multiplied by the number of shares held by the Company.

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 which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Classification of leases:

In order to determine whether to classify a lease as a finance lease or an operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the asset. In this respect, the Company evaluates such criteria as the existence of a bargain purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

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 Scientist:

Government grants received from the Chief Scientist at the Ministry of Economy ("OCS") 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.

- Liability in respect of share options to investors:

The liability in respect of share options to investors is a financial instrument presented at fair value through profit or loss. There is uncertainty regarding the Company's management estimates as to the probability of certain scenarios that were used to compute the derivative to occur.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

a. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

IFRS 9 also includes a new model for measurement of impairment of financial assets.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. IFRS 9 establishes a distinction between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis. If equity instruments are held for trading, they should be measured at fair value through profit or loss.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted. The Company believes that the adoption of IFRS 9 (including all its phases) is not expected to have a material impact on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

b. IFRS 15, "Revenue from Contracts with Customers":

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the distinct performance obligations in the contract*.

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: *Recognize revenue when the entity satisfies a performance obligation* over time or at a point in time.

IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

IFRS 15 allows the option of modified retrospective adoption with certain reliefs according to which IFRS 15 will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Company will recognize the cumulative effect of the initial adoption of IFRS 15 as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, IFRS 15 permits full retrospective adoption with certain reliefs.

The Company is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- c. Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are to be applied for annual periods beginning on or after January 1, 2017. Comparative data for periods prior to the effective date of the amendments is not required. Early adoption is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

- d. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expenses separately.
- Variable lease payments that are not dependent on changes in the Israeli CPI or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is to be applied for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied simultaneously.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

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

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Cash for immediate withdrawal	8,974	6,541
Cash equivalents - short-term deposits (1)	200	4,814
	<u>9,174</u>	<u>11,355</u>

- (1) Short-term deposits at banks are for periods of three months, depending on the requirements of the Company. The deposits earn interest at the respective term of the deposits (dollar - 0.75% per year).

NOTE 6:- SHORT-TERM DEPOSITS

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Bank deposits (1)	<u>585</u>	<u>585</u>

- (1) Short-term deposits at banks are for periods of three months and one year, depending on the requirements of the Company. The deposits earn interest at the respective term of the deposits (dollar - 0.35%-1.48% per year).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- TRADE RECEIVABLES, NET

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Open accounts (1)	2,703	1,633
Credit cards	23	261
Checks receivable	-	285
Less - allowance for doubtful accounts	(234)	(170)
Trade receivables, net	<u>2,492</u>	<u>2,009</u>

- (1) Trade receivables are generally on 90 day credit terms after the date of the transaction. Certain customers may spread the payments over months by using credit card payment transactions.

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to December 31, 2016:

Neither past due nor impaired	Past due trade receivables with aging of					Total
	< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	> 120 days	
	U.S. dollars in thousands					
<u>1,843</u>	<u>190</u>	<u>131</u>	<u>46</u>	<u>219</u>	<u>63</u>	<u>2,492</u>

As of December 31, 2016, the Company has debts more than 90 days past due but not impaired (allowance for doubtful accounts) in the total of approximately \$ 282 thousand, of which an amount of approximately \$ 25 thousand was paid between the reporting date and the date of the approval of the financial statements. The Company expects to collect the entire amount of these debts.

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to December 31, 2015:

Neither past due nor impaired	Past due trade receivables with aging of					Total
	< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	> 120 days	
	U.S. dollars in thousands					
<u>1,439</u>	<u>72</u>	<u>183</u>	<u>86</u>	<u>49</u>	<u>179</u>	<u>2,009</u>

As of December 31, 2015, the Company has debts more than 90 days past due in the total of approximately \$ 230 thousand, of which an amount of approximately \$ 180 thousand was paid by the date of the approval of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Government ministries	291	221
Accrued income - Chief Scientist	107	559
Prepaid expenses and other	55	16
Loans to employees	22	10
Supplies	380	-
Advances to suppliers	4	109
	859	915

NOTE 9:- PROPERTY, PLANT AND EQUIPMENT

2016

	Leased equipment	Equipment for lease	Laboratory equipment	Motor vehicles	Computers	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands							
Cost:								
Balance at January 1, 2016	3,656	4,251	160	25	269	74	52	8,487
Additions during the year	1,029	1,416	-	-	24	1	-	2,470
Disposals during the year	(592)	(1,917)	-	(24)	-	-	-	(2,533)
Balance at December 31, 2016	4,093	3,750	160	1	293	75	52	8,424
Accumulated depreciation:								
Balance at January 1, 2016	813	-	99	11	162	28	45	1,158
Additions during the year	584	-	23	2	54	5	7	675
Disposals during the year	(218)	-	-	(12)	-	-	-	(230)
Balance at December 31, 2016	1,179	-	122	1	216	33	52	1,603
Depreciated cost at December 31, 2016	2,914	3,750	38	*) -	77	42	*) -	6,821

*) Represents less than \$ 1 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2015:

	<u>Leased equipment</u>	<u>Equipment for lease</u>	<u>Laboratory equipment</u>	<u>Motor vehicles</u>	<u>Computers</u>	<u>Office furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	U.S. dollars in thousands							
Cost:								
Balance at January 1, 2015	2,645	3,464	151	23	172	68	50	6,573
Additions during the year	1,287	1,261	4	4	90	3	4	2,653
Disposals during the year	(461)	(248)	-	-	(1)	-	-	(710)
Adjustments arising from translating financial statements from functional currency to presentation currency	185	(226)	5	(2)	8	3	(2)	(29)
Balance at December 31, 2015	<u>3,656</u>	<u>4,251</u>	<u>160</u>	<u>25</u>	<u>269</u>	<u>74</u>	<u>52</u>	<u>8,487</u>
Accumulated depreciation:								
Balance at January 1, 2015	426	-	75	6	120	22	34	683
Additions during the year	574	-	22	6	39	5	11	657
Disposals during the year	(219)	-	-	-	(1)	-	-	(220)
Adjustments arising from translating financial statements from functional currency to presentation currency	32	-	2	(1)	4	1	-	38
Balance at December 31, 2015	<u>813</u>	<u>-</u>	<u>99</u>	<u>11</u>	<u>162</u>	<u>28</u>	<u>45</u>	<u>1,158</u>
Depreciated cost at December 31, 2015	<u>2,843</u>	<u>4,251</u>	<u>61</u>	<u>14</u>	<u>107</u>	<u>46</u>	<u>7</u>	<u>7,329</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- INTANGIBLE ASSETS

