



Turpaz Industries Ltd.

Periodic report for the quarter ended March 31, 2022

This is an English translation of a Hebrew Periodic report that was published on May 18, 2022 (reference no.: 2022-01-048693) (hereafter: the “**Hebrew Version**”). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

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Directors' Report on the State of the Corporation's Affairs

For the period ended March 31, 2022

The Company's Board of Directors is pleased to submit the Board of Directors' Report on the state of affairs of Turpaz Industries Ltd. (hereinafter - the "**Company**"), for the three months ended March 31, 2022, all in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

This report was drawn out assuming that the Description of the Corporation's Business chapter as included in Chapter A to the 2021 Periodic Report, which was published on March 14, 2022 (Ref. No.: 2022-01-029359) (hereinafter - the "**2021 Periodic Report**") is available to the reader. Unless otherwise stated, terms included in this report shall have the meaning assigned to them in the 2021 Periodic Report.

Part A - Board of Directors' Explanations to the State of the Corporation's Affairs, Operating

Results, Shareholders' Equity and Cash flows

1. General

The Company was incorporated and registered in Israel as a private company limited by shares on February 10, 2011.

On May 23, 2021, the Company completed an IPO, its shares were listed on the Tel Aviv Stock Exchange (hereinafter - the "**Stock Exchange**"), and it became a public company, as this term is defined in the Companies Law, 1999.

The Company operates, independently and through its subsidiaries ("**Turpaz**" or the "**Group**"), in the development, production, marketing and sale of fragrance, used in the production of cosmetics, toiletries, personal care, air care & odor neutralizers products; taste used in the production of food and beverages, intermediates for the pharma industry, and specialty ingredients for the agrochemical and the fine chemicals industry.

The Turpaz Group has an extensive and diversified range of products, which are developed and produced by the Group. As of the report's publication date, the Group develops, produces, markets, and sells products to more than 1,500 customers in more than 30 countries across the world, and operates approx. 13 manufacturing facilities, including R&D centers, laboratories and sales, marketing and regulation offices in Israel, the USA, Poland, Belgium, Vietnam and Latvia.

Key operating results of Turpaz

- Turpaz Group presents record results for the first quarter: record sales, gross profit, operating income and adjusted EBITDA.

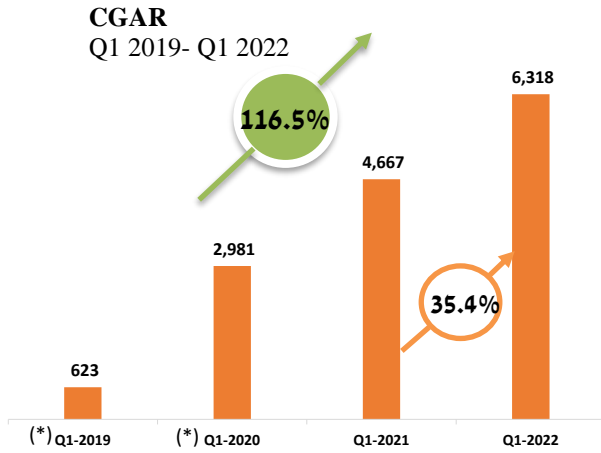
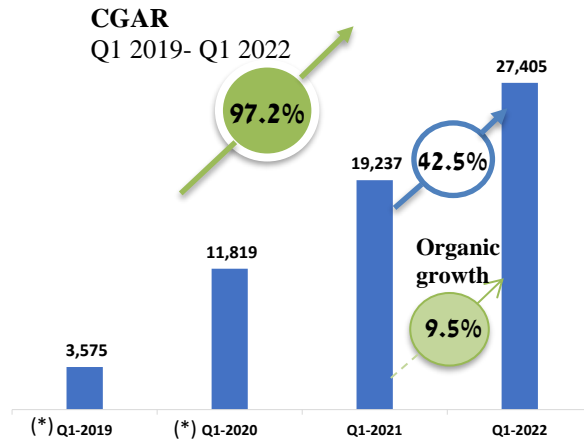
In the first quarter of 2022, Turpaz' sales increased by 42.5% and amounted to USD 27.4 million, compared with a total of USD 19.2 million in the corresponding quarter last year. The increase stems

from the acquisition of operations and companies completed in 2021 and 2022 and from **organic growth**¹, net of the effects of exchange rates of approx. **9.5%**.

- **Gross profit** increased by approx. **42.9%** and amounted in the first quarter of 2022 to approx. USD 10.7 million compared with USD 7.5 million in the corresponding period last year, despite the increase in raw materials and freight prices across the world.
- Turpaz enhanced and expanded its global management in order to support the Group's global growth strategy.
- **Operating profit** increased by approx. **17.8%** and amounted in the first quarter of 2022 to USD 4.6 million compared with USD 3.9 million in the corresponding period last year.
- **Net income** increased by approx. **26.8%** and amounted in the first quarter of 2022 to USD 4.0 million compared with USD 3.1 million in the corresponding period last year.
- **Adjusted EBITDA**² increased by approx. **35.4%** and amounted in the first quarter of 2022 to USD 6.3 million compared with USD 4.7 million in the corresponding period last year.
- Turpaz Group's equity structure, low leverage levels and cash flow from operating activities enable the implementation of the Group's combined growth strategy.
- **Cash flow from operating activities** increased by approx. **186.3%** and amounted in the first quarter of 2022 to USD 5.4 million compared with USD 1.9 million in the corresponding period last year.
- Turpaz completed **three acquisitions** since the beginning of 2022 and **six acquisitions** since the issuance of its securities on the Stock Exchange in May 2021; two of those acquisitions have not yet been reflected in the Company's results in the reporting period. The Turpaz Group intends to continue the implementation of the Company's strategy and make acquisitions which are synergetic to its areas of activity.

¹ "**Organic growth**" - assuming that the acquisitions that were carried out in 2021 and 2022 were consolidated in the financial statements as from January 1 2021 (excluding sales in Balirom and Pentaor that will be consolidated starting the second quarter of 2022).

² **Adjusted EBITDA** means - earnings before interest, taxes, depreciation and amortization, net of non-recurring expenses in respect of acquisition of companies.

Adjusted EBITDA**Sales**

(*) The above data are based on internal Company data and are not reviewed or audited.

Turpaz Group is engaged in the following four segments

- 1.1 **The fragrances segment** - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of natural and synthesized fragrance extracts for customers in the cosmetics, toiletries, detergents, wet wipes, scented candles, hair care, air care & odor neutralizers industries for hotels and households. Furthermore, Turpaz Group operates to manufacture specialty ingredients of high added value, whose purpose is to conceal bad odors, and give, enhance and intensify desired scents in consumer or industrial products. The fragrance extracts developed by the perfumers are tailored to customers' requirements while creating long-term relationships between Turpaz Group and its customers across the world. When they select a supplier, customers focus on the suppliers' innovation capabilities, uniqueness, reliability, the quality and excellence of their services and their knowledge of the needs of the customers for whom the specialty extracts were developed.
- 1.2 **The tastes segment** - as part of the tastes segment, Turpaz Group is engaged in the development, production, sale and marketing of natural and synthesized, sweet and savory flavor extracts, seasonings and gluten free flours, which are used mainly in the production of food, including meat and egg substitutes, plant-based solutions, snacks, ready-made meals, dairy products, ice creams, pharmaceuticals, food and organic colorings for the animal food, beverages and food supplements industries, all tailored to meet customers' needs.

Furthermore, the Group develops extracts and mixtures that allow the production of “clean label”³ products, reducing quantities of fat, salt and sugar in snacks, food products and beverages, while retaining the desired taste and texture of those products.

The Company works to increase its operational efficiency by leveraging the synergy between Group companies in cross-selling and merging the procurement and development function in the tastes segment in order to improve the profits and profitability of the tastes segment in the following quarters.

