Palestine Electric Company, Public Shareholding Company

Consolidated Financial Statements

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Palestine Electric Company, Public Shareholding Company

Opinion
We have audited the consolidated financial statements of Palestine Electric Company, Public Shareholding Company and its subsidiary (the Company), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Credit risk
We draw attention to note (9) to the accompanying consolidated financial statements, according to the power purchases agreement, the Company's subsidiary: Gaza Power Generating Company (GPGC / the subsidiary) is currently exposed to credit risk as all of its revenues from the use of the power plant to generate electric capacity is generated from one customer, Palestinian Energy and Natural Resources Authority (PENRA). To the date of issuing these consolidated financial statements, PENRA has not provided GPGC with the letter of credit of U.S. $ 20 million as required by the Power Purchase Agreement. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Taxes
We draw attention to note (23) to the accompanying consolidated financial statements, according to the power purchases agreement between the Company's subsidiary: GPGC and Palestinian National Authority (PNA), PNA has agreed to exempt GPGC and its shareholders with respect to dividends and earnings from the subsidiary, for the term of the agreement for 20 years including any extensions thereof, from all Palestinian taxes. As of the date of issuing these consolidated financial statements, neither the Company nor its subsidiary obtained a tax settlement from the tax authorities for the period from inception in 1999 up to date. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Concentration of geographic risk
We draw attention to note (29) to the accompanying consolidated financial statements, non-current assets of the Company's subsidiary mainly comprise property, plant and equipment that are located in Gaza. Recoverability of these assets depends on political and economic stability in Gaza. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
PENRA's Account Receivable As refer to in note (9) to the accompanying consolidated financial statements, PENRA's account receivable (including bonds under collection) as at December 31, 2021 and 2020 amounted to U.S.$ 46,073,466 and U.S. $ 49,466,367 before Expected Credit Loss (ECL) of U.S.$ 6,073,466 and U.S.$ 4,566,367, respectively. Because PENRA is the only customer of electricity generated from the power plant and due to the noncomplex nature of related receivables, GPGC has applied the simplified approach for receivables under IFRS (9) as such receivables do not contain a significant financing component. The ECL model involves judgement and assumptions to reflect information about past events such as the age of the balance, history of disputes, historical payment patterns as well as current and expected future conditions, in addition to the amended power purchase agreement, for the purpose of estimating amounts and timing of future cash inflows discounted to their present values. Management assessed collectability of the balance based on the ECL model. The assessment resulted in recording U.S. $ 1,507,099 as expected credit loss for the year 2021 in the consolidated statement of income and comprehensive income.	Our audit procedures included the following: - Inquired management to understand sources of inputs and key assumptions used in ECL computation. - Assessed integrity and consistency of various inputs and assumptions used to compute ECL. - Performed procedures to assess the accuracy of the ECL calculation. - Obtained direct confirmation from PENRA supporting the existence and completeness of account receivable from PENRA. - Ensured the adequacy of disclosed facts in note (9) to the consolidated financial statements.

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Other Information Included in the Company's 2021 Annual Report

Other information consists of the information included in the annual report for the year 2021, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguard applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2021 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Sa'ed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 16, 2022
Gaza – Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2021

	Notes	2021 U.S. $	2020 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	7,379,863	13,732,288
Intangible assets	5	529,213	750,796
Right-of-use assets	6	367,173	489,563
Financial assets at fair value through other comprehensive income	7	1,100,000	1,037,500
Long-term deposits at banks	11	20,000,000	15,000,000
		29,376,249	31,010,147
Current assets			
Materials and inventories	8	10,481,252	8,462,293
PENRA's account receivable	9	40,000,000	44,900,000
Other current assets	10	4,643,892	6,281,059
Cash and balances with banks	11	30,661,636	21,908,081
		85,786,780	81,551,433
TOTAL ASSETS		115,163,029	112,561,580
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	12	60,000,000	60,000,000
Statutory reserve	13	14,882,409	13,863,672
Retained earnings		28,518,076	25,349,444
Total equity		103,400,485	99,213,116
Non-current liabilities			
Long-term lease liability	6	690,596	662,257
Provision for employees' indemnity	14	4,698,882	4,709,277
		5,389,478	5,371,534
Current liabilities			
Other current liabilities	15	6,373,066	7,976,930
		6,373,066	7,976,930
Total liabilities		11,762,544	13,348,464
TOTAL EQUITY AND LIABILITIES		115,163,029	112,561,580

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the year ended December 31, 2021

