

Palestine Electric Company, Public
Shareholding Company

Consolidated Financial Statements

December 31, 2019

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, 2019, 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, 2019, 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' Code of Ethics for Professional Accountants (Including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 (8) to the accompanying consolidated financial statements, according to the power purchases agreement, the Company's subsidiary: Gaza Power Generating Company (GPGC) 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 (22) 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 subsidiaries, 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. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Concentration of geographic risk

We draw attention to note (27) 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 as at December 31, 2019. 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 each 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
<p><u>PENRA's Account Receivable</u></p> <p>As explain in note (8) to the accompanying consolidated financial statements, PENRA's account receivable as at December 31, 2019 and 2018 amounted to U.S. \$ 28,437,915 and U.S. \$ 34,606,387 before Expected Credit Loss (ECL) of U.S. \$ 2,983,962 and U.S. \$ 2,362,696, respectively.</p> <p>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.</p> <p>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.</p> <p>Management assessed collectability of the balance based on the ECL model. The assessment resulted in recording U.S. \$ 621,266 as expected credit loss for the year 2019 in the consolidated statement of income and comprehensive income adding up the total ECL to U.S. \$ 2,983,962 as at December 31, 2019.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - Inquired management to understand sources of inputs and key assumptions used in ECL computation. - Assessed integrity and consistency of various inputs and assumptions used by GPGC to compute ECL. - Validated the exposure at default used in ECL calculation. - Performed procedures to assess the accuracy of the ECL calculation. - Obtained confirmation from PENRA supporting the existence and completeness of account receivable from PENRA. - Ensured the accuracy of disclosed facts in note (8) to the consolidated financial statements.

Other Information Included in the Company's 2019 Annual Report

Other information consists of the information included in the annual report, 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, related safeguards.

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, 2019 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

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March 9, 2020

Gaza - Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

	Notes	2019 U. \$. \$	2018 U.S. \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	19,636,476	25,910,123
Intangible assets	5	972,379	1,193,962
Right-of-use assets	3	611,953	-
Financial assets at fair value through other comprehensive income	6	1,000,000	1,000,000
Long-term deposits at banks	10	10,000,000	-
		<u>32,220,808</u>	<u>28,104,085</u>
Current assets			
Materials and inventories	7	9,254,674	7,976,208
PENRA's account receivable	8	25,453,953	32,243,691
Other current assets	9	3,386,384	18,153,111
Cash and cash equivalents	10	39,462,079	15,857,501
		<u>77,557,090</u>	<u>74,230,511</u>
TOTAL ASSETS		<u><u>109,777,898</u></u>	<u><u>102,334,596</u></u>
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	11	60,000,000	60,000,000
Statutory reserve	12	12,730,703	11,485,658
Retained earnings		<u>24,152,723</u>	<u>18,947,320</u>
Total equity		<u>96,883,426</u>	<u>90,432,978</u>
Non-current liabilities			
Long-term lease liability	3	627,732	-
Provision for employees' indemnity	13	<u>4,453,520</u>	<u>4,106,681</u>
		<u>5,081,252</u>	<u>4,106,681</u>
Current liabilities			
Other current liabilities	14	<u>7,813,220</u>	<u>7,794,937</u>
		<u>7,813,220</u>	<u>7,794,937</u>
Total liabilities		<u>12,894,472</u>	<u>11,901,618</u>
TOTAL EQUITY AND LIABILITIES		<u><u>109,777,898</u></u>	<u><u>102,334,596</u></u>

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2019

	Notes	2019 U.S. \$	2018 U.S. \$
Revenues			
Capacity charges	15	32,351,952	32,011,680
Discounts on capacity charges' invoices	8	(1,800,000)	(1,800,000)
Operating expenses	16	(16,993,677)	(19,491,812)
		<u>13,558,275</u>	<u>10,719,868</u>
Expected credit losses	8	(621,266)	(1,580,508)
Finance costs	17	(1,475,611)	(594,635)
Other revenues, net	18	<u>989,050</u>	<u>242,256</u>
Profit for the year		<u>12,450,448</u>	<u>8,786,981</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>12,450,448</u>	<u>8,786,981</u>
Basic and diluted earnings per share	19	<u>0.21</u>	<u>0.15</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2019

