Palestine Electric Company P.L.C

# Annual Report 2022

*Together towards unprecedented power*

Palestine Electric Company

Public Shareholding Company

Gaza, Al Nusirat, Salah Al Din St.
Power Plant, P.O.Box: 1336
Tel.: +970 8 2888 600, Ext. No.: 331
Fax : +970 8 2888 607

www.pec.ps
info@pec.ps

# Contents

## 1. Chairman's Message

Samer Khoury

Chairman of the Board of Directors

Dear Valued Shareholders,

I am delighted to present to you our company's annual report for the fiscal year 2022. Despite the challenging economic environment, I am proud to report that we have achieved strong financial performance and made continued progress towards our strategic goals.

Throughout the year, we remained focused on enhancing our internal management systems, planning for ensuring the supply of natural gas to the power plant, and improving operational efficiencies.

Our success is a testament to the hard work and dedication of our employees, who have demonstrated exceptional resilience and adaptability in the face of uncertainty. I would like to express my sincere appreciation and gratitude to each and every one of them for their unwavering commitment to our company's and values.

Looking ahead, we remain optimistic about the future and committed to delivering value to our stakeholders. We will continue to invest in innovation, sustainability, and operational transformation to ensure that we continue to serve our families in Gaza and contribute to the growth and development of the region.

In closing, I would like to thank our shareholders for their continued support and trust in our company. We are committed to delivering sustainable long-term growth and creating value for all our stakeholders.

**Samer Khoury**
Chairman of the Board of Directors

## 2. Executive Managing Director's Message

Walid Salman

Vice Chairman &
Executive Managing Director

Dear Valued Shareholders,

It is with great pleasure that I present to you an overview of our Company's achievements in 2022. This year has been filled with economic challenges and the ongoing political situation in our region. Nevertheless, our focus has remained on developing our Company, achieving strong financial results, and contributing to the growth of the electricity sector in Gaza.

I am proud to report that we have achieved several of our goals this year, and we look forward to achieving even more in 2023. Our successes will help to support the national economy and bring stability and prosperity to the Gaza Strip. One of the main milestones we achieved is the signing of the extension of the Power Purchase Agreement with PENRA which allows us to generate electricity for an additional five years.

Despite the challenges we faced, our Company has remained financially strong. We achieved profits of US$ 14 million in 2022, contributing to the growth of our assets and shareholders' equity value. Our share gained the confidence of several shareholders, leading to high trading volumes closing at US$ 2.30 per share at the end of 2022. This represents a 24% increase over the closing price at the end of 2021.

We have also collected part of the outstanding receivables due from PENRA in full coordination with Ministry of Finance & PNA. We are working continuously, and through the cooperation with the Ministry of Finance and the Palestinian Authority, to collect the accumulated accounts receivables due from PENRA. This will contribute to providing the necessary liquidity to fulfill our financial and contractual obligations for the maintenance and operation activities of the plant..

Despite the challenges we faced, we continued to operate with high efficiency and effectiveness, providing our families in Gaza with the essential power they need for their work activities.

We made significant progress in our efforts to supply natural gas to the power plant. Through our cooperation with PENRA and the Qatar Gaza Reconstruction Committee (QGRC), we have achieved important milestones that will help to develop the electricity sector in Gaza. These milestones include plans to introduce clean energy, negotiations on a stable supply of natural gas to the power plant, and the preparation of expansion plan studies to increase the power plant's capacity to 500 MW in the near future. These developments will contribute to the stability of electricity sector and growth of economic and industrial sectors in Gaza.

Our Company also continued its active social contributions during 2022, focusing on supporting the humanitarian needs.

Finally, I would like to express my sincere appreciation to the Palestinian National Authority, the Qatari-Gaza Reconstruction Committee, and all relevant local and international parties for their efforts to resolve the electricity crisis in the Gaza Strip. I also extend my thanks and appreciation to the Board of Directors for their continued support and efforts, allowing us to achieve our mission. I would like to give special acknowledgement to all the Company's staff for their commitment and hard work.

Thank you for your continued support of our Company. We look forward to achieving even greater success in the coming year.

**Walid Salman**

**Vice Chairman & Executive Managing Director**

## 3. Company Overview

Palestine Electric Company (PEC) was established in Gaza, Palestine in 1999 and is registered in accordance with the Companies' Law as a Public Shareholding Company with a paid-in capital of US$ 60 million. PEC shares were listed in the Palestine Exchange (PEX) in 2004.

The Company established "Gaza Power Generating Company (GPGC)" as its subsidiary in Gaza as the operating arm of PEC, which has the exclusive right from PNA to generate electricity in the Gaza Strip.

### PEC's Main Objectives

- Develop electricity generating plants in the territories of the Palestinian National Authority.
- Carry out all operations necessary for the generation of electricity.
- Procure all the equipment and machinery needed to develop power plants and generate electrical power.
- Develop, own, manage, operate and maintain power generating plant(s).
- Carry out maintenance activities of power plants and electrical networks.

## 4. Board of Directors

The Board of Directors consists of thirteen members representing the shareholders. The Board of Directors' main duties are to set the Company's strategies and to follow up on the operational and action plans in accordance with the economic and political circumstances.

| No. | Name | Position | Representative | Address |
|---|---|---|---|---|
| 1 | Mr. Samer Khoury | Chairman | Palestine Power Company LLC | Gaza, Al Nusirat, Salah Al Din St., Power Plant, Tel. 2888600 |
| 2 | Mr. Walid Salman | Vice Chairman | | |
| 3 | Mr. Nabil Sarraf | Member | | |
| 4 | Mr. Tarek Aggad | Member | | |
| 5 | Mr. Talal Nasereddin | Member | | |
| 6 | Mr. Hani Ali | Member | | |
| 7 | Mr. Marwan Salloum | Member | | |
| 8 | Mr. Bassim Khoury | Member | | |
| 9 | Mr. Sharhabeel Al Zaeem | Member | | |
| 10 | Mr. Faisal Al Shawwa | Member | | |
| 11 | Mr. Zuhair Osaily | Member | | |
| 12 | Mr. Majed Al- Helou | Member | Public Shareholder-Palestinian Pension Agency | Gaza, Al Remal, Thourah St., Tel. 2829219 |
| 13 | Mr. Iyad Basal | Member | Public Shareholder | Gaza, Al Remal, Haifa St., Tel. 2848025 |


## Board of Directors Meetings:

The Board of Directors hold periodic meetings to monitor and discuss the performance and achievements of the Company, review and approve budgets and policies, and take necessary actions and decisions as needed.

During 2022, through the virtual conferencing application (Zoom), the Board of Directors held the following meetings:

- February 7, 2022
  Discussed and reviewed the financial and administrative progress, in addition to the latest technical developments. The date and agenda of the Ordinary General Assembly Meeting for 2021 was set.

- March 29, 2022
  Discussed the 2021 financial statements ahead of the General Assembly Meeting, recommended the distribution of cash dividends of 17% of the share par value. The General Assembly unanimously approved the decision.

- November 16, 2022
  Discuss the financial and administrative performance, in addition to the operation and maintenance progress, power production, fuel supply and the Company's strategic plan.