	Notes	2021 U.S. $	2020 U.S. $
Revenues			
Capacity charges	16	33,064,728	32,703,240
Discounts on capacity charges' invoices	9	(1,800,000)	(1,800,000)
Operating expenses	17	(18,329,465)	(18,416,174)
		12,935,263	12,487,066
Expected credit losses	9 & 11	(1,750,031)	(1,836,716)
Finance costs	18	(1,828,339)	(465,775)
Interest revenues on banks deposits		1,305,561	1,279,285
Other expenses, net	19	(475,085)	(134,170)
Profit for the year		10,187,369	11,329,690
Other comprehensive income		-	-
Total comprehensive income for the year		10,187,369	11,329,690
Basic and diluted earnings per share	20	0.17	0.19

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2021

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2021				
Balance, beginning of the year	60,000,000	13,863,672	25,349,444	99,213,116
Total comprehensive income for the year	-	-	10,187,369	10,187,369
Transferred to statutory reserve	-	1,018,737	(1,018,737)	-
Cash dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	14,882,409	28,518,076	103,400,485

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2020				
Balance, beginning of the year	60,000,000	12,730,703	24,152,723	96,883,426
Total comprehensive income for the year	-	-	11,329,690	11,329,690
Transferred to statutory reserve	-	1,132,969	(1,132,969)	-
Cash dividends (note 21)	-	-	(9,000,000)	(9,000,000)
Balance, end of year	60,000,000	13,863,672	25,349,444	99,213,116

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2021

	Note	2021 U.S. $	2020 U.S. $
Operating activities			
Profit for the year		10,187,369	11,329,690
Adjustments:			
Provision for employees' indemnity		323,861	301,233
Depreciation of property, plant and equipment and right-of-use assets		6,490,683	6,488,388
Amortization		221,583	221,583
Gain on disposal of property, plant and equipment		(307)	-
Expected credit losses		1,750,031	1,836,716
Losses from unrecoverable of assets		577,066	27,958
Interest revenues on bank deposits		(1,305,561)	(1,279,285)
Finance costs		1,828,339	465,775
losses of inventories lost on transit		-	178,256
Other none-cash items		(190,187)	(73,014)
		19,882,877	19,497,300
Working capital adjustments:			
PENRA's account receivable		3,392,901	(21,028,452)
Other current assets		664,183	(2,716,948)
Materials and inventories		(2,018,959)	614,125
Other current liabilities		(1,189,377)	(654,882)
Employees' indemnity paid		(334,256)	(45,476)
Net cash flows from (used in) operating activities		20,397,369	(4,334,333)
Investing activities			
Purchase of property, plant and equipment		(15,868)	(96,741)
Proceeds from sale of property, plant and equipment		307	-
Increase in long-term deposits at banks		(5,000,000)	(5,000,000)
Interest revenues received		1,701,479	1,073,600
Financial assets at fair value through other comprehensive income		(62,500)	(37,500)
Net cash flows used in investing activities		(3,376,582)	(4,060,641)
Financing activities			
Finance costs paid		(1,800,000)	(431,250)
Dividends paid		(6,224,300)	(8,473,463)
Net cash flows used in financing activities		(8,024,300)	(8,904,713)
Increase (decrease) in cash and cash equivalents		8,996,487	(17,299,687)
Cash and cash equivalents, beginning of the year		22,162,392	39,462,079
Cash and cash equivalents, end of year	11	31,158,879	22,162,392

1. General

Palestine Electric Company (the Company), located in Gaza, was established on December 14, 1999, and is registered in accordance with the Companies' Law under a registration number (563200971) as Public Shareholding Company.

The main objectives of the Company are to establish electricity generating plants in the territories of the Palestinian National Authority (PNA) and to carry out all the operations necessary for the production and generation of electricity.

Gaza Power Generating Company (GPGC / subsidiary), being the Company's subsidiary, has an exclusive right from PNA to provide capacity and generate electricity in Gaza for the benefit of entities owned or controlled by the PNA for 20 years following commercial operation of its power plant which started on March 15, 2004 with an opportunity to extend the period of the agreement for up to two additional consecutive five-year periods.

On December 20, 2021, GPGC signed a memorandum of understanding with the Palestinian Energy and Natural Resources Authority (PENRA) and the Qatar Gaza Reconstruction Committee (QGRC) and another agreement subsequent to the consolidated financial statements date according to which the parties agreed on the issue of supplying GPGC with natural gas to operate the power plant and on related necessary pipelines as well as technical matters related to the conversion of the power plant to use natural gas. Further, they included preparing an expansion plan for the power plant with a capacity of least 500 MW. In addition, the parties agreed on the mechanism of paying gas suppliers for the natural gas needed to operate the power plant, as well as paying GPGC for its capacity charge invoices.

