2023

Annual Report

DESERT CONTROL

Contents

CEO Message

2023 has been a year of progress for Desert Control, underscored by strategic development, and tangible results that strengthen the foundation for our mission to combat desertification, soil degradation, and water scarcity.

The year marked a strategic shift with the transition to a licensed operator model in the Middle East, streamlined operations, and a strengthened financial foundation. This pivotal move, along with the increasing recognition of our Liquid Natural Clay (LNC) technology in the United States through pilot projects, the commercial rollout with Limoneira, and regulatory approvals secured in the Middle East, underscores the value of our solution.

Operational efficiencies in LNC production and application have set new standards during the year. Our collaborative research endeavors, especially with the University of Arizona, continue to deepen understanding and enhance our technology, ensuring that LNC remains at the forefront of sustainable agriculture and water conservation for green ecosystems.

The past year further fortified Desert Control's financial position. Strategic decisions enhanced liquidity and improved cost-effectiveness.

Looking forward, the groundwork laid in 2023 paves the way for expanded impact and broader adoption of our technology. Our commitment to ongoing research and development promises to optimize the efficacy and application of LNC further, demonstrating our dedication to providing sustainable solutions that are both scalable and financially viable for our clients.

As we reflect on the year's achievements and set our sights on the opportunities ahead, we pause to remember Kristian P. Olesen, co-founder, and the inventor of the LNC technology. Kristian's passing on 7 January 2024 is a profound loss. His legacy, however, continues to inspire and guide us. Kristian's pioneering spirit is woven into the fabric of Desert Control, driving us forward in our mission to Make Earth Green Again. We extend our deepest sympathies to his family, friends, and everyone touched by his remarkable life and contributions.

Our gratitude extends to our dedicated team, strategic partners, loyal customers, and supportive investors. Your unwavering support and belief in our mission fuel our progress and inspire our vision for a sustainable future. As we step into 2024, Desert Control stands on firm ground, ready to seize the opportunities that lie ahead.

Ole Kristian Sivertsen
President and Group CEO
Desert Control

2023 Highlights

- **Strategic Shift and Pilot Expansion:** Transitioned to a licensed operator model in the Middle East, significantly reducing annual operating costs and streamlining operations. Maintained consistent pilot acquisition in the United States with commitments for five new technical pilot projects secured per quarter.
- **Operational and Technological Advancements:** Demonstrated a substantial increase in the efficiency and scalability of LNC production and application. Achieved more than a 2X increase in production capacity for all existing LNC production units and significantly improved the scalability of LNC application.
- **Research and Development:** The ongoing 5-year validation program with the University of Arizona is nearing its mid-term report. The growing pipeline of technical pilot projects deepens understanding of LNC's efficacy and application potential across various soil conditions, crops, and use-case scenarios.
- **Financial Milestones:** Added over NOK 100M of liquidity throughout the year. Closed 2023 with a cash and financial asset balance of NOK 120M, extending the company's financial runway into H2-2025.
- **United States Achievements:** Secured the first commercial LNC rollout with Limoneira for 60 acres at the Yuma ranch, demonstrating LNC's commercial viability and scalability. Received OMRI (Organic Material Review Institute) certification for LNC in compliance with the USDA National Organic Program.
- **Middle East Momentum:** Finalized strategic partnership agreements, expanding the operational footprint with partners in the UAE and Saudi Arabia. Received regulatory approvals for sales and use of LNC across all sectors in the UAE and secured the first partner-driven commercial project, signaling positive momentum in the region.
- **Global Recognition:** LNC received awards and global recognition for innovation in sustainability. Official product approvals and certifications in the UAE and the U.S. strengthen the foundation for early-stage commercialization efforts.

X2

increase in production capacity

Financial Key Figures

KEY FINANCIAL FIGURES 2023

[2022 in brackets]

- Total cash balance 31.12.23 (incl. other current financial assets): NOK 119.6M [NOK 78.2M]
- Equity 31.12.2023: NOK 129M (equity ratio: 96,7 %) [NOK 107M (equity ratio: 89.7 %)]
- Revenue: NOK 18.1M [NOK 4.2M]
- EBITDA: NOK -60.0M [NOK -90.2]
- Loss for the year: NOK -65.3M [NOK -90.5]
- Grants NOK 0.5M [NOK 2.3M]

96.7%

Equity ratio

NOK 119.6M

Total cash and financial assets annual 31.12.23 NOK

The figures presented in this section encompass both continued and discontinued operations. Revenue as outlined includes contributions from 'Other Revenue,' which originate from the cessation of our direct activities in the Middle East and the shift towards a licensing model. These figures reflect the net outcome after adjusting for goodwill, covering the final transactions, including sales, settlements, and the formation of licensing agreements, as part of our strategic decision to discontinue direct operations in this region. This transition underscores our strategic move towards adopting a licensing model. For an in-depth insight into the financial consequences of our strategic choices, including comprehensive details on discontinued operations, readers are encouraged to refer to the subsequent sections of this financial report.

About Desert Control

Desert Control specializes in climate-smart AgTech solutions to combat desertification, soil degradation, and water scarcity. The Company's patented LNC restores and enhances soil ecosystems to reduce water usage and improve the efficiency of fertilizers and natural resources for agriculture, forests, and green landscapes. LNC enables sandy and arid soil to retain water and nutrients, thus increasing crop yields, plant health, and ecosystem resilience while preserving water and natural resources by up to 50%.

Agriculture and food production consumes more than 70% of all available freshwater. Desertification and soil degradation further increase the pressure on water and natural resources in a negative spiral. Feeding the global population requires growing more food in the next 40 years than was produced over the last 500 years; this can only be achieved by improving resource efficiency and regenerating nature.

According to the United Nations, twelve million hectares of fertile land perish annually to desertification, resulting in an annual $490 billion loss to the global economy. Desert Control's vision is making earth green again to foster the prosperity of life.

OUR MARKET

Desert Control operates globally in the market for LNC, focusing primarily on agriculture and landscaping sectors. Our key geographic markets include the Middle East and the United States, where we create value through our LNC solutions. For agriculture and landscaping users, LNC offers cost savings on water and fertilizer, increased crop yields, and enhanced property values. Additionally, our solutions ensure compliance with evolving water regulations, enabling continued operations for sports fields, parks, and resorts.
Our value creation aligns with climate-smart agriculture principles, emphasizing land restoration, ecosystem protection, and improved sustainability through reduced resource consumption and increased productivity.

Recognized global challenges we address include desertification and soil degradation affecting over 110 countries and 1.3 billion people. Every year, the world looses 12 million hectares of productive land to desertification, significantly affecting food security. Water scarcity compounds these challenges, with predictions of a 40% global water shortage by 2030, impacting over one-third of the world's population and potentially leaving 1.8 billion people facing absolute water scarcity by 2025.

United States Market Overview

Desert Control Americas Inc. strategically operates within the Sun Belt region, encompassing California, Arizona, Nevada, New Mexico, and Texas. The company is focused on addressing the environmental challenges specific to this area, notably the sandy and often arid soil conditions prevalent across these states. Such conditions pose significant challenges for agriculture and landscaping, making the region a critical focus for the company's operations.

The Sun Belt region is characterized by approximately 30% of its land being arid or semi-arid, with an estimated 40% at risk of desertification. These issues primarily result from soil erosion due to traditional farming practices, leading to significant soil degradation and water scarcity concerns.
Desert Control is dedicated to mitigating these challenges through the deployment of innovative soil and water conservation technologies. The company engages in rigorous research and development efforts to ensure its solutions are both effective and sustainable.
Water conservation is a particular area of focus for Desert Control, given the critical depletion issues facing significant water sources. The company's initiatives are directed towards enhancing soil health, which is vital for the sustainability of both agricultural productivity and landscaping efficacy throughout the region.

Middle East Market

Desert Control has undergone a strategic transformation in its Middle East operations, transitioning to a licensed operator model to enhance efficiency and optimize local engagement. This strategic change was fully implemented by the end of 2023. The company also initiated the liquidation of the Desert Control Middle East (DCME) entity. Key technical personnel transferred to the partner entities in the United Arab Emirates and Saudi Arabia during the year. This strategic shift ensures the retention of expertise and supports a collaborative framework essential for the successful local deployment and market adoption of LNC technology.

The company's operations in the Middle East now leverage local partners, with a focus on operational, sales, and delivery capabilities. In Saudi Arabia, the arrival of the first LNC production units and the commencement of operations signify a robust start.

In the UAE, Mawarid Desert Control (MDC) has taken over the former DCME facilities in Abu Dhabi. This transition aligns with the new business model and has already secured the first partner-driven commercial agreement, indicating positive momentum and growing market acceptance of LNC technology.

The shift to a licensing model in the Middle East aligns with Desert Control's broader strategic alignment to enhance operational efficiencies and deepen market penetration through local expertise and capabilities. This approach is anticipated to foster sustainable growth and facilitate the advancement of soil health technologies in the region, although revenue generation in the region.

OUR STRATEGY

Think Big:

We always keep the bigger picture in mind, ensuring that our work aligns with our mission.

Start Small:

We focus on narrow scopes to establish strong foundations before expanding our reach.

Act Fast:

Urgency and quick decision-making are vital in our rapidly changing world.

Design to scale exponentially:

We prioritize scalable solutions to address urgent climate change issues effectively.

Keep it simple:

Simplicity is key to achieving exponential scalability, allowing us to operate efficiently and cost-effectively while preparing for future growth.

Year In Review

Strengthened Financial Position

In 2023, Desert Control strengthened its financial position through strategic restructuring, asset sales, and capital raises, adding more than NOK 100M of liquidity throughout the year. Restructuring activities and changing the go-to-market model for the Middle East further reduced operational costs. By the year's end, this fiscal augmentation led to a fortified balance of NOK 120M in cash and financial assets, effectively ensuring operational continuity into H2-2025 (excluding revenues).

Commercial Milestones in the United States

A defining result of the year was Limoneira Company's commitment to move forward with commercial deployment of LNC over 60 acres at the Yuma ranch. This initiative validated LNC's scalability and commercial viability, demonstrating the technology's potential to transform sustainable agricultural practices on a larger scale. The project is anticipated to commence in 2024 and be completed by early Q2. Securing OMRI certification further reinforced LNC's alignment with organic agriculture standards in the United States.

Strategic Operational Shifts

Desert Control executed a significant operational shift throughout the year by adopting a licensed operator model in the Middle East. This move streamlined the company's market approach, leading to more efficient operations and a focused strategy for developing the region's vast potential through local partners.

Market Expansion and Regulatory Approvals in the Middle East

Desert Control's strategic initiatives in 2023 led to Mawarid Holding Investment's acquisition of the JV Mawarid Desert Control (MDC) in the United Arab Emirates (UAE). Market presence was expanded by partnering with H-EART, which established Saudi Desert Control (SDC) in the Kingdom of Saudi Arabia (KSA). Regulatory approvals for LNC were secured in the UAE, including certification for organic farming. The first LNC production units arrived in KSA, and the first partner-driven commercial project in the UAE was secured by the end of the year.

Technological and Operational Advancements

In 2023, Desert Control achieved significant progress in operational efficiency and scalability of LNC production and application. The company doubled production capacity and improved the scalability of LNC deployment, reaching up to 500 trees per day by year's end. For the upcoming Limoneira deployment in 2024, the company expects to surpass 1000 trees per day. Operational advancements were also realized through enabling the deployment of LNC through existing irrigation systems.

Collaborative Research Partnerships

The partnership with the University of Arizona continued to provide insights into LNC's benefits for soil health and water conservation. Approaching a crucial milestone in the validation program, this collaboration highlights Desert Control's science-led and field-proven approach. The University program is impending its mid-term report, and the inaugural publication is anticipated during Q2-2024.

Multiple LNC pilot projects further continued validation of the versatility and efficacy of LNC in improving soil health and water conservation in collaboration with farmers and landowners.

Outlook

Outlook

As Desert Control advances into 2024, it carries forward the momentum of strategic achievements and operational enhancements realized in 2023. With a new go-to-market model for the Middle East, technological advancements and an improved financial position, the company approaches the coming year with optimism and a clear vision to strengthen validation of its LNC innovation and establish product-market fit through ongoing pilot programs, strategic reference projects and market adoption.

Middle East – Commercialization and Expansion:

The shift to a licensed operator model in the Middle East in 2023 was a transformative step for Desert Control, fostering a new phase in the company's regional engagement. The positive developments, including the first partner-driven commercial agreements and the arrival of LNC production units in Saudi Arabia, indicate a growing momentum.

In 2024, the focus is empowering the local partners and improving production efficiency. Partner revenues in 2024 are expected to be moderate, with sustained growth anticipated as large projects are delivered in 2025 and beyond.

United States – Broadening Agricultural and Landscaping Applications:

In the United States, learnings from pilot projects within the agricultural sector demonstrate the importance of LNC's benefits beyond water savings. The company continues developing its pilot program to showcase LNC's multifaceted benefits, including reduction of fertilizer leaching, lowering soil salinization, long-term benefits of improving soil health, and associated impact on increasing yield by extending pilot programs to multiple seasons. Concurrently, the landscaping segment, particularly golf courses in regions with high water costs like Southern California and Nevada, may present opportunities for product-market fit justified by economic gains from water savings alone, encouraging a focused approach to developing this market segment.

Research and Development:

Desert Control expects significant advancements in its LNC technology in 2024, driven by commercial deployments in the Middle East, ongoing U.S. pilot programs, and work in its laboratories. The company aims to again double LNC production capacity per unit, as it did in 2023. In addition, our research team will further refine LNC formulations to tackle soil salinization and nitrogen leaching, helping clients meet regulatory requirements and enhance nutrient use efficiency. Encouragingly, early results from nature-based additives show potential to extend LNC's benefits beyond water savings through enhancing microbial activity and soil health. The mid-term report from the ongoing validation with the University of Arizona is anticipated in Q2 2024 and academic collaborations are expected to expand.

Board of Directors





Knut Nesse

Chair

Seasoned international top executive. Developed >€6 billion global businesses. Food industry, nutrition and aquafeed sector.

