

MRC Alon Tavor Power Ltd.

**Interim Financial Statements
As at March 31, 2020**

Condensed Interim Financial Statements as at March 31, 2020

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Review Report to the Shareholders of MRC Alon Tavor Power Ltd.

Introduction

We have reviewed the accompanying financial information of MRC Alon Tavor Power Ltd. ("the Company") comprising of the interim statement of financial position as of March 31, 2020 and the income statement, statement of changes in equity and statement of cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*".

Scope of Review

We conducted our review in accordance with Standard on Review Engagements (Israel) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.


Somekh Chaikin
Certified Public Accountants (Isr.)

May 10, 2020

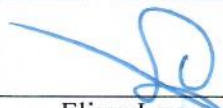
Condensed Interim Statements of Financial Position as at March 31, 2020

	March 31 2020	December 31 2019
	(Unaudited)	(Audited)
	NIS thousands	NIS thousands
Current assets		
Cash	31,452	7,052
Trade receivables	126,233	51,521
Other receivables	45,377	28,387
Derivative instrument	2,368	2,000
Total current assets	205,430	88,960
Non-current assets		
Pledged deposits	46,955	1,661
Inventory	24,894	23,305
Derivative instrument	49,257	11,921
Fixed assets	1,451,999	1,462,300
Intangible assets	448,880	456,531
Deferred tax assets	-	2,110
Total non-current assets	2,021,985	1,957,828
Total assets	2,227,415	2,046,788
Current liabilities		
Loans and borrowings	136,876	101,906
Trade payables	71,180	28,879
Other payables	16,660	6,444
Total current liabilities	224,716	137,229
Non-current liabilities		
Liabilities to banks	1,591,104	1,566,782
Shareholders loans	172,300	157,300
Other long-term payables	-	29,546
Deferred tax liabilities	17,549	-
Total non-current liabilities	1,780,953	1,753,628
Total liabilities	2,005,669	1,890,857
Equity		
Share capital	*	*
Share premium	163,000	163,000
Retained earnings (accumulated deficit)	58,746	(7,069)
Total equity	221,746	155,931
Total liabilities and equity	2,227,415	2,046,788

* Less than one thousand NIS


 Erez Balasha
 Chairman of the Board of
 Directors


 Elad Cohen
 CEO


 Eliran Levy
 Financial Manager

Date of approval of the financial statements: May 10, 2020

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Income Statements

	For the three months ended March 31 2020 (Unaudited) NIS thousands	For the period from May 7 to December 31 2019 (Audited) NIS thousands
Revenues	183,335	51,521
Manufacturing & Maintenance expenses	(89,717)	(27,540)
Salaries and subcontractors' expenses	(4,618)	(986)
Administrative and IT expenses	(1,023)	(223)
Acquisition costs	-	(13,115)
	(95,358)	(41,864)
Operating profit before depreciation and amortization	87,977	9,657
Depreciation and amortization	(19,160)	(5,421)
Operating profit	68,817	4,236
Financing income	37,704	13,921
Financing expenses	(21,047)	(27,336)
Financing income (expenses), net	16,657	(13,415)
Profit (Loss) before taxes on income	85,474	(9,179)
Tax benefit (Tax expenses)	(19,659)	2,110
Profit (Loss) for the period	65,815	(7,069)

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Changes in Equity

	Share Capital	Share premium	Retained earnings (Accumulated Deficit)	Total
For the three months ended March 31, 2020 (unaudited)				
Balance as at January 1, 2020	*	163,000	(7,069)	155,931
Profit for the period	-	-	65,815	65,815
Balance as at March 31, 2020	<u>*</u>	<u>163,000</u>	<u>58,746</u>	<u>221,746</u>

	Share Capital	Share premium	Accumulated deficit	Total
For the Period from May 7, 2019 to December 31, 2019 (audited)				
Balance as at May 7, 2019	-	-	-	-
Loss for the period	-	-	(7,069)	(7,069)
Transactions with owners recognized directly in equity:				
Issue of ordinary shares	*	163,000	-	163,000
Balance as at December 31, 2019	<u>*</u>	<u>163,000</u>	<u>(7,069)</u>	<u>155,931</u>

* Less than one thousand NIS

The accompanying notes are an integral part of these condensed interim financial statements.