The Company is considered a subsidiary of Palestine Power Company which owns 65 % of the Company's share capital. The financial statements of the Company are consolidated with the consolidated financial statements of Palestine Power Company.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 16, 2022.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiary, GPGC, as at December 31, 2021. GPGC was established in Gaza in the year 1999 with an authorized share capital of 6,000,000 shares of U.S. $ 10 par value each.

3. Accounting Policies

3.1 Basis of Preparation

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standard Board (IASB).

The consolidated financial statements have been presented in U.S. Dollar, which is the functional currency of the Company.

The consolidated financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

3.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 31, 2021. The Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated in full.

If the Company loses control over a subsidiary, it derecognizes the related assets, liabilities, of the subsidiary while any resultant gain or loss is recognized in the consolidated statement of income and comprehensive income. Any investment retained is recognized at fair value.

3.3 Changes in Accounting Policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2020 except for the Company's adoption of new standards, amendments, and interpretations effective starting from January 1, 2021 shown below:

<u>Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS (9), IAS (39), IFRS (7), IFRS (4) and IFRS (16)</u>

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- To require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest,
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued,
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the Company’s consolidated financial statements.

<u>Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS (16)</u>

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS (16) Leases. The amendments provide relief to lessees from applying IFRS (16) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS (16), if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Standards issued but not effective

The International Accounting Standards Board (IASB) issued certain standards and amendments that are not yet effective and have not yet been adopted by the Company. The Company intends to adopt these standards and amendments, if applicable, when they become effective.

Amendments to IAS (1): Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS (1) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement,
- That a right to defer must exist at the end of the reporting period,
- That classification is unaffected by the likelihood that an entity will exercise its deferral right,
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS (16)

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS (37)

In May 2020, the IASB issued amendments to IAS (37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

IFRS (9) Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS (9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS (8)

In February 2021, the IASB issued amendments to IAS (8), in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS (1) and IFRS Practice Statement (2)

In February 2021, the IASB issued amendments to IAS (1) and IFRS Practice Statement (2) Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS (1) are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement (2) provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

3.4 Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Following are the significant estimates made by management:

Useful lives of tangible and intangible assets

The Company's management reassesses the useful lives of tangible and intangible assets, and makes adjustments if applicable, at each financial year end.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Impairment of financial assets (Expected Credit Loss "ECL")

In determining impairment of financial assets, the Company uses judgement to estimate the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using appropriate valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Company's management believes that the estimates and assumptions used are reasonable.

3.5 Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Capacity charges

Capacity charge revenues from the use of the power plant are recognized during the period in which electricity is available according to the power purchase agreement signed with PENRA. This results in revenue recognition approximating the straight-line requirements of IFRS (16) "Leases". As the power purchase agreement conveys the right to control the use of the power plant for a period of time in exchange for consideration.

The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

As the Palestinian Energy and Natural Resources Authority (PENRA) is the sole purchaser of the electricity generated from power plant at a price other than at market price and the price varies other than in response to market price changes, this variability is regarded by IFRS (16) as capacity payments being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IFRS (16) as a leases. The power purchase agreement does not transfer substantially all the risks and rewards incidental to the Company's ownership of the power plant to PENRA. Therefore, the Company considered the arrangement of the power plant agreement as an operating lease and electrical capacity charges from the use of power plant to generate electricity as rental payment.

Interest revenues

Interest revenue is recognized using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Expense recognition

Expenses are recognized when incurred in accordance with the accrual basis of accounting.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset. All other finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the consolidated statement of income and comprehensive income as incurred. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful lives (Years)
Power plant	20
Buildings	20
Motor vehicles	5
Computers and printers	4
Office equipment	4
Furniture and fixture	5

Any item of property, plant, and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income and comprehensive income when the asset is derecognized.

The property, plant and equipment residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired through government grant and assistance are initially measured at fair value. Following initial recognition, intangible assets are carried net of any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite live are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income and comprehensive income in the expense category consistent with the function of the intangible asset.

Right to use PENRA's transformers

Right to use PENRA's transformers is amortized using the straight-line method over a period that equals the remaining useful life of the Power Plant at the time of acquiring the right. Amortization expense is recognized in the consolidated statement of income and comprehensive income.

Current versus non-current classification

The Company presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Materials and inventories

Materials and inventories are stated at the lower of cost using the weighted average method or net realizable value. Costs are those amounts incurred in bringing each item of materials and inventories to its present location and condition.

The carrying values of materials and inventories are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the materials and inventories are written down to their recoverable amount.