	Paid-in Share Capital U.S. \$	Statutory Reserve U.S. \$	Retained Earnings U.S. \$	Total Equity U.S. \$
2019				
Balance, beginning of the year	60,000,000	11,485,658	18,947,320	90,432,978
Total comprehensive income for the year	-	-	12,450,448	12,450,448
Transferred to statutory reserve	-	1,245,045	(1,245,045)	-
Distributed cash dividends (note 20)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	<u>60,000,000</u>	<u>12,730,703</u>	<u>24,152,723</u>	<u>96,883,426</u>
2018				
Balance, beginning of the year	60,000,000	10,606,960	17,039,037	87,645,997
Total comprehensive income for the year	-	-	8,786,981	8,786,981
Transferred to statutory reserve	-	878,698	(878,698)	-
Distributed cash dividends (note 20)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	<u>60,000,000</u>	<u>11,485,658</u>	<u>18,947,320</u>	<u>90,432,978</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	Note	2019 U.S. \$	2018 U.S. \$
<u>Operating activities</u>			
Profit for the year		12,450,448	8,786,981
Adjustments:			
Provision for employees' indemnity		426,839	488,706
Depreciation of property, plant and equipment and right-of-use assets		6,402,064	6,296,135
Amortization		221,583	221,583
Expected credit losses		621,266	1,580,508
Impairment of assets		58,198	249,372
Interest revenues		(1,031,346)	-
Finance costs		1,475,611	594,635
		<u>20,624,663</u>	<u>18,217,920</u>
Working capital adjustments:			
PENRA's account receivable		6,168,472	(5,250,581)
Other current assets		14,871,365	(14,922,208)
Materials and inventories		(1,278,466)	(320,385)
Other current liabilities		211,131	(534,835)
Employees' indemnity paid		(80,000)	-
Net cash flows from (used in) operating activities		<u>40,517,165</u>	<u>(2,810,089)</u>
<u>Investing activities</u>			
Purchase of property, plant and equipment		(6,027)	(34,568)
Long-term deposits at banks		(10,000,000)	-
Interest revenues received		868,510	-
Net cash flows used in investing activities		<u>(9,137,517)</u>	<u>(34,568)</u>
<u>Financing activities</u>			
Finance costs paid		(1,435,222)	(594,635)
Dividends paid		(6,339,848)	(6,330,527)
Net cash flows used in financing activities		<u>(7,775,070)</u>	<u>(6,925,162)</u>
Increase (decrease) in cash and cash equivalents		23,604,578	(9,796,819)
Cash and cash equivalents, beginning of the year		15,857,501	25,627,320
Cash and cash equivalents, end of year	10	<u>39,462,079</u>	<u>15,857,501</u>

The attached notes 1 to 27 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019

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.

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 9, 2020.

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, 2019. 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, 2019. 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 (including goodwill), liabilities, non-controlling interest while any resultant gain or loss is recognized in the consolidated income statement. 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, 2018 except for the Company's adoption of the following standards, amendments, and interpretations effective starting from 1 January 2019.

IFRS (16) "Leases"

IFRS (16) "Leases" supersedes IAS (17) "Leases" and IFRIC (4) "Determining whether an Arrangement contains a Lease", SIC (15) "Operating Leases-Incentives" and SIC (27) "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-consolidated statement of financial position model.

Lessor accounting under IFRS (16) is substantially unchanged under IAS (17). Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS (17). Therefore, IFRS (16) did not have an impact for leases where the Company is the lessor.

The Company applies IFRIC (4) which relates to arrangements that do not take the legal form of a lease but convey the right to use an asset in return for a payment or a series of payments if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset.

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 IFRIC (4) as capacity payments being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IAS (17) on leases contracts. 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.