**The suggested date for the upcoming General Assembly Meeting is Wednesday, $26^{th}$ April 2023.**

## Board of Directors Remuneration:

The Company does not have a policy to pay allowances for attending Board of Directors meetings, however, there is an annual one-time remuneration paid to the members based on the approval of the Board of Directors. In its meeting held on March 29, 2022, the Board of Directors approved the following remuneration to be paid for the year 2021:

| Board Name | Members Number | Amount in US$ |
|---|---|---|
| Palestine Power Company LLC | 11 | 141,000 |
| Public Shareholder – Palestinian Pension Agency | 1 | 14,100 |
| Public Shareholder – Individual | 1 | 14,100 |
| **Total** | **13** | **169,200** |

## 5. Executive Management

| | |
|---|---|
| Mr. Walid Salman | Vice Chairman of the Board of Directors<br>Executive Managing Director |
| Dr. Rafiq Maliha | Power Plant General Manager |
| Mr. Mahmoud Nabahin | Financial and Compliance Manager |

### Our Employees:

Since its inception, the Company has created various job opportunities to meet its operational needs. The Company has a team of experienced and qualified personnel to execute its work and strategic plans to the highest standards for the future years.

By the end of 2022, the Company had 152 employees compared to 153 employees in 2021. The majority are professionals, with advanced qualifications and extensive experience including engineers, technicians, financial and commercial staff. The Company has employed many new graduates as part of its policy to create job opportunities for the people in the Gaza Strip.

**Educational Level**

## Governance:

Since its inception, the Company has committed to abide to a set of rules and decisions stipulated internally, in the Memorandum of Association and in the Company's Bylaws, as well as, all related laws and regulations applicable in Palestine.

Since its listing on the Palestine Exchange (PEX) in 2004, the Company has committed to apply the principles of transparency when presenting the required information in accordance with the disclosure requirements of the Palestine Exchange and all related regulations of the Palestine Capital Market Authority. To maintain the confidence of its shareholders, the Company has promoted the principles of transparency when presenting information and data to its shareholders, allowing them to make the proper decisions on their investments.

The Board of Directors has adopted the principles of proper governance, including protecting the rights of shareholders and maintaining their interests, as well as, protecting the rights of other stakeholders such as creditors, suppliers and other related parties. The Executive Management adopts the best standards to maintain and develop the Company's assets and optimize the use of its resources expecting to achieve the best possible returns on investment.

## Legal Obligations:

PEC does not have any legal issues raised against third parties or raised by third parties against it.

## External Auditors:

Following the voting of the last General Assembly meeting held on March 29, 2022; Ernst & Young were appointed as the Company's external auditors for the year 2022.

## Legal Advisor:

Al Zaeem & Associates – Attorneys at Law & Legal Consultants.

## 6. Social Responsibility

Based on our belief to participate in the development of our community and according to our understanding of the needs of the Palestinian society, the Company is committed to fulfilling its social and community responsibilities towards various sectors of the society including the marginalized, less fortunate social groups, special needs and the education sector.

The Company actively supports seminars, conferences and forums that highlight important issues for the local community. It further offers various internship and training opportunities for college and university students and graduates allowing them to gain knowledge and skills necessary to enter the job market.

PEC
الخدمات الإجتماعية والإنسانية
Community and Social Services

The Company continued its community and social programs, where the following social activities and events were conducted to serve the community groups and sectors based on "Our Community Comes First" :

| | |
|---|---|
| **Social Aid** | Provided assistance and intensified programs to needy families and communities, locally and in the diaspora. |
| **Training** | Knowledge transfer and training opportunities for university and college students. |
| **Education** | Financial aid to university students, sponsoring seminars, conferences and scientific forums. |
| **Healthcare** | Supported and assisted people with critical illness and special needs, which enabled them to overcome their challenges and integrate in their community. |
| **Sports** | Invested in the potentials of Palestinian youth by supporting Palestinian sports clubs and activities. |

## 7. Technical Overview

Gaza Power Generating Company (GPGC) was established as the power plant's operating arm to provide the electricity needs in the Gaza Strip. The power plant operates with a generating capacity of 140 MW in a combined cycle system consisting of four gas turbines and two steam turbines, which form two power generating blocks. In accordance with the manufacturer's instructions, GPGC conducts periodic maintenance of the turbines and ensures that the power plant is operated and maintained in an environmentally sensitive manner.

Our primary goal is to maintain the generation plant and its equipment allowing it to operate at the highest efficiency and at the lowest cost of production. This is achieved through the Company's local staff, who are specialists in all areas of operation and maintenance of machinery with the highest international standards followed in power plants.

### Achievements During 2022

**Power Output**

For the Fourth year, the power plant continued to operate with the highest availability and generation outputs. This was due to the stability of fuel supplies and the preparedness of the power plant to generate power at full load capacity despite the borders crossing points restrictions over spare parts and fuel.

**Fuel Supply**

The availability of fuel supplies contributed to the continuous operation of three turbines, sometimes four, with the exception of few days where the fuel supply was interrupted due to border closures.

**Major Maintenance**

During the first quarter of the year, our local team have successfully carried out scheduled major maintenance works (B2-Inspection) for two gas turbines with some remote technical assistance from an international specialized maintenance company.

**Periodic Maintenance**

Our technical maintenance team continued to implement and accomplish all the necessary periodic maintenance requirements for the facilities of the power plant in order to maintain the plant's equipment and its preparedness to generate power at all times.

**Fuel Storage**

In collaboration with PENRA, NORAD and the UNOPS, the construction of the 10 million liters diesel tank is still ongoing and expected to be handed over during 2023 after executing some technical issues and notes which shall guarantee its safety and functionality according to international standards.

Despite the uncertainties and challenges that the Company faced due to restrictions or delays in importing some materials and equipment to Gaza, the Company shall keep exerting as much technical efforts as possible to execute its current and future plans during 2023. Some of these plans are as follows:

- **Major maintenance plans:**
  GPGC is working hard to finalize all spare parts supplies contracts and logistics needed to perform the due major maintenance for two of the gas turbines and one steam turbine during 2023. The maintenance will be executed by an international specialized maintenance company and our local staff in accordance with the approved plans and programs.
- **Commissioning of the new 10 million liters fuel storage tank:**
  Cooperation is ongoing with all related parties to execute all pending technical issues and notes that prevented handing over. It was agreed to execute them using a specialized contractor which shall guarantee the completion of this vital project in accordance to international standards which will finally bring the fuel storage problems to an end.
- **Conversion of power plant to operate with natural gas:**
  The Company is currently working with the plant manufacturer and other international companies to complete all technical aspects related to the conversion of the power plant to operate with natural gas, once it becomes available.

The Company aims to maintain the continuity of electricity production with the highest possible efficiencies by developing its facilities and operating technological systems as per the latest international standards allowing the company to growth and expand, all in accordance with a mechanism that protects its rights and fulfils its obligations.

