

**BRAINSWAY LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017**

**U.S. DOLLARS IN THOUSANDS**

**INDEX**

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## **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, 2017. 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.

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, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and our report dated March 18, 2018 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 18, 2018

**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, 2017 and 2016, 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, 2017. 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, 2017 and 2016, and their results of operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2017, 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, 2017 and our report dated March 18, 2018 expressed an unqualified opinion on the effective existence of those components.

Tel-Aviv, Israel  
March 18, 2018

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31,	
		2017	2016
		U.S. dollars in thousands	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	5	14,509	9,174
Short-term deposits	6	50	585
Trade receivables, net	7	2,419	2,492
Other accounts receivable	8	909	859
		17,887	13,110
<b>NON-CURRENT ASSETS:</b>			
Restricted deposit	14b, 18j	2,009	-
Long-term leasing deposits		25	24
Property, plant and equipment, net	9	7,091	6,821
Intangible assets	10	18	9
		9,143	6,854
		27,030	19,964
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade payables	12	1,631	810
Other accounts payable	13	1,803	1,436
Deferred revenues	18d	2,448	1,861
Liability in respect of research and development grants	14c	251	288
		6,133	4,395
<b>NON-CURRENT LIABILITIES:</b>			
Loan from bank	14b	2,727	-
Deferred revenues and other liabilities	18g, 18i	309	374
Liability in respect of research and development grants	14c	5,028	4,908
Share options	14b	112	-
		8,176	5,282
<b>EQUITY:</b>			
Share capital	19	171	149
Share premium		65,034	56,585
Reserve for transaction with controlling shareholder		917	917
Share-based payment	20	3,889	2,872
Adjustments arising from translating financial statements from functional currency to presentation currency		(2,188)	(2,188)
Accumulated deficit		(55,102)	(48,048)
		12,721	10,287
		27,030	19,964

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

March 18, 2018			
Date of approval of the financial statements	Dr. David Zchut Chairman of the Board	Yaakov Michelin CEO and Director	Hadar Levi CFO

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

	Note	Year ended December 31,		
		2017	2016	2015
		U.S. dollars in thousands (except per share data)		
Revenues	21a	11,145	11,524	6,800
Cost of revenues	21b	2,595	2,427	1,466
Gross profit		8,550	9,097	5,334
Research and development expenses, net	21c	5,343	3,792	4,103
Selling and marketing expenses	21d	6,331	5,180	3,281
General and administrative expenses	21e	3,487	2,194	2,455
Operating loss		6,611	2,069	4,505
Finance income	21f	(186)	(186)	(636)
Finance expenses	21f	460	514	218
Loss before tax		6,885	2,397	4,087
Tax expenses	17b	169	-	-
Loss		7,054	2,397	4,087
Other comprehensive loss (net of tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments arising from translating financial statements from functional currency to presentation currency		-	-	121
Total comprehensive loss		7,054	2,397	4,208
Basic loss per share (in dollars)	22	(0.48)	(0.17)	(0.28)
Diluted loss per share (in dollars)		(0.48)	(0.17)	(0.28)

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, 2015	146	55,695	917	2,450	(2,067)	(41,564)	15,577
Total comprehensive loss	-	-	-	-	(121)	(4,087)	(4,208)
Forfeiture and expiration of share options	-	103	-	(247)	-	-	(144)
Exercise of share options	1	218	-	(120)	-	-	99
Cost of share-based payment	-	-	-	1,571	-	-	1,571
Balance at December 31, 2015	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	56,585	917	2,872	(2,188)	(48,048)	10,287
Total comprehensive loss	-	-	-	-	-	(7,054)	(7,054)
Issue of shares, net *)	22	8,423	-	-	-	-	8,445
Forfeiture and expiration of share options	-	26	-	(44)	-	-	(18)
Cost of share-based payment	-	-	-	1,061	-	-	1,061
Balance at December 31, 2017	171	65,034	917	3,889	(2,188)	(55,102)	12,721

