Desert Control Q1 2023 and Year-to-Date Company Update Presentation (Transcript)

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Welcome to the Desert Control Q1 2023 and Year-to-Date Company Update webcast. It will cover the Q1 Report and Interim Financial Results for the fiscal period that ended on March 31, 2023. Some recent updates for Q2-2023 will also be included.

A Q&A session will follow the presentation, and we invite you to use the Q&A function for questions.

Before the official Q1 Update Agenda, allow us to introduce Desert Control's CEO for a brief introduction.

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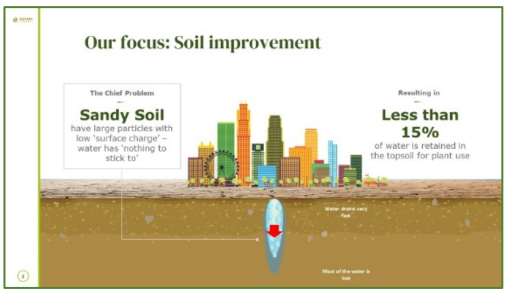

Desert Control specializes in climate-smart AgTech solutions to combat desertification, soil degradation, and water scarcity, and our specific focus is the improvement of sandy soil.

Sandy soils are thirsty and less productive. When fertile soil degrades and turns to sand, even more water is needed to maintain life and grow food.

In sandy soils, less than 15% of water is retained for plant use. Most is quickly lost to deep drainage, causing fertilizer wash-out, increasing costs, and lost productivity.

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Liquid Natural Clay (LNC) is a nature-based solution to upgrade sandy soils with a larger storage bank. The liquid coats each grain of sand with an electrical charge that holds onto water like a magnetic force, creating a soil structure that retains water and nutrients like a sponge. One treatment is expected to last for up to five years or more with maintenance programs.

Our solution is designed to restore and enhance soil ecosystems to reduce water usage and improve the efficiency of fertilizers and natural resources for agriculture, forests, and green landscapes.

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LNC saves up to 50% on water and energy usage while improving fertilizer efficiency, leading to higher yields, better crop quality, and increased profit.

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Based on 12 years of R&D, the process of commercialization started in the 2nd half of 2022, and we have developed a sales strategy with a customer conversion model that I will share more details about in a few slides.

The experience from implementing technical pilots and commercial pre-projects in the U.S. is helping us gain significant scalability improvement of great value to the markets we address, which are agriculture and green landscapes in the UAE and the United States targeting sandy soil areas exposed to water stress and land productivity challenges.

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I am Ole Kristian Sivertsen, CEO of Desert Control, and I will take us through today's agenda, which has four parts:

- First, I will present **Q1 highlights**
- Next, Marianne, our CFO, will take us through the **financial update**
- Then I will share a brief **outlook** before we close with the **Q&A session**

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Progress in efficiency, scalability, and sales is the headline for the first quarter of 2023

For production: During the first quarter, we unlocked further potential of our LNC production units with the ability to more than double the LNC production volume per hour per unit. This capacity increase will impact "unit economics" and drive increased efficiency and scalability of operations.

For application: During Q1, we reached an efficiency rate of treating an impressive 500 trees per day in the second stage of Limoneira's deployment, marking a 30X improvement since the initial pilot in July 2022. We are also gaining experience deploying LNC through established irrigation systems, such as sprinklers, which reduces the manpower requirements and speeds up application for larger areas significantly compared to manual application.

Sales: On the sales side, we have, through several new projects, gained experience with our focused customer conversion model.

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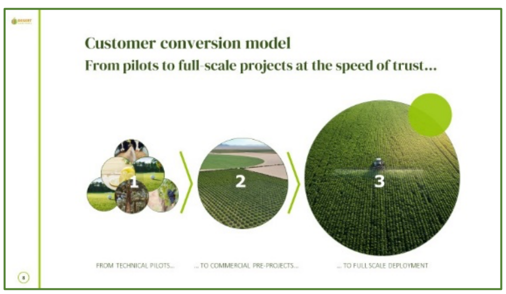

Let me give you an overview of our customer conversion model :

The objective is to take customers from technical pilots to full-scale projects at the speed of trust through 3 stages.