1.3 The intermediates for the pharma industry segment - in this segment, Turpaz Group is engaged in the production of specialty chemicals used as ingredients and intermediates in the pharmaceuticals industry, and markets its products across the world. Furthermore, the Turpaz Group has the capability to develop and produce custom-made products to its customers in the pharma industry, through its development, production and engineering department; the Group also has the capability to improve the manufacturing processes of intermediates for the pharma industry in accordance with the required regulations.

1.4 The specialty ingredients segment - in this segment, Turpaz Group is engaged in the development, production, marketing and sale of specialty ingredients used in various manufacturing processes to be used in a range of industries, mainly flavors and fragrances, agrochemicals, polymers and catalysts. Turpaz Group’s activity in this field focuses on the production of high-quality products of high added value.

For information about the business environment and its effect on the Company’s activity, see Chapter A to this report (Description of the Company’s Business).

Combined growth strategy -

Turpaz Group’s strategy is based on combined growth that includes targets of double-digit growth and improvement of the Group’s geographic deployment through organic growth and through M&As of activities that are synergetic to Turpaz’s activity, while leveraging the synergies between Group companies in the areas of sales, procurement, development and compliance with regulatory requirements, which contribute to the improvement in profits and profitability.

Turpaz Group operates in accordance with an orderly plan it developed to achieve the swift integration of the acquired company into the Group and the enhancement of the global management; this includes, among other things, retaining the existing managements of the acquired companies and integrating those managements into Turpaz’s management, enhancing the product offering and customer base and integrating Turpaz Group’s command and control systems in the cross-selling, R&D, procurement, and finance functions of the acquired companies, in order to achieve swift utilization of synergies. In the

³ Products whose list of ingredients includes natural ingredients, which the consumer is familiar with.

opinion of the Company, as of the date of this report, it has not yet utilized the entire potential of the acquisitions it made in the last two years; such full utilization is expected to take place a number of quarters subsequent to the completion of the acquisition.

Company's assessments as to the Group's growth rate, the periods during which the potential embodied in the acquisitions will be fulfilled, and as to the integration of the acquired companies into the Group constitutes forward-looking information, as defined in the Securities Law, which is based on Group management's assessments, and may not materialize or materialize in a manner different than expected, as a result of incorrect assessments, changes to the work plan, changes in the market, or the materialization of all or some of the risk factors listed in Section 1.31 to Chapter A to the 2021 Periodic Report.

Acquisitions completed in the first quarter of 2022 and subsequent to balance sheet date:

Acquisition of LORI

On January 17, 2022, the Company completed - through a wholly-owned company - a transaction for the purchase of the entire share capital of LORI RKF (hereinafter - "**LORI**") - a private company incorporated in Latvia - which operates in the field of fragrance extracts - from its shareholders. The Company purchased LORI's shares in consideration for approx. EUR 3.14 million (approx. USD 3.5 million), plus net cash balances.

LORI is engaged in the manufacturing of fragrance extracts and their marketing in Eastern Europe; it has diverse R&D and application capabilities. The acquisition of LORI is expected to increase the Group's sales in the field of fragrances, expand the Group's development and marketing of fragrances in central and eastern Europe, as well as the Group's customer base in territories in which LORI operates, while leveraging the synergies between Group companies in Israel and abroad.

For more information about the acquisition of LORI, see immediate reports of December 12, 2021, and January 17, 2022 (Ref. Numbers: 2021-01-178428 and 2022-01-007753, respectively).

Acquisition of Balirom

On March 31 2022, the Company completed a transaction for the purchase of 60% of the issued and paid-up share capital and voting rights in Balirom Ltd., a privately-owned company incorporated in Israel (hereinafter - the "**Balirom Acquisition Agreement**" and "**Balirom**", respectively) from its shareholders, in consideration for NIS 16.2 million (approx. USD 5.1 million), less net debt, based on company value of NIS 27 million (approx. USD 8.5 million). The Balirom Acquisition Agreement includes a (call/put) option conferred upon the Company to purchase the remaining shares of Balirom; the option may be exercised over a 12-month period starting 4 years after the transaction completion date, that is to say, through March 31 2027, at a price based on the business performance of the Company's consolidated activity in the field of sweet flavor extracts, and the activity in Balirom during the eight (8) quarterly calendars prior to the exercise of the option.

Balirom, which was established in 2001, is engaged in the research, development, production, marketing, sale and supply of natural and synthetic flavor extracts, functional savory flavor mixtures, and ingredients for the food industry. Balirom's plant is located in Be'er Tuvia.

The acquisition of Balirom allows the Company to expand its products portfolio in the fields of sweet and savory extracts, while leveraging the synergies between the Group companies in the areas of development, procurement, marketing and sales.

Balirom's results of operations will be included in Turpaz Group's operating results as from the second quarter of 2022.

For more information about the Balirom Acquisition Agreement, see the Company's immediate report of April 3, 2022 (Ref. No.: 2022-01-034953).

Acquisition of Pentaor

On April 12 2022, the Company completed a transaction for the purchase of the entire issued and paid-up share capital and voting rights in Pentaor Ltd., a privately-owned company incorporated in Israel (hereinafter - the "**Pentaor Acquisition Agreement**" and "**Pentaor**", respectively) from its shareholders, in consideration for NIS 10 million (approx. USD 3.1 million). In accordance with the terms set out in the Pentaor Acquisition Agreement, the seller shall be entitled to receive additional consideration of up to NIS 1.5 million (approx. USD 0.5 million), subject to compliance with business targets defined in the Pentaor Acquisition agreement in respect of 2022 and 2023.

Established in 1997, Pentaor is engaged in the development, production, marketing and sale of specialized functional solutions in the field of baking ingredients, which are based on advanced technologies; the products are marketed under the PentaCake brand, which allow the integration of benefits such as softness, moisture, volume, texture and long shelf life. Pentaor operates in the Zarzir Industrial Zone adjacent to the Company's development center and exports the vast majority of its products to emerging markets, such as Vietnam, India and Southeast Asia.

Pentaor's activity in the Vietnamese market and in South East Asia expands the Group's activity in Vietnam, which is conducted through the subsidiary WFF; this will allow the Group to further expand its activity in one of fastest developing markets in the world. Furthermore, the acquisition of Pentaor shall allow the leveraging of synergies between Group companies in the areas of procurement and customers, expand the Group's portfolio and diversify the product range it offers to its customers in Israel and across the world.

Pentaor's results of operations will be included in Turpaz Group's operating results as from the second quarter of 2022.

For more information about the Pentaor Acquisition Agreement, see the Company's immediate report of April 13, 2022 (Ref. No. 2022-01-047560):

It should be clarified that Turpaz's assessments as to the expansion of its activity in Eastern Europe, Vietnam and South East Asia, and regarding the growth trends in those markets constitute forward-looking information as defined in the Securities Law, 1968, whose materialization

depends, among other things, on factors outside Turpaz's control, and which may materialize in a manner different than that described in this report.

2. Material events in the reporting period and subsequent to balance sheet date

- 2.1. On March 31, 2022, the Company distributed a dividend at the total amount of NIS 12.6 million (approx. USD 3.97 million) to all its shareholders, in accordance with the Company's dividend distribution policy.
- 2.2. In a meeting held on March 17, 2022, the Company's Board of Directors decided to convene an extraordinary General Meeting of the Company's shareholders, whose agenda will include the allocation of options to Ms. Karen Cohen Khazon. The Company intends to take steps to convene a general meeting of the Company's shareholders to approve the said subject.
- 2.3. For information regarding material events subsequent to the reporting period, see Note 6 and Note 4A to the financial statements.