\*) Net of issue expenses of \$ 133 thousand.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(7,054)	(2,397)	(4,087)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Capital loss (gain)	-	6	(1)
Depreciation and amortization	1,072	649	611
Finance expenses (income), net	274	328	(418)
Cost of share-based payment	1,028	(420)	1,416
Tax expenses	169	-	-
	<u>2,543</u>	<u>563</u>	<u>1,608</u>
Changes in asset and liability items:			
Increase in trade receivables	(21)	(499)	(1,162)
Decrease (increase) in other accounts receivable	113	56	(409)
Increase (decrease) in trade payable	310	137	(437)
Increase in other accounts payable	163	208	51
Increase (decrease) in deferred revenues	523	(482)	(133)
	<u>1,088</u>	<u>(580)</u>	<u>(2,090)</u>
Cash paid and received during the year for:			
Interest received	12	12	17
Taxes paid	(56)	-	-
	<u>(44)</u>	<u>12</u>	<u>17</u>
Net cash used in operating activities	<u>(3,467)</u>	<u>(2,402)</u>	<u>(4,552)</u>
<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	(985)	(408)	(2,270)
Investment in restricted deposit	(2,000)	-	-
Sale of short-term investments, net	535	-	495
Investment in (withdrawal of) long-term deposits, net	(1)	10	(5)
Net cash used in investing activities	<u>(2,451)</u>	<u>(393)</u>	<u>(1,778)</u>
<u>Cash flows from financing activities:</u>			
Receipt of loan from bank, net (**)	2,702	-	-
Receipt of Government grants	186	717	577
Repayment of liability in respect of Government grants	(375)	(326)	(162)
Exercise of share options	-	179	99
Issue of share options to bank	150	-	-
Proceeds from issue of securities, net *)	8,445	-	-
Net cash provided by financing activities	<u>11,108</u>	<u>570</u>	<u>514</u>
Exchange differences and commissions on balances of cash and cash equivalents	<u>145</u>	<u>44</u>	<u>(91)</u>
Adjustments arising from translating financial statements from functional currency to presentation currency			
	-	-	1
Increase (decrease) in cash and cash equivalents	5,335	(2,181)	(5,906)
Cash and cash equivalents at the beginning of the year	<u>9,174</u>	<u>11,355</u>	<u>17,261</u>
Cash and cash equivalents at the end of the year	<u><u>14,509</u></u>	<u><u>9,174</u></u>	<u><u>11,355</u></u>
(a) <u>Significant non-cash transactions:</u>			
Purchase of property, plant and equipment on current suppliers' credit	<u>469</u>	<u>-</u>	<u>295</u>

\*) Net of issue expenses of \$ 133 thousand.

\*) Net of transaction costs of \$ 148 thousand.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 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, 2017, 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 had negative cash flows from operating activities and operating loss of approximately \$ 3.5 million and \$ 6.6 million for the year ended December 31, 2017, respectively. In August 2017, the Company entered into an agreement for the receipt of a bank credit facility in the amount of up to \$ 6 million. In October 2017, the Company withdraw an amount of \$ 3 million from said credit facility (for further details regarding the credit terms, see Note 14e). 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**

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**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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**

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**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 Israel Innovation Authority 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

*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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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.

Impairment of leased equipment is recognized in cost of sales. For the year ended December 31, 2017, impairment of \$ 225 thousand was recorded.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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 18i.

## 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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.

**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. Embedded derivatives:

The Group assesses the existence of an embedded derivative and whether it is required to be separated from a host contract when the Group first becomes party to the contract. Reassessment of the need to separate an embedded derivative only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## 5. Issue of a unit of securities:

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## 6. 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.

## 7. 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.

*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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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).

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

## 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 16.

## 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.

*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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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.

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 Israel Innovation Authority:

Government grants received from the Israel Innovation Authority at the Ministry of Economy and Industry 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

- Liability in respect of options to investors:

The liability in respect of options to investors is a financial instrument presented at fair value through profit or loss.

- 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.

**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" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all three aspects of financial instruments: classification and measurement, impairment and hedge accounting.

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.

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

IFRS 9 introduces a three-stage model for measuring impairment of financial debt instruments that are not measured at fair value through profit or loss based on the expected credit loss method. Each stage determines the basis of measurement of expected credit losses based on the changes in the debt instrument's credit risk. The model also grants a relief for financial assets with short credit terms, such as trade receivables.

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 the fair value of financial liabilities measured at fair value 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 but allows entities to continue adopting the provisions of IAS 39 regarding hedge accounting. IFRS 9 expands the disclosure requirements of an entity's risk management activities.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018.

After having evaluated the implications of the adoption of IFRS 9, the Company estimates that its adoption is not expected to have a material impact on the Company's financial statements.

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

IFRS 15 ("IFRS 15") was issued by the IASB in May 2014.

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".

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 separate 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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 a performance obligation is satisfied*, either at a point in time or over time.

IFRS 15 is to be applied retrospectively for annual periods beginning on January 1, 2018.

After having evaluated the implications of the adoption of IFRS 15, the Company estimates that its adoption is not expected to have a material impact on the Company's financial statements.

c. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"). 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.

The key effects of IFRS 16 are as follows:

- 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 expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use 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.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. At this stage, the Company does not intend to early adopt IFRS 16.

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

IFRS 16 permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, the effect of the adoption of IFRS 16 at the beginning of the earliest period presented will be carried to equity. Also, the Company will restate the comparative figures in its financial statements. The remaining liability at the date of the initial application of IFRS 16 under this approach is measured at the rate implicit in the lease. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.
2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of first-time adoption of IFRS 16 will be calculated using the existing discount rate on the date of first-time adoption. As for the outstanding right-of-use asset, the Company may apply one of the two following alternatives to account for each lease separately:
  - Recognizing an asset in the amount of the recognized liability, with certain adjustments.
  - Recognizing an asset as if the asset had always been measured according to the provisions of IFRS 16.