Stage 1: **Technical Pilots:** We initiate engagement with potential customers through smaller-scale pilot programs, validating LNC's efficiency – essentially proving that "it holds water." Like we did with Limoneira back in July 22.

Stage 2: **Extended Pilots (Commercial Pre-projects):** Successful Stage 1 pilots evolve into larger pre-projects. The goal is to demonstrate our solution's scalability and economic viability across larger areas, assessing cost savings and the impact on yield and crop quality. An example here again is the Limoneira project we finished the last phase of stage 2 of in Q1-23.

Stage 3: **Full-Scale Deployment:** Upon successfully completing Stage 2, we transition to full-scale deployment contracts. Our objective is to secure our first contract for full-scale deployment by the end of the year.

Target: We also maintain our target of securing five pilots per quarter with a minimum conversion rate of 50% to larger deployments.

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Let me also share a few accomplishments from the quarter.

During Q1, we successfully completed stage 2 of Limoneira as a well-demonstrated commercial pre-project delivery. In parallel during the quarter, we secured five technical pilots; Lemonica Citrus in California, two golf courses in southern Arizona, an alfalfa field with 5 Rivers, and a date palm pilot with Griffin Ranches.

For Q2, we are also well on track with our objectives. We communicated some signed contracts early in this quarter with, among others, Yuma Organic. We also announced a very exciting California large-scale vineyard with sandy soil. Most recently, we have secured a technical pilot with a farming operation that is also tied to dust mitigation as a service connected to some airfields in southern Arizona, where we will create value for agricultural operations in Desert climates combined with dust mitigation for sandy soil areas adjacent to airport operations as a demonstration project that can have replication across other areas.

Finally, we secured a pilot with a Native American Tribal Land. This is an area with basically barren land currently of very low-value. The objective is to demonstrate the conversion of barren land into highly productive and fertile land for both value creation off the land and property as well as converting areas into agricultural productivity for the future.

With this, we can conclude that we are well on track with the objective of 5 pilots per quarter.

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Other accomplishments during the first quarter include winning the top prize in the sustainability and environment category at the Entrepreneurship Word Cup finals held in Riyadh.

Also, we achieved Certification for Organic Farming in UAE, leaving us with just one more product registration to complete, which is in the final stages with the Ministry of Climate Change and the Environment in UAE. This will open doors for Mawarid and MDC to larger opportunities in the public sector domain.

Mawarid and MDC is also gaining more visibility in UAE, and they were in Q1 announced winners of the Research and Innovation Award by the Ministry of Energy & Infrastructure UAE, driving visibility with important ministries and stakeholders in the nation.

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We will now turn to the Financial update, and I pass it over to our CFO, Marianne Vika Bøe.

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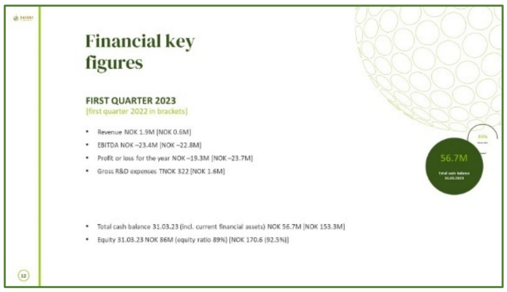

The figures are shared in detail in the financial report published earlier this morning.

These financial key figures will be covered in more detail in the following slides.

The company closed the first quarter with a positive cash balance of NOK 56.7 Million and has no interest-bearing debt.

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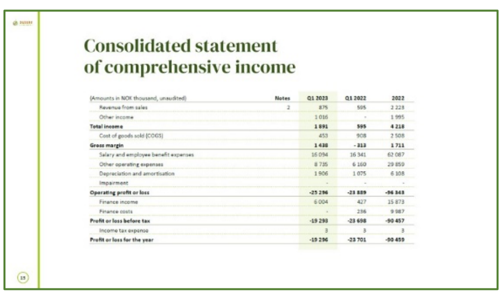

