MRC Alon Tavor Power Ltd.

Interim Financial Statements
As at June 30, 2020

Condensed Interim Financial Statements as at June 30, 2020

Contents

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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 June 30, 2020 and the income statement, statement of changes in equity and statement of cash flows for the six and three-month periods 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.)

August 9 , 2020

Condensed Interim Statements of Financial Position as at June 30, 2020

	June 30 2020 (Unaudited) NIS thousands	December 31 2019 (Audited) NIS thousands
Current assets		
Cash	75,038	7,052
Trade receivables	50,091	51,521
Other receivables	45,375	28,387
Derivative instrument	1,739	2,000
Total current assets	172,243	88,960
Non-current assets		
Pledged deposits	67,101	1,661
Inventory	26,128	23,305
Derivative instrument	-	11,921
Fixed assets	1,441,785	1,462,300
Intangible assets	441,229	456,531
Deferred tax assets	-	2,110
Total non-current assets	1,976,243	1,957,828
Total assets	2,148,486	2,046,788
Current liabilities		
Loans and borrowings	108,380	101,906
Trade payables	66,916	28,879
Other payables	15,903	6,444
Total current liabilities	191,199	137,229
Non-current liabilities		
Liabilities to banks	1,568,167	1,566,782
Shareholders loan	172,300	157,300
Derivative instrument	29,584	-
Other long-term payables	2,636	29,546
Deferred tax liabilities	4,969	-
Total non-current liabilities	1,777,656	1,753,628
Total liabilities	1,968,855	1,890,857
Equity		
Share capital	*	*
Share premium	163,000	163,000
Retained earnings (Accumulated deficit)	16,631	(7,069)
Total equity	179,631	155,931
Total liabilities and equity	2,148,486	2,046,788

* Less than one thousand NIS

Erez Balasha	Elad Cohen	Eliran Levy
Chairman of the Board of Directors	CEO	Financial Manager

Date of approval of the financial statements: August 9, 2020

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

Condensed Interim Income Statements

	For the six months ended June 30 2020 (Unaudited) NIS thousands	For the three months ended June 30 2020 (Unaudited) NIS thousands	For the period from May 7 to December 31 2019 (Audited) NIS thousands
Revenues	337,584	154,249	51,521
Manufacturing & Maintenance expenses	(187,309)	(97,592)	(27,540)
Salaries and subcontractors' expenses	(9,838)	(5,220)	(986)
Administrative and IT expenses	(4,245)	(3,222)	(223)
Acquisition costs	-	-	(13,115)
	(201,392)	(106,034)	(41,864)
Operating profit before depreciation and amortization	136,192	48,215	9,657
Depreciation and amortization	(38,441)	(19,281)	(5,421)
Operating profit	97,751	28,934	4,236
Financing income	4	8,438	13,921
Financing expenses	(66,976)	(92,067)	(27,336)
Financing expenses, net	(66,972)	(83,629)	(13,415)
Profit (Loss) before taxes on income	30,779	(54,695)	(9,179)
(Tax expenses) Tax benefit	(7,079)	12,580	2,110
Profit (Loss) for the period	23,700	(42,115)	(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	Total
For the six months ended June 30, 2020 (unaudited)				
Balance as at January 1, 2020	*	163,000	(7,069)	155,931
Profit for the period	-	-	23,700	23,700
Balance as at June 30, 2020	*	163,000	16,631	179,631

	Share Capital	Share premium	Retained Earnings	Total
For the three months ended June 30, 2020 (unaudited)				
Balance as at April 1, 2020	*	163,000	58,746	221,746
Loss for the period	-	-	(42,115)	(42,115)
Balance as at June 30, 2020	*	163,000	16,631	179,631

	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	*	163,000	(7,069)	155,931

* 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 six months ended June 30	For the three months ended June 30	For the period from May 7 to December 31
	2020	2020	2019
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities			
Profit (Loss) for the period	23,700	(42,115)	(7,069)
Adjustments for:			
Depreciation	23,139	11,631	3,117
Amortization of intangible assets	15,302	7,651	2,304
Change in fair value of embedded derivative	41,766	79,470	(13,921)
Financing expenses	27,324	18,158	22,763
Income tax	7,079	(12,580)	(2,110)
Change in long term inventory	(2,823)	(1,234)	(12,305)
Change in trade and other receivables	(15,558)	76,144	(79,908)
Change in trade and other payables	7,120	(15,851)	35,323
Net cash used in operating activities	**127,049**	**121,274**	**(51,806)**
Cash flows from investing activities			
Increase in pledged deposits	(65,440)	(20,146)	(1,661)
Acquisition of fixed assets	(2,624)	(1,417)	(29,999)
Power plant acquisition	-	-	(1,875,707)
Net cash used in investing activities	**(68,064)**	**(21,563)**	**(1,907,367)**
Cash flows from financing activities			
Interest paid	(10,334)	(10,697)	-
Proceeds from issue of share capital	-	-	163,000
Loans received from shareholders	15,000	-	157,300
Repayment of bank loans	(45,428)	(45,428)	-
Loans received from banks	49,763	-	1,645,925
Net cash from financing activities	**9,001**	**(56,125)**	**1,966,225**
Net increase in cash	67,986	43,586	7,052
Cash at the beginning of the period	7,052	31,452	-
Cash at the end of the period	**75,038**	**75,038**	**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 Company initiated its operation in December, 2019.
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 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, 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.