Accounts receivable

Accounts receivable are stated at original invoice amount less an allowance for expected credit loss for any impaired amounts. When determining the impairment on financial assets. The Company's management use specific estimates to determine the amounts and timing of future cash flows and also assesses whether there is a significant increase in credit risk of the financial asset since initial recognition and includes the use of future information in the measurement of expected credit losses.

Investment in financial assets

Financial assets investments are initially recognized at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition, all financial assets are stated at fair value or amortized cost as follows:

<u>Financial assets at fair value through other comprehensive income (FVOCI)</u>

At initial recognition, the Company makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading.

Equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to the consolidated statement of income and comprehensive income, but is reclassified to retained earnings. In limited circumstances, cost may be an appropriate estimate of fair value.

Dividends on these investments in equity instruments are recognized in the consolidated statement of income and comprehensive income when the Company's right to receive the dividends is established.

<u>Financial assets at amortized cost</u>

Debt instruments are measured at amortized cost 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 contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at financial assets at fair value through profit or loss (FVTPL). They are subsequently measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized on an effective yield basis.

Effective interest rate is the interest rate used to discount the future cash flows over the debt instrument life (or a shorter period in certain cases), in order to match its carrying value at the date of initial recognition.

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Derecognition of financial assets

A financial asset is primarily derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset to third party. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to record its remaining interest in the asset and records the liability in the amount expected to be paid. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to record them and also records the debt security of the amounts received.

Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognized for financial instruments that are not measured at FVTPL. No impairment loss is recognized on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- Debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- Other financial instruments for which the credit risk has not increased significantly since their initial recognition.

The Company applied the simplified approach for recording expected credit losses (ECL) on account receivables and expected credit losses account over the lifetime of the receivables.

Provisions for credit-impairment are recognized in the income statement and are reflected in an allowance account against loans and receivables, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortized cost are tested as to whether they are credit impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties.

Financial assets which have been re-scheduled or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets that have been re-scheduled, are subject to on- going review to determine whether they remain impaired or can be considered due. All re-scheduled or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of re-scheduling.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

A 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 Company 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 for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances, and short-term deposits with an original maturity of three months or less net of restricted bank balances, if any.

Cash dividends paid

The Company recognizes a liability to make cash dividends to equity holders when the distribution is authorized by general assembly. A corresponding amount is recognized directly in equity.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, The Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by The Company and payments of penalties for terminating a lease, if the lease terms reflect The Company's intentions to exercise the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, The Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the Company 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.

Income tax

The Company provides for income tax in accordance with the Palestinian Income Tax Law and IAS (12), which requires recognizing the temporary differences, at the consolidated financial statements date as deferred taxes.

Income tax expense represents the tax payable, which is calculated based on the taxable profit. Taxable profit may vary from the accounting profit shown in the consolidated financial statements due to the inclusion of revenues that are not subject to income tax or expenses that cannot be deducted from income tax. Such revenues or expenses may be taxable or deductible in subsequent years.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the consolidated financial statements date. All differences are recognized to the consolidated statement of income and comprehensive income.

Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares less treasury shares.

4. Property, Plant and Equipment

2021	Power plant U.S. $	Buildings U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	123,944,738	1,464,904	491,414	440,915	247,233	246,575	126,835,779
Additions	-	-	-	9,273	2,030	4,565	15,868
Disposal	-	-	-	(47,940)	-	-	(47,940)
Balance, end of year	123,944,738	1,464,904	491,414	402,248	249,263	251,140	126,803,707
Accumulated depreciation:							
Balance, beginning of the year	110,635,490	1,143,879	458,874	421,001	199,092	245,155	113,103,491
Depreciation charges for the year	6,254,490	73,248	8,040	14,169	16,245	2,101	6,368,293
Disposal	-	-	-	(47,940)	-	-	(47,940)
Balance, end of year	116,889,980	1,217,127	466,914	387,230	215,337	247,256	119,423,844
Net carrying amount:							
At December 31, 2021	7,054,758	247,777	24,500	15,018	33,926	3,884	7,379,863

2020	Power plant U.S. $	Buildings U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	451,192	438,825	192,804	246,575	126,373,969
Additions	365,069	-	40,222	2,090	54,429	-	461,810
Balance, end of year	123,944,738	1,464,904	491,414	440,915	247,233	246,575	126,835,779
Accumulated depreciation:							
Balance, beginning of the year	104,381,000	1,070,631	451,192	406,082	188,257	240,331	106,737,493
Depreciation charges for the year	6,254,490	73,248	7,682	14,919	10,835	4,824	6,365,998
Balance, end of year	110,635,490	1,143,879	458,874	421,001	199,092	245,155	113,103,491
Net carrying amount:							
At December 31, 2020	13,309,248	321,025	32,540	19,914	48,141	1,420	13,732,288

Further, the Norwegian Government finance the reconstruction and reinstallation of the main fuel tank with a capacity of ten million liters. As of the date of the consolidated financial statements, this fuel tank was not handed over or operated yet. The Company's management expects that the reconstruction and reinstallation of the main fuel tank will be completed during the year 2022.