Any difference arising on the date of first-time adoption of IFRS 16 as a result of the modified retrospective approach will be carried to equity.

At this stage, the Company is evaluating the different alternatives of the retrospective adoption of IFRS 16 and their potential implications on the financial statements, particularly on certain financial ratios and financial covenants.

d. IFRIC 23, "Uncertainty over Income Tax Treatments":

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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

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

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.
2. Full retrospective adoption including restatement of comparative data.

The Company does not expect the Interpretation to have any material impact on the financial statements.

**NOTE 5:- CASH AND CASH EQUIVALENTS**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Cash for immediate withdrawal	7,386	8,974
Cash equivalents - short-term deposits (1)	7,123	200
	<u>14,509</u>	<u>9,174</u>

- (1) Short-term deposits at banks are for periods of one week and three months, depending on the requirements of the Company. The deposits earn interest at the respective term of the deposits (NIS – 0.09% per year; dollar - 1.28% per year).

As of December 31, 2017, the Group had \$ 3,000 thousand in unused credit facilities, see Note 14b.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6:- SHORT-TERM DEPOSITS

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Bank deposits (1)	50	585

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

## NOTE 7:- TRADE RECEIVABLES, NET

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Open accounts (1)	2,707	2,703
Credit cards	-	23
Less - allowance for doubtful accounts	(288)	(234)
Trade receivables, net	2,419	2,492

- (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 the reporting date:

	<b>Past due trade receivables with aging of</b>						<b>Total</b>
	<b>Neither past due nor impaired</b>	<b>&lt; 30 days</b>	<b>30 - 60 days</b>	<b>60 - 90 days</b>	<b>90 - 120 days</b>	<b>&gt; 120 days</b>	
	<b>U.S. dollars in thousands</b>						
December 31, 2017	1,198	323	258	77	153	410	2,419
December 31, 2016	1,843	190	131	46	219	63	2,492

As of December 31, 2017, the Company has debts more than 90 days past due but not impaired (allowance for doubtful accounts) in the total of approximately \$ 563 thousand, of which an amount of approximately \$ 417 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2017	2016
	U.S. dollars in thousands	
Government ministries	394	291
Accrued income - Israel Innovation Authority	113	107
Prepaid expenses and other	83	55
Loans to employees	26	22
Supplies	271	380
Advances to suppliers	22	4
	909	859

## NOTE 9:- PROPERTY, PLANT AND EQUIPMENT

## 2017

	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, 2017	4,093	3,750	160	1	293	75	52	8,424
Additions during the year	1,957	764	-	-	18	-	-	2,739
Disposals during the year	(1,423)	(961)	-	-	-	-	-	(2,384)
Balance at December 31, 2017	4,627	3,553	160	1	311	75	52	8,779
Accumulated depreciation:								
Balance at January 1, 2017	1,179	-	122	1	216	33	52	1,603
Additions during the year	680	-	23	-	49	5	-	757
Disposals during the year	(672)	-	-	-	-	-	-	(672)
Balance at December 31, 2017	1,187	-	145	1	265	38	52	1,688
Depreciated cost at December 31, 2017	3,440	3,553	15	*) -	46	37	*) -	7,091

\*) Represents less than \$ 1 thousand.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 2016

	<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, 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	<u>4,093</u>	<u>3,750</u>	<u>160</u>	<u>1</u>	<u>293</u>	<u>75</u>	<u>52</u>	<u>8,424</u>
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	<u>1,179</u>	<u>-</u>	<u>122</u>	<u>1</u>	<u>216</u>	<u>33</u>	<u>52</u>	<u>1,603</u>
Depreciated cost at December 31, 2016	<u>2,914</u>	<u>3,750</u>	<u>38</u>	<u>*) -</u>	<u>77</u>	<u>42</u>	<u>*) -</u>	<u>6,821</u>

\*) Represents less than \$ 1 thousand.

## NOTE 10:- INTANGIBLE ASSETS

## Composition:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	U.S. dollars in thousands	
Computer software:		
Cost	152	136
Less - accumulated amortization	<u>(137)</u>	<u>(131)</u>
	<u>15</u>	<u>5</u>
Licenses		
Cost	9	9
Less - accumulated amortization	<u>(6)</u>	<u>(5)</u>
	<u>3</u>	<u>4</u>
	<u>18</u>	<u>9</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 11:- FAIR VALUE MEASUREMENT

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

Quantitative disclosures of the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2017:

	Valuation date	Fair value hierarchy			Total
		Level 1	Level 2	Level 3	
U.S. dollars in thousands					
Liabilities measured at fair value:					
Liability in respect of options	31.12.2017	-	112	-	112