Note 1 – General (cont'd)

B. Material events in the reporting period (cont'd)

(2) *Grant of phantom options*

In May 2020, the Company's certified organs have approved one of Company's officers, phantom option plan appendix to the terms and conditions of employment, commencing as of September 2019. As part of the Company's officer employment agreement, the Company's certified organs have allocated to the officer Phantom warrants (the "Phantom Warrants"). The Phantom Warrants shall vest on a yearly basis in 4 equal portions, commencing as of September 2019. The Warrants shall be exercisable, in whole or in part, no later than 2029, subject to the terms and criteria specified in the Company's officer employment agreement.

Upon exercise of each Warrant, the Company's officer shall be entitled to a compensation in an amount calculated based on the difference between 'base price', at the time of grant and the Company's valuation then applicable, as determined In the employment agreement.

The fair value of the liability is re-measured at the end of each reporting period. no expenses nor liability recognized during three-month period ended June 30, 2020.

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 August 9, 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.

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 – see also note 8. 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.

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 doesn't have 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.

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 Parties

A. Transactions with related and interested parties

	Transaction value	
	For the six months ended June 30, 2020	For the period ended 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)		
entity held by same shareholders	18,878	3,617
Financing expenses		
parties having significant influence in the company	2,509	435

	Balance in the statement of financial position	
	June 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
	NIS thousands	NIS thousands
Current liabilities		
Entity held by same shareholders	3,333	3,617
Parties having significant influence in the company	3,447	894
Current assets		
Entity held by same shareholders	4,120	-
Non-Current liabilities in respect of loans received		
Parties having significant influence in the company	172,300	157,300

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:

	June 30, 2020	
	Carrying amount	Fair value
	NIS thousands	
Non-current liabilities:		
Long-term bank loans (*)	1,647,983	1,657,013

(*) 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 to the annual financial statements regarding the basis of preparation of the financial statements).

	June 30, 2020	
	NIS thousands	Fair Value Level
Financial assets (liabilities) measured at fair value through profit or loss:		
Embedded derivative	(27,845)	Level 2

	December 31, 2019	
	NIS thousands	Fair Value Level
Financial assets (liabilities) measured at fair value through profit or loss:		
Embedded derivative	13,921	Level 2

Note 7 - Financial Instruments (cont'd)

(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 risk-free rate, adjusted for a risk premium to reflect the credit risk.

Note 8 – 2019 Annual Financial Statements Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these financial statements, and have been applied consistently by the Company.

A. Business combinations

The Company implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree.
The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Company.
Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received and recognized in profit or loss.

B. Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Note 8 - Significant Accounting Policies (cont'd)

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition and measurement of financial assets
The Company initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Classification and accounting treatment
The Company have trade and other accounts receivables balances which held within a business model whose objective is to hold assets so as to collect contractual cash flows and the contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates. Accordingly, those financial assets are measured at amortized cost.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include bank overdrafts, loans and borrowings from banks and others, and trade and other payables.

Initial recognition of financial liabilities
The Company initially recognizes financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities
Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities
Financial liabilities are derecognized when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Note 8 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(3) Derivative financial instruments - Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset. Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognized in profit or loss, as financing income or expense.

(4) CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

(5) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

D. Fixed assets

(1) Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of fixed assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Company has an obligation to dismantle and remove the asset or to restore the site), and capitalized borrowing costs.

Spare parts, servicing equipment and stand-by equipment are to be classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

A fixed asset item that was purchased in consideration for another non-monetary item in a transaction having commercial substance is measured at fair value.

Note 8 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

(1) Recognition and measurement (cont'd)

When major parts of a fixed asset item (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Changes in the obligation to dismantle and remove the items and to restore the site on which they are located, other than changes deriving from the passing of time, are added to or deducted from the cost of the asset in the period in which they occur. The amount deducted from the cost of the asset shall not exceed the balance of the carrying amount, and any balance is recognized immediately in profit or loss.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

(2) Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Company and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

(3) Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.
An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management. Alon Tavor power plant was ready for use from December 6, 2019.
Depreciation is recognized in profit or loss on a straight-line basis (unless the amount is included in the carrying amount of another asset) over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current period are as follows:

• Buildings	25 years
• Open cycle turbine components	20 years
• Combined cycle turbine components	35 years
• Fixtures and equipment	5-20 years
• Periodic inspection costs	Upcoming inspection (open cycle 10-20 years, combined cycle 5-10 years)
• Furniture, office equipment and fittings	3-10 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

Note 8 - Significant Accounting Policies (cont'd)

E. Intangible assets

Intangible assets, including license that is acquired by the Company, which have finite useful live. Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. As regards intangible assets in respect of concession agreements, see also note 9 regarding service concession arrangements. The service concession arrangement with IEC amortized for 15 years based on the arrangement period.