3. **Financial position**

Set forth below are key balance sheet data included in the Company's financial statements (in USD thousand)

	31.3.2022	31.3.2021	December 31 2021	Company's explanations compared to the corresponding period last year
Current assets	99,208	36,541	106,082	The increase stems mainly from an increase in cash and cash equivalents due to IPO proceeds, from an increase in trade and other receivables and inventory due to increase in the Company's sales, and from the addition of the current assets of acquisitions completed in 2021 and in the first quarter of 2022, which were fully consolidated into Turpaz's balance sheets.
Non-current assets	78,143	34,350	66,587	The increase stems mainly from an increase in property, plant and equipment, intangible assets and goodwill in respect of acquisitions completed in 2021 and in the first quarter of 2022.
Total assets	178,351	70,891	172,669	
Current liabilities	38,176	28,246	37,032	The increase stems mainly from an increase in trade payables due to the increase in Turpaz's activity, and from acquisitions completed in 2021 and in the first quarter of 2022, which were fully consolidated into Turpaz's balance sheets.
Non-current liabilities	49,091	27,205	42,521	The increase stems mainly from a recognition of a liability in respect of the put option for the purchase of the remaining shares of FIT in 2021 and the put option for the purchase of the remaining shares of Balirom in 2022.
Total equity	91,084	15,440	93,116	The increase is mainly due to an increase in equity due to the completion of a USD 62 million IPO (net), allocation of shares at the total amount of USD 12.5 million as part of the consideration paid in the transaction for the purchase of FIT out of the comprehensive income for the period amounting to USD 13.5 million, which were offset against the USD 3.97 million dividend distributed to Company's shareholders, and the USD 8.7 million consideration paid to non-controlling interests in the transaction for the purchase of the remaining rights in SDA.
Total liabilities and equity	178,351	70,891	172,669	

4. Operating results

4.1. Set forth below is an analysis of the operating results in accordance with the financial statements, and the explanations for the key changes in those data (in USD thousand):

Item	For the three-month period ended March 31 2022	For the three-month period ended March 31 2021	For the year ended December 31 2021	Company's explanations compared to the corresponding period last year
Revenues from sales	27,405	19,237	85,334	Revenues from sales increased by 42.5% , as a result of organic growth ⁴ , net of the effects of exchange rates, of 9.5% and as a result of acquisitions completed in 2021 and the first quarter of 2022.
Cost of sales	16,701	11,747	50,606	Despite the increase in raw materials and energy prices, and the strengthening of the dollar against the various currencies, Turpaz Group maintained gross profitability similar to that achieved in the corresponding period last year.
Gross profit	10,704	7,490	34,728	
Gross profit rate	39.1%	38.9%	40.7%	
Research and development expenses	785	387	1,949	The increase in development expenses stems from continued investment in the development of new products, the improvement of existing products, and the acquisitions completed in 2021 and the first quarter of 2022.
Selling and marketing expenses	2,343	1,200	6,274	The increase in selling and marketing expenses stems mainly from acquisitions completed in 2021 and in the first quarter of 2022, and from a USD 350 thousand increase in depreciation expenses in respect of excess of cost attributed to customer relations in respect of those acquisitions.
General and administrative expenses	3,027	1,982	10,257	In the first quarter of 2022, general and administrative expenses constituted approx. 11.0% of the turnover compared with 10.3% in the corresponding period last year. The USD 400 thousand increase in general and administrative expenses arises from acquisitions completed in 2021 and the first quarter of 2022, from continued recruitment of management teams and strengthening of the Company's headquarters, in order to support Turpaz Group's combined growth strategy, and from a USD 150 thousand accounting effect of the option plan.
Other expenses (income)	(8)	53	208	
Income from ordinary operations	4,557	3,868	16,040	Income from ordinary operations increased by USD 0.7 million, and amounted to USD 4.6 million.
Operating profit rate	16.6%	20.1%	18.8%	The decrease in the operating profit rate stemmed from an increase in selling and marketing expenses and general and administrative expenses as described above. The increase in the rate of sales of the tastes segment contributed to a decrease in the profitability rate, despite the improvement in the results of the tastes segment, the profitability of which in the reporting period is lower than that of the other segments.
Finance expenses, net	322	245	1,109	
Taxes on income	275	501	2,119	In the reporting period, the Company created deferred taxes in respect of losses, whose utilization is expected in the foreseeable future.
Net income for the period	3,960	3,122	12,812	
Rate of profit for the period	14.4%	16.2%	15.0%	
EBITDA ⁵	6,213	4,667	20,021	Adjusted EBITDA increased by USD 1.5 million, and amounted to USD 6.2 million. The decrease in the rate of adjusted EBITDA stems from the increase in general and administrative expenses and from an increase in the rate of sales of the tastes segment.
Adj. EBITDA ⁶	6,318	4,667	20,475	
Rate of Adj. EBITDA of sales	23.1%	24.3%	24.0%	

⁴ See footnote 1 above.

⁵ EBITDA means - earnings before interest, taxes, depreciation and amortization. This is a data normally used to measure the operational efficiency of companies.

⁶ Non-recurring expenses in the first quarter of 2022 included legal expenses and other expenses in respect of acquisitions of activities during the reporting period, amounting to USD 105 thousand.

4.2. Set forth below is a breakdown of operating results by segments (USD thousand):

Segment		For the three-month period ended March 31 2022	For the three-month period ended March 31 2021	For the 12-month period ended December 31 2021	Company's explanations to the increase in the first quarter of 2021 compared with the first quarter in 2022
Fragrances segment	Revenues	5,992	4,322	19,436	<p>The USD 1.7 million increase in revenues (38.6%) stems mainly from organic growth, net of the effects of exchange rates (13.6%) and net of an acquisition completed in the first quarter of 2022.</p> <p>Segment's profits increased by USD 0.25 million, and amounted to USD 1.8 million. The fragrances segment's profitability was affected by first time consolidation of the results of LORI, whose profitability is lower than that of the segment.</p>
	Operating profit	1,793	1,533	6,804	
	(%)	30.0%	35.5%	35.0%	
Tastes segment	Revenues	13,198	6,146	33,292	<p>The USD 7.0 million (114.7%) increase in revenues stems from organic growth net of the effects of exchange rates of approx. 17.9% and from acquisitions completed in 2021.</p> <p>Furthermore, segment's profitability improved as a result of the implementation - in SDA - of the plan to improve its product lines, and steps to increase operational efficiency.</p>
	Operating profit	1,743	274	2,533	
	(%)	13.2%	4.5%	7.6%	
Intermediates for the pharma industry	Revenues	3,285	5,287	20,873	<p>The USD 2.0 million decrease in revenues (approx. 37.9%) stems from organic decrease net of exchange rate effects of approx. 35.4%. The decrease in revenues stems mainly from timing differences in the placing of orders by some of the Company's customers in North America.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate.</p>
	Operating profit	923	1,612	6,615	
	(%)	28.1%	30.5%	31.7%	
Specialty ingredients segment	Revenues	4,930	3,482	11,733	<p>The USD 1.4 million (41.6%) increase in revenues stems from organic growth net of the effects of exchange rates of approx. 44.0%. The increase in revenues stems mainly from timing differences in the placing of orders by some of the Company's customers in Asia.</p> <p>The change in profitability stems mainly from the impact of the Euro/USD exchange rate.</p>
	Operating profit	1,275	1,010	3,317	
	(%)	25.9%	29.0%	28.3%	
Unallocated joint expenses	Revenues	-	-	-	<p>In the first quarter of 2022, the expenses constituted approx. 4.3% of the turnover compared with 2.9% in the corresponding period last year.</p> <p>The Company expanded its management team in order to enhance the Company's headquarters and support the Company's growth strategy; the Company also started to set up procurement and development functions that support global management.</p> <p>Furthermore, the increase in expenses stems from accounting effects in respect of option plan and an increase in the cost of various professional services incurred in the process of the Company's becoming a publicly-traded company.</p>
	Operating profit	(1,177)	(561)	(3,229)	
Total	Revenues	27,405	19,237	85,334	
	Operating profit	4,557	3,868	16,040	
	(%)	16.6%	20.1%	18.8%	

5. Liquidity

As of March 31, 2022, the Company has a cash balance of USD 43,959 thousand; set forth below are the key components of the cash flows and the way they were utilized (in USD thousand):