Marit Røed Ødegaard

Board Member

International executive and board member with experience from Norsk Hydro, Yara International, Kverneland. 30+ years of agriculture/AgTech experience in a variety of roles.

Maryne Lemvik

Board Member

International top executive with more than 25 years of leadership experience across various process industries.
Passion for capturing business opportunities, leading people and driving improvements.

Geir Hjellvik

Board Member

Private Investor. Successful startup and exit with Revus. Investments, financing and financial risk management.

James Thomas

Board Member

James Thomas has over 30 years of experience in finance and investment across various sectors and domains. He began his career at Goldman Sachs in London and is now the majority owner of Ithaca Marine. He has also served on the boards of more than 20 companies that have conducted multiple initial public offerings, repeated stock issuances, and numerous mergers and acquisitions.

In Memory of Kristian P. Olesen

Desert Control wishes to honor the memory of our co-founder and inventor, Kristian P. Olesen, who passed away on 7 January 2024 at the age of 75. Kristian was the visionary inventor behind the groundbreaking Liquid Natural Clay (LNC) technology, conceiving the idea in 2005 and dedicating nearly two decades of his life to its development. His relentless pursuit of innovation, combined with an unwavering optimism and a constant challenge to the status quo, laid the foundations upon which Desert Control stands today.

Kristian's commitment to solving complex problems was matched only by his dedication to the company. As the largest shareholder through Olesen Consult HVAC AS, he played a pivotal role in establishing Desert Control and continued to contribute his insight as a member of the board of directors until his passing.

His legacy endures not only in the transformative technology he helped create but also in the spirit of perseverance and optimism that he instilled. Kristian's life work continues to inspire us all as we advance on the path he helped pave, striving to make a significant impact on soil enhancement and water conservation around the world.

We extend our deepest sympathies to Kristian's family, friends, and all who were fortunate enough to know him. His remarkable contributions to Desert Control and the world at large will be remembered and cherished forever.

Report from the Board of Directors

NATURE OF THE BUSINESS

Desert Control continues its mission to offer climate-smart Agri-tech solutions to combat desertification, soil degradation, and water scarcity in sandy soil regions. The company's patented LNC technology, which restores and protects soil while reducing water usage for agriculture, forests, and green landscapes, remains a cornerstone of its innovative offerings. Research results in 2023 further confirm the advantages of our LNC technologies with regard to water savings and yield and we expect further data in these areas as well as LNC's ability to reduce fertilizer usage and contribute to an increase in soil microbiological health in 2024.

In 2023, Desert Control implemented a strategic shift in its operations within the Middle East. The company initiated the liquidation process of its subsidiary in Abu Dhabi, UAE, and closed its Dubai branch by year end. This move is part of a broader strategy to transition to a licensing model in the region, as we aim to maximize the commercial reach and efficiency of our patented technology in a market dominated by government and semi-government purchasers. Conversely, in the United States, the company maintains its service-based business model, continuing to engage directly in turnkey LNC treatment projects and uphold its new partner model in the Middle East operational approach.

The production and application of LNC continues to be customer-centric, utilizing mobile factories to produce LNC on-site and integrating with existing irrigation systems. The long-lasting benefits of LNC, with treatments enduring 3-5 years and requiring only periodic top-ups, remain a value proposition for clients in agriculture, forestry, and landscaping.

Desert Control AS, listed on Euronext Growth Oslo under the ticker DSRT and incorporated under the laws of Norway, maintains its headquarters in Sandnes, Norway. Desert Control's revenue model continues to incorporate project-based deliveries directly to clients and is exploring additional revenue streams from periodic maintenance and digital subscription services that cater to soil health monitoring, water management optimization, and precision agriculture.

2023: A YEAR OF STRATEGIC TRANSFORMATION AND INNOVATION PROGRESS

Global Operations and Achievements: The expansion of pilot projects, especially in the USA, where we secured five new pilots every quarter of 2023, underscores our commitment to demonstrating LNC's efficacy. The introduction of LNC production units in Saudi Arabia signifies our growing footprint in critical markets.

Recognition and Sustainability: Our efforts were globally recognized, with Desert Control winning prestigious awards for sustainability. These accolades highlight our contribution towards environmental restoration and agricultural efficiency.
Capital Enhancement: 2023 saw significant financial bolstering through successful capital raises, particularly a notable raise in Q3, which solidified our financial runway into the second half of 2025, aligning with our long-term commercialization strategy.
Strategic Shifts: The year marked a pivotal shift towards a licensing model in the Middle East, enhancing operational efficiency and market adaptability. This strategic pivot is a testament to our adaptable business approach, aimed at maximizing market penetration and operational scalability.

(The figures presented in this section include both continued and discontinued operations).

FINANCIAL PERFORMANCE

In 2023, Desert Control has not only strengthened its financial standing but also laid down a robust framework for revenue generation through innovative project deliveries and strategic partnerships. The increase in pilot projects and the transition to a licensing model in the Middle East underscore our proactive approach to capturing market opportunities and optimizing operational efficiencies.

Desert Control achieved revenue from sales of NOK 18.1 million in 2023, substantial increase from the NOK 4.2 million recorded in 2022. The majority of this revenue was generated from the transactions related to the licensing agreements and subsequent exit from the Middle East.

As part of the strategic restructuring in the Middle East, we have realized significant efficiencies, notably in the realm of salary and employee benefit expenses, decreasing from NOK 62.1 million last year to NOK 48.3 million this year, marking notable reduction of 22.2%. While this years' financials already reflect substantial savings, the full effect of our strategic scale down, most of which took place in the latter half of 2023, will become even more evident in the next year's performance. This proactive approach not only enhances our financial health but also aligns our resource allocation with our strategic goals, setting a strong foundation for future growth and stability.

Our other operational costs have remained stable compared with the previous year's levels. This consistency in operational spending underscores our ongoing efforts to maintain efficient management practices even as we focus on strategic realignments and ongoing global inflationary pressures.

Desert Control ended the year with an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of negative NOK 60.0 million, which, while a sizable deficit, demonstrates a reduction in losses compared to the previous year's negative NOK 90.2 million.

For 2023 the company recorded a loss of NOK 65.3 million, which represents an improvement over the previous year's loss of NOK 90.5 million.

The cash and cash equivalents and financial assets balances as of December 31, 2023, stood at NOK 119.6 million, an increase from NOK 78.2 million at the end of 2022. Additionally, our equity at year-end was NOK 129 million, with an equity ratio of 96.7%, up from NOK 107 million and equity ratio of 89.7% at the end of the previous year. These figures indicate a solid financial structure and reflect a strong balance sheet considering the early operational phase.

(The figures presented in this section include both continued and discontinued operations).

BOARD INSURANCE

The company has established a global Director and Officer liability insurance scheme. The policy has a limit of liability of NOK 25 million.

FORWARD OUTLOOK

Commercialization: Heading into 2024, our focus sharpens on the commercialization of LNC technology, with a particular emphasis on transitioning successful pilots into larger-scale deployments, supporting our local partners in the Middle East and further penetrating the golf and landscaping markets in the United States. The strategic groundwork laid in 2023 positions us for this next phase.

Product Development: With a record number of hectares of LNC deployed in 2023 and continued and expanded work with our field research partners in the Middle East and the United States, we expect significant data and learnings with regard to both optimized LNC formulations for different plants and soil types, but also LNC's potential to reduce nitrogen run off and improve soil health.

Sustainability at the Core: Our commitment to sustainability and addressing global environmental challenges remains unwavering. The upcoming year will see us deepening our impact on the Sustainable Development Goals through innovative solutions and global partnerships.

Going Concern Confirmation: In accordance with §3-3a of the Norwegian Accounting Act, the board of directors confirms that the going concern assumption, on which the financial statements have been prepared, is appropriate. With sufficient capital to sustain operations into the second half of 2025, we are confident in our continued viability and operational continuity. This assurance is grounded in our strategic planning and financial forecasts, underscoring our belief in our business model and our path forward.

ACKNOWLEDGEMENTS

Our progress and achievements in 2023 are a collective effort. We extend our deepest gratitude to our employees, partners, stakeholders, and the communities we serve. Your support is the cornerstone of our success and the driving force behind our mission to make Earth green again.

CONCLUDING REFLECTIONS

The year 2023 has been transformative for Desert Control, marked by strategic evolution, operational milestones, and an unwavering commitment to sustainability. As we look forward to 2024, we are inspired by our achievements and motivated by the challenges and opportunities that lie ahead. With a solid foundation and a clear vision, we are poised for continued growth and impactful contributions to global sustainability efforts.

NORWEGIAN TRANSPARENCY ACT

An account of our due diligence assessments carried out in accordance with the Norwegian Transparency Act (in force from 1 July 2022) is published on www.desertcontrol.com/transparancy-act-report.

Corporate Governance

Desert Control was listed at Euronext Growth (Oslo Stock Exchange) on 14 April 2021 under the ticker DSRT, following a successful initial public offering (IPO) and private placement of NOK 200 million. The Articles of Association were revised accordingly to state that the shares should be registered at VPS and to express the new level of shares.

The company has established a governance framework and executes its business in accordance with its code of conduct and governance policies. Communication and information management is handled in accordance with the Euronext Growth rules, and the equal treatment of shareholders is an essential part of this.

The Board holds two authorizations to increase the share capital a) issue of up to 5% of share capital for the purpose of funding incentive scheme for employees and b) 10% for the purpose of securing the financing of the company's development. The power of attorney is limited to two years from the date of the resolution and will be managed with biennial renewals. The current resolution was approved on 1 June 2023.

The Board is represented by three men and two women. Three of the board members represent major shareholders of the company. Four board members hold shares in the company.

The company has not established a nomination committee for the purpose of proposing candidates for election of the Board.

The company has not established a remuneration committee. The Board remuneration is subject to approval by the General Assembly. The compensation to the CEO is determined by the Board of Directors.

Risk Management

Desert Control has developed a novel and proprietary innovation to reduce the water consumption required to cultivate crops and green landscapes suffering from sandy soils and drought. The solution contributes to stopping and reversing desertification and soil degradation and reduces water consumption for green ecosystems. The United Nations reports that 12 million hectares of fertile land perish to desertification annually, and the market risk is considered low.

Desert Control has carried out numerous pilots and pre-projects, which indicates a consistent effect on water savings and improved yield. However, big commercial contracts have not yet been reported. Thus, the commercial risk remains high until the commercialization stage delivers confirmation of actual market adoption.

The Group holds cash and funds, adding to NOK 119,6 million by per end of 2023, representing 90% of the total balance sheet. The liquidity risk is therefore viewed as moderate.

Desert Control is financed through equity. The initial public offering raised NOK 200 million in new equity in the spring of 2021. The company initiated a private capital placements of NOK 67.50 million on 28 September 2023, followed by repair capital issue of approximately NOK 8 million. Equity is reported at NOK 129 million on 31.12.2023. The Group holds no long-term interest-bearing debt, and the short-term debt is NOK 4.4 million. The equity ratio is 97% at the end of 2023. Credit risk is considered moderate.

Financial Risks

The Board is dedicated to implementing a proactive and strategic financial risk management framework that aligns with Desert Control's mission and operational needs. Our approach to managing market, credit, and liquidity risks enables us to effectively navigate financial uncertainties and capitalize on opportunities that align with our environmental goals. This commitment underpins our efforts to maintain robust financial health and ensure the long-term success of the company.

Market Risk

Desert Control actively monitors market risks, particularly focusing on foreign exchange movements. Our operations do not involve interest-bearing debt, thereby significantly reducing our exposure to interest rate risks. Nonetheless, we remain vigilant about potential impacts on our cash flows from foreign exchange fluctuations as our international operations evolve. The minimal number of transactions in foreign currencies currently limits this risk, but continuous assessment is crucial as we expand globally.

Credit Risk

Our credit risk management strategy is critical as it deals with exposures from receivables, cash, and cash equivalents. We mitigate these risks by transacting exclusively with well-established banks and financial institutions, ensuring the credibility and solvency of our partners. This conservative approach has effectively minimized expected credit losses, which is vital as we expand our customer base and begin to enter into larger commercial contracts.

Liquidity Risk

Maintaining a robust liquidity position is a key priority for Desert Control, reflecting our commitment to financial stability and operational flexibility. Through strategic equity financing and private capital placements, we have strengthened our liquidity, ensuring that we have sufficient resources to meet ongoing operational needs and pursue strategic opportunities. Regular monitoring of cash flow projections and our ability to access a variety of financing options further supports our liquidity management.

People and Work Environment

As of the end of 2023, our organization employs a diverse workforce of twenty individuals from different nationalities and genders. Our diverse workforce consists of twenty employees hailing from ten different nationalities—Norwegian, Nigerian, Dutch, Vietnamese, Uruguayan, Jordanian, American, Mexican, Danish, and Venezuelan, with women representing 35% of our team.

We continuously strive to improve gender balance through targeted recruitment strategies and policies that ensure equal opportunities for all, regardless of gender or background. Our recruitment and onboarding processes are designed to achieve an optimal balance between expertise, experience, and personal values, reinforcing a cohesive and supportive company culture.

The company is committed to adherence to the principles of equality and non-discrimination, ensuring fair and equal treatment across all genders and diversity factors across all aspects of employment, including remuneration. The company is dedicated to maintaining a motivated and engaged international workforce, offering decent living conditions, insurance coverage, pension plans, and rights for employees to visit their home countries.

The Company has not registered any injuries or accidents during 2023. We have placed significant emphasis on enhancing personal protection measures during operations, a practice we are committed to continually advancing. Three employees have registered long-term absences caused by sickness. Total sick leave in the Group during 2023 amounted to 2.9%.

The Board considers the working environment satisfactory.

Sandnes, 22.04.2024

Knut Nesse Chair	**James Thomas** Board Member	**Maryne Lemvik** Board Member
Geir Hjellvik Board Member	**Marit Røed Ødegaard** Board Member	**Ole Kristian Sivertsen** Chief Executive Officer

Environmental, Social, and Governance (ESG)

Sustainability and impact on the Sustainable Development Goals (SDGs)

LNC can reduce water consumption for agriculture, forests, and green landscapes by up to 50%. The amount of water required to produce LNC is recovered within 2-3 weeks (offset by irrigation water savings). Improved water efficiency and increased crop yields contribute significantly to a positive impact on the United Nations Sustainable Development Goals (SDGs), including reducing hunger and competition for scarce resources and securing access to clean water. Arid regions using energy-intensive seawater desalination can further significantly reduce CO_2 and greenhouse gas (GHG) emissions.