Composition:

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Computer software:		
Cost	136	131
Less - accumulated amortization	<u>(131)</u>	<u>(120)</u>
	<u>5</u>	<u>11</u>
Licenses		
Cost	9	9
Less - accumulated amortization	<u>(5)</u>	<u>(4)</u>
	<u>4</u>	<u>5</u>
	<u>9</u>	<u>16</u>

NOTE 11:- TRADE PAYABLES

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Open debts	<u>810</u>	<u>944</u>
	<u>810</u>	<u>944</u>

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

NOTE 12:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Accrued expenses	541	600
Employees and payroll accruals	772	501
Liabilities to related parties (1)	<u>123</u>	<u>127</u>
	<u>1,436</u>	<u>1,228</u>

(1) A current non-interest bearing account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 13:- NON-CURRENT LIABILITIES**

- a. Other long-term liabilities are for payment of royalties pursuant to a license agreement. See Note 17j.

- b. Government grants:

Moach received from the Israeli Government participation grants in research and development and, in return, it is obligated to pay royalties amounting to 3%-3.5% of sales of products from such research and development support up to an amount equal to 100% of total grants received.

As of December 31, 2016, the maximum royalties payable by the company in the future in respect of active project equal an amount of approximately \$ 12,488 thousand, including exchange differences and interest at the Libor rate. Through December 31, 2016, royalties paid amounted to \$ 590 thousand.

- c. Share options:

The 410,342 share options which had been presented as of December 31, 2015 and granted to investors under an agreement from April 26, 2012 expired on June 10, 2016, according to the conditions of the agreement. See Note 18d and e.

NOTE 14:- FINANCIAL INSTRUMENTS

- a. Classification of financial assets and financial liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	December 31,	
	2016	2015
	U.S. dollars in thousands	
Financial assets:		
Cash and cash equivalents	9,174	11,355
Other	3,497	3,383
Total current	<u>12,671</u>	<u>14,738</u>
Financial liabilities:		
Trade payables	810	944
Other accounts payable	1,436	1,228
Other	6	8
	<u>2,252</u>	<u>2,180</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands</u>	
Financial liabilities in respect of share options to investors - at fair value through profit or loss	<u>-</u>	<u>55</u>
Total other financial liabilities - in respect of liability to the Chief Scientist	<u>5,196</u>	<u>4,402</u>
Total current	<u>2,534</u>	<u>2,370</u>
Total non-current	<u>4,914</u>	<u>4,267</u>

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 CFO oversees the management of these risks in accordance with the policies approved by the Board.

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 employees and payroll accruals that are paid for in NIS.

2. 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).

3. Liquidity risk:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

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

December 31, 2016:

	<u>Less than one year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
<u>U.S. dollars in thousands</u>							
Trade payables	810	7	-	-	-	-	824
Payables	1,436	-	-	-	-	-	1,436
Long-term liabilities	2	2	2	2	2	-	10
Liability in respect of research and development grants	137	2	3	2	2	2	148
	<u>2,385</u>	<u>2</u>	<u>5</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2,398</u>

December 31, 2015:

	<u>Less than one year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
<u>U.S. dollars in thousands</u>							
Trade payables	944	-	-	-	-	-	944
Payables	1,228	-	-	-	-	-	1,228
Long-term liabilities	2	2	2	2	2	2	12
Liability in respect of research and development grants	112	2	4	5	2	2	127
	<u>2,286</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>2</u>	<u>2</u>	<u>2,301</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, share options, long-term liabilities and Scientist's grants approximate their fair value.

Financial liabilities measured at fair value:

December 31, 2016:

	<u>Level 3 U.S. dollars in thousands</u>
Opening balance at January 1, 2016	55
Amounts transferred to the statement of comprehensive income as net finance income for the year	<u>(55)</u>
Closing balance at December 31, 2016	<u>-</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

During 2015, there were no transfers between Level 1 to Level 2 for fair value measurements of financial instruments and also there were no transfers out of or into Level 3 for fair value measurements of financial instruments.

- d. Sensitivity tests relating to changes in foreign currency:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands</u>	
Sensitivity test to changes in the NIS exchange rate:		
Gain (loss) from the change:		
Increase of 5% in exchange rate	103	315
Decrease of 5% in exchange rate	(103)	(315)
Sensitivity test to changes in the Euro exchange rate:		
Gain (loss) from the change:		
Increase of 5% in exchange rate	44	32
Decrease of 5% in exchange rate	(44)	(32)
Sensitivity test to changes in the Yen exchange rate:		
Gain (loss) from the change:		
Increase of 5% in exchange rate	43	42
Decrease of 5% in exchange rate	(43)	(42)

As of December 31, 2016, the Company has excess of financial assets over financial liabilities in foreign currency (NIS in relation to US dollar) of \$ 2,066 thousand.

As of December 31, 2016, the Company has excess of financial assets over financial liabilities in foreign currency (Euro in relation to US dollar) of \$ 885 thousand.

As of December 31, 2016, the Company has excess of financial assets over financial liabilities in foreign currency (Yen in relation to US dollar) of \$ 855 thousand.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)**

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 variable 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 15:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits, post-employment benefits and other long-term benefits.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a benefit after the completion of employment. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation. Post-employment benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans as detailed below.

b. 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 and contributions for benefits represent defined contribution plans.