		For the three-month period ended March 31 2022	For the three-month period ended March 31 2021	For the 12-month period ended December 31 2021	Company's explanations
Net cash provided by operating activities		5,368	1,875	12,283	The net cash flow provided by operating activities arises mainly from the Company's net income for the period totaling USD 4.0 million and adjustments required to present the cash flows from operating activities totaling USD 1.4 million.
Net cash used in investing activities	Proceeds from sale (purchase) of property, plant and equipment, net	(1,749)	(725)	(2,826)	
	Purchase of companies consolidated for the first time and activities	(8,447)	--	(3,647)	
	Total	(10,196)	(725)	(6,473)	
Net cash provided by (used in) financing activities		(6,103)	(938)	45,572	The net cash flow used in financing activities stems mainly from a USD 3.97 million dividend paid to Company's shareholders, and USD 0.8 million in repayment of long-term credit. In the corresponding period last year Turpaz Group repaid USD 0.5 million.
Exchange differences in respect of cash and cash equivalents		(1,011)	(78)	1,716	
Total change in cash and cash equivalents		(11,942)	134	53,098	

6. Financing sources

The Company funds its activity mainly from its equity, IPO proceeds, cash flows from operating activities and long-term loans. For information about the Company's main financing sources, see Section 1.21 to Chapter A (Description of the Company's Business), and Note 16 to the financial statements attached to the 2021 Periodic Report.

Item	Data as of 31.3.2022	
	USD thousand	% of total balance sheet
Capital	91,084	51.1%
Other long-term liabilities	42,360	23.8%
Long-term liabilities from banks, net of current maturities	6,731	3.8%
Short-term credit	10,382	5.8%
Suppliers credit	16,092	9.0%
Other long-term payables	11,702	6.5%
Total	178,351	100%

The average amount of the long-term loans in the first quarter of 2022 was USD 10,256 thousand.

The average amount of the short-term credit in the first quarter of 2022 was USD 6,929 thousand.

As of March 31 2022, the Company's working capital is USD 61,032 thousand, compared with working capital of USD 8,295 thousand as of March 31 2021.

Furthermore, as of March 31 2022, the Company's operating working capital⁷ is USD 24,738 thousand (22.6% of the sales), compared with working capital of USD 21,048 thousand (27.4% of sales) as of March 31 2021.

⁷Operating working capital means - trade receivable plus the balance of inventory and net of trade payables.

Disclosure in accordance with the reportable credit directive:

Original loan amount (NIS thousand)	Loan balance as of 31.3.2022 (NIS thousand)	Date on which the loan was actually taken out	Amortization schedule (loan principal)	Interest	Collaterals provided in respect of the loan	Financial covenants in relation to loan
Credit from an Israeli bank						Equity to assets - the Company's equity shall not be lower than 25% of total assets at any given time. As of March 31, 2022, the equity amounts to 50.9% of total assets. Debt coverage ratio - shall not exceed 3.5 at any given time. As of March 31, 2022, the said ratio is 0.86 .
15,000	9,080	May 2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 592 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Fixed (2.5%-3.5%)	-	
10,000	6,052	May 2019	Once a quarter starting in November 2019; the first to the 18th payments will amount to approx. NIS 395 thousand, and the remaining loan amount shall be paid in the last payment in May 2024.	Prime + 0.2%-1.2%	-	
4,000	3,000	February 2021	20 equal quarterly payments starting in February 2021.	Fixed (1.5%-2.5%)	See Note 20C1 to the Company's consolidated financial statements as of December 31, 2021.	
3,000	2,250	February 2021	20 equal quarterly payments starting in February 2021.	Prime + 0.5%-1%		

7. The war between Russia and Ukraine

In February 2022, a war broke out between Russia and Ukraine, which is still ongoing as of the report's publication date. In response, a number of states (including the USA, the UK and the EU) imposed economic sanctions and various restrictions on trade with Russian entities (including financial institutions and various corporations, politicians and certain business men and women); those restrictions include prohibition of trade, investment and the maintenance of economic relations and the exclusion of some Russian banks from international financial systems. As of the report date, global supply chains are disrupted, and commodities and energy prices are on the increase due to the war between Russia and Ukraine.

The prolongation of the conflict and the deterioration in geopolitical conditions, instability and security crises in countries in which Group companies operate may have an adverse effect on the economy in those countries and in neighboring countries, as well as on international trade and global economy, including in markets in which the Company operates. The continued conflict between Russia and the Ukraine, and the possibility that the conflict will also involve Eastern Europe, might have an adverse effect on air and sea freight capabilities and costs, and the prices of raw materials and goods. Group subsidiaries that have business activity in Asia and Eastern Europe might be adversely affected from the instability of our customers' economic system in the said countries and from restrictions on trade and financial restrictions.

The Group's sales in Russia and Ukraine constitute less than 3% of its total Group sales, such that in Turpaz' opinion the war between Russia and Ukraine does not have a material effect on the results of operations of the Group.

The reference in this section to the Company's assessments as to future developments in the global and local economic environment, and in connection with the potential effects of these developments on Group's activity constitute forward-looking information as defined in the Securities Law. These developments and effects are not under the Company's control; they are uncertain and based on information available to the Company as of the publication date of this report.

8. The fire event

On November 24, 2021, a fire broke out in SDA's spices plant in Beit Kama. The plant was severely damaged. The equipment, inventory and buildings were covered by loss of profit insurance. SDA's management acted swiftly to transfer its manufacturing activities to its other plants, and to purchase ingredients in order to minimize the damage caused to its customers and sales, and the damages due to the fire, and in order to ensure it can continue with its activity in an orderly manner.

On January 31, 2022, the Company and the landlord, who owns the buildings of the Beit Kama plant that had undergone a fire, entered into an agreement whereby the owner will assign to SDA all its rights to insurance benefits in respect of the owner's share in the fire damages in consideration for NIS 47 million. Further to the signing of the agreement and the said payment, SDA alone is entitled to receive all insurance benefits for the damages caused by the fire to buildings, equipment, inventories and for loss of profits. The consideration will be paid at the earlier of 12 months after the engagement date or

on the date of receipt of insurance benefits. The consideration amount is final, and it is not conditional on the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of this report, advances of NIS 51 million (NIS 16 million of which were received subsequent to balance sheet date) were received from the insurance company, of which all obligations to owners of the buildings were paid, and the remaining NIS 4 million were transferred to SDA.

As of March 31, 2022, SDA recognized an indemnification asset at the amount of the direct expenses accrued as a result of the fire and due to derecognition of inventory and equipment that were totally damaged in the fire, and the derecognition of right-of-use asset and the liability recognized in respect thereof.

9. For information about the effects of the Covid-19 pandemic on the Company's activity, see Section 1.8.3 to Chapter A - Description of the Corporation's Business, which is attached to the 2021 Periodic Report.

The Board of Directors wishes to thank the Company's management and its employees for the results achieved in the first quarter of 2022.

**Karen Cohen Khazon, CEO and
Chairperson of the Board of Directors**

Dr. Israel Leshem, Director⁸

Date: May 17, 2022

⁸ Director authorized by the Board of Directors to sign.