## NOTE 12:- TRADE PAYABLES

	December 31,	
	2017	2016
U.S. dollars in thousands		
Open accounts	1,631	810

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

## NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2017	2016
U.S. dollars in thousands		
Employees and payroll accruals	918	772
Accrued expenses	665	541
Reserve for tax	128	-
Liabilities to related parties (1)	92	123
	1,803	1,436

(1) A current non-interest bearing account.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 14:- NON-CURRENT LIABILITIES

## a. Composition:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Loan from bank (b)	2,727	-
Share options (b)	112	-
Liability in respect of research and development grants (c)	5,028	4,908
Deferred revenues and other liabilities (d)	309	374
	<u>8,176</u>	<u>5,282</u>

## b. Loan from bank:

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

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

The fair value of the options on the date when the first facility amount was withdrawn was estimated at \$ 150 thousand and the balance was attributed to the loan. Transaction costs of \$ 156 thousand were allocated proportionally to the fair value of the options and loans. The options were classified as a financial liability and measured at fair value through profit or loss. As of December 31, 2017, the fair value of the options was estimated at \$ 112 thousand.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 14:- NON-CURRENT LIABILITIES**

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

For information regarding the amendment to the agreement signed on February 12, 2018, see Note 24b below.

c. 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 3.5% 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, 2017, the maximum royalties payable by the company in the future in respect of active project equal an amount of approximately \$ 12,561 thousand, including exchange differences and interest at the Libor rate. Through December 31, 2017, royalties paid amounted to \$ 968 thousand.

d. Other long-term liabilities are for payment of royalties pursuant to a license agreement. See Note 18j.

e. Financial covenants:

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

As of December 31, 2017, the Company is meeting the abovementioned financial covenants.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15:- 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:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>	
Financial assets:		
Cash and cash equivalents	14,509	9,174
Other	3,002	3,497
Total current	<u>17,511</u>	<u>12,671</u>
Total non-current	<u>2,009</u>	<u>-</u>
Financial liabilities:		
Long-term loan from bank	2,727	-
Trade payables	1,631	810
Other accounts payable	1,803	1,436
Other	5	6
	<u>6,166</u>	<u>2,252</u>
Financial liabilities in respect of options - at fair value through profit or loss	<u>112</u>	<u>-</u>
Total other financial liabilities - in respect of liability to the Israel Innovation Authority	<u>5,279</u>	<u>5,196</u>
Total current	<u>3,685</u>	<u>2,534</u>
Total non-current	<u>7,872</u>	<u>4,914</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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

## 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.

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

**December 31, 2017**

	<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>&gt; 5 years</u>	<u>Total</u>
U.S. dollars in thousands							
Trade payables	1,631	-	-	-	-	-	1,631
Payables	1,803	-	-	-	-	-	1,803
Loan from bank	219	963	1,624	771	-	-	3,577
Long-term liabilities	2	2	2	-	-	-	6
Liability in respect of research and development grants	504	782	1,470	1,855	2,380	6,207	13,198
	<u>4,159</u>	<u>1,747</u>	<u>3,096</u>	<u>2,626</u>	<u>2,380</u>	<u>6,207</u>	<u>20,215</u>

**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>&gt; 5 years</u>	<u>Total</u>
U.S. dollars in thousands							
Trade payables	810	-	-	-	-	-	810
Payables	1,436	-	-	-	-	-	1,436
Long-term liabilities	2	2	2	2	2	-	10
Liability in respect of research and development grants	137	283	509	2,875	3,415	6,002	13,221
	<u>2,385</u>	<u>285</u>	<u>511</u>	<u>2,877</u>	<u>3,417</u>	<u>6,002</u>	<u>15,477</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

## c. Fair value:

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

*Financial liabilities measured at fair value:*

**December 31, 2017**

	<u>Level 2</u> <u>U.S. dollars</u> <u>in thousands</u>
Opening balance at January 1, 2017	-
Recognition of financial liability in respect of options	150
Amounts transferred to the statement of comprehensive income as net finance income for the year	<u>(38)</u>
Closing balance at December 31, 2017	<u><u>112</u></u>

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

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

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>U.S. dollars in thousands</u>	
<b>Sensitivity test to changes in the NIS exchange rate:</b>		
Gain (loss) from the change:		
Increase of 5% in exchange rate	405	103
Decrease of 5% in exchange rate	(405)	(103)
<b>Sensitivity test to changes in the Euro exchange rate:</b>		
Gain (loss) from the change:		
Increase of 5% in exchange rate	27	44
Decrease of 5% in exchange rate	(27)	(44)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15:- FINANCIAL INSTRUMENTS (Cont.)

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>U.S. dollars in thousands</u>	
<b>Sensitivity test to changes in the Yen exchange rate:</b>		
Gain (loss) from the change:		
Increase of 5% in exchange rate	44	43
Decrease of 5% in exchange rate	(44)	(43)

As of December 31, 2017, the Company has excess of financial assets over financial liabilities in foreign currency (NIS in relation to US dollar) of \$ 8,126 thousand.