5. Intangible Assets

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	750,796	972,379
Amortization	(221,583)	(221,583)
Balance, end of year	529,213	750,796

Intangible assets represent the right to use six step-up transformers installed by PENRA for the use of GPGC (a subsidiary) as part of the agreement signed on September 2, 2006 between GPGC and PENRA. According to the agreement, PENRA agreed to rectify all damages within the power plant resulted from the Israeli air strike during June 2006 to restore the power supply from the power plant. These transformers will be owned by PENRA; and GPGC will have the right to use such transformers and will be responsible for their operation and maintenance. The right to use the transformers was initially recognized at the fair value of the transformers when installed. The right to use the transformers is amortized over the remaining useful life of the power plant starting from the date of obtaining such right.

6. Right-of-Use Assets and Lease Liabilities

The Company's right-of-use assets and lease liabilities and lease liabilities represents the right-of-use assets and lease liabilities of land lease agreement on which the power plant is constructed. The following table shows the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements for the year ended December 31, 2021 and 2020:

	Assets	Liabilities
	Right-of-use assets (Land)	Lease liabilities
2021	U.S. $	U.S. $
Balance, beginning of the year	489,563	809,257
Depreciation	(122,390)	-
Finance costs	-	28,339
	367,173	837,596
Current portion of lease liabilities (included in other current liabilities – note 15)	-	(147,000)
Balance, end of year	367,173	690,596

	Assets	Liabilities
	Right-of-use assets (Land)	Lease liabilities
2020	U.S. $	U.S. $
Balance, beginning of the year	611,953	774,732
Depreciation	(122,390)	-
Finance costs	-	34,525
	489,563	809,257
Current portion of lease liabilities (included in other current liabilities – note 15)	-	(147,000)
Balance, end of year	489,563	662,257

7. Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income represents the Company's investment in the shares capital of Palestine Power Generating Company (PPGC) in the amount of U.S. $ 1,100,000 and U.S. $ 1,037,500 as at December 31, 2021 and 2020, respectively. The increase during the year represents the Company's share in the increase of PPGC's capital.

8. Materials and Inventories

	2021	2020
	U.S. $	U.S. $
Spare parts	10,027,592	7,927,663
Consumables	258,322	233,669
Goods in transit	164,437	274,100
Others	30,901	26,861
	10,481,252	8,462,293

9. PENRA's Account Receivable

	2021	2020
	U.S. $	U.S. $
Receivable from capacity charges	41,073,466	49,466,367
Governmental bonds under collection	5,000,000	-
Allowance for expected credit losses	(6,073,466)	(4,566,367)
	40,000,000	44,900,000

Movement on allowance for expected credit losses was as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	4,566,367	2,983,962
Addition during the year	1,507,099	1,582,405
Balance, end of year	6,073,466	4,566,367

On November 7, 2016, GPGC, together with PENRA and the Palestinian Ministry of Finance and Planning signed an amendment to the power purchase agreement. The amendment included commitment from PENRA to make monthly payments toward settling account receivable balance, in addition GPGC granted PENRA a monthly discount of U.S. $ 150,000 from the monthly capacity charge invoice starting from December 1, 2016 and presented as deductions from the monthly capacity charge invoices.

All GPGC's capacity charges revenue from the use of power plant is generated from one customer, PENRA. According to the power purchase agreement, PENRA is required to provide GPGC with a letter of credit of U.S. $ 20 million from a qualified bank as defined in the agreement. To the date of these consolidated financial statements, PENRA did not provide GPGC with the letter of credit; therefore, accounts receivable are unsecured.

10. Other Current Assets

	2021	2020
	U.S. $	U.S. $
Due from shareholders	1,396,205	1,679,108
Accounts receivable – related parties	1,330,000	1,950,000
Prepaid insurance	759,436	683,061
Advances to suppliers	693,221	942,507
Value Added Tax receivable	461,312	164,838
Unreceived accrued interest revenue	-	395,918
Others	3,718	465,627
	4,643,892	6,281,059

11. Cash and Balances with Banks

	2021	2020
	U.S. $	U.S. $
Cash on hand	5,933	7,289
Current accounts at banks	4,652,946	5,155,103
Deposits at banks	46,500,000	32,000,000
	51,158,879	37,162,392
Expected credit losses	(497,243)	(254,311)
	50,661,636	36,908,081
Long-term deposits	(20,000,000)	(15,000,000)
Cash and bank balances	30,661,636	21,908,081