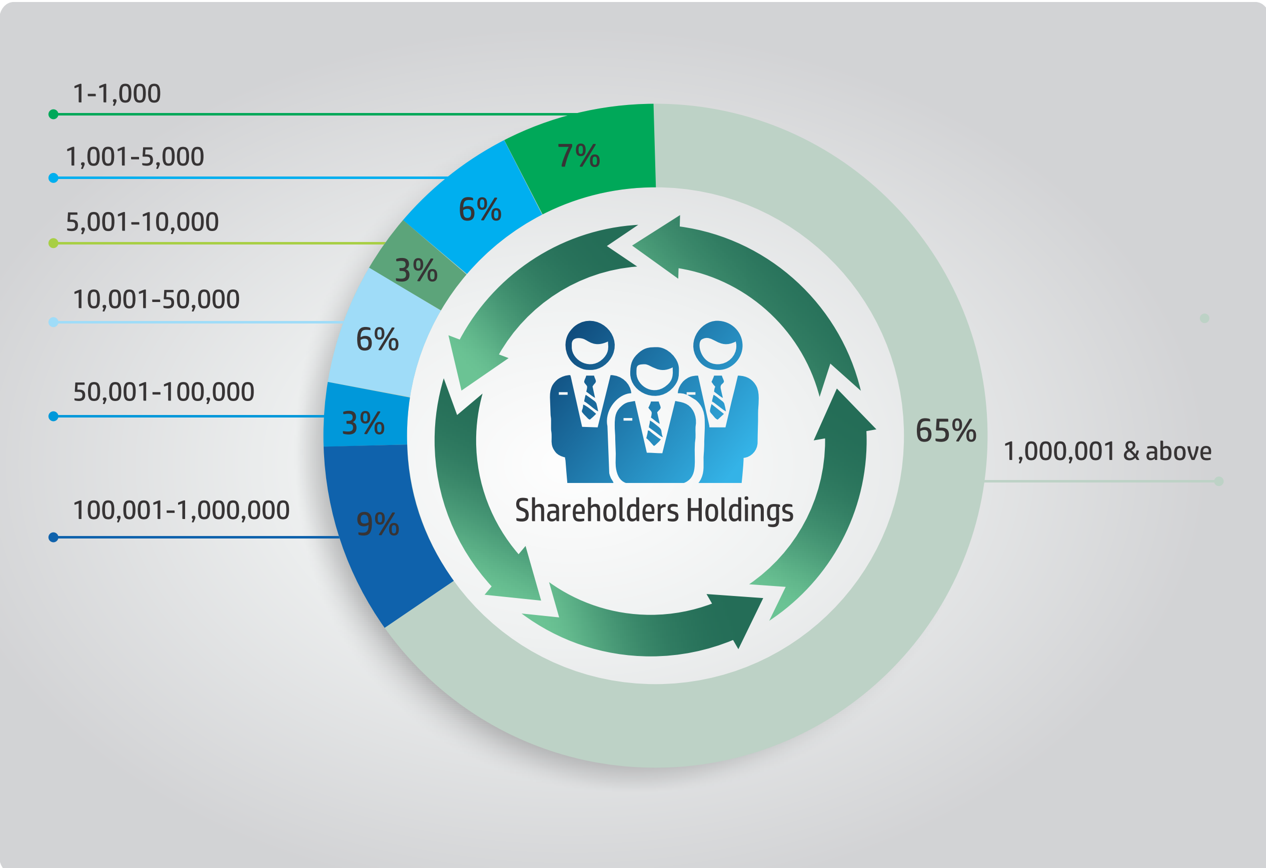
## 8. Shareholders Structure

By the end of 2022, the shareholders base consists of 10,751 shareholders, as follows:

### Shareholders Owning more than 5%:

| Company Name | Number of Shares | Percentage |
|---|---|---|
| Palestine Power Company LLC | 38,999,600 | 65% |

### Distribution based on Shareholders Holdings:



## 9. Investor Relations

Palestine Electric Company is always looking to achieve shareholders' aspirations by allocating resources to manage the relations with its current shareholders and potential investors, while maintaining an oversight of the investment environment in Palestine.

In compliance with best practices and international standards, the Investor Relations department manages the relations with the Company shareholders, the Palestine Exchange, the Palestine Capital Market Authority and other related parties.

### Information Mechanism:

The Company exerts all efforts to communicate with its shareholders to keep them up to date with its activities and achievements which are communicated through various means of communication including telephone, website, e-mail, annual report, quarterly press releases and other media tools. The shareholders can obtain the information about the Company by visiting the Company's headquarters located at the Power Plant.


+97(0) 8 2888 600 Ext. (331)

+97(0) 8 2888 607

info@pec.ps

+97(2) 599 528 830

WWW.PEC.PS

Gaza, Al Nusirat, Salah Al Din St. (Power Plant)


### Mechanism of Share Dividends:

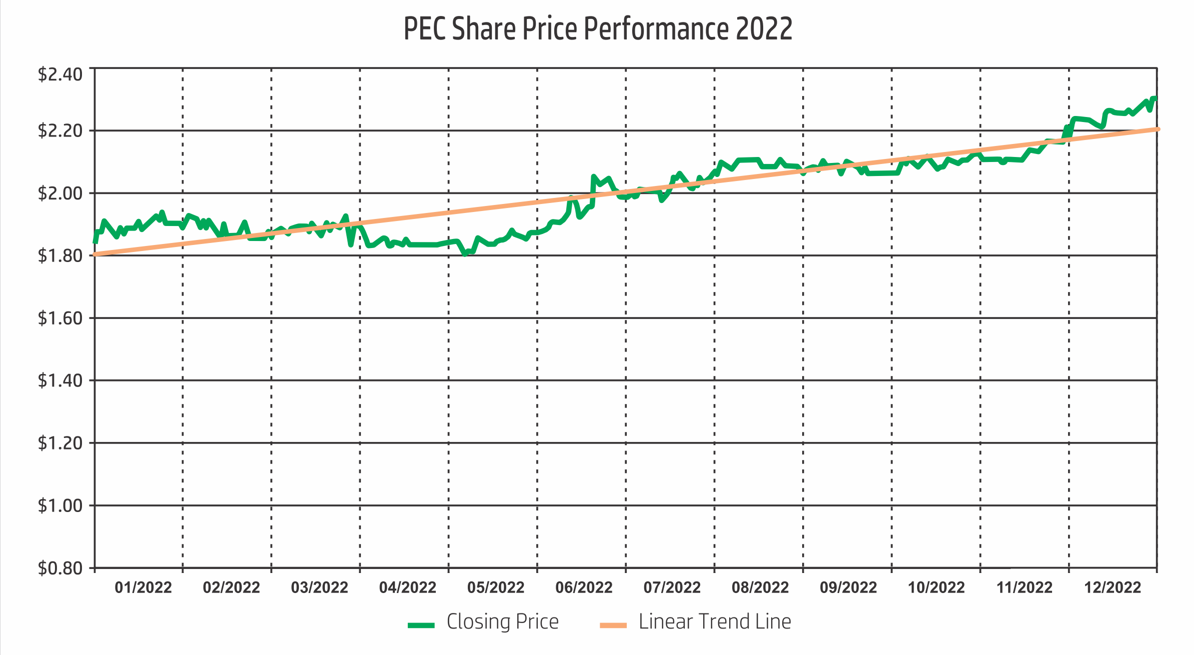
Our mechanism for dividends distribution is in line with the best practices and applicable regulations. The Company distribute the declared dividends to all shareholders within the announced distribution periods across all bank branches in Palestine and abroad. Any uncollected dividends are kept in a reserve account to be paid to shareholders upon their request and as per procedures.

### Financial Disclosures:

The Company is committed to disclose its financial statements through the quarterly & semi annual review reports and its annual audited financial statements distributed during its annual General Assembly meetings. The financial statements are submitted to the Palestine Capital Market Authority and the Palestine Exchange pursuant to the regulations in Palestine. In addition, the annual report is published on the Company's website and PEX website.

## 10. Share Performance

PEC's share price closed at US$ 2.30 in 2022, an increase of 24% compared to the closing price at the end of 2021. PEC's share price maintained a growth trend with balanced trading levels. This contributed to creating a more positive trading environment, which confirms the featured performance and the confidence of its shareholders.