Chapter B

Financial Statements as of March 31, 2022



TURPAZ INDUSTRIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2022

UNAUDITED

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Auditors' review report to the shareholders of Turpaz Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Turpaz Industries Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as of March 31, 2022 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three months period then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets included in consolidation constitute approximately 1.7% of total consolidated assets as of March 31, 2022, and whose revenues included in consolidation constitute approximately 1.8% of total consolidated revenues for the three months period then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

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 Accounts 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 and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D to the Securities Regulations (Periodic and Immediate Reports), 1970.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	43,959	2,937	55,901
Trade receivables	21,741	17,128	20,861
Other accounts receivable	14,419	1,689	13,660
Inventories	19,089	14,787	15,660
	99,208	36,541	106,082
NON-CURRENT ASSETS:			
Deferred taxes	1,084	122	542
Property, plant and equipment	19,259	15,870	17,918
Right-of-use assets, net	14,513	11,382	12,395
Intangible assets, net	17,484	4,144	16,943
Goodwill	26,803	2,832	18,789
	79,143	34,350	66,587
	178,351	70,891	172,669

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans from banks and others	10,382	9,482	11,113
Trade payables	16,092	10,867	15,860
Other accounts payable	9,667	5,333	7,050
Short-term liabilities in respect of acquisition of activity	330	1,277	1,198
Current maturities of lease liabilities	1,705	1,287	1,811
	38,176	28,246	37,032
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	6,661	8,331	7,101
Long-term loans from others, less current maturities	1,407	1,238	1,056
Provision for waste removal	5,232	5,325	5,174
Long-term leases liabilities	12,711	10,002	10,444
Long-term liabilities in respect of acquisition of activity	18,600	1,553	14,522
Deferred taxes	3,869	273	3,750
Employee benefit liabilities	525	300	362
Government grants	86	183	112
	49,091	27,205	42,521
EQUITY:			
Equity attributable to equity holders of the Company:			
Share capital (*)	1	1	1
Share premium	74,449	-	74,449
Other capital reserves	(6,078)	(260)	(6,228)
Reserve in respect of translation differences	(388)	-	1,783
Retained earnings	22,383	12,855	22,430
	90,367	12,596	92,435
Non-controlling interests	717	2,844	681
Total equity	91,084	15,440	93,116
	178,351	70,891	172,669

*) Less than \$ 1 thousand.

The accompanying notes are an integral part of the interim consolidated financial statements.

May 17, 2022			
Date of approval of the financial statements	Karen Cohen Khazon Chairman of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on May 17, 2022	Ohad Blustein CFO

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues from sales	27,405	19,237	85,334
Cost of sales	16,701	11,747	50,606
Gross profit	10,704	7,490	34,728
Research and development expenses	785	387	1,949
Selling and marketing expenses	2,343	1,200	6,274
General and administrative expenses	3,027	1,982	10,257
Other expenses (income)	(8)	53	208
Operating income	4,557	3,868	16,040
Finance income	73	164	762
Finance expenses	(395)	(409)	(1,871)
Income before taxes on income	4,235	3,623	14,931
Taxes on income	275	501	2,119
Net income for the period	3,960	3,122	12,812
Other comprehensive income (net of tax effect):			
Amounts that will not be reclassified subsequently to profit or loss:			
Adjustments arising from translating financial statements from functional currency to presentation currency	(1,950)	(557)	4,300
Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:			
Adjustments arising from translating financial statements of foreign operations	(221)	97	(2,717)
Total comprehensive income	1,789	2,662	14,395
Total net income attributable to:			
Equity holders of the Company	3,924	3,032	12,607
Non-controlling interests	36	90	205
	3,960	3,122	12,812
Total comprehensive income attributable to:			
Equity holders of the Company	1,753	2,572	14,190
Non-controlling interests	36	90	205
	1,389	2,662	14,395
Earnings per share attributable to equity holders of the Company (in U.S. dollars):			
Basic earnings per share	0.039	0.040	0.141
Diluted earnings per share	0.039	0.040	0.141

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of January 1, 2022 (audited)	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116
Net income	-	-	-	-	3,924	3,924	36	3,960
Total other comprehensive loss	-	-	-	(2,171)	-	(2,171)	-	(2,171)
Total comprehensive income	-	-	-	(2,171)	3,924	1,753	36	1,789
Share-based payment	-	-	150	-	-	150	-	150
Dividend to equity holders of the Company	-	-	-	-	(3,971)	(3,971)	-	(3,971)
Balance as of March 31, 2022	1	74,449	(6,078)	(388)	22,383	90,365	717	91,084

	Attributable to equity holders of the Company							
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	U.S. dollars in thousands							
Balance as of January 1, 2021 (audited)	1	-	-	200	9,823	10,024	2,754	12,778
Net income	-	-	-	-	3,032	3,032	90	3,122
Total other comprehensive loss	-	-	-	(460)	-	(460)	-	(460)
Total comprehensive income	-	-	-	(460)	3,032	2,572	90	2,662
Balance as of March 31, 2021	1	-	-	(260)	12,855	12,596	2,844	15,440

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non- controlling interests	Total equity
	Share capital	Share premium	Other capital reserves	Reserve in respect of translation differences	Retained earnings	Total		
Audited								
U.S. dollars in thousands								
Balance as of January 1, 2021	1	-	-	200	9,823	10,024	2,754	12,778
Net income	-	-	-	-	12,607	12,607	205	12,812
Total other comprehensive income	-	-	-	1,583	-	1,583	-	1,583
Total comprehensive income	-	-	-	1,583	12,607	14,190	205	14,395
Share-based payment	-	-	184	-	-	184	-	184
Issue of share capital	-	74,449	-	-	-	74,449	-	74,449
Acquisition of non-controlling interests	-	-	(6,412)	-	-	(6,412)	(2,278)	(8,690)
Balance as of December 31, 2021	1	74,449	(6,228)	1,783	22,430	92,435	681	93,116

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the period	3,960	3,122	12,812
Adjustments to reconcile net income to net cash provided by operating activities (a)	1,408	(1,247)	(529)
Net cash provided by operating activities	5,368	1,875	12,283
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment	(1,749)	(725)	(2,934)
Proceeds from sale of property, plant and equipment	-	-	108
Acquisition of activities (b)	-	-	(3,331)
Repayment of liability in respect of acquisition of activity	(966)	-	-
Acquisition of initially consolidated subsidiaries (c)	(7,481)	-	(316)
Net cash used in investing activities	(10,196)	(725)	(6,473)
<u>Cash flows from financing activities</u>			
Receipt (repayment) of short-term credit	(814)	379	(847)
Issue of share capital (net of issue expenses)	-	-	62,055
Acquisition of shares from non-controlling interest in subsidiary	-	-	(9,522)
Dividend paid to equity holders of the Company	(3,971)	-	-
Repayment of long-term lease liabilities	(481)	(406)	(1,847)
Receipt (repayment) of long-term loans	(837)	(515)	(2,667)
Repayment of liability in respect of acquisition of activity	-	(396)	(1,600)
Net cash provided by (used in) financing activities	(6,103)	(938)	45,572
Exchange differences on balances of cash and cash equivalents	(1,011)	(78)	1,716
Increase (decrease) in cash and cash equivalents	(11,942)	134	53,098
Cash and cash equivalents at the beginning of the period	55,901	2,803	2,803
Cash and cash equivalents at the end of the period	43,959	2,937	55,901

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>			
Adjustments to profit and loss items:			
Depreciation and amortization	1,506	799	3,797
Capital gain from sale of property, plant and equipment	-	-	(61)
Change in employee benefit liabilities for, net	116	(2)	51
Cost of share-based payment	150	-	184
Finance expenses, net	322	245	1,109
Taxes on income	275	501	1,518
	<u>2,396</u>	<u>1,543</u>	<u>6,598</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivable	1,026	(2,074)	(3,580)
Decrease (increase) in other accounts receivable	(658)	148	406
Increase in inventories	(1,069)	(102)	(5,226)
Increase (decrease) in trade payables	(1,178)	916	4,151
Increase (decrease) in other accounts payable	1,823	(939)	(16)
	<u>(54)</u>	<u>(2,051)</u>	<u>(4,265)</u>
	<u>2,315</u>	<u>(508)</u>	<u>2,333</u>
Cash paid and received during the period for:			
Taxes paid	(801)	(619)	(2,404)
Interest paid, net	<u>(106)</u>	<u>(120)</u>	<u>(458)</u>
	<u>1,408</u>	<u>(1,247)</u>	<u>(529)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
(b) <u>Acquisition of activities:</u>			
Inventories	-	-	984
Receivables	-	-	-
Property, plant and equipment	-	-	1,444
Intangible assets	-	-	903
Provision for waste removal	-	-	-
Liability in respect of acquisition of activity	-	-	-
Gain from acquisition of activity	-	-	-
	-	-	-
Payment for acquisition of activities	-	-	3,331
(c) <u>Acquisition of initially consolidated subsidiaries:</u>			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	2,272	-	(1,246)
Property, plant and equipment	1,018	-	3,697
Right-of-use assets	2,602	-	145
Intangible assets	1,390	-	14,222
Goodwill	8,375	-	14,533
Lease liabilities	(2,602)	-	(145)
Other non-current liabilities	(885)	-	(1,036)
Payables for acquisition of investments in subsidiaries	(4,361)	-	(13,904)
Deferred taxes	(278)	-	(3,556)
Investment in exchange for the issuance of shares	-	-	(12,394)
Non-controlling interests	-	-	-
	(7,481)	-	(316)
(d) <u>Significant non-cash transactions:</u>			
Right-of-use asset recognized with corresponding lease liabilities	142	158	5,252
Investment in exchange for the issuance of shares	-	-	12,394

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. General description of the Group and its activity:

Turpaz Industries Ltd. ("the Company") is an Israeli-based company. The condensed interim consolidated financial statements of the Company as of March 31, 2022 include those of the Company and its subsidiaries (collectively, "the Group").

