

THE APPLIED RESEARCH INSTITUTE – JERUSALEM

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2018

AND INDEPENDENT AUDITOR'S REPORT



Independent Auditor's Report to the Board of Directors of the Applied research Institute - Jerusalem

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Applied Research Institute - Jerusalem and its subsidiary (together the "Group or ARIJ") as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

ARIJ's consolidated financial statements comprise:

- The consolidated statement of financial position as at December 31, 2018;
- The consolidated statement of activities and changes in net assets for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of ARIJ in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material uncertainty relating to going concern

We draw attention to note (1) in the consolidated financial statements, which indicates that ARIJ reported a negative net asset of USD 19,993 as of December 31, 2018 and the current liabilities exceeded its current assets by USD 458,886. As stated in note (1), these events or conditions, along with other matters as set forth in note (1), indicate that a material uncertainty exists that may cast significant doubt on ARIJ's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matters

The consolidated financial statements of ARIJ for the year ended December 31, 2017 were audited by another auditor who expressed unqualified opinion to the consolidated financial statements on May 13, 2018.



Independent Auditor's Report to the Board of Directors of the Applied research Institute - Jerusalem *(continued)*

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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 ARIJ'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 ARIJ or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ARIJ'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 ISAs 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, 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 ARIJ'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 ARIJ'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 ARIJ to cease to continue as a going concern.



Independent Auditor's Report to the Board of Directors of the Applied research Institute - Jerusalem *(continued)*

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

- 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 Group 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 those charged with governance 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.

PricewaterhouseCoopers
PricewaterhouseCoopers Palestine
May 8, 2019

Ramallah, Palestine

THE APPLIED RESEARCH INSTITUTE – JERUSALEM

Consolidated financial statements for the year ended December 31, 2018

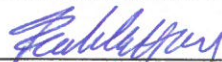
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts are in US Dollar unless otherwise stated)

	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	951,297	898,303
Investment in associates	(6)	276,466	275,716
Total non-current assets		1,227,763	1,174,019
Current assets			
Inventory		117,268	173,424
Contributions receivable	(7)	2,761,009	1,889,911
Other current assets	(8)	322,390	150,316
Cash and cash equivalents	(9)	793,359	1,383,237
Total current assets		3,994,026	3,596,888
Total assets		5,221,789	4,770,907
NET ASSETS AND LIABILITIES			
Net assets			
Net assets		(19,993)	(427)
Total net assets		(19,993)	(427)
Liabilities			
Non-current liabilities			
Provision for severance pay	(10)	657,928	631,799
Provision for provident fund	(11)	130,942	135,644
Total non-current liabilities		788,870	767,443
Current liabilities			
Deferred operating contributions	(14)	3,438,696	2,049,540
Bank overdraft and debit balances	(12)	628,951	1,488,826
Other current liabilities	(13)	385,265	465,525
Total current liabilities		4,452,912	4,003,891
Total liabilities		5,241,782	4,771,334
Total net assets and liabilities		5,221,789	4,770,907

- The notes on pages 8 to 29 are an integral part of these financial statements.

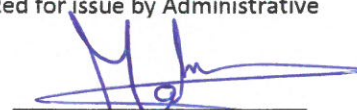
- The consolidated financial statements on pages 5 to 29 were authorized for issue by Administrative Committee on April 30, 2019 and were signed on its behalf.



Dr. Fadi Kattan
Treasurer



Dr. Jad Isaac
General Director



Mrs. Mahira Al Taweel
Financial Director

THE APPLIED RESEARCH INSTITUTE – JERUSALEM

Consolidated financial statements for the year ended December 31, 2018

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(All amounts are in US Dollar unless otherwise stated)

	Note	2018	2017
Revenues			
Contributions recognized as revenues	(14)	2,575,068	2,510,368
Other revenues	(15)	127,485	106,448
Sales		34,575	425,988
Contributions recognized as revenues – property and equipment	(14)	97,988	3,224
ARIJ's share of results of its associate	(6)	750	7,424
Total revenues		<u>2,835,866</u>	<u>3,053,452</u>
Expenses			
Projects' expenses	(16)	(2,380,556)	(2,510,368)
General and administrative expenses	(17)	(184,365)	(468,589)
Cost of goods sold		(132,073)	(237,171)
Depreciation of property, plant and equipment	(5)	(70,563)	(57,300)
Write off of contributions receivable		(14,444)	(30,640)
Currency exchange loss		(73,431)	(59,367)
Total expenses and losses		<u>(2,855,432)</u>	<u>(3,363,435)</u>
Decrease in net assets		(19,566)	(309,983)
Net assets, beginning of the year		(427)	309,556
Net assets, end of year		<u>(19,993)</u>	<u>(427)</u>

The notes on pages 8 to 29 are an integral part of these consolidated financial statements.

THE APPLIED RESEARCH INSTITUTE – JERUSALEM

Consolidated financial statements for the year ended December 31, 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts are in US Dollar unless otherwise stated)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Operating activities			
Decrease in net assets		(19,566)	(309,983)
Adjustments of non-cash items:			
Depreciation of property, plant and equipment	(5)	70,563	57,300
ARIJ's share of results of its associate	(6)	(750)	(7,424)
Write off of contributions receivable		14,444	30,640
Employees' benefits provisions	(10),(11)	71,659	72,225
Finance costs		57,887	89,429
		<u>194,237</u>	<u>(67,813)</u>
Adjustments to reconcile changes in net assets to net			
Cash provided by operating activities:			
Inventory		56,156	56,504
Contributions receivable		(871,098)	(388,671)
Other current assets		(172,074)	123,250
Employees' provisions paid		(50,232)	(351,600)
Deferred operating contributions		1,374,712	899,281
Other current liabilities		(80,260)	343,123
Net cash flow provided by operating activities		<u>451,441</u>	<u>614,074</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(5)	(123,557)	(3,224)
Time deposits maturing after three months		293,912	(402,135)
Net cash provided by (used in) investing activities		<u>170,355</u>	<u>(405,359)</u>
Cash flows from financing activities			
Bank overdraft and debit balances		(859,875)	269,395
Finance costs paid		(57,887)	(89,429)
Net cash (used in) provided by financing activities		<u>(917,762)</u>	<u>179,966</u>
Changes in cash and cash equivalents			
Cash and cash equivalents, beginning of the year		(295,966)	388,681
Cash and cash equivalents, end of year	(9)	<u>575,680</u>	<u>186,999</u>
		<u>279,714</u>	<u>575,680</u>

The notes on pages 8 to 29 are an integral part of these consolidated financial statements.