Deposits at banks represents the following:

- Short-term deposits amounted to U.S. $ 26,500,000 and U.S. $ 17,000,000 with local banks with an original maturity of one to three months from the date of the consolidated financial statements as at December 31, 2021 and 2020, respectively. The average interest rate on these deposits was 2.40% and 3.75% for the years ended December 31, 2021 and 2020, respectively.
- Long-term deposits amounted to U.S. $ 20,000,000 and U.S. $ 15,000,000 with local banks with an original maturity of more than three months to three years from the date of the consolidated financial statements as of December 31, 2021 and 2020, respectively. The average interest rate on these deposits was 3.50% and 3.58% for the years ended December 31, 2021 and 2020, respectively. Long-term deposits amounted to U. S. $ 20,000,000 and U.S. $ 5,000,000 with a local bank as at December 31, 2021 and 2020, respectively, that was used as a security for credit facilities granted to a major shareholder.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents comprise:

	2021	2020
	U.S. $	U.S. $
Cash on hand and bank balances	51,158,879	37,162,392
Long-term deposits	(20,000,000)	(15,000,000)
	31,158,879	22,162,392

12. Paid-in Share Capital

The share capital of the Company comprises 60,000,000 ordinary shares at par value of U.S. $ 1 for each share.

13. Statutory Reserve

The amount represents cumulative transfers of 10% of profits to statutory reserve in accordance with the Companies' Law. The reserve shall not be distributed to shareholders.

14. Provision for Employees' Indemnity

Movement on the provision for employees' end of service indemnity during the year was as follows:

	2021	2020
	U.S. $	U.S. $
Balance, beginning of the year	4,709,277	4,453,520
Additions during the year	323,861	301,233
Payments during the year	(334,256)	(45,476)
Balance, end of year	4,698,882	4,709,277

15. Other Current Liabilities

	2021	2020
	U.S. $	U.S. $
Dividends payable	2,586,072	2,810,372
Maintenance payable and provisions	1,393,713	2,389,870
Due to Consolidated Contractors Company	563,730	921,711
Accrued expenses	269,547	317,307
Provision for employees' vacations	340,453	371,611
Accrued payroll income tax	577,066	459,200
Current portion of lease liabilities (note 6)	147,000	147,000
Accrued Board of Directors remuneration	-	14,100
Others	495,485	545,759
	6,373,066	7,976,930

16. Capacity Charges

The amount represents revenues from capacity charges invoices issued by GPGC for the use of power plant to generate electric capacity for the benefit of PENRA according to the power purchase agreement, which is considered an operating lease under IFRS (16) as further explained in accounting policies note (3.5) after deducting a monthly amount of U.S. $ 150,000 starting from December 1, 2016 (note 9).

Capacity charges invoices are materially straight-line over the life of the plant which results in revenue recognition approximating the straight-line requirements of IFRS (16) on leases. According to the agreement, PENRA shall pay for all the electric capacity available from the use of GPGC's power plant, regardless of the extent to which PENRA can absorb that capacity, for a predetermined price set out in the power purchase agreement for each operating year. In addition, PENRA shall, at all times, supply and deliver all the fuel required to generate the power needed.

17. Operating Expenses

	2021	2020
	U.S. $	U.S. $
Salaries and wages	6,106,687	5,899,076
Provision for employees' indemnity	323,861	301,233
Board of Directors expenses	179,200	184,200
Employees' insurance	149,608	128,876
Development and technical advisory services	744,000	-
Travel and transportation	209,200	255,755
Power plant insurance	1,035,811	1,011,634
Power plant operation and maintenance	904,013	2,831,743
Depreciation of property, plant and equipment and right-of-use assets	6,490,683	6,488,388
Amortization of intangible assets	221,583	221,583
Professional and consultancy fees	271,095	387,504
Telephone and fax	57,146	41,059
Office supplies	70,631	56,943
Advertisements	14,018	16,794
Security service costs	7,020	96,080
Donations	1,344,354	258,504
Miscellaneous	200,555	236,802
	18,329,465	18,416,174

18. Finance Cost

	2021	2020
	U.S. $	U.S. $
Finance cost *	1,800,000	431,250
Finance cost related to long-term lease liabilities (note 6)	28,339	34,525
	1,828,339	465,775

* This item represents the commission for discounting governmental bonds obtained from PENRA during the year against PENRA's account receivable.