Condensed Interim Statements of Cash Flows

	For the three months ended	For the period from May 7 to
	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	NIS thousands	NIS thousands
Cash flows from operating activities		
Profit (loss) for the period	65,815	(7,069)
Adjustments for:		
Depreciation	11,508	3,117
Amortization of intangible assets	7,651	2,304
Change in fair value of embedded derivative	(37,704)	(13,921)
Financing expenses	9,166	22,763
Income tax	19,659	(2,110)
Change in long term inventory	(1,589)	(12,305)
Change in trade and other receivables	(91,702)	(79,908)
Change in trade and other payables	22,971	35,323
Net cash from (used in) operating activities	5,775	(51,806)
Cash flows from investing activities		
Increase in pledged deposits	(45,294)	(1,661)
Acquisition of fixed assets	(1,207)	(29,999)
Restricted cash deposit		
Power plant acquisition	-	(1,875,707)
Net cash used in investing activities	(46,501)	(1,907,367)
Cash flows from financing activities		
Interest paid	363	-
Proceeds from issue of share capital	-	163,000
Loans received from shareholders	15,000	157,300
Loans received from banks	49,763	1,645,925
Net cash from financing activities	65,126	1,966,225
Net increase in cash	24,400	7,052
Cash at the beginning of the year	7,052	-
Cash at the end of the period	31,452	7,052

The accompanying notes are an integral part of these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements

Note 1 - General

A. Reporting entity

MRC Alon Tavor Power Ltd. (the “**Company**”), is an Israeli resident private company incorporated on May 7, 2019. The Company has purchased the Alon Tavor Power Plant Site (the “**Alon Tavor Site**”) in accordance with a tender published by the Israeli Electricity Company (“**IEC**”) and its primary objective is to operate Alon Tavor Site.

The Shareholders and their interest in the Company are as follows: (1) Mivtach Shamir Holdings Ltd **33.3%**; (2) China Harbor Engineering Company Ltd., **33.3%**; and (3) Rapac Energy Ltd **33.3%**.

B. Material events in the reporting period

(1) *Spread of the Corona Virus pandemic*

Following the outbreak of the Corona Virus (COVID-19) pandemic in China in December 2019, and its spread to many other countries, there has been a decline in the economic activity in many regions of the world, as well as in Israel.

The spread of the Corona Virus pandemic has, among other things, disrupted the global supply chain, decreased global transports volume and led to traffic and employment restrictions which were declared by the Israeli government and other governments around the world, as well as to a decline in the value of financial assets and commodities in the markets in Israel and around the world. Subsequently, due to the abovementioned traffic and employment restrictions, the Company started to work in a limited format, while most of the headquarter employees were instructed to work from home by using their laptops provided by the Company and the materials and information in the Company's possession.

It should be noted that due to the measures taken by the Company's management in order to maintain the health of the operating employees at the Alon Tavor Site and the quick and optimal separation of such employees to different shifts with minimum exposure between the employees, the electricity generation of the units located in the Alon Tavor Site was not affected.

At this stage, the Company estimates, based on the information at its disposal as of the date of these financial statements, that current events shall not have a material impact on the Company's business results in the short term. Since the spread of the Corona Virus pandemic is an event which is not under the control of the Company, and factors such as the continued spread or stop of the Corona Virus pandemic, may affect the Company's estimations, as of the date of these financial statements the Company is unable to estimate the extent of the Corona virus pandemic's impact on its business in the medium and long term. The Company continues to monitor developments in the world on an ongoing basis and examines the implications for its operations.

Notes to the Condensed Interim Financial Statements

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. They should be read in conjunction with the financial statements as at and for the year ended December 31, 2019 (hereinafter – “the annual financial statements”).

These condensed interim financial statements were authorized for issue by the Company’s Board of Directors on May 10, 2020.

B. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to exercise judgment when making assessments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, except as mentioned in Note 3.A, the significant judgments made by management in applying the Company’s accounting policies and the principal assumptions used in the estimation of uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

Except as described below, the accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its annual financial statements.

Presented hereunder is a description of the changes in accounting policies applied in these condensed interim financial statements and their effect:

A. Initial application of new standards, amendments to standards and interpretations

As from January 1, 2020 the Company applies the new standards and amendments to standards described below:

(1) Amendment to IFRS 3, Business Combinations

The Amendment clarifies whether a transaction to acquire an operation is the acquisition of a “business” or an asset. For the purpose of this examination, the Amendment added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the output’s element required in order to meet the definition of a business and added examples illustrating the aforesaid examination.

The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted.

In the opinion of the Company, application of the Amendment might have a material effect on the accounting treatment of future acquisitions of operations, but it has no impact on past accounting treatments of the Company

Notes to the Condensed Interim Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

A. Initial application of new standards, amendments to standards and interpretations (cont'd)

(2) Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, Interest Rate Benchmark Reform ("the Amendments")

The Amendments include several mandatory reliefs relevant for examining whether a hedging relationship affected by the uncertainty arising from the IBOR (interbank offered rate) interest rate reform (hereinafter: "the reform"), which in the future will lead to the replacement of interest rates such as the Libor and Euribor, qualifies for hedge accounting. Thus for example:

- When determining the probability of occurrence of the hedged cash flows, the existing contractual cash flows should be used, and future changes arising from the IBOR reform should be ignored.
- When performing a prospective assessment of effectiveness, the existing contractual terms of the hedged item and hedging item should be taken into consideration, and the uncertainties arising from the reform be ignored.