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Expenses in respect of defined contribution plans	<u>190</u>	<u>184</u>	<u>167</u>

NOTE 16:- TAXES ON INCOME

- a. Tax laws applicable to the Company and Moach:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

The Law for the Encouragement of Capital Investments, 1959:

Moach elected year 2012 as year of election. According to the Law, and subject to receiving the above approval, Moach will be entitled to various tax benefits by virtue of the "beneficiary enterprise" status, as implied by this Law.

Alternative track:

Under this track, Moach is tax exempt in the first ten years of the benefit period and subject to tax at the reduced rate of 10%-25% for a period of five / eight years (if the benefit period qualifying for tax exemption is two years) or one year / four years (if the benefit period qualifying for tax exemption is six years) for the remaining benefit period (dependent on the level of foreign investment).

In respect of programs approved prior to the enactment of Amendment No. 60 to the Law, the benefit period starts with the first year the approved enterprise earns taxable income, provided that 12 years have not passed since the enterprise began operating and 14 years have not passed since the approval was granted.

Following the enactment of Amendment No. 60 to the Law, subsequent to April 1, 2005, companies under the tax benefits track are no longer required to obtain a letter of approval from the Investment Center but rather must make a notification of the year of election for the beneficiary enterprise status and are required, among others, to make a minimum qualifying investment. This condition requires an investment in the acquisition of productive assets such as machinery and equipment which must be carried out within three years. The minimum qualifying investment required for setting up a "new plant" is NIS 300 thousand, linked to the Israeli CPI in accordance with the guidelines of the Israeli Tax Authority. As for plant "expansion", the minimum qualifying investment is the higher of NIS 300 thousand, linked as stated above, and an amount equivalent to the "qualifying percentage" of the value of the productive assets. In this context, productive assets that are used by the plant but not owned by it will also be viewed as productive assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- TAXES ON INCOME (Cont.)

The qualifying percentage of the value of the productive assets is as follows:

The value of productive assets before the expansion (NIS in millions)	The new investment required as a percentage of the value of productive assets
Up to NIS 140	12%
NIS 140 - NIS 500	7%
More than NIS 500	5%

Income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law ("a beneficiary company") and which is derived from an industrial enterprise. If a dividend is distributed out of tax exempt profits, as above, Moach will become liable for tax at the rate applicable to its profits from the beneficiary enterprise in the year in which the income was earned, as if it was not under the alternative track. Moach's policy is not to distribute such a dividend.

As for beneficiary enterprises in the context of Amendment No. 60 to the Law, the basic condition for receiving the benefits under this track is that the enterprise contributes to the country's economic growth and makes a competitive contribution to the Gross Domestic Product ("a competitive enterprise").

In order for industrial enterprises to comply with this condition, in each tax year during the benefit period, one of the following conditions must be met:

1. The industrial enterprise's main field of activity is biotechnology or nanotechnology as approved by the Head of the Administration of Industrial Research and Development, prior to the approval of the relevant program.
2. The industrial enterprise's sales revenues in a specific market during the tax year do not exceed 75% of its total sales for that tax year. A "market" is defined as a separate country or customs territory.
3. At least 25% of the industrial enterprise's overall revenues during the tax year were generated from the enterprise's sales in a specific market with a population of at least 14 million.

NOTE 16:- TAXES ON INCOME (Cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In January 2011, the Law for Economic Policy for 2011 and 2012 (Legislative Amendments), 2011 was published which prescribes, among others, amendments to the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates, as detailed below.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which includes Amendment 71 to the Law for the Encouragement of Capital Investments ("the amendment") was published. According to the amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%). As for the changes in tax rates resulting from Amendment 73, see below.

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 preferred 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%).

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 consolidated report under certain conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- TAXES ON INCOME (Cont.)
b. Tax rates applicable to the Company and subsidiaries:

1. The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015 and 2014.

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was published. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

On January 5, 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was published, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from 2016 and thereafter.

2. The principal tax rate applicable to Brainsway USA and Inc whose place of incorporation is outside Israel is:

A company incorporated in the US - weighted tax at the rate of about 35%-40% (Federal tax, State tax and City tax of the city where the company operates).

c. Tax assessments:

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

d. Carryforward losses for tax purposes:
Carryforward losses - the Group:

Carryforward operating tax losses of the Group as of December 31, 2016 total approximately \$ 2.8 million in Brainsway Ltd. and approximately \$ 30 million in Moach.

Under the tax laws in the US, carryforward tax losses in the subsidiary may be carried forward and offset against taxable income during a period of up to 20 years and may be subject to limitation due to the "change in ownership" in the company. The scope of changes in the company's ownership may limit the maximal amount of carryforward losses that could be offset in a specific tax year. Carryforward tax losses of Brainsway USA and Inc total approximately \$ 0.3 million as of December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- TAXES ON INCOME (Cont.)

- e. Deferred taxes:

As it is not probable that taxable income will be available in the next years, deferred taxes were not recognized for the above carryforward losses.

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES

- a. As for liabilities in respect of payment of royalties to the Chief Scientist, see Note 13b.
- b. The Company engaged with medical centers and academic institutions for performing clinical trials. In part of the agreements the Company has undertaken to pay royalties amounting between 0.75% and 1.5% of revenues in the field of the trial if a patent in the field of the trial is created during the research. The Company is entitled to terminate the engagements subject to giving an advance notice and there is no additional cost to the Company for the cancellation.
- c. During 2009-2016, the Company entered into several distribution agreements for the Deep TMS device 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, use and promote sales in the different territories for a 10-year period. The Company will supply the devices to the distributors and they will act on their account to lease and install them at clients while the device remains the property of the Company. The different distributors are committed to minimum quantities as in the agreements.
- d. In June 2013, the Company entered into a non-exclusive marketing agreement for the Deep TMS device with a third party regarding several specific customers in the US. The agreement is in effect for a 12-month period after closing and will be extended automatically subject to the mechanism set in the agreement.