As of December 31, 2017, the Company has excess of financial assets over financial liabilities in foreign currency (Euro in relation to US dollar) of \$ 539 thousand.

As of December 31, 2017, the Company has excess of financial assets over financial liabilities in foreign currency (Yen in relation to US dollar) of \$ 888 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.

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 16:- 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

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.

	<u>Year ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands</u>		
Expenses in respect of defined contribution plans	<u>263</u>	<u>190</u>	<u>184</u>

## NOTE 17:- 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 17:- TAXES ON INCOME (Cont.)

*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.

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

<b>The value of productive assets before the expansion (NIS in millions)</b>	<b>The new investment required as a percentage of the value of productive assets</b>
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").

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 17:- TAXES ON INCOME (Cont.)**

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.

*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%).



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 17:- TAXES ON INCOME (Cont.)**

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

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

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to a "foreign company", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

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

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

b. Tax rates applicable to the Company and subsidiaries:

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

The Israeli corporate income tax rate was 24% in 2017, 25% in 2016 and 26.5% in 2015.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 17:- TAXES ON INCOME (Cont.)

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.

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).

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

- c. Tax assessments:

The Company received final tax assessments through the 2011 tax year. The subsidiary, Moach, received final tax assessments through 2012. The subsidiary, Inc, received final tax assessments through the 2013 tax year.

- d. Carryforward losses for tax purposes:

*Carryforward losses - the Group:*

Carryforward operating tax losses of the Group as of December 31, 2017 total approximately \$ 3 million in Brainsway Ltd. and approximately \$ 43 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. Brainsway USA and Inc had no carryforward losses as of December 31, 2017.

- 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 18:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES**

- a. As for liabilities in respect of payment of royalties to the Chief Scientist, see Note 14c.
- 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 2009-2017, 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 and/or sale, use and promote sales in the different territories up to a 15-year period. The Company will supply the devices to the distributors and they will act on their account to install, train and maintain the devices in the territory they operate. The different distributors are committed to minimum quantities as in the agreements.
- d. 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.

**NOTE 18:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)**

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 date of the approval of the financial statements, 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. On January 22, 2018, the distributor in Japan applied to the PMDA, which is responsible for all import and export licenses of pharmaceuticals and medical equipment to Japan, for approval of marketing and selling the Company's devices in Japan.

- e. During 2013-2017, the Company entered into agreement to perform multicenter trials in bipolar disorder, smoking, post-traumatic stress disorder (PTSD) and a comparison trial of the H1-H7 coils with different medical centers around the world. As of December 31, 2017, the Company's management estimated that the anticipated remaining expenses in respect of these trials would total approximately \$ 6 million.
- f. On August 25, 2013, the Company received the approval of the MAGNET committee at the Office of Chief Scientist at the Israel Innovation Authority for the BSMT tool (brain stimulate and monitor tool). The tool was approved, as of that date, for a period of three years, which was extended up to five years, in the framework of which the Company was approved work plans with participation rate of up to 66% which the MAGNET administration will give the Company as non-royalty bearing grant.

In the first three years of the plan, the Company received grants amounting to approximately NIS 6.3 million.

On October 27, 2016, the MAGNET committee at the Office of 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. This plan has not yet received a final report and the amount of the grant is not final.

On September 28, 2017, the MAGNET committee at the Office of Chief Scientist at the Israel Innovation Authority approved an annual work plan for the fifth year with the budget of approximately NIS 2.1 million. During February 2018, the Company's appeal on the grant in the amount of approximately NIS 65 thousand was approved and the work plan was placed at approximately NIS 2.2 million, out of which 55% (approximately NIS 1.2 million) the MAGNET administration will give the Company as a grant. This plan is expected to be implemented by September 30, 2018.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

- g. 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.

In September 2017, an addendum to the agreement was signed, extending the term of the agreement to 15 years from the date of signing the addendum, setting a minimum annual payment subject to its compliance with certain conditions detailed in the amendment to the agreement. As part of the amendment, the distributor must meet the order and installation target of 12 new devices each year, up to a cumulative total of 50 devices. In addition, if its income from a single device exceeds the predetermined amount, the Company will be entitled to 10%-20% of its revenues from that device based on the lease year of the device. In accordance with the terms of the amendment to the agreement and on the date of signing, the distributor made a first order of five devices.

- h. 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:

	<u>2017</u>	<u>2016</u>
	<u>U.S. dollars in thousands</u>	
First year	110	105
Second year	47	70
Third year	5	16
	<u>162</u>	<u>191</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. This agreement was extended until September 30, 2022, at monthly rentals of approximately NIS 99 thousand, linked to the Israeli CPI of May 2017. The agreement gives an early termination option on September 30, 2020 in consideration of a predetermined compensation with a six-month notice before the date of the early termination.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 18:- 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. In 2017, Moach exercised the first option.