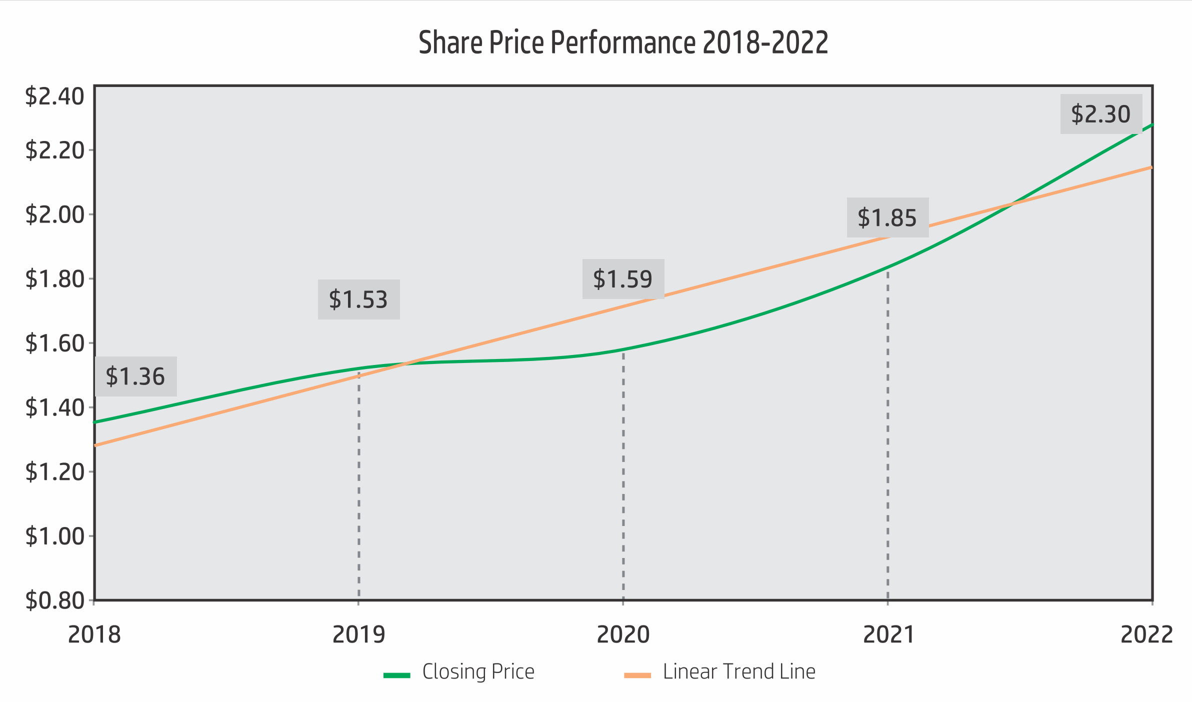

PEC's share was part of the traded shares in the first market of the Palestine Exchange. In accordance with the required conditions and standards, the Company's share was part of a selected sample group for statistical calculation of Al Quds Index in the Palestine Exchange.

### PEC Share Indicators:

| Indicator | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Share Turnover Ratio (%) | 5.63 | 6.27 | 3.39 | 3.63 | 4.80 |
| Earnings Per Share ($) | 0.23 | 0.17 | 0.19 | 0.21 | 0.15 |
| Book Value Per Share ($) | 1.79 | 1.72 | 1.65 | 1.61 | 1.51 |
| Market to Book Value ($) | 1.29 | 1.07 | 0.96 | 0.95 | 0.90 |

## PEC Share Price for Five Years:

PEC's share was one of the trusted and continuously demanded shares during the last years. The share price closed at US$ 2.30 at the end of 2022 achieving an increase of around 69% compared to the closing price at the end of 2018.

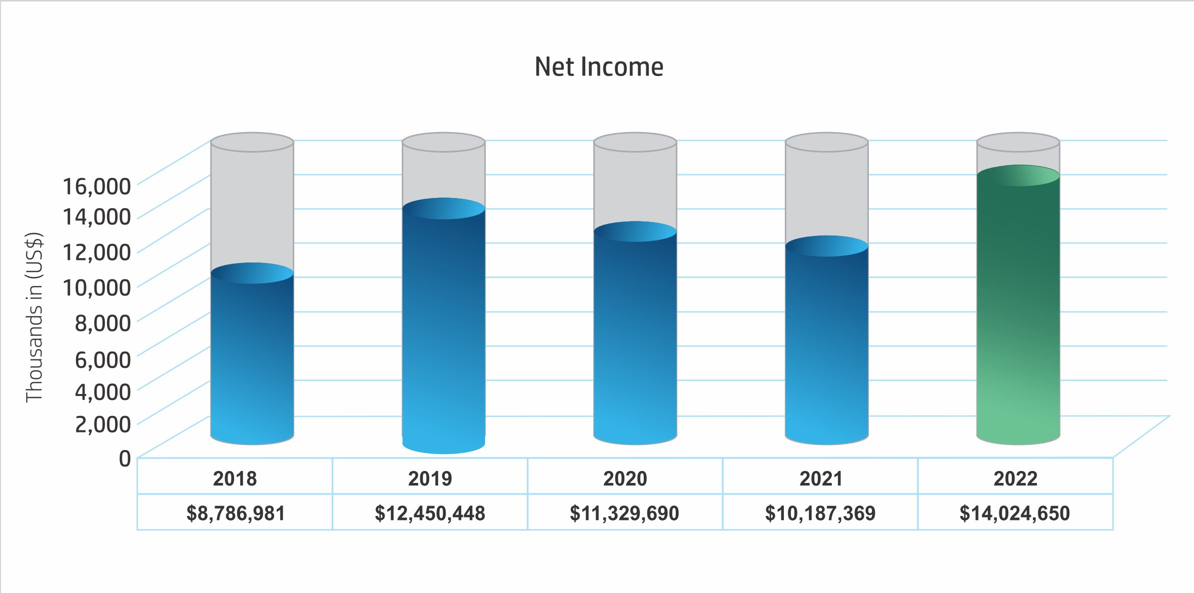



## PEC Trading Information:

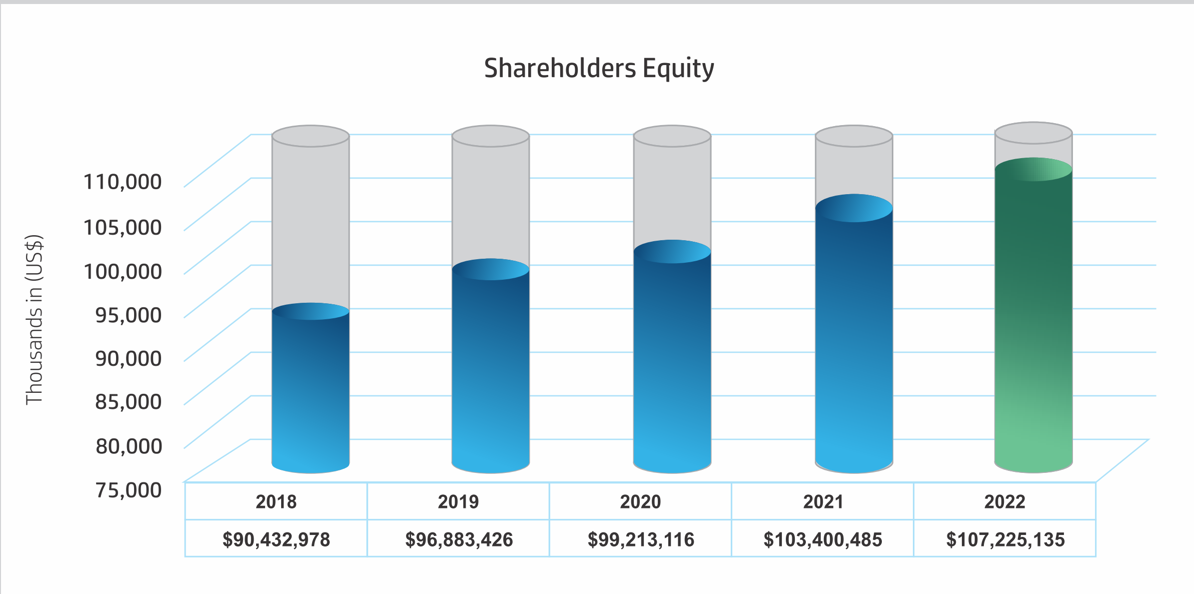
| Details | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Trading Volume (Shares) | 3,378,599 | 3,759,378 | 2,031,271 | 2,176,330 | 2,878,884 |
| Trading Value ($) | 6,775,816 | 6,461,196 | 3,041,053 | 3,083,419 | 3,804,831 |
| Number of Deals | 1,672 | 2,138 | 1,254 | 1,649 | 2,038 |
| Total Shares | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| Closing Price ($) | 2.30 | 1.85 | 1.59 | 1.53 | 1.36 |
| Highest Price ($) | 2.30 | 1.95 | 1.68 | 1.56 | 1.42 |
| Lowest Price ($) | 1.78 | 1.51 | 1.27 | 1.28 | 1.16 |