In January 2014, an agreement to establish a logistic center in the US which had been signed with NVation became binding. According to the agreement, a logistic center that will address the issue of delivery to clients, training, rendering of services and repairs, training the assistance staff and etc. will be established in consideration of the lower of 5% of total net revenues (less discounts and returns) from customers in the US and cost + 25%.

On December 31, 2014, the distributor and the Company decided to terminate the above agreements. When the agreements terminated, the Company undertook to continue paying the distributor a commission for devices as specified in the agreement up to a ceiling of \$ 456 thousand which, as of December 31, 2016, was paid in full.

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

- e. 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 devices and equipment in Japan. According to the agreement, the distributor is granted the exclusive right to market the Company's Deep TMS device for the treatment of major depression in patients in Japan for a 10-year period after the required regulatory approvals for marketing the device in Japan are obtained. If the distributor meets the minimum quantities which it has committed during the contractual term, the agreement will be extended by additional 5 years. The distributor is granted a right of first offer to distribute the Company's device in Japan without further codification.

In return for receiving the exclusive right to the Company's device for the treatment of major depression in patients in Japan, the distributor undertook to pay the Company distribution fees in the total of 190 million Yen (approximately \$ 1.7 million) in two payments as follows: 100 million Yen (approximately \$ 0.9 million) within 10 business days after the date of closing the agreement and the balance of 90 million Yen (approximately \$ 0.8 million) are payable after the authorities in Japan grant their approval to market the Company's device in Japan.

In each year of the agreement in which the distributor meets the predetermined revenue target, 10% of the distribution fees are returned to the distributor. As of December 31, 2013, the first amount of \$ 0.9 million was received from the distributor (this entire amount is presented as an advance in the item deferred revenues). The distributor will pay the Company for any treatment made with the Company's device (pay-per-use) but in no case below 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 make 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 device for the treatment of depression in patients in Japan and to receive an insurance coverage in the price range established in the agreement.

As of the reporting date, the distributor in Japan is operating with full cooperation from the Company vis-a-vis the local regulatory authorities to reach an agreement regarding a regulatory track that finally (subject to compliance and fulfillment of targets set) will allow the Company to obtain the regulatory approvals to start marketing its devices in the territory.

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

- f. During 2013-2016, the Company entered into agreement to perform multicenter trials in bipolar disorder, smoking, obsessive-compulsive disorder (OCD) and post-traumatic stress disorder (PTSD) with different medical centers around the world. As of December 31, 2016, the Company's management estimated that the expected balance of expenses in respect of these trials would total approximately \$ 3 million.
- g. On August 25, 2013, the Company received the approval of the MAGNET committee at the Chief Scientist of the State of Israel for the BSMT tool (brain stimulate and monitor tool). The tool is for a period of three years, in the framework of which the Company was approved a work plan for the first year with the scope of approximately NIS 3.7 million at the rate of grant of up to 66% which the MAGNET administration will give the Company as non-royalty bearing.

The agreement became binding on November 21, 2013. During January 2014, the Company's appeal request in respect of the grant in the amount of NIS 600 thousand was approved thereby placing the work plan at NIS 4.3 million.

On October 2, 2014, the MAGNET committee approved an annual work plan for the second year with the budget of approximately NIS 4.6 million, of which 66% (approximately NIS 3 million) the MAGNET administration will give the Company as a grant.

On October 1, 2015, the MAGNET committee approved an annual work plan for the third year with the budget of approximately NIS 2.6 million. During December 2015, the Company's appeal request in respect of the grant in the amount of approximately NIS 175 thousand was approved thereby placing the work plan at approximately NIS 2.8 million, of which 66% (approximately NIS 1.8 million) the MAGNET administration will give the Company as a grant.

On October 27, 2016, the MAGNET committee at the Chief Scientist at the Israel Innovation Authority approved an annual work plan for the fourth year with the budget of approximately NIS 2.3 million, of which 55% (approximately NIS 1.3 million) the MAGNET administration will give the Company as a grant.

During 2016, the subsidiary received the approval of the Chief Scientist of the State of Israel to support research and development projects in the scope of approximately NIS 6,662 thousand and NIS 2,800 thousand at participation rates of 50% and 30%, respectively, pursuant to the provisions of the Law for the Encouragement of Industrial Research and Development, 1984.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

- h. In March 2014, the Company entered into an exclusive marketing and distribution agreement for the Deep TMS device 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 in the amount of NIS 1 million. Also, it was agreed with the distributor on a minimum monthly payment for any leased device and an additional payment based on the number of treatments made with the device beyond the minimum monthly payment.
- i. In September 2016, the Company entered into an amendment to the original distribution agreement from December 2015 with a third party so, in addition to the distribution of the Company's products in Mexico, the Company's products will also be distributed in Brazil. Concurrently, the Company signed an agreement with the former distributor of the Company's products in Brazil for the termination and assignment of the distribution agreement and the ordering of devices by virtue thereof signed in August 2010, which will allow to fully transfer the distribution activity of the Company's products in Brazil from the previous distributor to the current distributor.
- j. Commitments:

Operating lease commitment:

The Group has entered into operating leases on vehicles. These leases have an average life of three years, with no renewal option included in the contract.

Future minimum lease payable under non-cancellable operating leases as of December 31 are as follows:

	December 31,	
	2016	2015
	U.S. dollars in thousands	
First year	105	155
Second year	70	95
Third year	16	19
	<u>191</u>	<u>269</u>

1. Moach has a rent agreement from March 2011 according to which Moach rents offices in consideration of monthly rentals of approximately NIS 96 thousand, linked to the Israeli CPI of January 2011. The rent is binding until September 30, 2014. The rent has terms of renewal until September 30, 2017, subject to giving a notice to the lessor of at least 4 months before the end of the rent. Moach exercised the option.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

In addition, Moach has a rent agreement from July 2015 according to which Moach rents a warehouse in consideration of monthly rentals of approximately NIS 8 thousand. The rent is binding until July 31, 2017. The rent has terms of renewal until July 31, 2019 and 2021. The options may be automatically exercised unless Moach notifies of its intent not to exercise the options until six months before the end of the last rent period.