2. 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 cannot 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:

	<u>2017</u>	<u>2016</u>
	<u>U.S. dollars in thousands</u>	
First year	425	301
Second year	414	53
Third year	343	54
Fourth year	32	55
Fifth year	-	32
	<u>1,214</u>	<u>495</u>

- i. 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, 2017 was approximately \$ 132 thousand.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 18:- 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, 2017 was approximately \$ 66 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 1 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:- CONTINGENT LIABILITIES, COMMITMENTS AND CHARGES (Cont.)

## j. Charges:

As part of the credit agreement, as stated in Note 14b, and as a condition for using the first and second facilities, the Company and the other Group companies undertook to provide the bank with fixed and floating charges on all their assets, including property, money (including money received from borrower's clients), goodwill, intellectual property, rights and assets of any kind. In addition, the Company and the US investees undertook to sign a guarantee letter, unlimited in amount, to secure the loans that will be provided by virtue of the credit agreement. Also, a senior fixed charge, unlimited in amount, was provided on a specific deposit in which an amount of not less than \$ 2,000 thousand would be deposited ("the deposited amount"). It was agreed that if by March 16, 2018, the amount of loans actually withdrawal is less than \$ 6,000 thousand, the deposited amount would be placed at one-third of the actual amount of loans on that date.

For information regarding the amendment to the agreement signed on February 12, 2018, see Note 24b below.

## NOTE 19:- EQUITY

## a. Composition of share capital:

	December 31, 2017		December 31, 2016	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.04 par value each	25,000,000	16,640,446	25,000,000	14,715,784

## b. Movement in share capital:

## Issued and outstanding capital:

	Number of shares	NIS par value
Balance at January 1, 2016	14,491,034	146,483
Exercise of options	224,750	2,349
Balance at December 31, 2016	14,715,784	148,832
Issue of shares	1,924,662	22,065
Balance at December 31, 2017	16,640,446	170,897



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 19:- EQUITY (Cont.)**

## 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 options, of which 51,672 options were allocated to the managing underwriters. On June 11, 2012, the transaction was closed. Half of the options (or all in the event of a "merger" as defined in the agreement) may be exercised by the investors in a cashless exercise.

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 options each may be exercised into one Ordinary share of NIS 0.04 par value. On June 10, 2016, the options expired. Total finance income in respect of the options for the years ended December 31, 2016 and 2015 were \$ 618 thousand and \$ 56 thousand, respectively.

## e. 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.

## f. On December 11, 2017, the Company entered into a private placement agreement with a group of investors according to which the investors will invest a total of NIS 29,928 thousand in the Company in consideration of the allocation of 1,924,662 Ordinary shares of the Company of NIS 0.04 par value each. On December 21, 2017, after receipt of the stock exchange's approval and payment of the consideration, the Company allocated these shares. Issuance expenses amounted to \$ 133 thousand.

It should be noted that if the Company wishes to raise capital during the twelve months after the closing date, by way of a public offering or private placement of shares and/or securities convertible into shares ("the additional offering") and if the effective price per share in the additional offering is less than the share price according to this private placement then, subject to the stock exchange's approval for their listing, the investors will be entitled to receive additional Ordinary shares in respect of the remaining allocated shares in exchange for 30 agorot per Ordinary share in such number that the price per share in respect of the total quantity allocated to each optionee in the framework of this private placement and following the additional allocation will be equal to the effective price in the additional offering, proportionate to the number of allocated shares. For the purpose of calculating the adjustment, the effective price according to this private placement will be adjusted for distribution (as defined in the Companies Law), rights issue, split or consolidation of capital and issuance of bonus shares. All changes are taken into account in the computation of the effective price in the additional offering.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 19:- EQUITY (Cont.)**

## g. Options:

In 2017, 12,983 and 8,017 options that had been granted to employees who terminated their employment at the Company in 2017, were forfeited and expired, respectively.

## h. 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 20:- 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:

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
Equity-settled share-based payment plans to employees, directors and consultants	<u>1,028</u>	<u>(420)</u>	<u>1,416</u>

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 2015-2017.

On December 22, 2014, the Company's Board approved to allocate 110,808 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 20:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)**

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

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.

On November 23, 2015, the general meeting approved to allocate to a director in the Company, Mr. Yaakov Michelin, 37,597 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 over 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 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 over 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.

**NOTE 20:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)**

On December 8, 2015, the Company's Board approved to allocate 888,100 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 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 over 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.

On April 1, 2017, Mr. Yaakov Michelin, a director, started his tenure as the Company's CEO. On that date, he was allocated 566,262 options that may be exercised into 566,262 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 19.97 per any option as follows: the options vest over four years; 1/4 of the number of options vest after 12 months of the date of allocation (April 1, 2017) and 1/16 of the number of options vest after each subsequent 3 months. The options are exercisable over a period of 8 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 1.1 million. The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 44.69%-51.09%, risk-free interest rate of 0.17%-1.94%, share price of NIS 16.37, exercise coefficient of 2.8 and expected dividend of 0.