## 11. Financial Performance

The Company has achieved net profits of US$ 14,024,650 in 2022 compared to US$ 10,187,369 in 2021, which represents an increase of 38%.

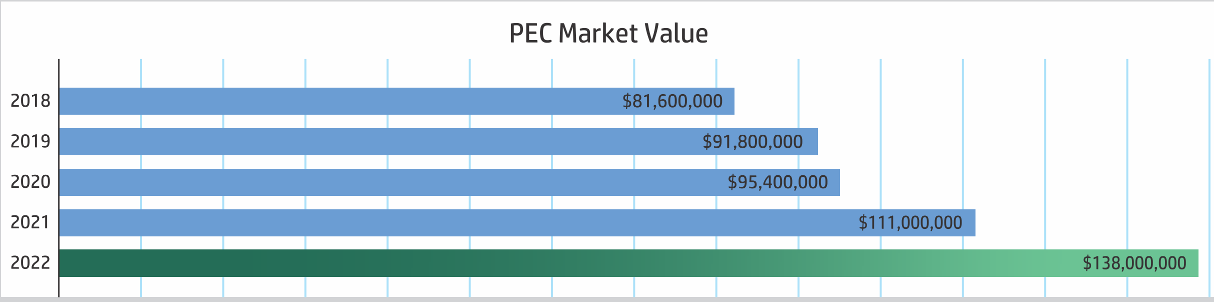



As a result of 2022's performance, the total shareholders' equity has increased by 3.70% to reach US$ 107,225,135.



## Financial Indicators:

| Details | (Amounts in US$) | | | | |
|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| Net Income (Loss) | 14,024,650 | 10,187,369 | 11,329,690 | 12,450,448 | 8,786,981 |
| Shareholders' Equity | 107,225,135 | 103,400,485 | 99,213,116 | 96,883,426 | 90,432,978 |
| Share Closing Price | 2.30 | 1.85 | 1.59 | 1.53 | 1.36 |
| Paid - In Capital | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| Market Value | 138,000,000 | 111,000,000 | 95,400,000 | 91,800,000 | 81,600,000 |




## Cash Dividends:

In order to maintain shareholders' expectations, loyalty and confidence, the Board of Directors will recommend the declaration and distribution of cash dividends based on its financial performance. Based on the ordinary General Assembly meeting held on March 29, 2022, the General Assembly approved the Board of Directors' recommendation to declare and distribute cash dividends of 17% of the paid-in capital for the year 2021.

| Dividends | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Paid Dividends in US$ | * | 10,200,000 | 6,000,000 | 9,000,000 | 6,000,000 |
| Percentage of Per Value | * | 17% | 10% | 15% | 10% |

* To be decided by the General Assembly at the date of the meeting.

## Differences between Preliminary and Audited Financial Statements:

There are no differences between the preliminary financial statements and the audited financial statements for 2022.

## 12. Audited Financial Statements

Palestine Electric Company, Public Shareholding Company

Consolidated Financial Statements

December 31, 2022

Building a better
working world

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

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

## Qualified 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, 2022, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, 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 Qualified Opinion

As explained in note (9) to the accompanying consolidated financial statements, the balance of account receivable due from Palestinian Energy and Natural Resources Authority (PENRA) as at December 31, 2022 amounted to U.S. $ 61,771,222 net of the allowance for expected credit losses of U.S. $ 7,758,202. We were not provided with a detailed plan showing the mechanism and timing of collection of these accounts receivable and the calculation of allowance for expected credit losses, accordingly, we were unable to obtain sufficient appropriate audit evidence to ensure the collectability of these account receivables and the adequacy of the allowance for expected credit losses, and therefore we were unable to determine whether any adjustments to these amounts were necessary.

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 qualified opinion.

## Emphasis of Matters Paragraphs

- Credit risk

We draw attention to note (9) to the accompanying consolidated financial statements, according to the power purchase 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.

- Credit concentration

We draw attention to note (23) to the accompanying consolidated financial statements, as the accounts receivable, the advance payments for investment purposes, and long-term deposits used as a security for credit facilities granted from local bank to a major shareholder constitute a significant credit concentration. Our opinion is not modified in respect of this matter.

- Taxes settlements

We draw attention to note (24) 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.

- 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. Except for the matters described in the basis for Qualified Opinion section of our report, we have determined that there are no other key audit matters to communicated in our report.

## Other Information Included in the Company's 2022 Annual Report

Other information consists of the information included in the Company's annual report for the year 2022, 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 will 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, 2022 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.

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Ernst + Young

Sa'ed Abdallah
License # 105/2003

March 30, 2023
Gaza – Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2022

| | Notes | 2022 U.S. $ | 2021 U.S. $ |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 6,356,223 | 7,379,863 |
| Intangible assets | 5 | 463,062 | 529,213 |
| Right-of-use assets | 6 | 719,629 | 367,173 |
| Financial assets at fair value through other comprehensive income | 7 | 1,250,000 | 1,100,000 |
| PENRA's account receivable - long term | | 4,755,544 | - |
| Long-term deposits at banks | 11 | 18,153,372 | 20,000,000 |
| | | 31,697,830 | 29,376,249 |
| Current assets | | | |
| Materials and inventories | 8 | 9,280,870 | 10,481,252 |
| PENRA's account receivable – short term | 9 | 57,015,678 | 40,000,000 |
| Other current assets | 10 | 21,032,578 | 4,643,892 |
| Cash and balances at banks | 11 | 11,431,157 | 30,661,636 |
| | | 98,760,283 | 85,786,780 |
| TOTAL ASSETS | | 130,458,113 | 115,163,029 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Paid-in share capital | 12 | 60,000,000 | 60,000,000 |
| Statutory reserve | 13 | 16,284,874 | 14,882,409 |
| Retained earnings | | 30,940,261 | 28,518,076 |
| Total equity | | 107,225,135 | 103,400,485 |
| Non-current liabilities | | | |
| Long-term lease liability | 6 | 1,206,987 | 690,596 |
| Provision for employees' indemnity | 14 | 5,223,063 | 4,698,882 |
| | | 6,430,050 | 5,389,478 |
| Current liabilities | | | |
| Short-term loans | 15 | 9,592,000 | - |
| Other current liabilities | 16 | 7,210,928 | 6,373,066 |
| | | 16,802,928 | 6,373,066 |
| Total liabilities | | 23,232,978 | 11,762,544 |
| TOTAL EQUITY AND LIABILITIES | | 130,458,113 | 115,163,029 |