2. USA Inc has a rent agreement from December 2014 which became binding on January 1, 2015, according to which USA Inc rents offices in the US for six-month period in consideration of monthly rentals of approximately \$ 3 thousand. The rent may be automatically renewed for six-month periods and the parties may cancel the rent with a 60-day advance notice without additional payments. This agreement ended on March 31, 2016. Since April 2016, USA Inc has a rent agreement which became binding on April 5, 2016, according to which USA Inc rents offices in the US for a five-year and four-month period until July 31, 2021 in consideration of monthly rentals of approximately \$ 4 thousand. The rent increases every year by 2%. The agreement can not end before it expires.

Future minimum rentals payable under non-cancellable rent agreements of Moach and USA Inc as of December 31 are as follows:

	December 31,	
	2016	2015
	U.S. dollars in thousands	
First year	301	339
Second year	53	243
Third year	54	-
Fourth year	55	-
Fifth year	32	-
	<u>495</u>	<u>582</u>

k. License agreements:

1. In July 2003, Inc signed a license agreement with NIH - The National Institute of Health (The American National Institute of Health) ("NIH") 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. In return, Inc is committed to pay NIH royalties at fixed annual amounts of \$ 2 thousand from January 1, 2004. In respect of milestones, Inc will pay \$ 10 thousand within 30 days after the approval of the Food and Drug Administration (FDA) is received. Also, Inc will have to pay in the future royalties in respect of net sales, as defined in the agreement, amounting 3% of total net sales in the aggregate of \$ 10,000 thousand and 2% of net sales beyond this amount. The balance of current provision for royalties as of December 31, 2016 was approximately \$ 126 thousand.

NOTE 17:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

If Inc enters into a sub-license agreement, it is committed to pay royalties amounting 8% of the market value of the consideration received for the grant of the sub-license.

Also, Inc is committed to pay to other inventor royalties amounting 0.045% of net sales and 1.2% of revenues from sub-licenses.

The agreement is binding until the patent rights expire in October 2021. NIH is entitled to terminate the agreement early if Inc does not comply with the conditions of the agreement.

2. In June 2005, Inc signed a research and development agreement with Yeda Research and Development Company Ltd. ("Yeda"), according to which Yeda gave the subsidiary an exclusive license to use any research result for research, development, marketing and manufacturing of products in consideration of royalty payment as follows: \$ 25 thousand when the patent related to the research is approved, royalties of 1.5% on cumulative sales of up to \$ 10,000 thousand and 1% on cumulative sales of more than \$ 10,000 thousand, royalties of 4% of amounts payable to Inc for grant of commercial sub-licenses, minimal annual royalties of \$ 1 thousand from the end of the research period and one-time sum of \$ 5 thousand when commercial marketing approval in the US or Europe is obtained. If the products use only the research results without applying patents registered by NIH, the consideration may double the abovementioned. The balance of current provision for royalties as of December 31, 2016 was approximately \$ 63 thousand.

Royalties are payable at the later of 15 years after the first commercial sale or the patent life (20 years through October 2021). This 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 is subject to modifications in the license agreement with NIH (see j above) and will be cancelled upon the cancellation of this agreement.

On March 23, 2010, the parties signed an addendum to the agreement in the framework of which it is agreed and clarified that the agreement with Yeda from 2005 applies to certain patents and, accordingly, the Company is committed to pay royalties on sale of such patent-based products, according to the provisions of the agreement. This addendum further determines that the Company will pay reduced royalties of 1% on sales of Deep TMS device for the treatment of depression in patients plus \$ 50,000 upon the achievement of sales target of \$ 10 million of all products included in the agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- EQUITY

- a. Composition of share capital:

	December 31, 2016		December 31, 2015	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.04 par value each	25,000,000	14,715,784	25,000,000	14,491,034

- b. Movement in share capital:

Issued and outstanding capital:

	Number of shares	NIS par value
Balance at January 1, 2015	14,416,784	145,713
Exercise of share options	74,250	770
Balance at December 31, 2015	14,491,034	146,483
Exercise of share options	224,750	2,349
Balance at December 31, 2016	14,715,784	148,832

- 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. On April 26, 2012, the Company entered into an investment agreement according to which it raised from several investors approximately \$ 4 million in consideration of the issuance of 532,382 Ordinary shares of NIS 0.04 par value and 532,382 share options, of which 51,672 share options were allocated to the managing underwriters. On June 11, 2012, the transaction was closed.

NOTE 18:- EQUITY (Cont.)

Share options are exercisable over a period of three years at the exercise price of NIS 39 per share option. If the issuance of the Company's shares on the NASDAQ is not completed within one year after the closing of the investment agreement, the exercise period will be extended by one more year. As described above, if the above issuance is not completed within 18 months after the closing of the investment agreement, the exercise price will be reduced to NIS 36. Half of the share options (or all in the event of a "merger" as defined in the agreement) may be exercised by the investors in a cashless exercise. Further, other conditions to protect the holders of the share options are established such in the event of dividend distribution and other events as elaborated in the agreement.

Investors are granted protection from a decline in the value of their investment in cases of acquisition of the Company or its assets, investment in the Company or issuance on the NASDAQ for a price that reflects a price per share of less than NIS 34.5 according to conditions elaborated in the agreement. The protection is in effect until the earlier of the issuance on the NASDAQ and a raising in a total of \$ 25 million, according to the conditions elaborated in the agreement.

- e. On November 6, 2012, the Company entered into an investment agreement according to which it raised from a strategic investor in the pharm industry \$ 1 million in consideration of the issuance of 112,406 Ordinary shares of NIS 0.04 par value each and 134,887 unquoted share options each may be exercised into one Ordinary share of NIS 0.04 par value.