LNC enables sandy soil and desert land to retain water and nutrients. Reduction of water consumption further allows for reducing fertilizer usage. Reduced leaching of fertilizers and pesticides through the soil can further minimize the risk of chemical run-off reaching through to natural water systems and oceans. Stopping fertilizer and pesticide leaching can further improve life below the water by reducing ocean acidification and eutrophication.

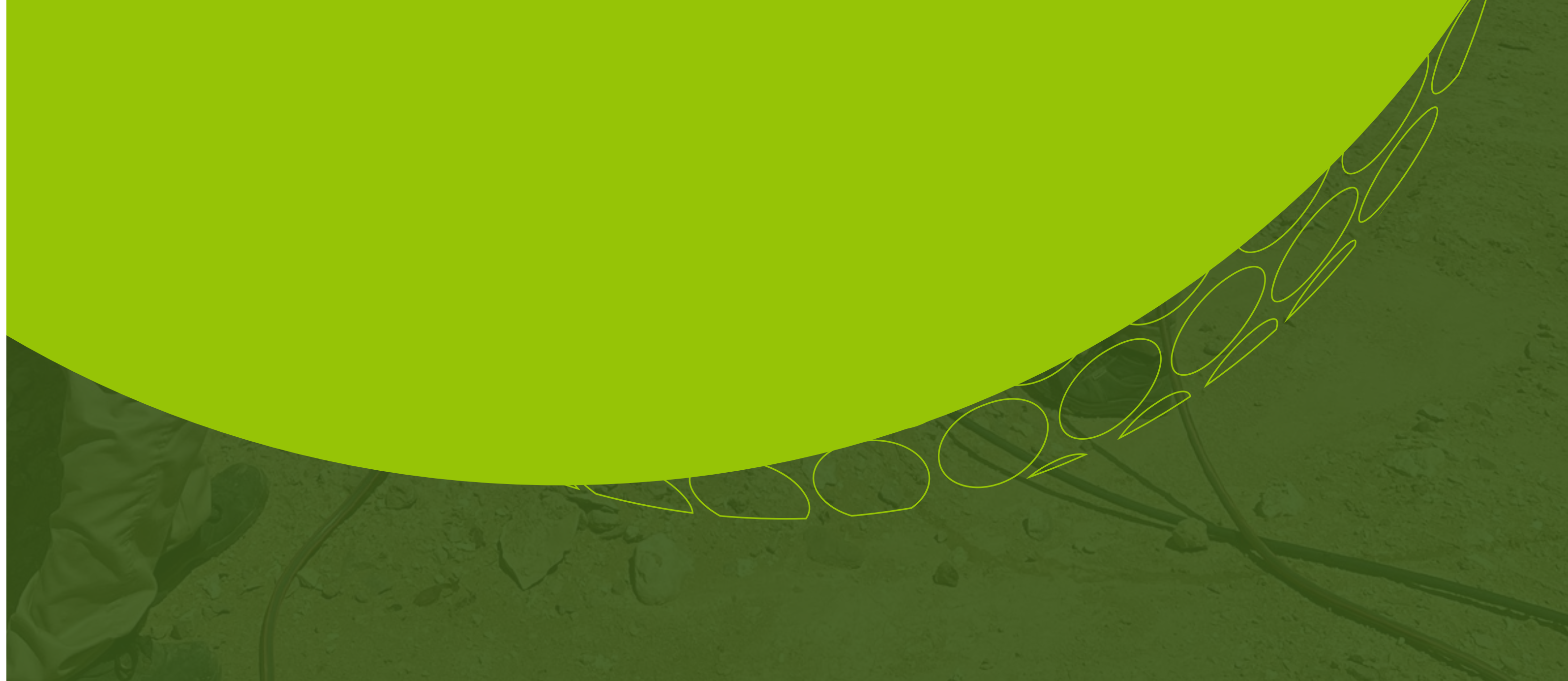
According to the Intergovernmental Panel on Climate Change (IPCC), restoring degraded soil ecosystems can globally offset 5-6 Gt of CO_2 annually. Even degraded soils have degrees of stored carbon. When tilling or mechanically working amendments into the ground, carbon exposed to oxygen may turn into CO_2 and escape into the atmosphere. LNC can be applied directly to the surface of the ground without intervention to the soil. LNC percolates into the ground in a non-intrusive way without exposing any carbon to surface air oxygen, safeguarding the carbon storage of soil ecosystems, and fostering increased carbon sequestration.

Non-intrusive soil treatment is further gentle to fragile soil ecosystems, home to 95% of all biological species on earth. Reclaiming and protecting soil is critical to preserving and restoring biodiversity.

Mining clay and the production of LNC requires energy. Logistics and transportation of material, equipment, personnel, and manufacturing also require energy. Desert Control strives to reduce energy consumption in all stages of the process and facilitate the use of renewable energy sources wherever available. These negative impact factors are, by far, surpassed by the sum of positive impacts from stopping and reversing desertification and soil degradation, reducing water consumption, and other environmental benefits.

LNC has no adverse impact on any of the 17 United Nations Sustainable Development Goals (SDGs). Further, LNC has a significant direct positive impact on 9 of the SDGs.

Consolidated Financial Statements Desert Control Group



Consolidated Statement of Comprehensive Income

(Amounts in NOK thousand)	Notes	Full year 2023	2022
Revenue from sales	2.1	845	1 328
Other income	2.2	543	-
Total income		**1 388**	**1 328**
Cost of goods sold (COGS)		63	1 049
Gross margin		**1 325**	**279**
Salary and employee benefit expenses	2.3,7.1	37 878	41 670
Other operating expenses	2.4	23 473	21 588
Depreciation and amortisation	3.1, 3.2	4 175	1 807
Operating profit or loss		**-64 200**	**-64 786**
Finance income	4.6	17 600	15 873
Finance costs	4.6	12 776	9 940
Profit or loss before tax from continuing operations		**-59 376**	**-58 853**
Income tax expense	5.1	-12	3
Profit or loss for the year from continuing operations		**-59 364**	**-58 856**
Discontinued operations			
Profit or loss after tax for the year from discontinued operations	6,1	-5 910	-31 603
Profit or loss for the year		**-65 274**	**-90 459**
Allocation of profit or loss:			
Profit/loss attributable to the parent		-65 274	-90 459
Other comprehensive income:			
Items that subsequently may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		1 414	-43
Total items that may be reclassified to profit or loss, net of tax		1 414	-43
Total other comprehensive income for the year		**1 414**	**-43**
Total comprehensive income for the year		**-63 860**	**-90 503**
Allocation of total comprehensive income			
Total comprehensive income attributable to owners of the parent		-63 860	-90 503
Earnings per share NOK ("EPS")			
Basic EPS - profit or loss attributable to equity holders of the parent	4.8	-1,48	-2,51
Diluted EPS - profit or loss attributable to equity holders of the parent	4.8	-1,48	-2,51

Consolidated Statement of Financial Position

(Amounts in NOK thousand)	Notes	At 31 December 2023	2022
ASSETS			
Non-current assets			
Goodwill	3.3	-	7 221
Property, plant and equipment	3.1	8 044	21 002
Investment in subsidiaries		0	-
Right-of-use assets	3.2	439	1 635
Total non-current assets		**8 484**	**29 857**
Current assets			
Inventory		217	585
Accounts receivable		17	1 572
Other receivables	2.5	5 172	9 052
Other current financial assets	4.1	19 616	41 416
Cash and cash equivalents	4.5	100 008	36 761
Total current assets		**125 030**	**89 415**
TOTAL ASSETS		**133 514**	**119 272**
EQUITY AND LIABILITIES			
Equity			
Share capital	4,4	161	123
Share premium		321 180	235 132
Currency translation differences		-80	-1 336
Retained earnings		-192 194	-126 919
Total equity		**129 067**	**107 001**
Non-current liabilities			
Non-current lease liabilities	3,2	-	425
Total non-current liabilities		**-**	**425**
Current liabilities			
Current lease liabilities	3.2	464	1 059
Trade and other payables	2.6	1 873	5 004
Public duties payable	2,6	912	944
Other current liabilities	2.6	1 198	4 839
Total current liabilities		**4 448**	**11 846**
Total liabilities		**4 448**	**12 271**
TOTAL EQUITY AND LIABILITIES		**133 514**	**119 272**

Sandnes, 22.04.2024

Knut Nesse
Chair

James Thomas
Board Member

Maryne Lemvik
Board Member

Geir Hjellvik
Board Member

Marit Røed Ødegaard
Board Member

Ole Kristian Sivertsen
Chief Executive Officer

Consolidated Statement of Cash Flows

(Amounts in NOK thousand)		Full year	
Cash flows from operating activities	**Notes**	**2023**	**2022**
Profit or loss before tax from continued operations		**-59 376**	**-58 853**
Profit or loss before tax from discontinued operations		**-5 910**	**-31 603**
Adjustments to reconcile profit before tax to net cash flows:			
Net financial income/expense	4,6	-4449	-5 886
Depreciation and amortisation	3,1	6 492	6 108
Derecongition of Goodwill	3,3	7 220	-
Share-based payment expense	4,7	4 219	4 283
Foreign exchange gains or losses		3 186	-
Working capital adjustments:			
Changes in accounts receivable and other receivables		5 802	-5 066
Changes in trade payables, duties and social security payables		-3 162	2 402
Changes in other current liabilities and contract liabilities		-4 236	161
Net cash flows from operating activities		**-50 214**	**-88 455**
Cash flows from investing activities			
Purchase of property, plant and equipment	3,1	-691	-13 969
Sale of financial instruments	4,1	22 346	36 744
Proceeds from sale of property, plant and equipment	3,1	10 556	890
Interest received		398	867
Net cash flow from investing activities		**32 610**	**24 533**
Cash flow from financing activities			
Proceeds from issuance of equity	4,4	85 473	1
Transaction costs on issue of shares	4,4	-3 608	
Lease payments	3,2	-1 146	-1 590
Interest paid		-23	-3
Net cash flows from financing activities		**80 697**	**-1 592**
Net increase/(decrease) in cash and cash equivalents		**63 092**	**-65 514**
Cash and cash equivalents at beginning of the year/period	4,5	36 791	101 924
Net foreign exchange difference		124	380
Cash and cash equivalents, end of period		**100 008**	**36 791**

DESERT CONTROL

Consolidated Statement of Changes in Equity

(Amounts in NOK thousand)	Share capital	Share premium	Cumulative translation differences	Retained earnings	Total equity
Balance at 31 December 2021	**122**	**230 849**	**-107**	**-36 592**	**194 272**
Profit (loss) for the year				-90 459	-90 459
Other comprehensive income			-1 229	132	-1 097
Issue of share capital (Note 4.4)	1	-			1
Transaction costs					-
Share based payments (Note 4.8)		4 283			4 283
Balance at 31 December 2022	**123**	**235 132**	**-1 336**	**-126 919**	**107 001**
Profit (loss) for the year				-65 274	-65 274
Other comprehensive income			-1 837		-1 837
Translation differences related to deconsolidated subsidary reclassified to proft or loss			3 093		3 093
Issue of share capital (Note 4.4)	37	85 436			85 473
Transaction costs		-3 608			-3 608
Share based payments (Note 4.8)		4 219			4 219
Balance at 31 December 2023	**161**	**321 180**	**-80**	**-192 194**	**129 067**

Notes to the Consolidated Financial Statements

1.1 GENERAL INFORMATION

Corporate information

Corporate information

The consolidated financial statements of Desert Control AS and its subsidiaries (collectively, “the Group”, “Company” or “Desert Control”) for the twelve months period ended 31 December 2023 were authorised for issue by a Board meeting held on 22 April 2024.

Desert Control AS is a private limited liability company incorporated and domiciled in Norway. It’s shares are traded at the unregulated market place Euronext Growth. The Group’s head office is located at Grenseveien 21, 4313 Sandnes, Norway.

Desert Control specializes in climate-smart Agri-tech solutions to combat desertification, soil degradation, and water scarcity. Its patented Liquid Natural Clay (LNC) enables sustainable ecosystem management by restoring and protecting soil’s ability to preserve water and increase yields for agriculture, forests, and green landscapes.

1.2 BASIS OF PREPARATION

The consolidated financial statements of the Group comprise consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and related notes. The consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards as adopted by The European Union (“EU”).

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. Further, the financial statements are prepared based on the going concern assumption.

Comparative financial information is provided for the preceding period in the Consolidated statement of comprehensive income, Consolidated statement of financial position and Consolidated statement of cash flows.

Presentation currency and functional currency

The consolidated financial statements are presented in Norwegian Kroner (NOK), which is also the functional currency of the parent company. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

For presentation purposes, balance sheet items are translated from functional currency to presentation currency by using exchange rates at the reporting date. Items within total comprehensive income are translated from functional currency to presentation currency by applying monthly average exchange rates. If currency rates are fluctuating significantly, transaction date exchange rates are applied for significant transactions. The subtotals and totals in some of the tables in the notes may not equal the sum of the amounts shown in the primary financial statements due to rounding. All amounts have been rounded to the nearest thousand unless otherwise stated.

Going concern basis of accounting

Desert Control is currently in the pre-commercialization phase, focusing on refining our technologies and securing key partnerships for market entry. We anticipate completing this phase within the next two years, transitioning into commercial operations and revenue generation by the end of 2025. This timeline is based on our current progress in product development, expected regulatory approvals, and initial customer engagement strategies. Management is committed to regularly reviewing and updating this timeline as circumstances evolve, ensuring our financial strategies are aligned with operational milestones to support the ongoing viability of the company.

Desert Control’s consolidated financial statements are prepared on a going concern basis.