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the year ended December 31, 2022

| | Notes | 2022<br>U.S. $ | 2021<br>U.S. $ |
|---|---|---|---|
| Revenues | | | |
| Capacity charges | 17 | 33,436,008 | 33,064,728 |
| Discounts on capacity charges' invoices | 9 | (1,800,000) | (1,800,000) |
| Operating expenses | 18 | (12,408,034) | (18,329,465) |
| | | 19,227,974 | 12,935,263 |
| Allowance for expected credit losses | 9, 10, and 11 | (5,454,736) | (1,750,031) |
| Interest of discounting long-term bonds | 9 | (244,456) | - |
| Finance costs | 19 | (323,712) | (1,828,339) |
| Interest revenues on banks deposits | | 844,122 | 1,305,561 |
| Other expenses, net | 20 | (24,542) | (475,085) |
| Profit for the year | | 14,024,650 | 10,187,369 |
| Other comprehensive income items | | - | - |
| Total comprehensive income for the year | | 14,024,650 | 10,187,369 |
| Basic and diluted earnings per share | 21 | 0.23 | 0.17 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2022

| | Paid-in Share Capital | Statutory Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| 2022 | | | | |
| Balance, beginning of the year | 60,000,000 | 14,882,409 | 28,518,076 | 103,400,485 |
| Total comprehensive income for the year | - | - | 14,024,650 | 14,024,650 |
| Transferred to statutory reserve | - | 1,402,465 | (1,402,465) | - |
| Distributed cash dividends (note 22) | - | - | (10,200,000) | (10,200,000) |
| Balance, end of the year | 60,000,000 | 16,284,874 | 30,940,261 | 107,225,135 |

| | 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) | - |
| Distributed cash dividends (note 22) | - | - | (6,000,000) | (6,000,000) |
| Balance, end of the year | 60,000,000 | 14,882,409 | 28,518,076 | 103,400,485 |

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2022

| | Note | 2022<br>U.S. $ | 2021<br>U.S. $ |
|---|---|---|---|
| Operating activities | | | |
| Profit for the year | | 14,024,650 | 10,187,369 |
| Adjustments: | | | |
| Depreciation of property, plant and equipment and right-of-use assets | | 1,142,869 | 6,490,683 |
| Amortization | | 66,151 | 221,583 |
| Allowance for expected credit losses | | 5,454,736 | 1,750,031 |
| Interest of discounting long-term bonds | | 244,456 | - |
| Provision for employees' indemnity | | 548,479 | 323,861 |
| Interest revenues on bank deposits | | (844,122) | (1,305,561) |
| Finance costs | | 323,712 | 1,828,339 |
| Losses from unrecovered assets | | - | 577,066 |
| Loss (gain) on disposal of property, plant and equipment | | 2,960 | (307) |
| Other non-cash items | | (73,014) | (190,187) |
| | | 20,890,877 | 19,882,877 |
| Working capital adjustments: | | | |
| PENRA's account receivable | | (23,700,414) | 3,392,901 |
| Other current assets | | (20,148,754) | 664,183 |
| Materials and inventories | | 1,200,382 | (2,018,959) |
| Other current liabilities | | 178,474 | (1,189,377) |
| Employees' indemnity paid | | (24,298) | (334,256) |
| Net cash (used in) from operating activities | | (21,603,733) | 20,397,369 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (29,514) | (15,868) |
| Proceeds from sale of property, plant and equipment | | 10,129 | 307 |
| Increase in long-term deposits at banks | | 1,846,628 | (5,000,000) |
| Interest revenues received | | 834,190 | 1,701,479 |
| Financial assets at fair value through other comprehensive income | | (150,000) | (62,500) |
| Net cash from (used in) investing activities | | 2,511,433 | (3,376,582) |
| Financing activities | | | |
| Loans | | 9,592,000 | - |
| Finance costs paid | | - | (1,800,000) |
| Dividends paid | | (9,730,179) | (6,224,300) |
| Net cash used in financing activities | | (138,179) | (8,024,300) |
| (Decrease) increase in cash and cash equivalents | | (19,230,479) | 8,996,487 |
| Cash and cash equivalents, beginning of the year | | 31,158,879 | 22,162,392 |
| Cash and cash equivalents, end of the year | 11 | 11,928,400 | 31,158,879 |

## 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.

In addition, on June 20, 2022, GPGC signed an extension agreement for the power purchase agreement with the PENRA, according to which it was agreed to extend the power purchase agreement for an additional 5 years, starting from April 1, 2024 and ending on April 1, 2029, provided that any other extension period is subject to PENRA approval. Further, the Council of Ministers, approved in its meeting No. (158) held on April 27, 2022 the extension of the Power Purchase Agreement.

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 30, 2023.

## 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, 2022. 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, 2022. 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, 2021 except for the Company's adoption of the following amendments effective starting from January 1, 2022 shown below:

Reference to the Conceptual Framework – Amendments to IFRS (3)

In May 2020, the IASB issued Amendments to IFRS (3) Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

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 recognizes 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 1 January 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 not expected to have a material impact on the Company's consolidated financial statements.

IFRS (9) Financial Instruments – Fees in the '10 per cent' 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 amendments are not expected to have a material impact on the Company's consolidated financial statements.

Standards and amendments issued but not effective

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these standards, 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.

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.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS (12)

In May 2021, the Board issued amendments to IAS (12), which narrow the scope of the initial recognition exception under IAS (12), so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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. During the year, the Company's management reassesses the right to use step-up transformers installed by PENRA and the useful lives of the power plant and buildings to be ending on April 1, 2029 instead of April 1, 2024 in accordance with the extension agreement for the power purchase agreement (note 1).

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.

Determining the lease term of contracts with renewal and termination 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. During the year, the Company's management reassesses the lease term of the land on which the power plant is located, taking into account any periods covered by an option to extend the lease which is reasonably certain to be exercised according to the extension agreement for the power purchase agreement (note 1).

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* | 25 |
| Buildings* | 25 |
| Motor vehicles | 5 |
| Computers and printers | 4 |
| Office equipment | 4 |
| Furniture and fixture | 5 |

* During the year, the Company's management reassesses the useful lives of the power plant and buildings to be ended on April 1, 2029 instead of April 1, 2024 in accordance with the extension agreement for the power purchase agreement (note 1).

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.

During the year, the Company's management reassesses the right to use step-up transformers installed by PENRA to be ended on April 1, 2029 instead of April 1, 2024 in accordance with the extension agreement for the power purchase agreement (note 1).

### 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.

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

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.

Financial liabilities

Loans

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income and comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of income and comprehensive income.

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.

During the year, the Company's management reassesses the lease term of the land on which the power plant is located, taking into account any periods covered by an option to extend the lease which is reasonably certain to be exercised according to the extension agreement for the power purchase agreement (note 1).

### 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 recognized 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

| 2022 | 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. $ |
| Cost: | | | | | | | |
| Balance, beginning of the year | 123,944,738 | 1,464,904 | 491,414 | 402,248 | 249,263 | 251,140 | 126,803,707 |
| Additions | - | - | - | 18,353 | 10,938 | 223 | 29,514 |
| Disposal | (50,000) | - | - | - | - | - | (50,000) |
| Balance, end of the year | 123,894,738 | 1,464,904 | 491,414 | 420,601 | 260,201 | 251,363 | 126,783,221 |
| Accumulated depreciation: | | | | | | | |
| Balance, beginning of the year | 116,889,980 | 1,217,127 | 466,914 | 387,230 | 215,337 | 247,256 | 119,423,844 |
| Depreciation charges for the year | 971,798 | 34,176 | 8,040 | 7,857 | 16,305 | 1,889 | 1,040,065 |
| Disposal | (36,911) | - | - | - | - | - | (36,911) |
| Balance, end of the year | 117,824,867 | 1,251,303 | 474,954 | 395,087 | 231,642 | 249,145 | 120,426,998 |
| Net carrying amount: | | | | | | | |
| At December 31, 2022 | 6,069,871 | 213,601 | 16,460 | 25,514 | 28,559 | 2,218 | 6,356,223 |

| 2021 | 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. $ |
| 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 the 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 the 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 |

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 2023.