(Amounts in NOK thousand, unaudited)	Notes	Q1 2023	Q1 2022	2022
Revenue from sales	2	875	595	2 223
Other income		1 016	-	1 995
Total income		**1 891**	**595**	**4 218**
Cost of goods sold (COGS)		453	908	2 508
Gross margin		**1 438**	**- 313**	**1 711**
Salary and employee benefit expenses		16 094	16 341	62 087
Other operating expenses		8 735	6 160	29 859
Depreciation and amortisation		1 906	1 075	6 108
Impairment		-	-	-
Operating profit or loss		**-25 296**	**-23 889**	**-96 343**
Finance income		6 004	427	15 873
Finance costs		-	236	9 987
Profit or loss before tax		**-19 293**	**-23 698**	**-90 457**
Income tax expense		3	3	3
Profit or loss for the year		**-19 296**	**-23 701**	**-90 459**

The revenue recognized in the quarter mainly relates to a commercial pre-project in the U.S. In addition, we have some other income related to the prize won at the Entrepreneurship World Cup and the temporary secondment of personnel to our joint venture.

The expenses in the quarter are in line with our budget. Salary and employee benefit expenses were impacted by the employee share options exercised in March.

The finance income relates to unrealized foreign exchange gains on intercompany loans.

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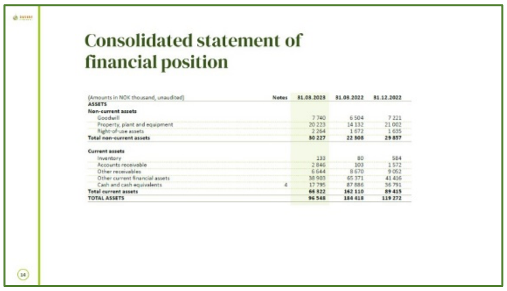

Consolidated statement of financial position

(Amounts in NOK thousand, unaudited)	Notes	31.03.2023	31.03.2022	31.12.2022
ASSETS				
Non-current assets				
Goodwill		7 740	6 504	7 221
Property, plant and equipment		20 223	14 132	21 002
Right-of-use assets		2 264	1 672	1 635
Total non-current assets		**30 227**	**22 308**	**29 857**
Current assets				
Inventory		133	80	584
Accounts receivable		2 846	103	1 572
Other receivables		6 644	8 670	9 052
Other current financial assets		38 903	65 371	41 416
Cash and cash equivalents	4	17 795	87 886	36 791
Total current assets		**66 322**	**162 110**	**89 415**
TOTAL ASSETS		**96 548**	**184 418**	**119 272**

There are no significant changes in the balance sheet in the first quarter.

Other current financial assets consist of fixed-income funds. And as mentioned earlier, cash and funds in total amounts to NOK 56.7 million as of the end of the first quarter of 2023, and we have no interest-bearing debt. Our runway is in accordance with our forecast and in line with the communication as of year-end 2022.

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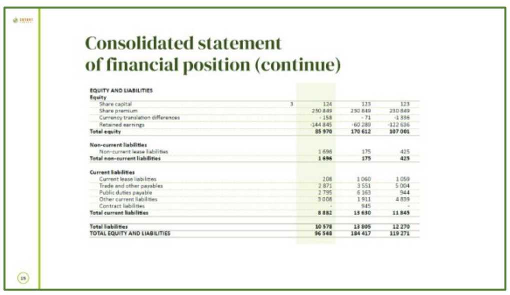

Consolidated statement of financial position (continue)

EQUITY AND LIABILITIES				
Equity				
Share capital	3	124	123	123
Share premium		230 849	230 849	230 849
Currency translation differences		-158	-71	-1 336
Retained earnings		-144 845	-60 289	-122 636
Total equity		**85 970**	**170 612**	**107 001**
Non-current liabilities				
Non-current lease liabilities		1 696	175	425
Total non-current liabilities		**1 696**	**175**	**425**
Current liabilities				
Current lease liabilities		208	1 060	1 059
Trade and other payables		2 871	3 551	5 004
Public duties payable		2 795	6 163	944
Other current liabilities		3 008	1 911	4 839
Contract liabilities		-	945	-
Total current liabilities		**8 882**	**13 630**	**11 845**
Total liabilities		**10 578**	**13 805**	**12 270**
TOTAL EQUITY AND LIABILITIES		**96 548**	**184 417**	**119 271**

The overall reported equity of 86 million equals 89% of total assets.