Enhanced disclosure of material accounting policies

In accordance with the amendments to IAS 1 issued by the IASB on 12 February 2021, Desert Control has updated its financial statement disclosures for the year ended 31 December 2023. These amendments necessitate the disclosure of material accounting policies rather than solely significant ones, ensuring transparency and enhancing the usefulness of our financial reports. The changes, effective for reporting periods beginning on or after 1 January 2023, require us to assess and disclose accounting policies that materially affect the understanding of our financial statements.

1.3 MATERIAL ACCOUNTING POLICIES

Desert Control AS has selected a presentation in which the description of accounting policies as well as estimates, assumptions and judgmental considerations are disclosed in the notes to which the policies relate. Other accounting policies are presented below:

Capitalisation of internal development costs

In line with IFRS, particularly IAS 38 regarding intangible assets, Desert Control mainly recognizes all internal development costs as expenses when incurred. This accounting policy reflects the company’s decision to prioritize transparency and immediate recognition of these costs over capitalization. The decision is based on our assessment that immediate expensing better reflects our operational realities and financial performance, aligning with our risk management and financial strategy.

While IAS 38 permits the capitalization of development costs under certain conditions, our consistent approach has been to expense these costs. Should our business model evolve or if a product development project reaches a significant milestone that confirms technological and economic feasibility we will reassess our approach to capitalizing development costs. This reassessment would be based on management’s judgment that these costs meet the capitalization criteria outlined in IAS 38, including the project’s ability to generate probable future economic benefits.

1.4 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of our consolidated financial statements in accordance with IFRS Accounting Standards requires management to make critical judgments, estimates, and assumptions that significantly affect the reported values of assets, liabilities, revenues, and expenses. These financial estimates are grounded in historical data and informed by expectations based on reasonable assumptions under current conditions. However, it is important to note that actual results could differ from these estimates.

Ongoing Review and Adaptation

The assumptions and underlying estimates are reviewed continually to ensure they align with current market conditions and the operational environment. Any significant changes in the assumptions or estimates that may arise due to market fluctuations or unforeseen circumstances are promptly reflected in the financial reporting.

Key Areas of Estimates and Assumptions

Share-Based Payments (Note 4.7): We assess the fair value of share-based payments at each reporting date, taking into account factors such as share price volatility and employee turnover rates.

Measurement of Deferred Tax Assets (Note 5.1): Recognition of deferred tax assets is based on forecasted taxable income, considering the likelihood of sufficient taxable profits being available against which the tax losses can be utilized.

Judgment in Deferred Tax Assets

Deferred Tax Assets Recognition (Note 5.1): The decision to recognize deferred tax assets involves judgments regarding the future financial performance of the company, specifically whether there will be sufficient taxable profit to utilize the deferred tax assets.

Material Uncertainties and Risks

Going Concern Uncertainties: We explicitly address any material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern in our risk disclosures. These include factors such as market volatility and operational risks which are assessed to determine their potential impact on our operational continuity and financial stability.

Discontinued Operation

In accordance with IFRS 5, Desert Control has classified certain operations in the Middle East as discontinued following a strategic reassessment of our business model. This reorientation towards a licensing framework necessitated the derecognition of goodwill previously associated with direct operational presences in these regions. Originally, this goodwill reflected the expected future economic benefits from our direct operations and technological exclusivity in the UAE and broader Middle East. Transitioning to a licensing model fundamentally alters the nature of our revenue generation, focusing now on earning royalties and selling equipment rather than direct sales. Consequently, the economic benefits that goodwill was expected to generate are no longer aligned with our revised business strategy.

Desert Control performed an impairment trigger assessment on the assets and liabilities related to our UAE operations, coinciding with the decision to classify these assets as held for sale during 3Q 2023. This assessment did not reveal the need for an impairment, reflecting our judgement that the expected proceeds from the disposal were adequate relative to the carrying amounts.

This note should be read in conjunction with Note 7.2 Discontinued Operations.

2.1 REVENUE FROM CONTRACTS WITH CUSTOMER

ACCOUNTING POLICIES

Revenue from sales is recognized when control of the goods or services transfers to the customer, reflecting the total consideration expected under the terms of the contract. Specifically, for our product LNC, revenue is recognized at the moment the product is applied at the delivery point, as this is when control typically passes to the customer, in accordance with the contractual agreements. This process marks the completion of the sole performance obligation per sale.

The Group's revenue from contracts with customers has been disaggregated and presented in the tables below:

	Full year	
By area of operation: (Amounts in NOK thousand)	**2023**	**2022**
Liquid NaturalClay (LNC) continued operations	845	1 328
Liquid NaturalClay (LNC) discontinued operations	48	895
Total	**893**	**2 223**
By geographic market:	**2023**	**2022**
Norway	-	228
USA	845	1 100
UAE	48	895
Total	**893**	**2 223**

2.2 OTHER INCOME

ACCOUNTING POLICIES

Other income is recognized when control of goods or services transfers to the customer, corresponding to the agreed-upon consideration that the Group expects to be entitled to, which reflects the fair value of the transaction. This income typically arises from specialized agreements, such as the licensing agreements with H-eart & Marwarid, where the income recognised represents, the net amount retained after direct costs associated with the transactions.

Each licensing transaction constitutes a single performance obligation, fulfilled at the point when the licensee obtains control of the licensed rights, in line with the contractual terms. These agreements often result in the recognition of net income at the time of control transfer, reflecting the total economic benefits the Group expects from the transaction.

Significant transactions, particularly those involving the restructuring of our operations as outlined in Note 7.2, include the sale of business units and granting of exclusive licensing rights. These transactions are handled with careful consideration to ensure that the income recognised accurately represents the consideration received minus any costs directly attributable to the transaction.

For further details on the accounting treatment of these transactions and their impact on our financial statements, please refer to Note 7.2.

	Full year	
Other income	**2023**	**2022**
Continued operations:		
Inventory sales	33	-
Sustainability & Environment award	510	-
Other income continued operations	**543**	**-**
Discontinued operations:		
Secondment of personell	1 358	1 995
Sale of assets	540	-
Net income recognition from licensing agreements*	14 798	-
Other income discontinued operations	**16 697**	**1 995**
Total other income	**17 240**	**1 995**

* Net of derecognized goodwill.

2.3 SALARY AND EMPLOYEE BENEFIT EXPENSES

ACCOUNTING POLICIES

Salary and employee benefit expenses represent a significant portion of our operational costs.

Breakdown of Employee Cost

Fixed and Variable Pay: Employee remuneration includes fixed pay such as salaries and hourly wages, and variable pay that includes bonuses and commissions, which are recognized as expenses in the periods in which the employees render the related services.

Holiday Pay and Other Benefits: Holiday pay is accrued based on ordinary salaries and is recognized as a liability until paid in the following fiscal year. Other benefits, including health insurance and transportation allowances, are expensed as incurred.

Pensions and Social Security Contributions: Pension contributions, which follow a defined contribution plan, and social security charges are recognized as expenses in the payroll periods to which they relate. These are significant as they not only reflect our current cost structure but also our commitment to employee welfare.

Other employee expenses: Other employee expenses mainly include share option expenses, which are valued at fair market price at the time of grant and are expensed over the vesting period of the options

Government Grants

Government grants received as incentives for employment practices are recognized when there is reasonable assurance that the grant conditions will be met. The grants are accounted for as reductions to the respective expense categories they pertain to, such as direct labor costs.

	Full year	
Salary and Employee benefit expenses	**2023**	**2022**
Salaries	27 704	32 812
Social security costs	4 774	4 284
Pension costs	958	1 042
Other employee expenses	5 627	5 512
Subtotal Salaries and Benefits	**39 064**	**43 650**
Government grant	-1 186	-1 980
Total Salary and Employee benefit expenses continued operations	**37 878**	**41 670**
Total Salary and Employee benefit expenses discontinued operations	**10 415**	**20 417**
Average number of full time employees (FTEs) continued operations	20	24
Average number of full time employees (FTEs) discontinued operations	18	27

At the end of the reporting period, members of the Board and management held shares and share options in Desert Control AS. For information on remuneration to Management and the Board of Directors, including disclosures related to share and share options held, see note 7.1.

2.4 OPERATING EXPENSES

ACCOUNTING POLICIES

Our accounting policy for operating expenses ensures recognition of all costs pertinent to our daily operations, excluding cost of material, salary and employee benefits and depreciation and amortisation. We identify and disclose expenses that significantly impact our financial statements, including notable items like audit and accounting fees, consulting fees, legal and travel expenses, and research costs. Government grants are accounted for as deductions from the relevant expenses.

	Full year	
Other operating expenses	**2023**	**2022**
Audit and accounting fees	2 974	1 241
Consulting fees	2 025	2 644
Legal expenses	2 673	1 252
Travel expenses	3 894	4 692
Short-term lease expenses (not accounted under IFRS 16)	2 424	2 675
Research expenses	1 681	4 681
Regulatory expenses	1 346	2 011
Hardware and software expenses	2 265	2 044
Other operating expenses	10 927	10 817
Government grant	-297	-2 198
Total other operating expenses continued operations	**23 771**	**23 222**
Total other operating expenses discontinued operations	**6 438**	**6 637**

Auditor fees	**2023**	**2022**
Statutory audit	748	423
Attestation services	104	222
Tax advisory	-	-
Other services	-	365
Total remuneration to the auditor	**852**	**1 010**

The amounts above are excluding VAT.

2.5 OTHER RECEIVABLES

ACCOUNTING POLICIES

Desert Control measures 'Other Receivables,' notably include amounts due from VAT, and government grants, at initial fair value and subsequent amortized cost. We adopt a simplified approach for ECL (expected credit losses) in line with IFRS 9, reflecting our minimal historical credit losses and robust risk management practices. The immaterial credit loss allowance indicates low credit risk, and details on our credit risk management are outlined in Note 4.2, ensuring stakeholders have a clear picture of our financial standing and risk profile.

	At 31 December	
Other receivables	**2023**	**2022**
Mawarid DC Joint Venture	-	1 502
VAT receivable	1 311	647
Govnerment grant receivables	1 483	3 383
Prepayments	909	2 471
Other receivables	1 470	1 048
Total other receivables	**5 172**	**9 052**

The credit loss allowance is insignificant.

For details regarding the Group's procedures on managing credit risk, reference is made to note 4.2.

2.6 TRADE AND OTHER PAYABLES

ACCOUNTING POLICIES

Trade and other payables represent liabilities to third parties that arise from past transactions, where payment is expected to lead to an outflow of resources. These liabilities are categorized primarily into trade payables, withholding payroll taxes, social security, and other current liabilities. Initially recognized at fair value, these payables are subsequently measured at amortized cost using the effective interest method.

Trade payables are non-interest bearing and are typically settled on standard 30-day terms. This practice aligns with industry norms and our operational cash flow management strategy. The category of other payables predominantly consists of obligations related to payroll, such as withholding taxes and vacation pay, which are critical for compliance with regulatory requirements. The significant reduction in total Trade and other payables is primarily attributed to the overall decrease in purchasing activities.

	At 31 December	
Trade and other payables	**2023**	**2022**
Trade payables	1 873	5 004
Withholding payroll taxes and social security	912	944
Other current liabilities	1 198	4 839
Contract liabilities	-	-
Total trade and other payables	**3 984**	**10 787**

2.7 PROVISIONS

ACCOUNTING POLICIES

The Group did not recognize any provisions during the current and preceding periods, consistent with historical trends where provisions have been immaterial.

The Group did not provide guarantees to or on behalf of third parties or related parties. The Group has no other significant commitments to disclose.

3.1 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Desert Control recognizes PP&E at historical cost, reduced by accumulated depreciation and any accumulated impairment losses. Costs initially include purchase price, construction cost, direct costs to bring the asset to working condition, estimated retirement obligations, and applicable borrowing costs. Regular maintenance costs are recognised as an expense when incurred, while significant replacements and overhaul costs are capitalised and depreciated over their useful lives. The Group reviews residual values, depreciation methods, and asset useful lives annually and adjusts them prospectively when necessary.

In line with our strategic focus, Desert Control made significant changes to its PP&E portfolio in 2023. Notably, we divested certain assets as part of our operational realignment, leading to major disposals detailed in Note 7.2. The liquidation of operations in the Middle East resulted in a decrease of the carrying amount in 2023.

Desert Control's management consistently reviews the carrying values of PP&E to ensure alignment with operational realities and future economic benefits. No impairments were recorded, as the disposals did not necessitate such adjustments.

The remaining PP&E is expected to continue contributing to our operations, with depreciation reflecting the consistent application of our accounting policies. Depreciation of PP&E is computed on a straight-line basis, reflective of the expected utilisation and benefit of the assets. For specific components of assets that are significant in relation to total cost, depreciation is charged separately, aligned with their individual useful lives.

Management is committed to reallocating resources to maximize operational efficiency and align with our strategic focus on markets outside the Middle East.

(NOK thousand)	Plant and machinery	Fixtures and fittings	Total
Cost as at 1 January 2022	**10 967**	**759**	**11 726**
Additions	13 543	426	13 969
Disposals	-890	-	-890
Currency translation effects	2 074	-	2 074
Cost as at 31 December 2022	**25 694**	**1 185**	**26 879**
Additions continued operations	3 551	2 470	6 021
Disposals including discontinued	-18 738	-	-18 738
Currency translation effects	223	-	223
Cost as at 31 December 2023	**10 730**	**3 655**	**14 385**
Depreciation and impairment as at 1 January 2022	**1 035**	**166**	**1 201**
Depreciation for the year	4 303	343	4 646
Impairment for the year			
Currency translation effects	7	-	7
Depreciation and impairment as at 31 December 2022	**5 345**	**509**	**5 854**
Depreciation for the period continued operations	4 604	497	5 101
Impairment for the period	-	-	-
Disposals discontinued operations	-3 205	-	-3 205
Currency translation effects	-1 408	-	-1 408
Depreciation and impairment as at 31 December 2023	**5 335**	**1 006**	**6 341**
Net book value:			
At 31 December 2022	**20 326**	**676**	**21 002**
At 31 December 2023	**5 395**	**2 650**	**8 044**
Economic life (years)	5	3	
Depreciation plan	Straight-line method	Straight-line method	

Notes to the consolidated financial statements

3.2 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Desert Control's accounting for right-of-use assets is aligned with the principles set out in IFRS 16. As we operate within a dynamic business environment, our leasing strategies are regularly reviewed for optimal alignment with operational needs.