## 5. Intangible Assets

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 529,213 | 750,796 |
| Amortization | (66,151) | (221,583) |
| Balance, end of year | 463,062 | 529,213 |

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, 2022 and 2021:

| | Assets | Liabilities |
|---|---|---|
| | Right-of-use assets (Land) | Lease liabilities |
| 2022 | U.S. $ | U.S. $ |
| Balance, beginning of the year | 367,173 | 837,596 |
| Additions* | 455,260 | 455,260 |
| Depreciation | (102,804) | - |
| Finance costs | - | 61,131 |
| | 719,629 | 1,353,987 |
| Current portion of lease liabilities (included in other current liabilities – note 16) | - | (147,000) |
| Balance, end of the year | 719,629 | 1,206,987 |

| | 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 16) | - | (147,000) |
| Balance, end of the year | 367,173 | 690,596 |

* The Company reassesses the lease term of the land on which the power plant is located, taking into account any periods covered by an option to extend the lease which is reasonably certain to be exercised according to the extension agreement for the power purchase agreement (note 1) which led to an increase in both the right-of-use leased assets and long-term lease liability in the amount of U.S. $ 455,260.

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. $ 1,250,000 and U.S. $ 1,100,000 as at December 31, 2022 and 2021, respectively. The increase during the year represents the Company's share in the increase of PPGC's capital. Movement on Financial assets at fair value through other comprehensive for the years ended December 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 1,100,000 | 1,037,500 |
| The Company's share in the increase of PPGC's capital | 150,000 | 62,500 |
| Balance, end of year | 1,250,000 | 1,100,000 |

8. Materials and Inventories

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Spare parts | 8,668,083 | 10,027,592 |
| Consumables | 335,388 | 258,322 |
| Goods in transit | 249,770 | 164,437 |
| Others | 27,629 | 30,901 |
| | 9,280,870 | 10,481,252 |

9. PENRA's Account Receivable

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Receivable from capacity charges | 49,773,880 | 41,073,466 |
| Due governmental bonds under collection | 5,000,000 | - |
| | 54,773,880 | 41,073,466 |
| Undue governmental bonds under collection | 15,000,000 | 5,000,000 |
| | 69,773,880 | 46,073,466 |
| Allowance for expected credit losses | (7,758,202) | (6,073,466) |
| | 62,015,678 | 40,000,000 |
| PENRA's account receivable - long term | 5,000,000 | - |
| Interest of discounting long-term bonds | (244,456) | - |
| PENRA's account receivable - long term (discounted) | 4,755,544 | - |
| PENRA's account receivable – short term | 57,015,678 | 40,000,000 |

Movement on allowance for expected credit losses for the years ended December 31, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 6,073,466 | 4,566,367 |
| Addition during the year | 1,684,736 | 1,507,099 |
| Balance, end of year | 7,758,202 | 6,073,466 |

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

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Advance payment on investment account through major shareholder * | 15,000,000 | - |
| Due from related parties | 5,789,122 | 1,343,300 |
| Due from the Parent Company | 1,159,565 | 1,382,905 |
| Advances to suppliers | 1,652,490 | 693,221 |
| Prepaid insurance | 797,106 | 759,436 |
| Value Added Tax receivable | 263,142 | 461,312 |
| Unreceived accrued interest revenue | 9,932 | - |
| Others | 131,221 | 3,718 |
| | 24,802,578 | 4,643,892 |
| Allowance for expected credit losses | (3,770,000) | - |
| | 21,032,578 | 4,643,892 |

* This amount represents advance payments paid during the year to the Consolidated Contractors Company (major shareholder). According to GPGC's Board of Directors resolution dated June 30, 2022, and the agreement signed between GPGC and the Consolidated Contractors Company on November 17, 2022, GPGC will invests amounts up to a maximum of U.S. $ 17,000,000 in a portfolio of projects related to debt and equity instruments, renewable energy, and real estate development projects managed by the Consolidated Contractors Company that is subject to an annual return rate that has been agreed between the parties. GPGC will evaluate its investments on an annual basis and decide at that time whether to extend term of the investment or exit by full reimbursement of the invested amount.

## 11. Cash and Balances with Banks

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash on hand | 7,164 | 5,933 |
| Current accounts at banks | 6,921,236 | 4,652,946 |
| Deposits at banks | 23,153,372 | 46,500,000 |
| | 30,081,772 | 51,158,879 |
| Allowance for expected credit losses | (497,243) | (497,243) |
| | 29,584,529 | 50,661,636 |
| Long-term deposits | (18,153,372) | (20,000,000) |
| Cash and balances with banks | 11,431,157 | 30,661,636 |

Deposits at banks represents the following:

- Short-term deposits amounted to U.S. $ 5,000,000 and U.S. $ 26,500,000 with local banks with an original maturity of one to three months from the date of the consolidated financial statements as at December 31, 2022 and 2021, respectively. The average interest rate on these deposits was 2.5% and 2.4% for the years ended December 31, 2022 and 2021, respectively.
- Long-term deposits amounted to U.S. $ 18,153,372 and U.S. $ 20,000,000 with local banks with an original maturity of more than three months to two years from the date of the consolidated financial statements as of December 31, 2022 and 2021, respectively. The average interest rate on these deposits was 3.5% for the years ended December 31, 2022 and 2021. Long-term deposits amounted to U.S. $ 18,153,372 and U.S. $ 20,000,000 with a local bank as at December 31, 2022 and 2021, respectively, were 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:

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash on hand and bank balances | 30,081,772 | 51,158,879 |
| Long-term deposits | (18,153,372) | (20,000,000) |
| Cash and cash equivalents | 11,928,400 | 31,158,879 |

## 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:

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 4,698,882 | 4,709,277 |
| Additions during the year | 548,479 | 323,861 |
| Payments during the year | (24,298) | (334,256) |
| Balance, end of the year | 5,223,063 | 4,698,882 |

Provision for employee's indemnity was calculated in accordance with the Labor Law prevailing in Palestine, and the Company's internal policies.

## 15. Loans

On March 1, 2022, GPGC signed an agreement with a local bank to obtain a short-term loan in the amount of U.S. $ 4,796,000. According to the loan agreement, the loan will be repaid in one installment due on January 12, 2023. The loan is subject to decreasing interest rate of 4.5%. The loan collateral represents a governmental bond under collection with the amount of U.S. $ 5,000,000 deposited at the bank. The loan balance was U.S. $ 4,796,000 as at December 31, 2022. To the date of these consolidated financial statements, this loan is not repaid.

On August 22, 2022, GPGC signed an agreement with a local bank to obtain a loan in the amount of U.S. $ 4,796,000. According to the loan agreement, the loan will be repaid in one installment due on October 12, 2023. The loan is subject to decreasing interest rate of 4.5%. The loan collateral represents a governmental bond under collection with the amount of U.S. $ 5,000,000 deposited at the bank. The loan balance was U.S. $ 4,796,000 as at December 31, 2022.