The Amendments are applicable retrospectively as from January 1, 2020. The relief included in the Amendments will end prospectively on the earlier of: the date the uncertainty arising from the reform no longer exists and the date the hedging relationship was discontinued

Application of the Amendment did not have a material effect on the Company's financial statements. Nonetheless, insofar as in the future the Company elects to apply hedge accounting that is affected by the uncertainty arising from the reform, the Amendment may have a material effect.

B. New standards not yet adopted

(1) Amendment to IAS 1, Financial statements presentation: liabilities classification as current or non-current

The Amendment replaces certain classification requirements for current or non-current liabilities. Thus for example, according to the Amendment, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it "has substance" and is in existence at the end of the reporting period. A right is in existence at the end of the reporting period only if the entity complies with conditions for deferring settlement at that date. Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

The Amendment is effective for reporting periods beginning on or after January 1, 2022 and is applicable retrospectively, including an amendment to comparative data.

In the opinion of the Company, application of the Amendment will not have a material effect on the financial statements.

Note 4 - Seasonality

The demand for electricity is seasonal and is influenced, among other things, by the climate that prevails during that season. The months of the year are divided into three periods as follows: Summer season - July and August; Winter season - December, January and February; And transitional seasons - (spring and autumn), from March to June and from September to November. The electricity demand is higher in the winter and the summer, the average electricity consumption during these seasons is higher than in the transitional season and is, moreover, even characterized by peak days demand due to extreme cold or hot climatic conditions.

Notes to the Condensed Interim Financial Statements

Note 5 – Shareholders loan

During February 2020, an amount of NIS 15 million was injected to the Company by its shareholders, in equal parts, as shareholders loan with the same interest rate as the existing shareholders loan, see further details in Note 11 – Loan and Borrowings to the annual financial statements. Such injection is made as part of the Deferred Equity Injection of NIS 60 million which the Company and its shareholders have undertook to conduct under the ESA, see further detailed in Note 14 – Equity to the annual financial statements.

Note 6 - Related and Interested Parties

A. Transactions with related and interested parties

	Transaction value	
	For the three months ended	For the Period ended
	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	NIS thousands	NIS thousands
Loans received (See note 5 – Shareholders loan)		
Parties having significant influence in the company	15,000	157,300
Revenues and expenses		
O&M services (See note 22 to the annual financial statements)		
from Sister company	9,216	3,617
Financing expenses		
parties having significant influence in the company	1,222	435
	Balance in the statement of financial position	Balance in the statement of financial position
	March 31, 2020	December 31, 2019
	(Unaudited)	(Audited)
	NIS thousands	NIS thousands
Current liabilities		
Sister company	10,183	3,617
Parties having significant influence in the company	2,160	894
Current assets		
Sister company	5,000	-
Non-Current liabilities in respect of loans received		
Parties having significant influence in the company	172,300	157,300

Notes to the Condensed Interim Financial Statements

Note 7 - Financial Instruments

A. Fair value

(1) Financial instruments measured at fair value for disclosure purposes only

The carrying amounts of certain financial assets and liabilities, including cash, trade receivables, other receivables, derivatives, short-term loans and borrowings, trade payables, other payables and shareholders loans are the same or proximate to their fair value.

The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	March 31, 2020	
	Carrying amount	Fair value
	NIS thousands	
Non-current liabilities:		
Long-term bank loans (*)	1,657,893	1,629,859

(*) Including current maturities

	December 31, 2019	
	Carrying amount	Fair value
	NIS thousands	
Non-current liabilities:		
Long-term bank loans (*)	1,650,986	1,628,253

(*) Including current maturities

(2) Fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of financial instruments measured at fair value on the temporal basis using valuation methodology in accordance with the fair value hierarchy levels (for a definition of the various hierarchy levels, see Note 2 regarding the basis of preparation of the financial statements).

	March 31, 2020	Fair Value Level
	NIS thousands	
Financial assets measured at fair value through profit or loss:		
Embedded derivative	51,625	Level 2
	December 31, 2019	Fair Value Level
	NIS thousands	
Financial assets measured at fair value through profit or loss:		
Embedded derivative	13,921	Level 2

Notes to the Condensed Interim Financial Statements

(1) Details regarding fair value measurement at Level 2

Financial instrument	Valuation method for determining fair value	Significant unobservable inputs	Interrelationships between significant unobservable inputs and fair value measurement
Embedded derivative	Fair value measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the credit risks.	Not applicable	Not applicable

(2) Valuation processes used by the Company

The fair value of embedded derivative is determined by external valuers on a regular annual basis and updated internally during the year. The valuations are presented to the Company's Management for perusal.

Unobservable inputs relate to the discount rate, which is based on the observable risk-free rate, adjusted for a risk premium to reflect the credit risk.