The Group operates, by itself and through subsidiaries in Israel, the U.S., Southeast Asia and Europe in the development, production and marketing in four operating segments: (1) tastes; (2) fragrance extracts; (3) specialty intermediates for the pharma industry; (4) specialty ingredients (see Note 5).

These financial statements have been prepared in a condensed format as of March 31, 2022 and for the three months period then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2021 and for the year then ended and accompanying notes ("annual consolidated financial statements").

- b. The consequences of the war between Russia and Ukraine:

During February 2022, a war broke out between Russia and Ukraine, which continues as of the date of publication of these financial statements. As a result, several countries (including the U.S., U.K. and the EU) have imposed economic sanctions and various restrictions on trade with entities in Russia (including various financial institutions and corporations, politicians and businessmen), including a ban on trade, investment and economic interactions as well as disconnection of some of the Russian banks from international financial systems. As of the reporting date, the war between Russia and Ukraine has disrupted the world supply chain and led to a rise in the prices of energy and commodities.

As the Group's sales in Russia and Ukraine account for less than 3% of the Group's sales, the Company estimates that the war between Russia and Ukraine will have no material impact on the Group's results. Since the Group's sales in Russia and Ukraine account for less than 3% of the Group's sales, Turpaz estimates that the effect of the war between Russia and Ukraine is immaterial at the Group level.

- c. The consequences of the Corona crisis:

As for the consequences of the Corona virus (Covid-19) on the Group's business activity, see Note 1b to the Company's financial statements as of December 31, 2021.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements as of December 31, 2021.

- b. Initial application of amendments to existing accounting standards:

1. Amendment to IAS 16, "Property, Plant and Equipment":

In May 2020, the IASB issued an amendment to IAS 16 ("the Amendment"). The Amendment prohibits a company from deducting from the cost of property, plant and equipment ("PP&E") consideration received from the sales of items produced while the company is preparing the asset for its intended use. Instead, the company should recognize such consideration and related costs in profit or loss.

The Amendment is effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Amendment is to be applied retrospectively, but only to items of PP&E made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the Amendment. The company should recognize the cumulative effect of initially applying the Amendment as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

The above Amendment did not have a material impact on the Company's interim financial statements.

2. Amendment to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets":

In May 2020, the IASB issued an amendment to IAS 37, regarding which costs a company should include when assessing whether a contract is onerous ("the Amendment").

According to the Amendment, costs of fulfilling a contract include both the incremental costs (for example, raw materials and direct labor) and an allocation of other costs that relate directly to fulfilling a contract (for example, depreciation of an item of property, plant and equipment used in fulfilling the contract).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Amendment is effective for annual reporting periods beginning on January 1, 2022 and applies to contracts for which all obligations in respect thereof have not yet been fulfilled as of January 1, 2022. Upon application, restatement of comparative data is not required. Instead, the cumulative effect of initially applying the Amendment is recognized as an adjustment to the opening balance of retained earnings at the date of initial application.

The above Amendment did not have a material impact on the Company's interim financial statements.

3. Annual improvements to IFRSs 2018-2020:

The IASB issued certain amendments in May 2020 in conjunction with the Annual Improvements to IFRSs 2018-2020 Cycle, which mainly pertain to IFRS 9.

The Amendment to IFRS 9 clarifies which fees a company should include in the "10% test" when assessing whether the terms of a debt instrument that has been modified or exchanged are substantially different from the terms of the original debt instrument.

According to the Amendment, in determining the fees paid less fees received, a borrower includes in the cash flows only fees paid or received between the borrower and the lender, including fees paid or received on the other's behalf.

The Amendment is effective for annual reporting periods beginning on January 1, 2022. The Amendment is applied to financial liabilities that are modified or exchanged beginning in the year in which the Amendment is first applied, namely from January 1, 2022.

The above Amendment did not have a material impact on the Company's interim financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATION

a. LORI:

On January 17, 2022, the Company, through a wholly-owned company, completed a transaction to acquire the entire share capital of LORI RKF ("LORI"), a private company incorporated in Latvia and operating in the fragrances industry from its shareholders.

The Company acquired LORI shares for approximately € 3.14 million (approximately \$ 3.5 million) plus net cash balance.

LORI manufactures fragrances and markets them in Eastern Europe and has a wide range of development and application capabilities. The acquisition of LORI will expand the Group's sales in the field of fragrances, their development and marketing in Central and Eastern Europe and its customer base in the regions where LORI operates, while leveraging synergies between the Group's companies in Israel and around the world.

The Company allocate excess costs temporary, The table below summarizes the consideration paid for LORI and the amounts of assets acquired and liabilities assumed on the acquisition date, at the fair value of LORI's identifiable net assets:

	January 17, 2022
	U.S. dollars in thousands
Working capital, net	59
Right-of-use asset	374
Property, plant and equipment	511
Net identifiable assets	944
Customer relationships	1,390
Goodwill arising on acquisition	1,690
Lease liability	(374)
Deferred taxes	(278)
Other non-current liabilities	(111)
Total purchase cost	3,265

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- BUSINESS COMBINATION (Cont.)**b. Acquisition of Balirom:**

On March 1, 2022, the Company completed a transaction to acquire 60% of the issued and outstanding share capital and voting rights in Balirom Ltd., a private company incorporated in Israel ("Balirom acquisition agreement" and "Balirom", respectively) from its shareholders, for approximately NIS 16.2 million (approximately \$ 5.1 million) less net debt, based on a company value of NIS 27 million (approximately \$ 8.5 million). The Balirom acquisition agreement contains a mutual option (Call/Put) to acquire the remaining shares of Balirom which can be exercised over 12 months beginning 4 years from the transaction completion date, namely until March 31, 2027, at a price that will be determined based on the business performance of the Company's activity in the sweet flavor extracts segment in Israel combined with Balirom's activity during eight (8) calendar quarters prior to the exercise of the option.

Based on the option terms that were similar for all parties to the transaction, the Group recorded the acquisition of full control (100%) of Balirom as well as the full liability implied from exercising the option at its discounted value.

Balirom, which was founded in 2001, is engaged in research, development, production, marketing, sales and supply of flavor extracts and non-sweet savory flavor as well as accessories and supplements for the food industry. The facility of Balirom is located in Beer Tuvia.

As of the date of the financial statements, the Company did not allocate excess costs and therefore provisionally attributed temporary all excess costs of approximately \$ 6,680 thousand resulting from the acquisition of Balirom to goodwill.

NOTE 4:- EVENTS DURING THE REPORTING PERIOD**a. Allocation of options to the Group's employees, officers and consultants:**

In March 2022, the Company's Board approved to grant 1,396,000 options (unlisted) to the Group's employees, officers and consultants that can be exercised for the same number of shares. The Company's Board also approved to grant 262,000 options (unlisted) that can be exercised for the same number of shares to Mr. Shai Hazon, COO of Turpaz and Ms. Shir Kesselman, Sales and Development Manager in the field of fragrances, which was approved by the shareholders' meeting of the Company in May 2022. The exercise price of the options is NIS 23.51, which represents the average share price in the 30 trading days before the Board approved the grant of options.