The Company adopted IFRS (16) using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Accordingly, no adjustments were made to prior year consolidated financial statements. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS (17) and IFRIC (4) at the date of initial application. The following is the impact of application of IFRS (16):

Following is the effect of the increase on the consolidated statement of financial position as at January 1, 2019:

	<u>U.S. \$</u>
Assets	
Right-of-use assets	734,343
Liabilities	
Lease Liabilities	<u>734,343</u>
Equity	<u><u>-</u></u>

Nature of the effect of adoption of IFRS (16)

The Company used to classify each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transfers substantially all of the risks and rewards associated with ownership of the leased asset to the Company; otherwise, it was classified as an operating lease. Finance leases used to be capitalized at the commencement of the lease contract at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liabilities. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other assets and other liabilities, respectively.

At the adoption of IFRS (16), the Company applied a single recognition approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific application requirements and practical solutions, which the Company has used when applying the standard.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

Amounts recognized in the consolidated statement of financial position and consolidated statement of income and comprehensive income.

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, 2019:

	Assets	Liabilities
	Right-of-use assets	Lease liabilities
	U.S. \$	U.S. \$
Balance as of January 1, 2019	734,343	734,343
Depreciation	(122,390)	-
Finance costs	-	40,389
	611,953	774,732
Current portion of lease liabilities (included in other current liabilities - note 14)	-	(147,000)
Balance as of January 1, 2019	<u>611,953</u>	<u>627,732</u>

Assets and lease liabilities represents the right-of-use assets and lease liabilities of land lease agreement on which the power plant is constructed.

Set out below are the new accounting policies of the Company upon adoption of IFRS (16):

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 not 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 and the lease term. Right-of-use assets are subject to impairment testing.

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 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.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

IFRIC Interpretation (23) Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS (12) and does not apply to taxes or levies outside the scope of IAS (12), nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments.

The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

Amendments to IFRS (10) and IAS (28): Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address the conflict between IFRS (10) and IAS (28) in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS (3), between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

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 IFRS 3: Definition of a Business Combinations

The IASB issued amendments to the definition of a business in IFRS (3) "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

The IASB issued amendments to IAS (1) "Presentation of Financial Statements" and IAS (8) "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

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 financial assets (Expected Credit Loss "ECL")

Financial assets are evaluated for impairment on the basis set out in "Impairment of financial assets" paragraph.

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 IAS (17) on leases as the Company applies IFRIC (4) which relates to arrangements that do not take the legal form of a lease but convey the right to use an asset in return for a payment or a series of payments. An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. 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 IFRIC (4) as capacity payments being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IAS (17) on 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 is 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:

Financial assets at fair value through other comprehensive income (FVOCI)

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 income statement, 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 income statement when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at amortized cost

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

Expected credit losses (ECL) are recognized for financial instruments that are not measured through the consolidated statement of income and comprehensive income. No impairment loss is recognized on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL for the debt investment.

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.

The Company has applied the simplified approach and has calculated ECL based on lifetime expected credit losses on accounts receivable. To evaluation of expected credit loss, account receivable classified based on the characteristics of the credit risk and the maturity date.

An impairment allowances for expected credit losses (ECL) are recognized in the consolidated statement of income and comprehensive income and are reflected in an allowance account against accounts receivables.

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 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.

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 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 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