For the reporting period ending December 31, 2023, right-of-use assets have been accounted for at cost less accumulated depreciation, consistent with the company's historical practices.

The Group's leased assets include 1 warehouse property and 1 farm property in the US. The farm property remains actively leased and is used in ongoing operations. Located in an agricultural area, it continues to support our core business activities. A new lease agreement was entered for a warehouse located in the United States, serving as a hub for our logistics and distribution activities across North America. This warehouse supports a critical part of our supply chain, enhancing our ability to distribute products efficiently. The lease for the warehouse property located in the UAE expired in November 2023 and has not been renewed due to the liquidation of the company's operations in the UAE.

The Group's right-of-use assets recognised in the consolidated statement of financial position are presented in the table below:

Right-of-use assets

	Warehouse & Farm	Total
Acquisition cost at 31 December 2022	**3 892**	**3 892**
Disposals due to discontinued operations	-2 997	-2 997
Additions of right-of-use assets	66	66
Currency translation effects	27	27
Acquisition cost at 31 December 2023	**988**	**988**
Depreciation and impairment at 31 December 2022	**2 259**	**2 259**
Disposals due to discontinued operations	-2 222	-2 222
Depreciation of right-of-use assets from continued operations	530	530
Currency translation effects	-19	-19
Depreciation and impairment at 31 December 2023	**548**	**548**
Carrying amount at 31 December 2022	**1 635**	**1 635**
Carrying amount at 31 December 2023	**439**	**439**
Remaining lease term or remaining useful life	1-2 years	
Depreciation plan	Straight-line method	
Expenses in the period related to practical expedients and variable payments	**2023**	**2022**
Lease expenses	1 436	782
Low-value assets lease expenses	-	-
Variable lease expenses in the period (not included in the lease liabilities)	-	-
Total lease expenses in the period	**1 436**	**782**

In addition, the lease expenses in the period related to short-term leases, low-value assets and variable lease payments are included in other operating expenses in the consolidated statement of comprehensive income, and the payments are presented in the Group's operating activities in the consolidated statement of cash flows.

Notes to the consolidated financial statements

The Group's lease liabilities

	At 31 December	
Undiscounted lease liabilities and maturity of cash outflows	**2023**	**2022**
Less than one year	464	1 063
One to two years	-	434
Total undiscounted lease liabilities	**464**	**1 497**

Changes in the lease liabilities - 2022	**Total**
At 1 January 2022	**1 952,0**
New leases recognised during the period	894
Cash payments for the lease liability	-1 590
Interest expense on lease liabilities	41
Currency translation effects	187,0
Total lease liabilities at 31 December 2022	**1 485**
Current lease liabilities in the statement of financial position	1 059
Non-current lease liabilities in the statement of financial position	425

Changes in the lease liabilities - 2023	**Total**
At 1 January 2023	**1 485**
New leases recognised during the period	66
Cash payments for the lease liability	-1 146
Interest expense on lease liabilities	40
Currency translation effects	19
Total lease liabilities at 31 December 2023	**464**
Current lease liabilities in the statement of financial position	464
Non-current lease liabilities in the statement of financial position	-

Total cash outflow for 2023 for all leases amount to NOK 3.1 million (NOK 4.1 million in 2022).

3.3 GOODWILL

ACCOUNTING POLICIES

Desert Control has undertaken a significant strategic realignment during the reporting period. This involved transitioning to a licensing model which emphasizes leveraging our proprietary technologies across the Middle East through robust licensing agreements. As a result of this strategic shift, we initiated the termination of one of our subsidiaries that previously constituted a substantial operational presence in the region.

The transition away from direct operations to a licensing model led to the disposal of our subsidiary's assets, including production equipment and associated goodwill. The proceeds from licensing rights and equipment sales were accounted for against the subsidiary's net assets, resulting in the derecognition of goodwill from our financial statements. This derecognition is consistent with our strategic decision to monetize the subsidiary's value through asset liquidation and licensing arrangements rather than continuing its operations.

The derecognition of 7.2 million NOK in goodwill is a result of our strategic realignment from direct operations to a licensing model, leading to the disposal of certain subsidiary assets including production equipment and associated goodwill. The proceeds from these disposals were offset against the subsidiary's net assets, resulting in the derecognition of goodwill associated with discontinued subsidiary. This aligns with IFRS 5, which requires separate disclosure of discontinued operations as detailed in note 7.2. The derecognition reflects the subsidiary's divestment and is not indicative of a goodwill impairment but rather the classification of the operation as discontinued.

4.1 FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Classification of financial instruments

The Group's financial instruments are grouped in the following categories:

Financial Assets

- Financial assets measured subsequently at amortised cost: Includes mainly other receivables and cash and cash equivalents
- Financial assets measured subsequently at fair value through profit or loss: Includes other current financial assets

With the exception of other current financial assets, the Group's financial assets are part of the Group's business model with the sole objective to collect contractual cash flows. Additionally, the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, thereby passing the "SPPI test", constituting debt instruments measured at amortised cost.

Financial Liabilities

- Financial liabilities measured subsequently at amortised cost: Represent the Group's non-interest bearing liabilities such as trade payables.

The Group does not have derivative financial instruments measured at fair value. All financial assets and liabilities are measured subsequently at amortised cost, with the exception of other current financial assets measured at fair value.

Initial recognition and subsequent measurement

Financial assets and liabilities at amortised cost

The Group's financial assets and liabilities are initially recognised at fair value plus directly attributable transaction expenses. Subsequently, these instruments are measured at amortised cost using the effective interest method (EIR). Gains and losses are recognised in profit or loss upon impairment, when the instruments are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortisation is included as finance costs in the consolidated statement of comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are recognised at fair value are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Impairment of financial assets

Financial assets measured at amortised cost are considered for impairment by recognising an allowance for expected credit losses (ECLs). The Group applies a simplified approach (as applicable for trade receivables) in calculating ECLs, where the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group bases its ECLs on its historical losses, adjusted for forward-looking factors specific to the debtors and the economic environment. See note 4.2 for further information related to management of credit risk.

Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, the Group has transferred its rights to receive cash flows from the asset or The Group has assumed an obligation to pay the received cash flows in full under a "pass-through" arrangement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Enhanced disclosure

In this year's financial statements, we have enhanced our disclosures related to Other Financial Instruments to provide more complete information and include outstanding receivables excluding any amounts related to periodisation, such as prepayments

31.12.2023	Notes	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	Total
Assets				
Accounts receivable		17		17
Other receivables	2.5	4 263		4 263
Other current financial assets			19 616	19 616
Cash and cash equivalents	4.5	100 008		100 008
Total financial assets		**104 288**	**19 616**	**123 904**
Liabilities				
Trade and other payables	2.6	1 873		1 873
Total financial liabilities		**1 873**	**-**	**1 873**

31.12.2022	Notes	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	Total
Assets				
Accounts receivable	2.5	1 572		1 572
Other current financial assets*			41 416	41 416
Cash and cash equivalents	4.5	36 791		36 791
Total financial assets		**38 363**	**41 416**	**79 779**
Liabilities				
Trade and other payables	2.6	5 004		5 004
Total financial liabilities		**5 004**	**-**	**5 004**

* Other current financial assets consist of fixed income fund.

There are no changes in classification and measurement for the Group's financial assets and liabilities.
Finance income and finance costs arising from the Group's financial instruments are disclosed separately in note 4.6.

4.2 FINANCIAL RISK MANAGEMENT

Overview

The Group's principal financial liabilities, comprise lease liabilities, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include other current financial assets, other receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to a range of risks affecting its financial performance, including market risk, credit risk and liquidity risk. Risk management is carried out by Group management .

Market risk

Market risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest risk and currency risk. Financial instruments affected by market risk include deposits and fixed income funds.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has a limited exposure to the risk of changes in market interest rates as it currently has no interest bearing debt. The future cash flows from cash and cash equivalents and other current financial assets is dependent on market interest rates. Currently the Group does not hedge interest rate risk exposure with the use of financial instruments, but may enter into contracts to offset some of the risk depending on the future funding and expected interest rates.

Interest rate sensitivity

Given that the Group holds no material interest-bearing debt and a 10% change in the interest rate would have a limited impact on the financial statement, we deem the interest sensitivity to not be significant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group holds no financial instruments in foreign currencies.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or contract, leading to a financial loss. The Group is exposed to credit risk related to other receivables, cash and cash equivalents and other current financial assets.

The Group only uses highly reputable banks and fund managers in order to reduce credit risk. The expected credit loss for the Group is considered not significant as of 31 December 2023.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group monitors its risk to a shortage of funds by monitoring its working capital and securing sufficient funding from investors.

The Group's objective is to secure funding for its working capital, including mainly the research and development of LNC. Except for the non-current lease liability, all loans and payables are due to be paid within 12 months from the balance sheet date.

Capital management
The primary focus of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support the growth of the business. The group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives policies or processes during the year 31 December 2023 and 31 December 2022. The Group holds no interest-bearing debt as of 31 December 2023.

4.3 FAIR VALUE MEASUREMENT

ACCOUNTING POLICIES
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Fair value disclosures

Management has assessed that the fair values of cash and short-term deposits, other receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments and the current risk free interest rates.

Other current financial assets

Other current financial assets comprise investments in fixed income funds, managed by SKAGEN / Storebrand, thus the fair value is categorised as level 1 measurements.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

(NOK thousand)	Date	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets measured at fair value						
Fixed income funds (Note 4.1)	31.12.2023	19 616	19 616	X		

There were no transfers between the levels during the current period.

4.4 EQUITY AND SHAREHOLDERS

ACCOUNTING POLICIES

Costs related to equity transactions

Transaction costs are deducted from equity, net of associated income tax.

No distributions were made to shareholders in the current or prior period.

Issued capital and reserves:

Share capital in Desert Control AS	Number of shares authorised and fully paid	Par value per share (NOK)	Financial Position
At 31 December 2021	**40 724 640**	**0,003**	**122 174**
Share issue 10 March 2022	375 040	0,003	1 125
At 31 December 2022	**41 099 680**	**0,003**	**123 299**
Share issue 10 March 2023	227 109	0,003	681
Share issue 31 July 2023	1 000 000	0,003	3 000
Share issue 13 October 2023	10 000 000	0,003	30 000
Share issue (rep) 17 November 2023	1 181 188	0,003	3 544
At 31 December 2023	**53 507 977**	**0,003**	**160 524**

All shares are ordinary and have the same voting rights and rights to dividends.

Reconciliation of the Group's equity is presented in the statement of changes in equity.

The Group's shareholders:

Shareholders in Desert Control AS at 31.12.2023	Total shares	Ownership/ Voting rights
OLESEN CONSULT HVAC AS	5 900 000	11,0 %
Woods End Interests LLC	4 444 444	8,3 %
J.P. Morgan SE	4 380 342	8,2 %
NORDNET LIVSFORSIKRING AS	2 460 470	4,6 %
DNB BANK ASA	1 896 229	3,5 %
LITHINON AS	1 720 002	3,2 %
OLESEN	1 635 800	3,1 %
BNP Paribas	1 597 407	3,0 %
LIN AS	1 502 275	2,8 %
GLOMAR AS	1 368 456	2,6 %
NESSE & CO AS	1 360 000	2,5 %
JAKOB HATTELAND HOLDING AS	1 222 222	2,3 %
Citibank	1 212 260	2,3 %
CLEARSTREAM BANKING S.A.	1 173 469	2,2 %
IDLAND	1 139 206	2,1 %
The Northern Trust Comp	958 275	1,8 %
SORTUN INVEST AS	949 937	1,8 %
OKS CONSULTING AS	930 000	1,7 %
BEYOND CENTAURI AS	720 998	1,3 %
SUNDVOLDEN HOLDING AS	552 222	1,0 %
Others	16 383 963	30,6 %
Total	**53 507 977**	**100,0 %**

Shares held by management or the Board at the end of the reporting periods are summarised in note 7.1.

4.5 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits. Restricted bank deposits comprise of cash for withholding taxes which may not be used for other purposes.

	At 31 December	
Cash and cash equivalents	**2023**	**2022**
Bank deposits, unrestricted	99 522	35 617
Bank deposits, restricted	486	1 174
Total cash and cash equivalents	**100 008**	**36 791**

Bank deposits earns a low interest at floating rates based on the bank deposit rates.

4.6 FINANCIAL INCOME AND EXPENSES

ACCOUNTING POLICIES

Interest income and interest expenses are calculated using the effective interest method.

Foreign currency gains or losses are reported as gain or loss on foreign exchange within finance income or finance costs, except for currency translation effects from investments in foreign subsidiaries which are presented within OCI. For other accounting policies related to the underlying financial instruments, reference is made to note 4.1.

Interest costs on lease liabilities represents the incremental borrowing rate used to measure the lease liabilities recognised in the statement of financial position.

	Full year	
Finance income continued operations	**2023**	**2022**
Interest income	408	867
Other finance income	1 515	816
Gain on foreign exchange	15 677	14 189
Total finance income continued operations	**17 600**	**15 873**
Total finance income discontinued operations	**-**	**-**
Finance costs continued operations	**2023**	**2022**
Interest on lease liabilities	40	4
Other finance costs	113	-
Loss on foreign exchange	12 624	9 936
Total finance costs continued operations	**12 776**	**9 940**
Finance costs discontinued operations	**2023**	**2022**
Interest expenses	385	46
Exchange differences on transaltion of forreign operations	3 186	-
Total finance costs discontinued operations	**3 571**	**46**

Interest income represents mainly interest income on cash deposits.

Other finance income is related to income from other current financial assets.

4.7 SHARE BASED PAYMENTS

ACCOUNTING POLICIES

Management and key employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

Under the main schemes the employees are granted options to purchase shares after 3 years vesting periods. The cost of these equity-settled transactions is determined by the fair value at the date when the grant is made, which has been estimated using an appropriate valuation model (the Black-Scholes-Merton Model).