The options were allocated in accordance with the equity compensation plan to employees, consultants, service providers and officers of the Company and related companies, under sections 102 and 3(i) to the Income Tax Ordinance. The options were allocated to a trustee on May 8, 2022.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- EVENTS DURING THE REPORTING PERIOD (Cont.)

The options vest over 4 years from the allocation date, in equal portions, with the first portion (25% of the options) vesting one year after the allocation date and the remaining options vest in 6 semi-annual portions (12.5% of the options in each portion) starting 18 months after the allocation date. The options can be exercised within two years of vesting using the cashless exercise mechanism. Any option which has not been exercised at the end of said period will expire and its holder will have no rights.

The following table lists the inputs to the Black-Scholes model used for the fair value measurement of equity-settled share options:

Expected volatility of the share prices (%)	27.89%-32.96%
Risk-free interest rate (%)	0.22% -0.69%
Expected life of share options (years)	According to the vesting date
Share price (NIS)	NIS 23.51

Based on the above inputs, the fair value of the options was determined at approximately \$ 3,119 at the grant date.

The Company recognized approximately \$ 69 thousand in salary expenses for the above plan from the allocation date through March 31, 2022.

b. Distribution of dividend:

In March 2022, dividend of approximately NIS 12.6 million (approximately \$ 3.97 million) was declared and paid.

NOTE 5:- OPERATING SEGMENTS

a. General:

As described in the annual consolidated financial statements, the Group has four operating segments as follows:

(1) tastes; (2) fragrance extracts; (3) specialty intermediates for the pharma industry; (4) specialty ingredients.

Segment performance (segment income) is evaluated based on operating income (income before net finance expenses and unallocated expenses) as presented in the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Flavor extracts	Fragrance extracts	Specialty intermediates for the pharma industry	Specialty ingredients	Total
	U.S. dollars in thousands				
Three months ended March 31, 2022 (unaudited):					
Segment revenue	13,198	5,992	3,285	4,930	27,405
Segment operating income net of unallocated joint expenses	1,743	1,793	923	1,275	5,734
Unallocated joint expenses					1,177
Finance expenses, net					322
Income before taxes on income					4,235
Three months ended March 31, 2021 (unaudited):					
Segment revenue	6,146	4,322	5,287	3,482	19,237
Segment operating income net of unallocated joint expenses	274	1,533	1,612	1,010	4,429
Unallocated joint expenses					561
Finance expenses, net					245
Income before taxes on income					3,623
Year ended December 31, 2021 (audited):					
Segment revenue	33,292	19,436	20,873	11,733	85,334
Segment operating income net of unallocated joint expenses	2,533	6,804	6,615	3,317	19,269
Unallocated joint expenses					3,229
Finance expenses, net					1,109
Income before taxes on income					14,931

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- OPERATING SEGMENTS (Cont.)

c. Geographic information:

The revenues reported in the financial statements were generated in the Company's country of residence (Israel) and outside Israel, based on the location of the customers, as follows:

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
Israel and the Middle East	7,147	4,373	20,421
Europe	10,991	7,461	25,804
North America	2,083	4,632	30,870
Asia and other	7,184	2,771	8,239
	<u>27,405</u>	<u>19,237</u>	<u>85,334</u>

NOTE 6:- EVENTS AFTER THE REPORTING DATE

- a. On April 12, 2022, the Company completed the acquisition of all the issued and outstanding share capital and voting rights of Pentaor Ltd., a private company incorporated in Israel ("Pentaor acquisition agreement" and "Pentaor", respectively), from its shareholders, for NIS 10 million (approximately \$ 3.1 million). In accordance with the terms of the Pentaor acquisition agreement, the seller will be entitled to an additional consideration in the total of up to NIS 1.5 million (approximately \$ 0.5 million), upon meeting business objectives outlined in the Pentaor acquisition agreement in 2022 and 2023.

Pentaor, which was founded in 1997, is engaged in development, production, marketing and sale of unique functional solutions for the baking industry, utilizing state-of-the-art technology, under the PentaCake brand, which combines advantages such as softness, moisture, volume, texture, and long shelf life. Pentaor operates in Zarzir industrial zone near the Company's development center in Zarzir and exports most of its products to emerging markets, such as Vietnam, India and Southeast Asia.

- b. After approval by the boards of both companies, a merger agreement was signed on November 5, 2021, pursuant to the provisions of section 103t to the Ordinance, between the Company ("the surviving company") and Turpaz Perfume and Taste Extracts Ltd. ("the transferee company") ("the merger agreement"). In accordance with the merger agreement, the companies will be merged through the exchange of shares pursuant to section 103t to the Income Tax Ordinance, so that upon completion of the merger transaction, the Company will hold all of the share capital of the transferee company. On May 2, 2022, the Director of the Tax Authority's approval for the merger was obtained and the Company is acting to fulfill the suspending conditions of the merger agreement.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- EVENTS AFTER THE REPORTING DATE (Cont.)

c. The fire event:

On November 24, 2021, fire broke out at SDA's spice manufacturing plant in Beit Kama. Heavy damage was caused to the plant. The plant's equipment, inventory and buildings are insured, including loss of profits insurance. SDA's management acted immediately to move production to its other plants and to purchase ingredients in order to minimize the damage caused to its customers and sales and to minimize the damage caused by the fire event and to continue its regular operations.

On January 31, 2022, the Company entered into an agreement with the landlord of the factory buildings burned down in Beit Kama, according to which the owner assigned to SDA all his rights to the insurance benefits for the owner's share of the fire damage in the amount of NIS 47 million. Following the signing of the above agreement and payment, only SDA is entitled to receive all insurance benefits for damage caused by the fire to buildings, equipment, inventory and for lost profits. The payment will be made at the earlier of 12 months after the date of the agreement or at the time the insurance benefits are received. The payment is final and not conditional upon the receipt of insurance benefits for the purchased insurance rights. It should be noted that as of the date of these financial statements, an advance of NIS 51 million was received from the insurance company (of which NIS 16 million was received after the reporting date), which was used to settle the total liability to the property owners and the balance, NIS 4 million, was transferred to SDA.

As of March 31, 2022, SDA recognized an indemnification asset equal to the direct expenses incurred as a result of the fire event as well as derecognized inventory, equipment, right-of-use asset and the associated liability which were completely damaged in the fire.

In the Company's opinion, the fire is not expected to have a material impact on the Group's operating results. Furthermore, at present, the Company cannot predict when it will receive the remaining insurance benefits from the insurer, but it estimates that the fire and the agreement should not cause cash flow difficulties.

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TURPAZ INDUSTRIES LTD.