	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2019							
<u>Cost:</u>							
Balance, beginning of the year	123,579,669	1,464,904	451,192	433,948	192,804	245,425	126,367,942
Additions	-	-	-	4,877	-	1,150	6,027
Balance, end of year	123,579,669	1,464,904	451,192	438,825	192,804	246,575	126,373,969
<u>Accumulated depreciation:</u>							
Balance, beginning of the year	98,199,524	997,383	451,192	390,926	185,580	233,214	100,457,819
Depreciation charges for the year	6,181,476	73,248	-	15,156	2,677	7,117	6,279,674
Balance, end of year	104,381,000	1,070,631	451,192	406,082	188,257	240,331	106,737,493
<u>Net carrying amount:</u>							
At December 31, 2019	19,198,669	394,273	-	32,743	4,547	6,244	19,636,476
	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2018							
<u>Cost:</u>							
Balance, beginning of the year	123,579,669	1,464,904	451,192	406,825	186,148	244,636	126,333,374
Additions	-	-	-	27,123	6,656	789	34,568
Balance, end of year	123,579,669	1,464,904	451,192	433,948	192,804	245,425	126,367,942
<u>Accumulated depreciation:</u>							
Balance, beginning of the year	92,018,027	924,135	451,192	374,411	169,791	224,128	94,161,684
Depreciation charges for the year	6,181,497	73,248	-	16,515	15,789	9,086	6,296,135
Balance, end of year	98,199,524	997,383	451,192	390,926	185,580	233,214	100,457,819
<u>Net carrying amount:</u>							
At December 31, 2018	25,380,145	467,521	-	43,022	7,224	12,211	25,910,123

Property, plant and equipment include U.S. \$ 1,229,068 and U.S. \$ 1,226,550 of fully depreciated assets as at December 31, 2019 and 2018, respectively, which are still used in the Company's operations.

During the year, Qatari Government through Gaza Re-Construction Committee directly supervised and financed the process of reconstruction and reinstallation of two fuel tanks with a capacity of one million liters per tank instead of those destroyed as a result of the Israeli air strike during 2014. The Company's management expects that the ownership of these tanks will transfer to the Company during 2020. Accordingly, these tanks will be recognized as assets and will be depreciated over the remaining productive life of the power plant.

In addition, the Norwegian Government will 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, the reconstruction and reinstallation works are not completed. The Company's management expects that the reconstruction and reinstallation of the main fuel tank will be completed before the end of 2020.

5. Intangible Assets

	2019	2018
	U.S. \$	U.S. \$
Balance, beginning of the year	1,193,962	1,415,545
Amortization	(221,583)	(221,583)
Balance, end of year	972,379	1,193,962

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. 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. \$ 1,000,000.

7. Materials and Inventories

	2019	2018
	U.S. \$	U.S. \$
Spare parts	8,458,916	7,191,325
Consumables	269,865	321,945
Goods in transit	511,377	445,817
Others	14,516	17,121
	9,254,674	7,976,208

8. PENRA's Account Receivable

	2019	2018
	U.S. \$	U.S. \$
Receivable from capacity charges	28,437,915	34,606,387
Allowance for expected credit losses	(2,983,962)	(2,362,696)
	<u>25,453,953</u>	<u>32,243,691</u>

Movement on allowance for expected credit losses was as follows:

	2019	2018
	U.S. \$	U.S. \$
Balance, beginning of the year	2,362,696	782,188
Addition during the year	621,266	1,580,508
Balance, end of year	<u>2,983,962</u>	<u>2,362,696</u>

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.

9. Other Current Assets

	2019	2018
	U.S. \$	U.S. \$
Due from shareholders	1,325,655	16,268,033
Prepaid insurance	794,059	652,723
Advances to suppliers	648,248	839,389
Value Added Tax receivable	81,209	138,389
Unreceived accrued interest revenue	190,233	27,397
Others	346,980	227,180
	<u>3,386,384</u>	<u>18,153,111</u>

10. Cash and Cash Equivalents

	2019	2018
	U.S. \$	U.S. \$
Cash on hand	5,759	6,363
Current accounts at banks	6,456,320	5,851,138
Deposits at banks	43,000,000	10,000,000
	<u>49,462,079</u>	<u>15,857,501</u>
Long-term deposits	(10,000,000)	-
Cash and cash equivalents	<u>39,462,079</u>	<u>15,857,501</u>

Deposits at banks represents the following:

- Short-term deposits amounted to U.S. \$ 33,000,000 with local banks with an original maturity of one to three months from the date of the consolidated financial statements. The average interest rate on these deposits was 4% for the years ended December 31, 2019 and 2018.