That cost is recognised in employee benefits expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 4.8).

Social security tax on share based payments are recognised when paid.

MATERIAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or restrictive share unit, volatility and dividend yield and making assumptions about them. Due to limited historical data and liquidity these assumptions include significant estimates made by management. The most significant assumption is the volatility of the share price, which has been set to 47,74% due to the immature nature of the Group and its technology.

Share options held by management at the end of the reporting period are summarised in note 7.1.

The fair value of the options were determined at the grant dates and expensed over the vesting period. MNOK 4.2 have been expensed as employee benefit expenses in the period (MNOK 4.3 in 2022).

	2023	2022
Outstanding options 1 January	**2 760 000**	**550 000**
Options granted	10 000	2 830 000
Options forfeited	-731 667	-257 850
Options exercised	-240 000	-362 150
Options expired	0	0
Outstanding options 31 December	**1 798 333**	**2 760 000**
Exercisable at 31 December	0	0

The strike price for the options exercised was NOK 0.003. The share price at the time of exercise in 2023 was NOK 14.94 compared to the share price at time of exercise in 2022 of NOK 22.98.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2023 was 1.31 years (2022: 2.08 years).

The range of exercise prices for options outstanding at the end of the year was NOK 0.003 - 20.00 (2022: same).

Assumptions used to determine fair value of share option grants:

	At 31 December	
	2023	**2022**
Weighted average fair values at the grant date	12,00	13,12
Dividend yield (%)	0	0
Expected volatility (%)	51%	47%
Risk–free interest rate (%)	4%	3%
Expected life of restricted shares (years)	2,5	3,5
Weighted average share price (NOK)	25,76	26,34
Model used	**BSM**	**BSM**

The expected volatility reflects historical volatility for similar listed entities. Share based payment valuations are considered level 3 measurements, ref note 4.3.

4.8 EARNINGS PER SHARE

ACCOUNTING POLICIES

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the EPS calculations:

(Amounts in NOK)	2023	2022
Profit or loss attributable to ordinary equity holders - for basic EPS	-65 273 971	-90 459 290
Profit or loss attributable to ordinary equity holders adjusted for the effect of dilution	-65 273 971	-90 459 290
Weighted average number of ordinary shares - for basic EPS	44 009 807	35 976 313
Weighted average number of ordinary shares adjusted for the effect of dilution	45 808 140	38 536 313
Basic EPS - profit or loss attributable to equity holders of the parent	**-1,48**	**-2,51**
Diluted EPS - profit or loss attributable to equity holders of the parent	**-1,48**	**-2,51**

5.1 TAXES

ACCOUNTING POLICIES

Current income tax

Current income tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity (OCI) is recognised in equity (OCI) and not in the statement of profit or loss.

Deferred tax

Deferred tax is provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity (or tax group) and the same taxation authority.

The Group has NOK 118 million of tax losses carried forward as at 31 December 2023 (NOK 131 million as at 31 December 2022). These losses primarily relate to historical losses in the parent company. The tax losses carried forward may be offset against future taxable income and have no expiry date.

The tax losses carried forward from the discontinued operations of the liquidated entities in the Middle East, are not included in the table below. Due to the ongoing liqudation process, it is highly improbable that these losses will be utilized against future taxable income.

The Group does not have any tax planning opportunities available that could support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets relating to the tax losses carried forward.

	Full year	
Current income tax expense:	**2023**	**2022**
Tax payable	-12	3
Adjustment for income tax payable for previous periods	-	-
Change deferred tax/deferred tax assets (ex. OCI effects)	-	-
Total income tax expense	**-12**	**3**
Deferred tax assets:	**31.12.2023**	**31.12.2022**
Property, plant and equipment	-339	-671
Lease liabilities	-464	-1 485
Other current assets		
Liabilities		
Losses carried forward (including tax credit)	117 466	-121 292
Basis for deferred tax assets:	**116 663**	**-123 448**
Calculated deferred tax assets	25 666	-27 159
- Deferred tax assets not recognised	-25 666	27 159
Net deferred tax assets in the statement of financial position	**-**	**-**
Deferred tax liabilities	**31.12.2023**	**31.12.2022**
Property, plant and equipment		
Right-of-use assets	439	1 635
Other current assets		
Liabilities		
Basis for deferred tax liabilities	**439**	**1 635**
Calculated deferred tax liabilities	**97**	**360**
- Deferred tax not recognised	-97	-360
Deferred tax liabilities recognised in the statement of financial position	**-**	**-**

As the Group is not yet in a tax paying position and and has not recognised any deferred tax assets related to the tax losses carried forward, it has not been determined meaningful to present a reconciliation of the tax expense.

6.1 INTERESTS IN OTHER ENTITIES

ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Desert Control AS and its subsidiaries as at 31 December 2023. The subsidiaries are consolidated when control is achieved as defined by IFRS 10. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. However, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

During 2023, Desert Control AS executed strategic agreements resulting in the sale of production assets and entities to Mawarid Holding Investment LLC (MHI) leading to a loss of control over our joint venture and associate.

The financial effects are disclosed in line with IFRS 5 as discontinued operations, with detailed reporting in Note 7.2 of our financial statements.

The liquidation of Desert Control Middle East LLC and the associated classification of its operations as discontinued are part of our strategic exit from these markets. Prior periods have been restated to ensure comparability.

The consolidated entities

The subsidiaries of Desert Control AS are presented below:

Consolidated Entities 31 December 2023	Office	Currency	Desert Control voting ownership share	Date of joint agreement
Desert Control Americas, Inc.	USA	USD	100%	31.12.2023
Desert Control Middle East LLC	Abu Dhabi, UAE	AED	49%*	31.12.2023

*Desert Control owns 49% of Desert Control Middle East LLC Abu Dahbi, with the remaining 51% being held by a local corporate sponsor due to local regulations requiring sponsorships. A shareholder agreement secures Desert Control 100% of any dividends and 100% of the controlling stake in Desert Control ME. As of December 31, 2023, the company has initiated the liquidation of Desert Control Middle East LLC, which is expected to be completed in 2024.

7.1 REMUNERATION TO MANAGEMENT AND THE BOARD

Remuneration of the Board of Directors

Remuneration of the members of the Board is determined by the Annual General Meeting (AGM).

Remuneration to the Members of the board.

(Amounts paid in NOK thousand)	Full year 2023	2022
Knut Nesse (Chair)	250	250
Brage Wårheim Johansen (Board Member)	100	100
Arnfinn Matre (Board Member)	N/A	100
Maryne Lemvik (Board Member)	100	N/A
Geir Hjellvik (Board Member)	100	100
Marit Røed Ødegaard (Board Member)	100	100
Kristian P. Olesen (Board Member)	100	100
James Thomas (Board Member)	N/A	N/A

Remuneration to the management team

The Board of Desert Control AS determines the principles applicable to the Group's policy for compensation to the management team. The Board is directly responsible for determining the CEO's salary and other benefits. The Group's management team includes the CEO, Interim CFO (who has been contracted from Aider), CIO, MD (US) & MD (ME).

Principles for determining salary

The main principle for determining salary for each executive management member has been a fixed annual salary with the addition of benefits in kind such as telephone, insurance and internet subscription. The fixed salary has been determined on the basis of the following factors: competitive salary level, scope of work and responsibilities, as well as an assessment of the business and individual performance.

Pension

All executive management are members of the defined contribution pension scheme.

Other benefits

Members of the management team have been granted share options under the Group's share option plan, described in note 4.8. The share options held by the management team is summarised further below.

Severance Arrangements

If the CEO is terminated by the Board, he is entitled to severance pay of 12 months in addition to the ordinary notice period of 3 months.

For other members of the management team, there will be an individual assessment of severance packages that are reasonable in relation to responsibility and seniority and the reason for the termination of the employment. Erling Rasmussen had a severance pay of 12 months, ending 30.09.2023. In addition Charlie Granfelt & Bernt Are Breistein received 12 months severanse pay in september 2023.

Loans and guarantees

No loans have been granted and no guarantees have been issued to management or any member of the Board of Director.

Remuneration to the management team for the year ended 31 December 2023:

(Amounts in NOK thousand)	Salary	Discounted Shares	Pension	Other compensation	Total remuneration
Ole Kristian Sivertsen (CEO)	2 292	1 345	80	1 215	4 932
Erling Rasmussen (CFO until Sept.2022)	-	1 121		1 125	2 246
Marianne Vika Bøe (CFO until Aug. 2023)	854	-	45	11	910
Charlie Granfelt (CCO until Sep. 2023)	1 048	-	53	1 437	2 538
Bernt Arne Breistein (CSO until Sep. 2023)	1 048	-	53	1 137	2 538
Viggo Halseth (CIO)	706	-	40	17	763
Marty Weems (Managing Director US) *	1 427	-	-	105	1 532
Jan Vader (Managing Director ME) *	1 145	-	-	323	1 468
Total	**8 520**	**2 466**	**271**	**5 370**	**16 627**

*Part of management team from 24 May 2023.

Remuneration to the management team for the year ended 31 December 2022:

(Amounts in NOK thousand)	Salary	Value of discounted Shares	Pension	Other compensation	Total remuneration
Ole Kristian Sivertsen (CEO)	2 133	4 136	73	3 701	10 043
Erling Rasmussen (CFO)*	937	1 034	71	1 308	3 350
Marianne Vika Bøe (CFO)	542	-	32	14	588
Charlie Granfelt (CCO)	750	-	38	14	802
Bernt Arne Breistein (CSO)	750	-	38	14	802
Ordin Husa (COO)	750	-	38	14	802
Viggo Halseth (CIO)	125	-	8	7	140
Total	**5 987**	**5 170**	**298**	**5 072**	**16 527**

*Eligible for gratuity pension of 1 month pay for each year of service.

	At 31 December	
Shares held by the management team:	**2023**	**2022**
Ole Kristian Sivertsen (CEO)	930 000	805 000
Leonard Chaparian (Contracted CFO)	-	-
Viggo Halseth (CIO)	10 375	10 375
Marty Weems (Managing Director US)	-	-
Jan Vader (Managing Director ME)	200	-
Total	**940 575**	**815 375**
Shares held by the Board of Directors:	**2023**	**2022**
Knut Nesse (Chair)	1 360 000	1 360 000
Kristian P. Olesen* (through controlling share in Olesen Consult HVAC AS)	5 900 000	5 900 000
James Thomas	4 444 444	-
Geir Hjellvik	1 720 002	1 423 706
Marit Røed Ødegaard	30 000	30 000
Maryne Lemvik	-	N/A
Brage W. Johansen	N/A	1 243 371
Total	**13 454 446**	**9 957 077**

* Kristian P. Olesen owns 60 % of Olesen Consult HVAC AS, who holds 5.9 mill shares in Desert Control.

Notes to the consolidated financial statements

	At 31 December	
Share options held by the management team:	**2023**	**2022**
Ole Kristian Sivertsen (CEO)	600 000	600 000
Leonard Chaparian (CFO)	-	-
Viggo Halseth (CIO)	120 000	120 000
Marty Weems (Managing Director US)	150 000	N/A
Jan Vader (Managing Director ME)	150 000	N/A
Marianne Vika Bøe (CFO)	*	300 000
Charlie Granfelt (CCO)	*	240 000
Bernt Arne Breistein (CSO)	*	300 000
Total	**1 020 000**	**1 560 000**

* Previous management team employees kept a pro rate share of their options deemed to be vested as of the date of the termination and all other unvested options cancelled.

7.2 DISCONTINUED OPERATIONS

ACCOUNTING POLICIES

In June 2023, Desert Control entered into a significant agreement with Mawarid Holding Investment LLC (MHI) for the sale of its production entity in the United Arab Emirates, which included transferring the shares in the joint venture, Mawarid Desert Control, along with the Liquid Clay (LNC) production assets. This agreement designated MHI as the exclusive licensed operator for the UAE, aiming to expand operations across the Middle East. Subsequently, in July 2023, an agreement was reached with Holistic Earth Advanced Regeneration Technologies SA (H-EART), resulting in the transfer of a single LNC Production cluster, which includes four production units, and granting H-EART the operational license on behalf of Desert Control in the Kingdom of Saudi Arabia.

Following these agreements, Desert Control Middle East LLC initiated the liquidation process to phase out the company's operations in the Middle East effectively.

In alignment with IFRS 5, the Group has classified its operations in the United Arab Emirates as discontinued following the strategic decision to exit the market. This reflects a significant shift in our geographical and operational focus, deemed material to our business structure and financial outlook.

The financial results from these discontinued operations, including the gain or loss on deconsolidation, are separately reported in the Consolidated Statement of Comprehensive Income to enhance clarity and decision-usefulness for our stakeholders. Non-current assets and disposal groups related to these operations were measured at the lower of their carrying amount and fair value less costs to sell and have been presented as held for sale in prior reporting periods until their disposal in 2023.

As of this date, Desert Control has no assets classified as held for sale, indicating the completion of significant transactions related to the discontinued operations within the 2023 fiscal year. All remaining minor transactions are expected to be settled by the final liquidation of Desert Control Middle East LLC in 2024.

The net results from these discontinued operations have been reported as a single line item in the Consolidated Statement of Comprehensive Income. For enhanced transparency and comparability, prior period figures have been restated.

		Full year	
Net result for discontinues operations		**2023**	**2022**
(Amounts in NOK thousand)	Notes		
Revenue from sales	2,1	48	895
Other income	2.2	16 697	1 995
Total income from discontinued operations		**16 745**	**2 890**
Cost of goods sold (COGS)		353	1 459
Gross margin from discontinued operations		**16 393**	**1 431**
Salary and employee benefit expenses		10 398	20 417
Other operating expenses		6 016	8 271
Depreciation and amortisation		2 318	4 301
Impairment		-	N/A
Operating profit or loss from discontinued operations		**-2 339**	**-31 558**
Finance income		-	-
Finance costs		3 571	46
Profit or loss before tax from discontinued operations		**-5 910**	**-31 604**
Income tax expense		-	-
Profit or loss for the year from discontinued operations		**-5 910**	**-31 604**

7.3 RELATED PARTY TRANSACTIONS

Related parties are major shareholders, members of the board and management in the parent company and the group subsidiaries. Note 6.1 and 4.5 provides information about the Group structure, including details of the subsidiaries and shareholders. Note 7.1 summarizes significant agreements, remuneration paid, and shares and options held by management and the Board for the current and prior period.