FINANCIAL DATA FROM THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ATTRIBUTABLE TO THE COMPANY

AS OF MARCH 31, 2022

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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Re: Special Auditors' Report on the Separate Interim Financial Information in accordance with Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the separate interim financial information disclosed in accordance with Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Turpaz Industries Ltd. ("the Company") as of March 31, 2022, and for the three months period then ended. The Company's board of directors and management are responsible for the separate interim financial information. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

Scope of review

We did not review the separate interim financial information taken from the interim financial information of investees, whose assets less attributable liabilities net amounted to approximately USD 1,049 thousand as of March 31, 2022, and the Company's share of their earnings (losses) amounted to approximately USD 54 thousand for three months period then ended. The separate interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

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 Accounts 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 and the review reports of other auditors, nothing has come to our attention that causes us to believe that the separate interim financial information is not prepared, in all material respects, in accordance with Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
May 17, 2022

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Special Report pursuant to Regulation 38D

Financial Data and Financial Information from the

Interim Consolidated Financial Statements Attributable to the Company

Below are separate financial data and financial information attributable to the Company from the Group's consolidated financial statements as of March 31, 2022, published as part of the periodic reports ("consolidated financial statements"), presented in accordance with Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

**Financial Data from the Consolidated Statements of Financial Position
Attributable to the Company**

	March 31,		December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	33,328	56	41,900
Trade receivables	2,678	336	1,987
Other accounts receivable	205	127	103
Inventories	1,200	346	1,267
	37,411	865	45,257
NON-CURRENT ASSETS:			
Deferred taxes	569	5	5
Property, plant and equipment	1,462	22	1,479
Right-of-use assets	5,002	275	5,089
Goodwill	436	226	445
Intangible assets	924	287	972
Assets less liabilities attributable to investees, net, including goodwill	64,913	11,740	53,423
	73,306	12,555	61,413
	110,717	13,420	106,670
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term loans	1,684	-	1,719
Trade payables	1,475	128	1,326
Other accounts payable	2,886	270	648
Short-term liabilities in respect of acquisition of activity	136	-	154
Current maturities of lease liabilities	153	83	369
	6,334	481	4,216
NON-CURRENT LIABILITIES:			
Long-term loans from banks, less current maturities	4,734	-	5,264
Long-term leases liabilities	4,903	196	4,752
Long-term liabilities in respect of acquisition of activity	4,376	144	-
Deferred taxes	3	3	3
	14,016	343	10,019
EQUITY:			
Share capital (*)	1	1	1
Share premium	74,449	-	74,449
Other capital reserves	(6,078)	-	(6,228)
Reserve in respect of translation differences	(388)	(260)	1,783
Retained earnings	22,383	12,855	22,430
	90,367	12,596	92,435
	110,717	13,420	106,670

*) Less than \$ 1 thousand.

The accompanying additional information is an integral part of the separate financial data and financial information.

May 17, 2022			
Date of approval of the financial statements	Karen Cohen Khazon Chairman of the Board and CEO	Dr. Israel Leshem Director Authorized by the Board to sign the financial statements on May 17, 2022	Ohad Blustein CFO

**Financial Data from the Consolidated Statements of Comprehensive Income
Attributable to the Company**

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
Revenues from sales	1,929	198	2,441
Cost of sales	1,445	130	1,949
Gross profit	484	68	492
Research and development expenses	110	39	231
Selling and marketing expenses	218	36	328
General and administrative expenses	973	155	1,740
Other expenses	-	42	240
Operating loss	(817)	(204)	(2,047)
Finance income	29	-	55
Finance expenses	(73)	(2)	(243)
Loss before taxes on income	(861)	(206)	(2,235)
Tax benefit	560	-	-
Company's share of earnings of investees, net	4,225	3,238	14,842
Net income attributable to equity holders of the Company	3,924	3,032	12,607
Other comprehensive income (net of tax effect):			
<u>Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:</u>			
Adjustments arising from translating financial statements from functional currency to presentation currency	(1,950)	(557)	4,300
<u>Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:</u>			
Adjustments arising from translating financial statements of foreign operations	(221)	97	(2,717)
Total comprehensive income attributable to equity holders of the Company	1,753	2,572	14,190

The accompanying additional information is an integral part of the separate financial data and financial information.

**Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company**

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the period	3,924	3,032	12,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(1,878)	(4,653)	(15,770)
Net cash provided by (used in) operating activities	2,046	(1,621)	(3,163)
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment	(99)	-	(49)
Investments in investees	(5,127)	1,645	(16,176)
Acquisition of activities (b)	-	-	(3,331)
Net cash provided by (used in) investing activities	(5,226)	1,645	(19,556)
<u>Cash flows from financing activities</u>			
Repayment of long-term loans	(418)	-	(1,242)
Dividend paid to equity holders of the Company	(3,971)	-	-
Issue of share capital (net of issue expenses)	-	-	62,055
Repayment of long-term lease liabilities	(79)	(24)	(175)
Net cash provided by (used in) financing activities	(4,468)	(24)	60,638
Exchange differences on balances of cash and cash equivalents	(924)	(3)	3,922
Increase (decrease) in cash and cash equivalents	(8,572)	(3)	41,841
Cash and cash equivalents at the beginning of the period	41,900	59	59
Cash and cash equivalents at the end of the period	33,328	56	41,900

The accompanying additional information is an integral part of the separate financial data and financial information.

Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
(a) <u>Adjustments to reconcile net income to net cash</u> <u>provided by (used in) operating activities:</u>			
Adjustments to profit and loss items:			
Depreciation and amortization	166	38	288
Cost of share-based payment	150	-	184
Company's share of earnings of investees, net	(4,225)	(3,238)	(14,842)
Finance expenses, net	44	2	188
Taxes on income (tax benefit)	(560)	-	-
	<u>(4,425)</u>	<u>(3,198)</u>	<u>(14,182)</u>
Changes in asset and liability items:			
Increase in trade receivable	(243)	(35)	(1,601)
Increase in other accounts receivable	(208)	(72)	(44)
Decrease (increase) in inventories	185	(84)	36
Increase (decrease) in trade payables	658	(231)	992
Increase (decrease) in other accounts payable	<u>2,202</u>	<u>(1,033)</u>	<u>(806)</u>
	<u>2,594</u>	<u>(1,455)</u>	<u>(1,423)</u>
	<u>(1,831)</u>	<u>(4,653)</u>	<u>(15,605)</u>
Cash paid and received during the period for:			
Interest paid	<u>(47)</u>	<u>-</u>	<u>(165)</u>
	<u><u>(1,878)</u></u>	<u><u>(4,653)</u></u>	<u><u>(15,770)</u></u>

The accompanying additional information is an integral part of the separate financial data and financial information.

**Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company**

	Three months ended March 31,		Year ended December 31,
	2022	2021	2021
	Unaudited		Audited
	U.S. dollars in thousands		
(b) <u>Acquisition of activities:</u>			
Inventories	-	-	984
Property, plant and equipment	-	-	1,444
Intangible assets	-	-	903
Payment for acquisition of activities	-	-	3,331
(c) <u>Significant non-cash transactions:</u>			
Right-of-use asset recognized with corresponding lease liabilities	68	19	4,812
Acquisition of investees in exchange for the issuance of shares	-	-	12,394
Assignment of a loan	-	-	7,892

The accompanying additional information is an integral part of the separate financial data and financial information.

Additional Information

1:- General

This separate financial information has been prepared in a condensed format as of March 31, 2022 and for the three months period then ended in accordance with Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. This separate financial information should be read in conjunction with the separate financial information on the Company's annual financial statements as of December 31, 2021, and for the year then ended and accompanying notes.

2:- Significant Accounting Policies

The accounting policies adopted in the preparation of this separate interim financial information are consistent with those followed in the preparation of the separate financial information as of December 31, 2021. This separate financial information should be read in conjunction with the consolidated financial statements for the same period.

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Turpaz Industries Ltd.

Chapter C

Managers' Statements



Statement of the Chief Executive Officer in accordance with Regulation 38C(D)(1):

Statement of the Chief Executive Officer

I, Karen Cohen Khazon, hereby declare that:

- (1) I have reviewed the quarterly report of Turpaz Industries Ltd. (hereafter – the “**Corporation**”) for the first quarter of 2022 (hereafter – the “**Reports**”).
- (2) To the best of my knowledge, the Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and the Board of Directors’ Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

May 17 2022

Karen Cohen Khazon

CEO and Chairperson of the Board of Directors

Statement of the Most Senior Financial Officer Pursuant to Regulation 38C(D)(2):

Statement of the Most Senior Financial Officer:

I, Ohad Blustein, hereby declare that:

- (1) I have reviewed the interim financial statements and the other financial information included in the interim reports of Turpaz Industries Ltd. for the first quarter of 2022 (hereafter – the **“Interim Reports”**);
- (2) To the best of my knowledge, the interim financial statements and other financial information included in the Interim Reports do not include any misrepresentation of a material fact, nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the Reports;
- (3) To the best of my knowledge, the interim financial statements and other financial information included in the Interim Reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and periods covered by the Reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

May 17 2022

Ohad Blustein

Chief Financial Officer