On December 3, 2017, the general meeting approved to allocate to a director in the Company, Mrs. Keren Sarid, 27,500 options that may be exercised into 27,500 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 21.372 per any 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 3 months. The options are exercisable over a period of 10 years. The grant date fair value of the options using the binomial model was determined at approximately \$ 54 thousand. The inputs used for the fair value measurement of the options at the grant date: expected volatility of the share prices of 40.58%-56.77%, risk-free interest rate of 0.11%-2.00%, share price of NIS 16.90, exercise coefficient of 2.8 and expected dividend of 0.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 20:- SHARE-BASED PAYMENT TRANSACTIONS (Cont.)

## b. Movement during the year:

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

	2017		2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding at beginning of year	1,148,297	31.18	3,738,413	12.34
Options exercised, expired or forfeited during the year	(21,000)	26.81	(2,590,116)	22.48
Options granted during the year	593,762	20.03	-	-
Options outstanding at end of year	1,721,059	27.39	1,148,297	31.18
Options exercisable at end of year	599,357	33.58	426,400	35.59

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

The weighted average remaining contractual life for the options outstanding as of December 31, 2017 was about 6 years (2016 - about 6 years).

The range of exercise prices for options outstanding as of December 31, 2017 was NIS 19.97-NIS 59.13 (2016 - NIS 13-NIS 59.13).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS**

- a. Additional information on revenues:

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

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
Revenues from lease *)	6,654	5,327	4,299
Revenues from sale	4,491	6,197	2,501
	<u>11,145</u>	<u>11,524</u>	<u>6,800</u>

- \*) 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:

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
Israel	180	441	244
Foreign countries *)	10,965	11,083	6,556
	<u>11,145</u>	<u>11,524</u>	<u>6,800</u>

- \*) In 2017, the Company earned about 89% of its revenues in the US, about 8% in Europe.

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

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
b. Cost of revenues:			
Cost of lease	1,483	1,004	844
Cost of sales	1,112	1,423	622
	<u>2,595</u>	<u>2,427</u>	<u>1,466</u>
c. Research and development expenses, net:			
Salaries and related benefits	2,954	2,053	2,408
Subcontractors	1,584	1,885	1,402
Laboratory materials	453	402	463
Patents	134	104	131
Other	357	273	497
Travel abroad	35	70	40
Share-based payment	180	(214)	617
Depreciation	35	35	32
Support by Government grants	(394)	(816)	(1,487)
	<u>5,343</u>	<u>3,792</u>	<u>4,103</u>
d. Selling and marketing expenses:			
Salaries and related expenses	3,597	3,293	1,120
Distribution commissions	138	460	324
Sales promotion and other	1,690	746	1,269
Travel and travel abroad	777	670	336
Share-based payment	129	11	232
	<u>6,331</u>	<u>5,180</u>	<u>3,281</u>
e. General and administrative expenses:			
Salaries and related expenses	1,179	1,125	930
Professional fees and office expenses	1,002	756	676
Depreciation	20	49	30
Travel abroad	64	104	82
Allowance for doubtful accounts and bad debts	503	377	170
Share-based payment	719	(217)	567
	<u>3,487</u>	<u>2,194</u>	<u>2,455</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21:- ADDITIONAL INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME ITEMS (Cont.)

	Year ended December 31,		
	2017	2016	2015
	U.S. dollars in thousands		
f. Finance income and expenses:			
Finance income:			
Interest income on bank deposits	22	12	18
Finance income on options	38	56	618
Exchange differences	126	118	-
	<u>186</u>	<u>186</u>	<u>636</u>
Finance expenses:			
Finance expenses from liability in respect of Government grants	273	404	98
Exchange differences	53	49	83
Interest on loan from bank	87	-	-
Bank commissions	47	61	37
	<u>460</u>	<u>514</u>	<u>218</u>

## NOTE 22:- LOSS PER SHARE

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

	Year ended December 31,					
	2017		2016		2015	
	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>14,769</u>	<u>7,054</u>	<u>14,507</u>	<u>2,397</u>	<u>14,463</u>	<u>4,087</u>
Used in the computation of diluted loss	<u>14,769</u>	<u>7,092</u>	<u>14,507</u>	<u>2,454</u>	<u>14,463</u>	<u>4,087</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 23:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES

- a. Balances with interested and related parties:

Composition:

As of December 31, 2017

	<u>Key management personnel *)</u>	<u>Other interested and related parties</u>
	<u>U.S. dollars in thousands</u>	
Other accounts payable	<u>55</u>	<u>37</u>

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>

\*) 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>2017</u>	<u>2016</u>	<u>2015</u>
	<u>U.S. dollars in thousands</u>		
Salary and related benefits to those employed by the Company or on its behalf	<u>1,322</u>	<u>1,137</u>	<u>1,548</u>
Directors' fee to those not employed by the Company or on its behalf	<u>98</u>	<u>137</u>	<u>80</u>
Number of individuals to whom the salary and benefits relate:			
Related and interested parties employed by the Company or on its behalf	9	9	11
Directors not employed by the Company	<u>7</u>	<u>9</u>	<u>8</u>
	<u>16</u>	<u>18</u>	<u>19</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES  
(Cont.)