- Long-term deposits amounted to U.S. \$ 10,000,000 with local banks with an original maturity of more than three months to two years from the date of the consolidated financial statements. The average interest rate on these deposits was 4.25% for the year ended December 31, 2019.

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

	2019	2018
	U.S. \$	U.S. \$
Cash on hand and bank balances	49,462,079	15,857,501
Long-term deposits	(10,000,000)	-
	<u>39,462,079</u>	<u>15,857,501</u>

11. 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.

12. 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.

13. Provision for Employees' Indemnity

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

	2019	2018
	U.S. \$	U.S. \$
Balance, beginning of the year	4,106,681	3,617,975
Additions during the year	426,839	488,706
Payments during the year	(80,000)	-
Balance, end of year	<u>4,453,520</u>	<u>4,106,681</u>

14. Other Current Liabilities

	2019	2018
	U.S. \$	U.S. \$
Dividends payable	2,283,835	2,623,683
Maintenance payable and provisions	3,371,730	3,433,902
Due to Consolidated Contractors Company	881,757	672,057
Accrued expenses	193,348	267,814
Provision for employees' vacations	343,136	319,432
Accrued payroll tax	333,763	185,653
Current portion of lease liabilities - (Note 3)	147,000	-
Others	258,651	292,396
	<u>7,813,220</u>	<u>7,794,937</u>

15. 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 IFRIC (4) 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 8).

Capacity charges invoices are materially straight-line over the life of the plant which results in revenue recognition approximating the straight-line requirements of IAS (17) 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.

16. Operating Expenses

	2019	2018
	U.S. \$	U.S. \$
Salaries and wages	5,449,855	5,254,949
Provision for employees' indemnity	426,839	488,706
Board of Directors expenses	169,200	169,200
Employees' insurance	131,075	129,822
Travel and transportation	222,726	320,830
Power plant insurance	981,592	1,007,578
Power plant operation and maintenance	886,919	3,859,505
Depreciation of property, plant and equipment and right-of-use assets	6,402,064	6,296,135
Amortization of intangible assets	221,583	221,583
Land lease *	-	147,000
Professional and consultancy fees	206,490	148,240
Telephone and fax	41,422	59,101
Palestine Securities Exchange listing fees	26,270	26,415
Office supplies	60,266	48,514
Advertisements	17,533	27,938
Security service costs	72,060	65,040
Donations	1,417,757	959,858
Miscellaneous	260,026	261,398
	<u>16,993,677</u>	<u>19,491,812</u>

- * During the year, the company applied IFRS (16) - Leases, accordingly the Company recognized depreciation of right-of-use assets for the land lease agreement as a part of depreciation of property, plant and equipment and right-of-use assets

17. Finance cost

	2019	2018
	U.S. \$	U.S. \$
Finance cost *	1,435,222	594,635
Finance cost related to long-term lease liabilities (Note 3)	40,389	-
	<u>1,475,611</u>	<u>594,635</u>

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

18. Other Revenues, Net

	2019	2018
	U.S. \$	U.S. \$
Interest revenues on banks deposits	1,031,346	591,193
Impairment of assets	(58,198)	(249,372)
Currency differences	93,172	(22,943)
Bank commissions	(77,270)	(76,622)
	<u>989,050</u>	<u>242,256</u>

19. Basic and Diluted Earnings Per Share

	2019	2018
	U.S. \$	U.S. \$
Profit for the year	<u>12,450,448</u>	<u>8,786,981</u>
	Shares	Shares
Weighted average of subscribed share capital during the year	<u>60,000,000</u>	<u>60,000,000</u>
	U.S. \$	U.S. \$
Basic and diluted earnings per share	<u>0.21</u>	<u>0.15</u>

20. Distributed Cash Dividends

The Company's General Assembly approved in its meeting held on April 9, 2019, the proposed dividends distribution by the Company's Board of Directors of U.S. \$ 6,000,000 for the year 2018, the equivalent of 10% of paid-in share capital.