Share options are exercisable from the closing date to June 10, 2015 at the exercise price of NIS 39 per share option. If the issuance of the Company's shares on the NASDAQ is not completed by June 10, 2013, the exercise period will be extended by one more year. Also, if the above issuance is not completed by December 10, 2013, the exercise price will be reduced to NIS 36. Half of the share options (or all in the event of a "merger" as defined in the agreement) may be exercised by the investors in a cashless exercise. Further, other conditions to protect the holders of the share options are established such in the event of dividend distribution and other events as elaborated in the agreement.

Investors are granted protection from a decline in the value of their investment in cases of acquisition of the Company or its assets, investment in the Company or issuance on the NASDAQ for a price that reflects a price per share of less than NIS 34.5 according to conditions elaborated in the agreement. The protection is in effect until the earlier of the issuance on the NASDAQ and a raising in a total of \$ 25 million, according to the conditions elaborated in the agreement.

- f. On April 10, 2014, the Company published a shelf prospectus. On March 28, 2016, the validity of the shelf prospectus was extended to April 10, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- EQUITY (Cont.)
Share options:

In 2016, 899,000 unquoted share options that had been granted to the chairman, directors and an employee were exercised into 224,750 Ordinary shares of NIS 0.04 par value each in consideration of approximately \$ 179 thousand. In addition, 277,300 and 95,625 share options that had been granted to employees, officers and a consultant in the subsidiary, USA Inc, who terminated their employment at the company in 2015 and 2016, respectively, were forfeited and expired.

On May 30, 2016, following the cessation of Dr. Guy Ezekiel to hold office as the Company's president, CEO and director, 1,318,191 options exercisable into 1,318,191 Ordinary shares of NIS 0.04 par value that had been given to him on November 23, 2015 were forfeited. The total effect on the comprehensive income for the year ended December 31, 2016 was approximately \$ 1,112 thousand of which amounts of \$ 445 thousand, \$ 119 thousand and \$ 548 thousand were included in research and development expenses, selling and marketing expenses and general and administrative expenses, respectively.

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 19:- SHARE-BASED PAYMENT

- a. The expense recognized in the financial statements:

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

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Equity-settled share-based payment plans to employees, directors and consultants	<u>(420)</u>	<u>1,416</u>	<u>1,408</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

The share-based payment transactions that the Company granted to its employees are described below. There have been no modifications or cancellations to any of the employee benefit plans in 2014-2016.

On July 31, 2014, the Company's general meeting approved to grant to the Company's deputy CEO who as of December 31, 2016 serves as deputy CEO research and development 114,000 fully vested share options at the exercise price of NIS 40 per share per share that are exercisable during a period of 5 years. Half of the share options may be exercised in a cashless exercise and the other half in a cash exercise. The value of the option compensation is approximately \$ 0.8 million. The entire amount of the expense was recognized during the third quarter of 2014.

The fair value computation above takes into account the conditions of the share option listed above as well as the following inputs:

Expected volatility of the share prices (%)	53.99%-42.54%
Risk-free interest rate (%)	1.84%-0.56%
Share price (NIS)	53.12
Expected dividend (NIS)	-
Contractual life of options (years)	0-5

On December 22, 2014, the Company's Board approved to allocate 110,808 share options to a consultant and an employee of the sub-subsidiary, Brainsway USA Inc., that may be exercised into 110,808 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 43 per any share option as follows (1) 100,800 options to the consultant will vest in equal parts over three years on a monthly basis starting January 1, 2015. The exercise period for options that will vest until December 31, 2015 ends on December 31, 2017; the exercise period for options that will vest until December 31, 2016 ends on December 31, 2018 and the exercise period for options that will vest until December 31, 2017 ends on December 31, 2019 (2) 10,008 options to the employee will vest in equal parts on a monthly basis from January 1, 2015 to December 31, 2015 and may be exercised until December 31, 2017.

The options were allocated to the optionees on March 22, 2015. The grant date fair value of the options using the binomial model was determined at approximately NIS 1.2 million. The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 43.53%-53.41%, risk-free interest rate of 0.06%-0.82%, share price of NIS 36.95, exercise coefficient of 2.3-2.8 and expected dividend of 0.

On August 30, 2015, 4,170 options that had been granted to an employee who terminated employment at the Company were forfeited and on November 29, 2015, the remaining 5,838 options expired. On January 1, 2016, 67,200 options that had been granted to a consultant who terminated employment at the Company on December 31, 2015 were forfeited and on April 1, 2016, the remaining 33,600 options expired.

NOTE 19:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

On November 23, 2015, the general meeting approved to allocate to a director in the Company, Mr. Yaakov Michelin, 37,597 share options that may be exercised into 37,597 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 27.97 per any share option as follows: the options vest over four years; 1/12 of the number of options vest after 15 months of the date of allocation and 1/12 of the number of options vest after each subsequent three months. The options are exercisable during a period of 10 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 117 thousand.

On November 23, 2015, after the approval of the general meeting, a director, president and the CEO of the Company, Dr. Guy Ezekiel, was allocated 1,318,191 share options that may be exercised into 1,318,191 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 33.58 per any share option as follows: the options vest over four years; 1/4 of the number of options vest after 12 months of June 15, 2015 and 1/16 of the number of options vest after each subsequent three months. The options are exercisable during a period of 8 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 3.6 million.

The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 43.08%-59.40%, risk-free interest rate of 0.12%-2.16%, share price of NIS 25.80, exercise coefficient of 2.8 and expected dividend of 0.

On May 30, 2016, following cessation to hold office as director, 1,318,191 options exercisable into 1,318,191 Ordinary shares of NIS 0.04 par value that had been given to him on November 23, 2015 were forfeited. The total effect on the comprehensive income for the year ended December 31, 2016 was approximately \$ 1,112 thousand of which amounts of \$ 445 thousand, \$ 119 thousand and \$ 548 thousand were included in research and development expenses, selling and marketing expenses and general and administrative expenses, respectively.