All transactions within the Group or with other related parties are based on the principle of arm's length.

7.4 SUBSEQUENT EVENTS

ACCOUNTING POLICIES

Desert Control assesses all significant information received up to the date the financial statements are authorized for issues that pertain to conditions existing at the end of the reporting period. Adjustments are made for any events that provide further evidence of conditions existing at the balance sheet data (adjusting events). For events that arise after the reporting period (non-adjusting events) and are material, we disclose their nature and potential financial impact or state that such an estimate cannot be made. This policy ensures compliance with IAS 10, ensuring that our financial statements reflect accurate and up-to-date information.

There were no significant subsequent events after December 31, 2023.

8.1 UPCOMING ACCOUNTING STANDARDS AND INTERPRETATIONS

As of the issuance date of these financial statements, there are no new standards, amendments, or interpretations that have been issued but are not yet effective, which are expected to have a significant impact on the Group's financial statements in future periods.

Financial Statement Desert Control AS

Statement of Comprehensive Income

(Amounts in NOK thousand)	Notes	Full year 2023	2022
Revenue from sales		-	228
Other income	2,1	23 001	-
Total income		**23 001**	**228**
Cost of goods sold (COGS)		-	219
Gross margin		**23 001**	**9**
Salary and employee benefit expenses	3.1	27 845	35 618
Other operating expenses	3.2	15 532	17 405
Depreciation and amortisation	4.1	497	343
Operating profit or loss		**-20 873**	**-53 358**
Finance income	5,1	23 138	18 351
Finance costs	5,1	90 026	9 936
Profit or loss before tax		**-87 761**	**-44 943**
Income tax expense	6,1	-	-
Profit or loss for the year		**-87 761**	**-44 943**
Allocation of profit or loss:			
Profit/loss attributable to the parent		-87 761	-44 943
Other comprehensive income:			
Items that subsequently may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations			
Total items that may be reclassified to profit or loss			
Total other comprehensive income for the year			
Total comprehensive income for the year		**-87 761**	**-44 943**
Allocation of total comprehensive income			
Total comprehensive income attributable to owners of the parent		**-87 761**	**-44 943**

Statement of Financial Position

(Amounts in NOK thousand)	Notes	At 31 December 2023	2022
ASSETS			
Non-current assets			
Property, plant and equipment	4,1	2 650	676
Investment in subsidiaries	7,1	43	6 880
Intercompany receivables	8,1	44 312	88 144
Total non-current assets		**47 005**	**95 700**
Current assets			
Accounts receivables		-	196
Other receivables	9,1	2 600	5 042
Other current financial assets	9,2	19 616	41 416
Cash and cash equivalents	9,3	97 847	32 443
Total current assets		**120 063**	**79 097**
TOTAL ASSETS		**167 068**	**174 797**
EQUITY AND LIABILITIES			
Equity			
Share capital	10.1, 10.2	161	123
Share premium		312 678	230 849
Retained earnings		-149 364	-65 823
Total equity		**163 474**	**165 150**
Current liabilities			
Trade payables	11,1	1 685	2 730
Intercompany payables		-	372
Public duties payable	11,1	912	1 915
Other current liabilities	11,1	997	4 630
Contract liabilities	11,1	-	-
Total current liabilities		**3 594**	**9 647**
Total liabilities		**3 594**	**9 647**
TOTAL EQUITY AND LIABILITIES		**167 068**	**174 797**

Sandnes, 22.04.2024

Knut Nesse
Chair

James Thomas
Board Member

Maryne Lemvik
Board Member

Geir Hjellvik
Board Member

Marit Røed Ødegaard
Board Member

Ole Kristian Sivertsen
Chief Executive Officer

Statement of Cash Flows

(Amounts in NOK thousand)		Full year	
Cash flows from operating activities	**Notes**	**2023**	**2022**
Profit or loss before tax		**-87 761**	**-44 943**
Adjustments to reconcile profit before tax to net cash flows:			
Net financial income/expense without cash effect	4.1	-10 422	-8 415
Depreciation and impairment of property, plant and equipment	3.1	497	343
Depreciation and impairment of Right-of-use assets			
Share-based payment expense	9.2	4 219	4 093
Write down intercompany debt and subsidiaries	6.1	77 310	-
Working capital adjustments:			
Changes in accounts receivable and other receivables		2 638	-942
Changes in trade, public duties and other payables		-2 047	2 008
Changes in other current liabilities and contract liabilities		-3 633	64
Net cash flows from operating activities		**-19 199**	**-47 793**
Cash flows from investing activities (NOK)			
Purchase of property, plant and equipment	3,1	-18	-426
Purchase/sale of financial instruments	8,2	22 347	36 744
Proceeds from sale of property, plant and equipment			
Interest received		398	867
Net cash flow from investing activities		**22 727**	**37 185**
Cash flow from financing activities (NOK)			
Proceeds from issuance of equity	9,1	85 474	
Transaction costs on issue of shares	9,1	-3 608	
Interest paid		-3	-3
Net payments loans to group companies		-20 075	-53 517
Net cash flows from financing activities		**61 788**	**-53 520**
Net increase/(decrease) in cash and cash equivalents		**65 316**	**-64 127**
Cash and cash equivalents at beginning of the year/period	9,3	32 443	96 100
Net foreign exchange difference		81	470
Cash and cash equivalents, end of year		**97 840**	**32 443**

Statement of Changes in Equity

(Amounts in NOK thousand)	Share capital	Share premium	Cumulative translation differences	Retained earnings	Total equity
Balance at 31 December 2021	**122**	**230 850**	**-**	**-24 972**	**206 000**
Profit (loss) for the year				-44 943	-44 943
Issue of share capital (Note 4.5)	1				1
Transaction costs					-
Share based payments (Note 4.8)				4 093	4 093
Balance at 31 December 2022	**123**	**230 850**	**-**	**-65 823**	**165 150**
Profit (loss) for the year				-87 761	-87 761
Issue of share capital (Note 4.5)	37	85 436			85 474
Transaction costs		-3 608			-3 608
Share based payments (Note 4.8)				4 219	4 219
Balance at 31 December 2023	**161**	**312 678**	**-**	**-149 364**	**163 474**

Notes to the Desert Control AS Parent Company Financial Statements

1.1 SUMMARY OF ACCOUNTING PRINCIPLES

Significant accounting policies

These parent company financial statements should be read in connection with the Consolidated financial statements of Desert Control, published together with these financial statements. The financial statements have been prepared in line with the simplified application of International Financial Reporting Standards ("IFRS") in accordance with the Norwegian Accounting Act § 3-9. With the exception described below, Desert Control AS applies the accounting policies of the group, and reference is made to these notes for further details.

Subsidiaries

Shareholdings in subsidiaries are accounted for using the cost method. Investments in subsidiaries are tested for impairment following the same principles as the impairment testing of Property, plant and equipment in the financial statements of the Group. Dividends received from from subsidiaries are presented in Net financial income.

2.1 OTHER INCOME

Other income

Other income is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Other income mainly relates to the net income recognition from the sales transaction regarding the licensing agreements with H-eart & Marwarid. See note 7.2 in the Group accounts for more information.

	Full year	
Other income	**2023**	**2022**
Inventory sales	33	-
Sustainability & Environment award	510	-
Net income recognition from licensing agreements*	22 458	-
Total finance income	**23 001**	**-**

This line item includes contributions originating from the final transactions of the licensing agreement in the Middle East, including sales, settlements, and associated costs.

3.1 SALARY AND EMPLOYEE BENEFIT EXPENSES

	Full year	
Employee benefit expenses	**2023**	**2022**
Salaries	18 968	27 679
Government grant	-1 186	-1 980
Social security costs	4 084	4 284
Pension costs	958	1 042
Other employee expenses	5 022	4 593
Total employee benefit expenses	**27 845**	**35 618**
Average number of full time employees (FTEs)	14	17

At the end of the reporting period, members of the Board and management held shares and share options in Desert Control AS. For information on remuneration to Management and the Board of Directors, including disclosures related to share and share options held, see note 7.1 to the Group financial statements.

See note 7.1 to the group financial statement for an overview of remuneration to management and the Board of Directors

3.2 OPERATING EXPENSES

	Full year	
Other operating expenses	**2023**	**2022**
Audit and accounting fees	2 216	394
Consulting fees	628	668
Legal expenses	2 460	1 008
Travel expenses	1 847	3 593
Lease expenses	1 982	1 418
Research expenses	1 681	4 681
Other operating expenses	5 014	7 843
Government grant	-297	-2 198
Total other operating expenses	**15 532**	**17 406**

Auditor fees	**2023**	**2022**
Statutory audit	726	221
Attestation services	104	222
Tax advisory	-	-
Other services		365
Total remuneration to the auditor	**830**	**808**

Audit fee:
The amounts above are excluding VAT.

4.1 PROPERTY, PLANT AND EQUIPMENT

(Amounts in NOK thousand)	Plant and machinery	Fixtures and fittings	Total
Cost as at 31 December 2021	**806**	**759**	**1 565**
Additions		426	426
Disposals			
Currency translation effects			
Cost as at 31 December 2022	**806**	**1 185**	**1 991**
Additions		2 470	2 470
Disposals			
Currency translation effects			
Cost as at 31 December 2023	**806**	**3 656**	**4 461**
Depreciation and impairment as at 31 December 2021	**806**	**166**	**971**
Depreciation for the year		343	343
Impairment for the year			
Disposals			
Currency translation effects			
Depreciation and impairment as at 31 December 2022	**806**	**509**	**1 315**
Depreciation for the year		497	497
Impairment for the year			
Disposals			
Currency translation effects			
Depreciation and impairment as at 31 December 2023	**806**	**1 006**	**1 812**
Net book value:			
At 31 December 2022	**0**	**676**	**676**
At 31 December 2023	**0**	**2 650**	**2 650**
Economic life (years)	5	3	
Depreciation plan	Straight-line method	Straight-line method	

5.1 FINANCIAL INCOME AND EXPENSES

	Full year	
Finance income	**2023**	**2022**
Interest income	5 945	3 346
Other finance income	1 515	816
Gain on foreign exchange	15 677	14 189
Total finance income	**23 138**	**18 351**
Finance costs	**2023**	**2022**
Interest expenses	-	-
Other finance costs	-	-
Loss on foreign exchange	12 604	9 687
Other finance expenses	113	250
Writedown on intercompany loans and subsidiaries	77 310	-
Total finance costs	**90 026**	**9 936**

Interest income represents mainly interest income on cash deposits, and interest expenses represents mainly interest expenses on overdue payables, measured and classified at amortised cost in the statement of financial position.

Gain / loss on foreign exchange relates to unrealized foreign exchange gain/loss on intercompany loans.

Other finance income is related to income from other current financial assets.

Writedown on intercompany loans and subsidiaries reflects a writedown of intercompany loans to our subsidiary in the Middle East, as well as a writedown of the shares.

6.1 TAXES

	Full year	
Current income tax expense:	**2023**	**2022**
Tax payable	-	-
Adjustment for income tax payable for previous periods	-	-
Change deferred tax/deferred tax assets (ex. OCI effects)	-	-
Total income tax expense	**-**	**-**
Deferred tax assets:	**31.12. 2023**	**31.12.2022**
Property, plant and equipment	-339	-671
Right-of-use assets	-	-
Other current assets	-	-
Liabilities	-	-
Losses carried forward (including tax credit)	-82 429	-67 593
Basis for deferred tax assets:	**-83 572**	**-68 265**
Calculated deferred tax assets	-18 386	-15 018
Net deferred tax assets in the statement of financial position	**-**	**-**
Deferred tax liabilities recognised in the statement of financial position	**-**	**-**

7.1 INTERESTS IN OTHER ENTITIES

The subsidiaries of Desert Control AS are presented in the following table:

Subsidiaries 31 December 2023	**Office**	**Currency**	**Shareholding and the Group's voting ownership share**	**Net loss** (NOK thousands)	**Net loss** (NOK thousands)
Desert Control Americas, Inc.	USA	USD	100%	-22 680	-35 338
Desert Control Middle East LLCAbu Dhabi,	UAE	AED	49%*	-21 726	-68 286

*Desert Control owns 49% of Desert Control Middle East LLC Abu Dahbi, with the remaining 51% being held by a local corporate sponsor due to local regulations requiring sponsorships. A shareholder agreement secures Desert Control 100% of any dividends and 100% of the controlling stake in Desert Control ME.

Desert Control Middle East LLC is under a liquidation, and this process will finish in 2024. See note 7.2 in the group financials.

8.1 RELATED PARTY TRANSACTIONS

Related parties to the group, which include major shareholders, members of the board, and management within the parent company and its subsidiaries, are detailed in Notes 6.1 and 4.5 of the financial statements. These notes provide insight into the group's structure, subsidiaries, and shareholders. Significant agreements, along with remuneration to management and the board for both the current and prior periods, are disclosed in Note 7.1 of the group financial statements, where details about shares and share options held by management and the board are also summarized.

The group adheres to the arm's length principle for all transactions within itself or with other related parties.

As of December 31, 2023, Desert Control AS has extended an interest-bearing loan to Desert Control Middle East LLC totaling NOK 72.6 million, with repayment due by December 31, 2024. Furthermore, there is an interest-bearing loan from Desert Control AS to Desert Control Americas in the amount of NOK 41 million as of December 31, 2023, which is also expected to be settled by December 31, 2024.

The liquidation of Desert Control Middle East LLC commenced due to strategic reorganization in the Middle East and a pivot to a licensing business model in 2023. It is anticipated that the majority of the outstanding loan will be registered as a loss in the financial accounts. By the close of the year on December 31, 2023, while the liquidation had begun, it was not finalized. The loan balance stood at NOK 72,604,690, with a provision for an estimated loss of NOK 69,271,336 already accounted for in the fiscal year 2023.