The Company's General Assembly approved in its meeting held on March 28, 2018, the proposed dividends distribution by the Company's Board of Directors of U.S. \$ 6,000,000 for the year 2017, the equivalent of 10% of paid-in share capital.

21. Related Party Balances and Transactions

Related parties represent associates, 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:

		2019	2018
	Nature of relation	U.S. \$	U.S. \$
Cash at Arab Bank	Major shareholder	<u>2,416,089</u>	<u>2,760,599</u>
Due from shareholders	Major shareholders	<u>1,325,655</u>	<u>16,268,033</u>
Due to Consolidated Contractors Company	Major shareholder	<u>881,757</u>	<u>672,057</u>

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

		2019	2018
	Nature of relation	U.S. \$	U.S. \$
Expenses allocated by Consolidated Contractors Company	Major shareholder	969,041	1,051,058
Expenses paid through Consolidated Contractors Company	Major shareholder	1,290,000	248,000
Salaries and wages	Key management	480,442	474,813
Employees' end of service indemnity	Key management	40,226	50,736
Board of Directors expenses	Board of Directors	169,200	169,200

22. 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.

23. 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:

	2019	2018
	U.S. \$	U.S. \$
Land lease agreement *	-	1,617,000
Maintenance service agreement	30,186	359,296
	30,186	1,976,296

- * During the year, the company applied IFRS (16) - Leases, accordingly the Company recognized assets for right-of-use assets and lease liabilities for the land lease agreement. (Note 3)

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. \$ 151,031,536 and U.S. \$ 183,383,488 as of December 31, 2019 and 2018, respectively.

24. 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, 2019:

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

The following table provides the fair value measurement hierarchy of the Company's financial assets at fair value as of December 31, 2018:

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

Fair Values of Financial Instruments

The table below summarizes the Company's financial instruments as of December 31, 2019 and 2018:

	Carrying value		Fair value	
	2019	2018	2019	2018
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Financial Assets				
Financial assets at fair value through other comprehensive income	1,000,000	1,000,000	1,000,000	1,000,000
Long-term deposits at banks	10,000,000	-	10,000,000	-
Accounts receivables	25,453,953	32,243,691	25,453,953	32,243,691
Other financial assets	1,944,077	16,660,999	1,944,077	16,660,999
Cash and cash equivalents	39,462,079	15,857,501	39,462,079	15,857,501
	<u>77,860,109</u>	<u>65,762,191</u>	<u>77,860,109</u>	<u>65,762,191</u>
Financial Liabilities				
Other financial liabilities	5,565,139	5,865,670	5,565,139	5,865,670
	<u>5,565,139</u>	<u>5,865,670</u>	<u>5,565,139</u>	<u>5,865,670</u>

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 accounts receivables, 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 the financial assets at fair value through other comprehensive income were determined using appropriate valuation techniques.

25. 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, 2019 and 2018 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, 2019 and 2018 based on contractual undiscounted payments.

	Less than 3 Months U.S. \$	3 to 12 months U.S. \$	Total U.S. \$
December 31, 2019			
Other current liabilities	129,060	5,436,079	5,565,139
	<u>129,060</u>	<u>5,436,079</u>	<u>5,565,139</u>
December 31, 2018			
Other current liabilities	101,667	5,764,003	5,865,670
	<u>101,667</u>	<u>5,764,003</u>	<u>5,865,670</u>

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 U.S. \$	Increase in ILS rate to U.S. \$ %	Effect on profit for the year U.S. \$	Increase in SEK rate to U.S. \$ %	Effect on profit for the year U.S. \$
2019						
U.S. Dollar	10	(44,531)	10	(89,320)	10	291,997
2018						
U.S. Dollar	10	(7,609)	10	(74,643)	10	208,572

26. 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, 2019 and 2018. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. \$ 96,883,426 and U.S. \$ 90,432,978 as at December 31, 2019 and 2018, respectively.

27. 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.