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

F. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving average, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Impairment

(1) Non-derivative financial assets

Financial assets, contract assets and lease receivables

The Company recognizes a provision for expected credit losses in respect of:

- Financial assets at amortized cost;
- Contract assets (as defined in IFRS 15);

The Company has elected to measure the provision for expected credit losses in respect of trade receivables and contract assets at an amount equal to the full lifetime credit losses of the instrument.
Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.
Expected credit losses are discounted at the effective interest rate of the financial asset.

Note 8 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

(1) Non-derivative financial assets (cont'd)

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

(2) Non-financial assets

Timing of impairment testing
The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed when machinery parts are replaced and at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Determining cash-generating units
For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Recognition of impairment loss
An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Reversal of impairment loss
Assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Note 8 - Significant Accounting Policies (cont'd)

H. Employee benefits

The Company has post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and are classified as defined contribution plan.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

I. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed and the amount of the adjustment is recognized as a financing expense.

J. Leases

(1) Leased assets

Determining whether an arrangement contains a lease
On the inception date of the lease, the Company determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leased assets and lease liabilities
Contracts that award the Company control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Company recognizes a liability at the present value of the balance of future lease payments, and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.
Since the interest rate implicit in the Company's leases is not readily determinable, the incremental borrowing rate of the lessee is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

The Company has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

The lease term
The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

Note 8 - Significant Accounting Policies (cont'd)

K. Revenue

The Company recognizes revenue when the customer obtains control over the promised goods. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods promised to the customer, other than amounts collected for third parties.

Identifying the contract
The Company accounts for a contract with a customer only when the following conditions are met:
(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
(b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
(c) The Group can identify the payment terms for the goods or services that will be transferred;
(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
(e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Company examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

Identifying performance obligations
On the contract's inception date the Company assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:
(a) Goods or services (or a bundle of goods or services) that are distinct; or
(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Company identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Company's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Company examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Determining the transaction price
The transaction price is the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Company takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Note 8 - Significant Accounting Policies (cont'd)

K. Revenue (cont'd)

Variable consideration
The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Company includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Company revises the amount of the variable consideration included in the transaction price.

In the Company contract with IEC and System manager, variable consideration is generally derived from quantity and performance exceptions.

L. Financing income and expenses

Financing income and expenses comprise interest income on funds invested, interest expense on borrowings, changes in time value of provisions and deferred consideration and impairment losses on financial assets (other than losses on impairment of trade receivables, other receivables and contract assets that are presented in a separate item).

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method.

In the statements of cash flows, interest paid and dividends paid are presented as part of cash flows from financing activities.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

Interest income or expense is recognized using the effective interest method. Generally, in calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the financial asset or to the amortized cost of the financial liability, as applicable. However, for credit-impaired financial assets that were purchased or created, or for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Note 8 - Significant Accounting Policies (cont'd)

M. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

Current taxes
Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Uncertain tax positions
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Company will have to use its economic resources to pay the obligation. When determining the taxable profit (loss), tax bases, unused tax losses, when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position.

Deferred taxes
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Offset of current or deferred tax assets and liabilities
Current or deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current or deferred tax liabilities and assets, and there is intent to settle tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

N. Transactions with shareholders

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

Note 8 - Significant Accounting Policies (cont'd)

O. New standards, amendments to standards and interpretations not yet adopted

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.

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 doesn't have material effect on the financial statements.

Note 9 - Subsequent Events

A. *Purchase tax assessment*

On July 2nd, 2020, the Israeli Tax Authority ("ITA") has issued to the Company a purchase tax assessment with respect to the Site's purchase transaction (the "Purchase Tax Assessment"). According to the Purchase Tax Assessment, the base value of the Site for the Purchase Tax Assessment is NIS 1.861 billion which reflected in purchase tax amount of NIS 111.7 million. The base value of the Site for the Purchase Tax Assessment based on the value of the real estate rights sold, including machinery and equipment included therein and all connected to the land and all rights deriving therefrom. It should be clarified that the Purchase Tax Assessment is in dispute with the ITA and according to the Company's estimations, supported by its tax and legal advisors, it is more likely than not that the Company's claims are to be accepted. Alternatively, if any purchase tax will be added, it will be in a neglectable amount.