On December 8, 2015, the Company's Board approved to allocate 888,100 share options to employees of the subsidiary, Moach R&D Services Ltd., and employees and a consultant of the sub-subsidiary, Brainsway USA Inc., that may be exercised into 888,100 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 25.99 and NIS 31.19 per any of the 384,100 and 504,000 share options, respectively, as follows: the options vest over four years; 1/12 of the number of options vest after 15 months of the date of allocation and 1/12 of the number of options vest after each subsequent three months. The options are exercisable during a period of 10 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 2.3 million.

The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 41.89%-59.33%, risk-free interest rate of 0.23%-2.37%, share price of NIS 25.19, exercise coefficient of 2.3 and expected dividend of 0.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

b. Movement during the year:

The following table lists the number of share options, the weighted average exercise price of share options and modification in employees and service providers option plans during the current year:

	2016		2015	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Share options outstanding at beginning of year	3,738,413	12.34	1,739,052	12.46
Share options exercised, expired or forfeited during the year	(2,590,116)	22.48	(355,335)	9.69
Share options granted during the year	-	-	2,354,696	32.18
Share options outstanding at end of year	1,148,297	31.18	3,738,413	25.15
Share options exercisable at end of year	426,400	35.59	1,375,028	12.34

The binomial model is applied when estimating the grant date fair value of options to employees.

The weighted average remaining contractual life for the share options outstanding as of December 31, 2016 was about 6 years (2015 - about 6 years).

The range of exercise prices for share options outstanding as of December 31, 2016 was NIS 13-NIS 59.13 (2015 - NIS 0.01-NIS 59.13).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS

a. Additional information on revenues:

1. Revenues from major customers each of which accounts for 10% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Customer A	-	-	649

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

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Revenues from lease *)	5,327	4,299	2,708
Revenues from sale	6,197	2,501	672
	11,524	6,800	3,380

- *) The Company's revenues from lease for the year ended December 31, 2016 include revenues of \$ 475 thousand from payment for termination of agreements for ordering the Company's devices in Brazil.

Geographic information:

Revenues reported in the financial statements derive 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,		
	2016	2015	2014
	U.S. dollars in thousands		
Israel	441	244	404
Foreign countries *)	11,083	6,556	2,976
	11,524	6,800	3,380

- *) In 2016, the Company earned about 79% of its revenues in the US, about 10% in South America and about 7% in Europe.

In 2015, the Company earned about 76% of its revenues in the US and about 14% in Europe.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
b. Cost of revenues:			
Cost of lease	1,004	844	404
Cost of sales	1,423	622	252
	<u>2,427</u>	<u>1,466</u>	<u>656</u>
c. Research and development expenses, net:			
Salaries and related benefits	2,053	2,408	2,304
Subcontractors	1,885	1,402	2,017
Laboratory materials	402	463	993
Patents	104	131	153
Other	273	497	781
Travel abroad	70	40	144
Share-based payment	(214)	617	1,271
Depreciation	35	32	31
Less - support by Government grants	(816)	(1,487)	(1,256)
	<u>3,792</u>	<u>4,103</u>	<u>6,438</u>
d. Selling and marketing expenses:			
Salaries and related expenses	3,293	1,120	464
Subcontractors	-	-	457
Distribution commissions	460	324	167
Sales promotion and other	746	1,269	597
Travel and travel abroad	670	336	190
Share-based payment	11	232	30
Participation in expenses	-	-	(9)
	<u>5,180</u>	<u>3,281</u>	<u>1,896</u>
e. General and administrative expenses:			
Salaries and related expenses	1,125	930	772
Professional fees and office expenses	756	676	663
Depreciation	49	30	11
Travel abroad	104	82	103
Allowance for doubtful accounts and bad debts	377	170	-
Share-based payment	(217)	567	107
Expenses relating to fundraising	-	-	11
	<u>2,194</u>	<u>2,455</u>	<u>1,667</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
f. Finance income:			
Interest income on bank deposits	12	18	93
Finance income on share options	56	618	2,759
Exchange differences	118	-	343
	<u>186</u>	<u>636</u>	<u>3,195</u>
g. Finance expenses:			
Finance expenses from share options	-	-	1,914
Finance expenses from liability in respect of Government grants	404	98	525
Exchange differences	49	83	3
Bank commissions	61	37	21
	<u>514</u>	<u>218</u>	<u>2,463</u>

NOTE 21:- LOSS PER SHARE

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

	Year ended December 31,					
	2016		2015		2014	
	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
	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
Used in the computation of basic loss	<u>14,507</u>	<u>2,397</u>	<u>14,463</u>	<u>4,087</u>	<u>14,161</u>	<u>6,545</u>
Used in the computation of diluted loss	<u>14,507</u>	<u>2,454</u>	<u>14,463</u>	<u>4,087</u>	<u>14,261</u>	<u>8,032</u>

To compute diluted loss per share, convertible securities have not been taken into account since their conversion has anti-dilutive effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

- a. Balances with interested and related parties:

Composition:

As of December 31, 2016:

	<u>Key management personnel *)</u>	<u>Other interested and related parties</u>
	<u>U.S. dollars in thousands</u>	
Other accounts payable	<u>48</u>	<u>75</u>

As of December 31, 2015:

	<u>Key management personnel *)</u>	<u>Other interested and related parties</u>
	<u>U.S. dollars in thousands</u>	
Other accounts payable	<u>54</u>	<u>72</u>

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

- b. Benefits to interested and related parties:

	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>U.S. dollars in thousands</u>		
Salary and related benefits to those employed by the Company or on its behalf	<u>1,137</u>	<u>1,548</u>	<u>1,499</u>
Directors' fee to those not employed by the Company or on its behalf	<u>137</u>	<u>80</u>	<u>61</u>
Number of individuals to whom the salary and benefits relate:			
Related and interested parties employed by the Company or on its behalf	<u>9</u>	<u>11</u>	<u>9</u>
Directors not employed by the Company	<u>9</u>	<u>8</u>	<u>7</u>
	<u>18</u>	<u>19</u>	<u>16</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 22:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES
(Cont.)**

- c. Benefits to key management personnel *):

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Short-term employee benefits	20	31	(13)
Share-based payment	377	1,202	968

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

- d. Purchases from related parties:

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Purchases from related parties	-	9	48

- e. Transactions with interested and related parties:

Year ended December 31, 2016:

	Key management personnel *)	Other interested and related parties
	U.S. dollars in thousands	
Sales to subsidiary	-	2,120
Research and development expenses	743	-
Marketing expenses	100	-
General and administrative expenses	691	137
	<u>1,534</u>	<u>2,257</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES
(Cont.)