19. Other Expenses, Net

	2021	2020
	U.S. $	U.S. $
Losses from unrecoverable of assets	(577,066)	(27,958)
Bank commissions	(78,126)	(74,633)
Currency differences	(10,387)	71,388
Losses of inventories lost on transit	-	(178,256)
Gain on disposal of property, plant and equipment	307	-
Other revenues	190,187	75,289
	(475,085)	(134,170)

20. Basic and Diluted Earnings Per Share

	2021	2020
	U.S. $	U.S. $
Profit for the year	10,187,369	11,329,690
	Shares	Shares
Weighted average of subscribed share capital during the year	60,000,000	60,000,000
	U.S. $	U.S. $
Basic and diluted earnings per share	0.17	0.19

21. Distributed Cash Dividends

The Company's General Assembly approved in its ordinary meeting held on April 7, 2021, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 6,000,000 for the year 2020, the equivalent of 10% of paid-in share capital.

The Company's General Assembly approved in its ordinary meeting held on April 14, 2020, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 9,000,000 for the year 2019, the equivalent of 15% of paid-in share capital.

22. Related Party Balances and Transactions

Related parties represent major shareholders, directors and key management personnel of the Company and its subsidiary, and companies of which they are principal owners. Pricing policies and terms of these balances and transactions are approved by the Board of Directors.

Balances with related parties included in the consolidated statement of financial position are as follows:

	Nature of relation	2021 U.S. $	2020 U.S. $
Cash at Arab Bank	Major shareholder	2,751,550	2,963,802
Due from shareholders	Major shareholders	1,396,205	1,679,108
Accounts receivable - Consolidated Contractors Company	Major shareholder	760,000	1,400,000
Accounts receivable - Palestine Real Estate Company	Sister Company	570,000	550,000
Due to Consolidated Contractors Company	Major shareholder	563,730	921,711
Accrued Board of Directors remuneration	BOD members	-	14,100

In addition, long-term deposits amounted to U. S. $ 20,000,000 and U.S. $ 5,000,000 with a local bank as at December 31, 2021 and 2020, respectively, that was used as a security for credit facilities granted to a major shareholder.

The consolidated statement of income and comprehensive income includes the following transactions with related parties:

	Nature of relation	2021 U.S. $	2020 U.S. $
Expenses allocated by Consolidated Contractors Company	Major shareholder	210,917	886,172
Donations paid through Palestine Real Estate Company *	Sister Company	1,100,000	-
Development and technical advisory services provided to GPGC by Consolidated Contractors Company **	Major shareholder	744,000	-
Professional, consultancy, and legal fees	Board of Directors	208,000	185,905
Salaries and wages	Key management	376,538	415,440
Employees' end of service indemnity	Key management	26,399	28,893
Board of Directors expenses	Board of Directors	179,200	184,200

* These donations were paid in accordance with GPGC's board of directors' resolution dated January 5, 2021

** During the year, GPGC signed an agreement with Consolidated Contractors Company to provide development and technical advisory services starting January 1, 2021

23. Income Tax

The Palestinian National Authority has agreed to exempt GPGC (the subsidiary) and its shareholders, with respect to dividends and earnings from GPGC, for the term of the agreement of 20 years including any extensions thereof, from all Palestinian taxes.

As of the date of issuing these consolidated financial statements, the Company and its subsidiary did not obtain a tax settlement from the tax authority for the period from inception in 1999 up to date.

24. Commitments and Contingencies

Contractual commitments represent the difference between the contract gross amount and the executed portion of the contract at the consolidated financial statements date and they are as follows:

	2021 U.S. $	2020 U.S. $
Unpaid part of financial assets at fair value through other comprehensive income	-	62,500
	-	62,500

Future capacity charges invoices from the use of the power plant according to the power purchase agreement (will be effective until the year 2024) amounted to U.S. $ 85,263,568 and U.S. $ 118,328,296 as of December 31, 2021 and 2020, respectively.

25. Fair Values of Financial Instruments

Fair value measurement

The Company uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level 3: Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The Company has not made any transfer between the levels mentioned above during the period.

The following table provides the fair value measurement hierarchy of the Company's financial assets at fair value as of December 31, 2021:

	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	U.S.$	U.S.$	U.S.$
Financial assets at fair value			
Financial assets at fair value through other comprehensive income	-	-	1,100,000

The following table provides the fair value measurement hierarchy of the Company's financial assets at fair value as of December 31, 2020:

	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	U.S.$	U.S.$	U.S.$
Financial assets at fair value			
Financial assets at fair value through other comprehensive income	-	-	1,037,500

Fair Values of financial instruments

The table below summarizes the Company's financial instruments as of December 31, 2021 and 2020:

	Carrying value		Fair value	
	2021	2020	2021	2020
	U.S. $	U.S. $	U.S. $	U.S. $
Financial Assets				
Financial assets at fair value through other comprehensive income	1,100,000	1,037,500	1,100,000	1,037,500
Long-term deposits at banks	20,000,000	15,000,000	19,502,757	14,745,689
PENRA's account receivable	40,000,000	44,900,000	40,000,000	44,900,000
Other financial assets	1,861,235	2,705,491	1,861,235	2,705,491
Cash and bank balances	30,661,636	21,908,081	30,661,636	21,908,081
	93,622,871	85,551,072	93,125,628	85,296,761
Financial Liabilities				
Long-term lease liability	690,596	662,257	690,596	662,257
Other financial liabilities	3,832,047	5,449,605	3,832,047	5,449,605
	4,522,643	6,111,862	4,522,643	6,111,862

The fair value of financial instruments is not materially different from their carrying values. The fair values for financial assets and financial liabilities are determined at amounts at which the instrument could be exchanged between willing parties other than forced or liquidation sale.

The fair value of the PENRA's account receivable, other financial assets, and other financial liabilities are not materially different from their carrying values because these instruments have short repayment and collection periods.

The fair value of long-term lease liability is estimated by discounting future cash flows using rates currently available for items on similar terms.

The fair value of the financial assets at fair value through other comprehensive income were determined using appropriate valuation techniques.

26. Risk Management

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk, and foreign currency risk. The Company's Board of Directors reviews and approves policies for managing these risks which are summarized below:

Interest rate risk

Interest rate risk arising from the changes in interest rates on the Company's financial instrument which subject to floating interest rate.

The assets and liabilities of the Company as at December 31, 2021 and 2020 are not subject to floating interest rate, therefore, the Company is not exposed to interest rate risk.

Credit risk

The Company is currently exposed to credit risk as all the revenues of its subsidiary from the use of the power plant to generate electric capacity is generated from one customer, PENRA. PENRA has not provided the Company's subsidiary with required letter of credit of U.S. $ 20 million as required by the power purchase agreement.

With respect to credit risk arising from the other financial assets, the Company and its subsidiary's exposure to credit risk arises from the possibility of default of the counterparty, which equal the carrying values for these financial assets.

Liquidity risk

The Company and its subsidiary limit their liquidity risk by maintaining adequate cash balances to meet their current obligations and to finance its operating activities and by following up on the collection of accounts receivable from PENRA.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2021 and 2020 based on contractual undiscounted payments.

	Less than 3 Months	3 to 12 months	More than 1 year up to 5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2021				
Long-term lease liability	-	144,203	737,797	882,000
Other current liabilities	334,435	3,497,612	-	3,832,047
	334,435	3,641,815	737,797	4,714,047
December 31, 2020				
Long-term lease liability	-	150,730	731,270	882,000
Other current liabilities	135,722	5,313,883	-	5,449,605
	135,722	5,464,613	731,270	6,331,605

Foreign currency risk

The table below indicates the Company's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against foreign currencies, with all other variables held constant, on the consolidated statement of income and comprehensive income. The effect of decreases in foreign currency exchange rate is expected to be equal and opposite to the effect of increases shown below:

	Increase in EURO rate to U.S. $	Effect on profit for the year	Increase in ILS rate to U.S. $	Effect on profit for the year	Increase in SEK rate to U.S. $	Effect on profit for the year
	%	U.S. $	%	U.S. $	%	U.S. $
2021						
U.S. Dollar	10	(59,805)	10	(13,792)	10	21,225
2020						
U.S. Dollar	10	(38,552)	10	(35,021)	10	98,456

27. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2021 and 2020. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 103,400,485 and U.S. $ 99,213,116 as at December 31, 2021 and 2020, respectively.

28. Coronavirus Impact

As a result of the continued impact of the Coronavirus (COVID 19) on the global economy and various business sectors and the accompanying restrictions and measures imposed by the Palestinian National Authority and neighboring countries and the rest of the world, it is possible that the Company's operational activities are affected by global developments that currently affect commodity markets of all kinds and supply chain for different materials and goods.

The Company's management does not expect impact on revenues as a result of COVID-19. Future cash flows are dependent on the ability of the PNA to meet future payments in accordance with amendment to the power purchase agreement signed on November 7, 2016 between the Subsidiary, PENRA, and the Palestinian Ministry of Finance and Planning.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time.

29. Concentration of Risk in Geographic Area

The Company and its subsidiary are carrying out all of their operations in Gaza. The Company's non-current assets, which mainly comprise property, plant and equipment, are located in Gaza. The political and economic situation in Gaza increases the risk of carrying out business and could adversely affect their performance and impact the recoverability of their assets from operation.