## 16. Other Current Liabilities

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Dividends payable | 3,055,893 | 2,586,072 |
| Maintenance payable and provisions | 1,181,459 | 1,393,713 |
| Due to Consolidated Contractors Company | 857,359 | 563,730 |
| Accrued payroll income tax | 698,796 | 577,066 |
| Provision for employees’ vacations | 335,240 | 340,453 |
| Accrued interest not paid | 262,581 | - |
| Accrued expenses | 237,684 | 269,547 |
| Current portion of lease liabilities (note 6) | 147,000 | 147,000 |
| Others | 434,916 | 495,485 |
| | 7,210,928 | 6,373,066 |

## 17. 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.

## 18. Operating Expenses

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Salaries and wages | 5,001,225 | 6,106,687 |
| Provision for employees' indemnity | 548,479 | 323,861 |
| Board of Directors expenses | 169,200 | 179,200 |
| Employees' insurance | 146,126 | 149,608 |
| Development and technical advisory services | 781,200 | 744,000 |
| Travel and transportation | 297,081 | 209,200 |
| Power plant insurance | 1,092,822 | 1,035,811 |
| Power plant operation and maintenance | 2,254,756 | 878,655 |
| Depreciation of property, plant and equipment and right-of-use assets | 1,142,869 | 6,490,683 |
| Amortization of intangible assets | 66,151 | 221,583 |
| Professional and consultancy fees | 380,227 | 271,095 |
| Telephone and fax | 59,076 | 57,146 |
| Office supplies | 55,054 | 70,631 |
| Advertisements | 16,259 | 14,018 |
| Donations | 182,297 | 1,344,354 |
| Miscellaneous | 215,212 | 232,933 |
| | 12,408,034 | 18,329,465 |

## 19. Finance Cost

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Finance cost * | - | 1,800,000 |
| Finance cost related short-term loans | 262,581 | - |
| Finance cost related to long-term lease liabilities (note 6) | 61,131 | 28,339 |
| | 323,712 | 1,828,339 |

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

## 20. Other Expenses, Net

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Bank commissions | (80,240) | (78,126) |
| Currency differences | (14,356) | (10,387) |
| (Loss) gain on disposal of property, plant and equipment | (2,960) | 307 |
| Losses from unrecovered assets | - | (577,066) |
| Other revenues | 73,014 | 190,187 |
| | (24,542) | (475,085) |

## 21. Basic and Diluted Earnings Per Share

| | 2022 | 2021 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Profit for the year | 14,024,650 | 10,187,369 |
| | 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 | 0.23 | 0.17 |

## 22. Distributed Cash Dividends

The Company's General Assembly approved in its ordinary meeting held on March 29, 2022, the proposed cash dividends distribution by the Company’s Board of Directors of U.S. $ 10,200,000 for the year 2021, the equivalent of 17% of paid-in share capital.

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.

## 23. Related Party Balances and Transactions

Related parties represent major shareholders, directors and key management personnel of the Company, 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:

| | | 2022 | 2021 |
|---|---|---|---|
| | Nature of relation | U.S. $ | U.S. $ |
| Cash at Arab Bank | Major shareholder | 3,268,898 | 2,751,550 |
| Due from Palestine Power Company | Parent Company | 1,159,565 | 1,396,205 |
| Advance payment on investment account through Consolidated Contractors Company | Major shareholder | 15,000,000 | - |
| Due from Consolidated Contractors Company | Major shareholder | 560,361 | 760,000 |
| Due from Palestine Triangle Real Estate Company | Sister Company | 3,928,761 | 570,000 |
| Advance payment on staff bonus account | Key management | 1,300,000 | - |
| Due to Consolidated Contractors Company | Major shareholder | 857,359 | 563,730 |

In addition, long-term deposits amounted to U. S. $ 18,153,372 and U.S. $ 20,000,000 with a local bank as at December 31, 2022 and 2021, respectively, that were used as a cash security for credit facilities granted to a major shareholder (Note 11).

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

| | Nature of relation | 2022<br>U.S. $ | 2021<br>U.S. $ |
|---|---|---|---|
| Expenses allocated by Consolidated Contractors Company | Major shareholder | 825,703 | 210,917 |
| Donations paid through Palestine Triangle Real Estate Company * | Sister Company | - | 1,100,000 |
| Development and technical advisory services provided to GPGC by Consolidated Contractors Company** | Major shareholder | 781,200 | 744,000 |
| Professional, consultancy, and legal fees | Board of Directors | 200,000 | 208,000 |
| Salaries and wages | Key management | 722,852 | 486,338 |
| Employees' end of service indemnity | Key management | 61,193 | 30,598 |
| Board of Directors expenses | Board of Directors | 169,200 | 179,200 |

* 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 from January 1, 2021

## 24. 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.

## 25. Commitments and Contingencies

Capacity charges invoices from the use of the power plant according to extension agreement for the power purchase agreement which will be ended on April 1, 2029 (note 1) amounted to U.S. $ 168,297,144 and U.S. $ 201,733,152 as at December 31, 2022 and December 31, 2021, respectively.

## 26. 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, 2022:

| | 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 (Note 7) | - | - | 1,250,000 |

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 (Note 7) | - | - | 1,100,000 |

Fair Values of financial instruments

The table below summarizes the Company's financial instruments as of December 31, 2022 and 2021:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| Financial Assets | | | | |
| Financial assets at fair value through other comprehensive income | 1,250,000 | 1,100,000 | 1,250,000 | 1,100,000 |
| Long-term deposits at banks | 18,153,372 | 20,000,000 | 18,153,372 | 20,000,000 |
| PENRA's account receivable | 61,771,222 | 40,000,000 | 61,771,222 | 40,000,000 |
| Other financial assets | 3,022,621 | 1,861,235 | 3,022,621 | 1,861,235 |
| Cash and bank balances | 11,431,157 | 30,661,636 | 11,431,157 | 30,661,636 |
| | 95,628,372 | 93,622,871 | 95,628,372 | 93,622,871 |
| Financial Liabilities | | | | |
| Loans | 9,592,000 | - | 9,592,000 | - |
| Long-term lease liability | 1,206,987 | 690,596 | 1,206,987 | 690,596 |
| Other financial liabilities | 4,626,405 | 3,832,047 | 4,626,405 | 3,832,047 |
| | 15,425,392 | 4,522,643 | 15,425,392 | 4,522,643 |

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 (except for long term account receivable), cash and bank balances and short-term deposits, 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 account receivable, long-term deposits, long-term lease liability and loans are estimated by discounting future cash flows using rates currently available for items on similar terms.

The fair value of unquoted financial assets at fair value through other comprehensive income and PENRA's account receivable - long term were determined using appropriate valuation techniques.

## 27. 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, 2022 and 2021 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, 2022 and 2021 based on contractual undiscounted payments.

| | Less than 3 Months | 3 to 12 months | More than 1 year up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| December 31, 2022 | | | | | |
| Loans | 5,011,820 | 5,011,820 | - | - | 10,023,640 |
| Long-term lease liability | - | 158,666 | 575,944 | 882,389 | 1,616,999 |
| Other current liabilities | 368,240 | 4,258,166 | - | - | 4,626,406 |
| | 5,380,060 | 9,428,652 | 575,944 | 882,389 | 16,267,045 |
| 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 |

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. $ |
| 2022 | | | | | | |
| U.S. Dollar | 10 | (125,174) | 10 | (23,169) | 10 | (29,513) |
| 2021 | | | | | | |
| U.S. Dollar | 10 | (59,805) | 10 | (13,792) | 10 | 21,225 |

## 28. 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, 2022 and 2021. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 107,225,135 and U.S. $ 103,400,485 as at December 31, 2022 and 2021, respectively.

## 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.