Year ended December 31, 2015:

	Key management personnel *)	Other interested and related parties
	U.S. dollars in thousands	
Costs of property, plant and equipment	-	9
Sales to subsidiary	-	285
Research and development expenses	897	-
Marketing expenses	235	-
General and administrative expenses	1,569	80
	<u>2,701</u>	<u>374</u>

Year ended December 31, 2014:

	Key management personnel *)	Other interested and related parties
	U.S. dollars in thousands	
Costs of property, plant and equipment	-	48
Research and development expenses	1,706	-
Marketing expenses	257	-
General and administrative expenses	491	61
	<u>2,454</u>	<u>109</u>

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

- f. On May 18, 2015, the Company informed on the appointment of a new president and CEO for the Company, Dr. Guy Ezekiel, who started his four-year tenure on June 15, 2015 ("the contractual term"). On June 22, 2015, the general meeting approved his conditions of employment which consist of, besides monthly payment, the following bonuses: (1) an annual bonus based on the Company's remuneration policy according to the decision of the Company's Board; (2) bonuses of \$ 500 thousand to be granted based on target achievements as outlined in his agreement. As of the date of the approval of the financial statements, the Company's management has no expectation that these targets will be achieved and, accordingly, no expense was recognized in the financial statements.
- g. On June 22, 2015, the general meeting approved also the conditions of Dr. Guy Ezekiel in his position as director of the Company, if appointed a director by the Company's general meeting. On November 23, 2015, the general meeting approved the appointment.

**NOTE 22:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES
(Cont.)**

- h. For occupying the position of a director of the Company, Dr. Guy Ezekiel is entitled to options to purchase Company's shares based on the vesting terms detailed in the agreement with him as follows: (1) the first portion: subject to and after the service agreement becomes effective - 1,318,191 options to purchase 1,318,191 Ordinary shares of the Company of NIS 0.04 par value each for the exercise price of NIS 33.58 which, as of June 22, 2015, the date on which the general meeting was convened, represented 7.78% of the Company's issued and outstanding capital on a fully diluted basis; (2) the second portion: subject to and after the term of the agreement is extended by three additional years ("the extension period") and subject to all approvals required under the law, including the approvals of the authorized organs of the Company and the stock exchange - Dr. Guy Ezekiel will be entitled to receive additional options to purchase Ordinary shares of the Company of NIS 0.04 par value each which, as of the date of grant, will represent 3.5% of the Company's issued and outstanding capital on a fully diluted basis for the exercise price to be determined according to the average closing market price of the share during 30 days before the Board's resolution on the allocation of the portion.

As for the value of the options allocated to Dr. Ezekiel, see Note 19.

On May 29, 2016, Dr. Guy Ezekiel informed of his decision to cease his role as a CEO of the Company. His role as a director discontinued immediately and he served in his position as a CEO until July 28, 2016

- i. On October 18, 2015, the Company's remuneration committee and Board approved to change the consulting fees to Dr. David Zchut, the chairman of the Board. This was approved by the general meeting which convened on November 23, 2015, as follows: for the period from September 1, 2014 to June 30, 2015, the consulting fees were raised from NIS 25 thousand a month for consulting services at the scope of 20% of full time employment to NIS 52.5 thousand a month for consulting services at the scope of 70% of full time employment. After July 1, 2015, his salary was raised to NIS 30 thousand a month for consulting services at the scope of 40% of full time employment.

On September 4, 2016, the Company's general meeting approved to appoint Dr. David Zchut, the chairman of the Board, as an interim CEO of the Company starting July 28, 2016, until the shorter of the day when a new CEO begins his role and a one-year period. Accordingly, since May 30, 2016 (the date of announcement of the former CEO resignation), the scope of employment of Dr. Zchut increased to a 100% time job adhering to the Company's remuneration policy and without giving him additional compensation (except what derives from the scope of his job growth in the relevant period) for his role as an interim CEO.

- j. On July 14, 2016, the Company's VP of global sales ceased his role.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- EVENTS AFTER THE REPORTING DATE

- a. During 2017 through the date of the approval of the financial statements, 8,000 share options that had been granted to an employee who terminated employment at the Company in 2017 were forfeited.
- b. On January 8, 2017, the Company informed on the appointment of a new CEO for the Company, Mr. Yaakov Michelin, who will start his tenure on April 1, 2017. On February 12, 2017, the general meeting approved his conditions of employment which consist of, besides monthly payment, the following bonuses: (1) an annual bonus based on the Company's remuneration policy according to the decision of the Company's Board; (2) bonuses of NIS 1 million to be granted based on target achievements as outlined in his agreement.

In addition, with the commencement of his tenure, Mr. Yaakov Michelin is entitled to 566,262 options to purchase 566,262 Ordinary shares of the Company of NIS 0.04 par value each for the exercise price of NIS 19.97 which, as of January 5, 2017, the date on which the Board approved the employment conditions, represented 3.6% of the Company's issued and outstanding capital on a fully diluted basis. The price was determined according to the average closing market price of the share during 30 days before the Board's resolution. The options vest and become exercisable over four years starting from the date of allocation at dates as outlined in his agreement.

NOTE 24:- APPROVAL OF THE FINANCIAL STATEMENTS

On March 19, 2017, the Company's Board authorized Mr. Avner Hagai, a director in the Company who serves as the vice chairman, to sign the financial statements of the Company, as required for purposes of approval of financial statements, because in the Company serves an interim CEO.

F:\W2000\w2000\5618\M\16\EC\$12-BRAINSWAY-IFRS.docx