9.1 OTHER RECEIVABLES

	At 31 December	
Other receivables	**2023**	**2022**
VAT receivables	588	647
Receivables govnerment grant	1 483	3 383
Prepayments	529	1 012
Total other receivables	**2 600**	**5 042**

The credit loss allowance is zero.

For details regarding the Group's procedures on managing credit risk, reference is made to note 4.2 in group financial statement .

9.2 FINANCIAL INSTRUMENTS

	Notes	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	At 31 December 2023
Assets				
Accounts receivables		-	-	-
Other current financial assets*		-	19 616	19 616
Cash and cash equivalents	9.3	97 847	-	97 847
Total financial assets		**97 847**	**19 616**	**117 463**
Liabilities				
Trade and other payables	11.1	1 685	-	-
Total financial liabilities		**1 685**	**-**	**-**

	Notes	Financial instruments at amortised cost	Financial instruments at fair value through profit or loss	At 31 December 2022
Assets				
Accounts receivables		196	-	196
Other current financial assets*		-	41 416	41 416
Cash and cash equivalents	9.3	32 443	-	32 443
Total financial assets		**32 639**	**41 416**	**74 055**
Liabilities				
Trade and other payables	11.1	2 730	-	2 730
Total financial liabilities		**2 730**	**-**	**2 730**

* Other current financial assets consist of fixed income fund, managed by SKAGEN and Storebrand. The purpose of the investment is to generate returns on cash exceeding the interest rate on bank deposits.

There are no changes in classification and measurement for the Group's financial assets and liabilities.
Finance income and finance costs arising from the Group's financial instruments are disclosed separately in note 4.7.

9.3 CASH AND CASH EQUIVALENTS

	At 31 December	
	2023	**2022**
Bank deposits, unrestricted	97 361	31 269
Bank deposits, restricted	486	1 174
Total cash and cash equivalents	**97 847**	**32 443**

Bank deposits earns a low interest at floating rates based on the bank deposit rates.

10.1 EQUITY AND SHAREHOLDERS

Issued capital and reserves:

Share capital in Desert Control AS	Number of shares authorised and fully paid	Par value per share (NOK)	Financial Position
At 1 January 2022	**40 724 640**	**0,003**	**122 174**
Share issue 10 March 2022	375 040	0,003	1 125
At 31 December 2022	**41 099 680**	**0,003**	**123 299**
Share issue 10 March 2023	227 109	0,003	681
Share issue 31 July 2023	1 000 000	0,003	3 000
Share issue 13 October 2023	10 000 000	0,003	30 000
Share issue (rep) 17 November 2023	1 181 188	0,003	3 544
At 31 December 2023	**53 507 977**	**0,003**	**160 524**

All shares are ordinary and have the same voting rights and rights to dividends.
Reconciliation of the company's equity is presented in the statement of changes in equity.

The Group's shareholders:

Shareholders in Desert Control AS at 31.12.2023	Total shares	Voting rights
OLESEN CONSULT HVAC AS	5 900 000	11,0 %
Woods End Interests LLC	4 444 444	8,3 %
J.P. Morgan SE	4 380 342	8,2 %
NORDNET LIVSFORSIKRING AS	2 460 470	4,6 %
DNB BANK ASA	1 896 229	3,5 %
LITHINON AS	1 720 002	3,2 %
OLESEN	1 635 800	3,1 %
BNP Paribas	1 597 407	3,0 %
LIN AS	1 502 275	2,8 %
GLOMAR AS	1 368 456	2,6 %
NESSE & CO AS	1 360 000	2,5 %
JAKOB HATTELAND HOLDING AS	1 222 222	2,3 %
Citibank	1 212 260	2,3 %
CLEARSTREAM BANKING S.A.	1 173 469	2,2 %
IDLAND	1 139 206	2,1 %
The Northern Trust Comp	958 275	1,8 %
SORTUN INVEST AS	949 937	1,8 %
OKS CONSULTING AS	930 000	1,7 %
BEYOND CENTAURI AS	720 998	1,3 %
SUNDVOLDEN HOLDING AS	552 222	1,0 %
Others	16 383 963	30,6 %
Total	**53 507 977**	**100,0 %**

Shares held by management or the Board at the end of the reporting periods are summarised in note 7.1 to the group financial statements.

10.2 SHARE BASED PAYMENTS

The company has a share option programme covering management and key employees. The option vests in the range of 0 - 2.5 years. The options may be exercised during the subsequent six months.

The fair value of the options were determined at the grant dates and expensed over the vesting period. MNOK 4.2 have been expensed as employee benefit expenses in the period (MNOK 4.3 in 2022).

	2023	2022
Outstanding options 1 January	**2 760 000**	**550 000**
Options granted	10 000	2 830 000
Options forfeited	-731 667	-257 850
Options exercised	-240 000	-362 150
Outstanding options 31 December	**1 798 333**	**2 760 000**
Exercisable at 31 December	0	0

The strike price for the options exercised was NOK 0.003. The share price at the time of exercise in 2023 was NOK 14.94 compared to the share price at time of exercise in 2022 of NOK 22.98.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2023 was 1.31 years (2022: 2.08 years).
The range of exercise prices for options outstanding at the end of the year was NOK 0.003 - 20.00 (2022: same).

Assumptions used to determine fair value of share option grants:

	2023	2022
Weighted average fair values at the grant date	12,00	13,12
Dividend yield (%)	0	0
Expected volatility (%)	51%	47%
Risk–free interest rate (%)	4%	3%
Expected life of restricted shares (years)	2,5	3,5
Weighted average share price (NOK)	25,76	26,34
Model used	BSM	BSM

The expected volatility reflects historical volatility for similar listed entities. Share based payment valuations are considered level 3 measurements.
See note 4.7 to the group financial statement additional information regarding share based payment.

11.1 TRADE AND OTHER PAYABLES

	At 31 December	
Trade and other payables	**2023**	**2022**
Trade payables	1 685	2 730
Withholding payroll taxes and social security	912	1 915
Intercompany payables	-	372
Other current liabilities	997	4 630
Contract liabilities	-	-
Total trade and other payables	**3 594**	**9 647**

12.1 EVENTS AFTER THE REPORTING PERIOD

ACCOUNTING POLICIES

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Non adjusting events

On February 22, 2024, our CEO, Ole Kristian Sivertsen, engaged in a share-based payment transaction by exercising options that resulted in the issuance of 120,000 new shares in Desert Control. This event is a non-adjusting post-reporting period event and, as such, the financial effects have not been recognized in the annual report.

There have been no other significant non-adjusting events subsequent to the reporting date.

Statement of the Board of Directors and the CEO of Desert Control AS

The Board of Directors and the CEO have today considered and approved the report for Desert Control AS ("Company") and Desert Control Group ("Group") for the 2023 calendar year and as of 31 December 2023. The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as well as additional information requirements as per the Norwegian Accounting Act.
The financial statements for the Company have been prepared in accordance with IFRS Accounting Standards and additional information requirements as per the Norwegian Accounting Act.
We confirm to the best of our knowledge that:

- The 2023 financial statements for the Company and the Group have been prepared in accordance with applicable accounting standards.
- The information in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and result as of 31 December 2023
- The report for the Company and the Group gives a true and fair view of the Company's and the Group's development, performance, and financial position, and includes a description of the principal risks and uncertainty factors facing the Company and the Group
- That the Board report for 2023 has been prepared in accordance with the Norwegian Accounting Act § 3-3d and the Norwegian Security Trading Act § 5-5a

Sandnes, 22.04.2024

Knut Nesse
Chair

James Thomas
Board Member

Maryne Lemvik
Board Member

Geir Hjellvik
Board Member

Marit Røed Ødegaard
Board Member

Ole Kristian Sivertsen
Chief Executive Officer

Auditor's Report

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Desert Control AS

Opinion

We have audited the financial statements of Desert Control AS (the Company) which comprise the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the Group). The financial statements of the Company comprise the balance sheet as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements of the Group comprise the balance sheet as at 31 December 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion

- the financial statements comply with applicable legal requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act,
- the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the EU.

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 financial statements* section of our report. We are independent of the Company and the Group in accordance with the requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and Chief Executive Officer) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the board of directors' report contains the information required by applicable legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that the other information is materially inconsistent with the financial statements, there is a material misstatement in this other information or that the information required by applicable legal requirements is not included in the board of directors' report, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contain the information required by applicable legal requirements.

Responsibilities of management for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS Accounting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or the Group, or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stavanger, 22 April 2024
ERNST & YOUNG AS

The auditor's report is signed electronically

Gunn Helen Askvik
State Authorised Public Accountant (Norway)

PENNEO

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"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Askvik, Gunn Helen
Statsautorisert revisor
På vegne av: EY
Serienummer: no_bankid:9578-5997-4-369833
IP: 147.161.xxx.xxx
2024-04-22 21:29:34 UTC

bankID

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Additional Information

FORWARD LOOKING STATEMENTS

This release contains forward-looking information and statements relating to the business, performance, and items that may be interpreted to impact the results of Desert Control and/or the industry and markets in which Desert Control operates.
Forward-looking statements are statements that are not historical facts and may be identified by words such as "aims", "anticipates", "believes", "estimates", "expects", "foresees", "intends", "plans", "predicts", "projects", "targets", and similar expressions. Such forward-looking statements are based on current expectations, estimates, and projections, reflect current views concerning future events, and are subject to risks, uncertainties, and assumptions, and may be subject to change without notice. Forward-looking statements are not guaranteeing any future performance, and risks, uncertainties, and other important factors could cause the actual business, performance, results, or the industry and markets in which Desert Control operates in, to differ materially from the statements expressed or implied in this release by such forward-looking statements.
No representation is made that any of these forward-looking statements or forecasts will come to pass or that any forecasted performance, capacities, or results will be achieved, and you are cautioned not to place any undue reliance on any forward-looking statements.

ANNUAL REPORT 2023

The information enclosed is subject to the disclosure requirements pursuant to sections 5-12 in the Norwegian Securities Trading Act.

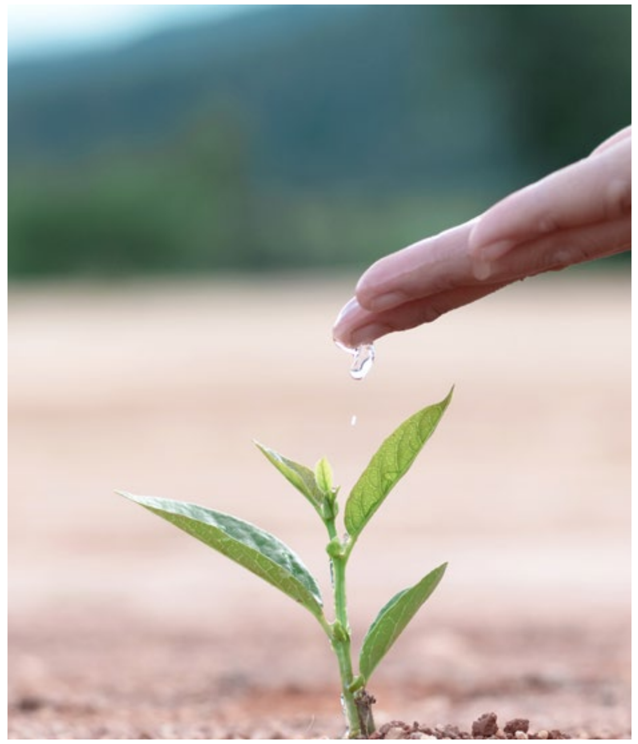
Share Holder Information

Shareholders in Desert Control AS at 31.12.2023	Total shares	Ownership/ Voting rights
OLESEN CONSULT HVAC AS	5 900 000	11,0 %
Woods End Interests LLC	4 444 444	8,3 %
J.P. Morgan SE	4 380 342	8,2 %
NORDNET LIVSFORSIKRING AS	2 460 470	4,6 %
DNB BANK ASA	1 896 229	3,5 %
LITHINON AS	1 720 002	3,2 %
OLESEN OLE MORTEN	1 635 800	3,1 %
BNP Paribas	1 597 407	3,0 %
LIN AS	1 502 275	2,8 %
GLOMAR AS	1 368 456	2,6 %
NESSE & CO AS	1 360 000	2,5 %
JAKOB HATTELAND HOLDING AS	1 222 222	2,3 %
CITIBANK N.A	1 212 260	2,3 %
CLEARSTREAM BANKING S.A.	1 173 469	2,2 %
IDLAND ATLE	1 139 206	2,1 %
The Northern Trust Comp	958 275	1,8 %
SORTUN INVEST AS	949 937	1,8 %
OKS CONSULTING AS	930 000	1,7 %
BEYOND CENTAURI AS	720 998	1,3 %
SUNDVOLDEN HOLDING AS	552 222	1,0 %
Others	16 383 963	30,6 %
Total	**53 507 977**	**100,0 %**

No of shares	%	Origin	# shareholders
37 831 429	71%	Norge	3 542
5 583 811	10%	Luxembourg	8
4 745 318	9%	USA	7
1 592 969	3%	Frankrike	4
1 222 478	2%	Irland	5
1 208 390	2%	Storbritannia	4
748 584	1%	Sverige	15
574 998	1%	Others	62
53 507 977	**100%**	**Grand Total**	**3 647**

ISSUE PRICE AS OF 28 September 2023: NOK 6,75 (Q3-2023 Capital Raise Issue, Private Placement)

SHARE PRICE AS OF 31 December 2023: NOK 8,07



Our Core Values

Leadership
Inspirational pro-active execution

Growth-mindset
Curious and solution-oriented

Innovation
Challenge status-quo | create value

Integrity
Keep promises | grow strong relationships

Contribution
Desire to make everything better

Diversity
Inclusive | open-minded | respectful

> *Healthy soil is the foundation for life on earth!*

Food and Agriculture Organization of the United Nations (FAO – website: www.fao.org/world-soil-day/en/)

Making Earth Green Again

GROUP HQ – NORWAY

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DESERT CONTROL