- c. Benefits to key management personnel \*):

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
Short-term employee benefits	42	20	31
Share-based payment	798	377	1,202

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

- d. Purchases from related parties:

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>U.S. dollars in thousands</b>		
Purchases from related parties	-	-	9

- e. Transactions with interested and related parties:

**Year ended December 31, 2017**

	<b>Key management personnel *)</b>	<b>Other interested and related parties</b>
	<b>U.S. dollars in thousands</b>	
Sales to subsidiary	-	2,873
Research and development expenses	947	-
General and administrative expenses	1,212	99
	<u>2,159</u>	<u>2,972</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES  
(Cont.)

## Year ended December 31, 2016

	<b>Key management personnel *)</b>	<b>Other interested and related parties</b>
	<b>U.S. dollars in thousands</b>	
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>

## Year ended December 31, 2015

	<b>Key management personnel *)</b>	<b>Other interested and related parties</b>
	<b>U.S. dollars in thousands</b>	
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>

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

- f. On May 30, 2016, Dr. Guy Ezekiel, the former CEO and director in the Company, ceased his role. As a result of forfeiture of options allocated in the fourth quarter of 2015, the Company's expenses to related parties decreased in 2016, 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, for the year ended December 31, 2016.
- g. On January 8, 2017, the Company informed on the appointment of a new CEO for the Company, Mr. Yaakov Michelin, who started 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. As of the date of the approval of the financial statements, the Company's management cannot predict when these goals will be achieved and, accordingly, no expense was recognized in the financial statements for the year ended December 31, 2017.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 23:- TRANSACTIONS AND BALANCES WITH INTERESTED AND RELATED PARTIES  
(Cont.)**

In addition, with the commencement of his tenure, Mr. Michelin was allocated 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.

For information regarding the value of options allocated to Mr. Michelin, see Note 20 above.

- h. On December 3, 2017, the general meeting approved to allocate to a director in the Company, Mrs. Keren Sarid, 27,500 options that may be exercised into 27,500 Ordinary shares of NIS 0.04 par value for the exercise increment of NIS 21.372 per any option.

For information regarding the value of options allocated to Mrs. Sarid, see Note 20 above.

**NOTE 24:- EVENTS AFTER THE REPORTING DATE**

- a. During 2018, until the date of the approval of the financial statements, 6,667 options that had been granted to an employee whose employment in the Company was terminated in 2018 expired.
- b. On February 12, 2018, an amendment to the credit facility agreement with Bank Mizrahi, as stated in Note 14b above, was signed, according to which loans under the second facility could be withdrawn until March 15, 2019 (instead of until March 15, 2018) and the annual interest rate on each loan given in the framework of the second facility will be lowered to 3-months Libor plus 6%. The other terms of the facility agreement and the second facility remain unchanged.
- c. In December 2017, the Company received the approval of the MAGNET committee of the Israel Innovation Authority for a plan with the budget of NIS 1.1 million, of which 66% (approximately NIS 0.7 million) is expected to be given to the Company as a grant. Accordingly, on February 22, 2018, Inc and Yeda signed an additional addendum to the agreement ("the fifth addendum"), according to which Inc received the right to perform a test on another invention based on a patent in connection with research in the field of circular electric which is owned by Yeda and for which Yeda received funding from the Israel Innovation Authority under the MAGNET plan. In the fifth addendum it was agreed that if Inc finds said invention compatible with its needs, Inc will have the right to integrate said invention and the associated intellectual property, owned by Yeda, under the agreement, and thereby making it part of the license in the agreement ("the right").

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 24:- EVENTS AFTER THE REPORTING DATE (Cont.)**

The right is valid until the earlier of December 31, 2018 and 30 days after the completion of all the milestones that have been agreed upon by the parties. However, under certain circumstances in which the milestones are not completed by December 31, 2018, the expiry date of the right will be postponed until June 30, 2019.

If the Company exercises the option granted to it under the fifth addendum, then in respect of products based on the use of the invention and know-how that is the subject of the fifth addendum, royalties on net sales will be paid to Yeda at increased rates of 1.6%-2% on top of the royalties described in Note 18i(2) above and, in certain cases, at a flat rate of 2% and, in respect of products under the fifth addendum that are not based on patents or research results for which the license was granted according to the original agreement (excluding the fifth addendum), royalties on net sales will be at the rate of 5%.

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