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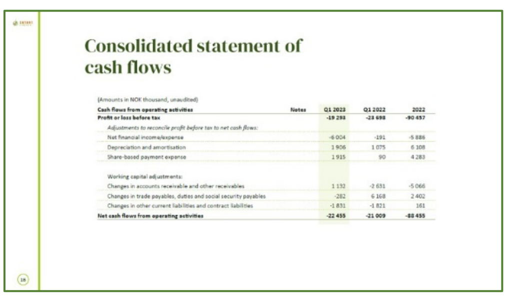

Consolidated statement of cash flows

(Amounts in NOK thousand, unaudited)

Cash flows from operating activities	Notes	Q1 2023	Q1 2022	2022
Profit or loss before tax		**-19 293**	**-23 698**	**-90 457**
Adjustments to reconcile profit before tax to net cash flows:				
Net financial income/expense		-6 004	-191	-5 886
Depreciation and amortisation		1 906	1 075	6 108
Share-based payment expense		1 915	90	4 283
Working capital adjustments:				
Changes in accounts receivable and other receivables		1 132	-2 631	-5 066
Changes in trade payables, duties and social security payables		-282	6 168	2 402
Changes in other current liabilities and contract liabilities		-1 831	-1 821	161
Net cash flows from operating activities		**-22 455**	**-21 009**	**-88 455**

Cash flow from operating activities is the operating profit & loss adjusted for depreciation and amortization and underlines the cash-based nature of the company in its current state.

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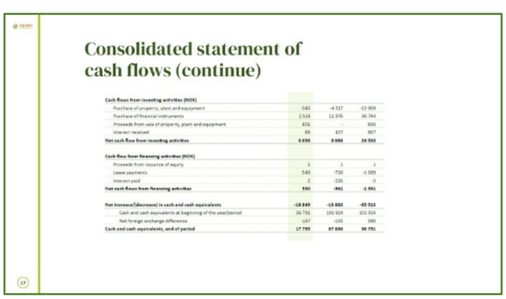

Consolidated statement of cash flows (continue)

Cash flows from investing activities (NOK)			
Purchase of property, plant and equipment	-346	-4 317	-13 969
Purchase of financial instruments	2 514	11 976	36 744
Proceeds from sale of property, plant and equipment	801	-	890
Interest received	88	427	867
Net cash flow from investing activities	**3 056**	**8 086**	**24 533**
Cash flow from financing activities (NOK)			
Proceeds from issuance of equity	1	1	1
Lease payments	548	-726	-1 589
Interest paid	2	-236	-3
Net cash flows from financing activities	**550**	**-961**	**-1 591**
Net increase/(decrease) in cash and cash equivalents	**-18 840**	**-13 883**	**-65 513**
Cash and cash equivalents at beginning of the year/period	36 791	101 924	101 924
Net foreign exchange difference	-147	-155	380
Cash and cash equivalents, end of period	**17 795**	**87 886**	**36 791**

The cash flow from this section is the release of bank deposits and funds to support the operations.

No other significant sources of capital have been added through the first quarter.

For further information regarding the Q1 financials, please see the full Q1 report.

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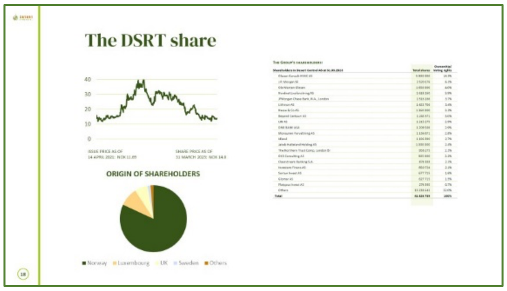

The development of the Desert Control share and the Top 20 shareholders are updated at our webpage www.desertcontrol.com/investors [Investor — Desert Control]

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We will now turn to outlook before we close with the Q&A

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Our focus for Q2 will continue to be on commercialization, customer conversion, and operational scalability – and we remain dedicated to our sales strategy for customer conversion.

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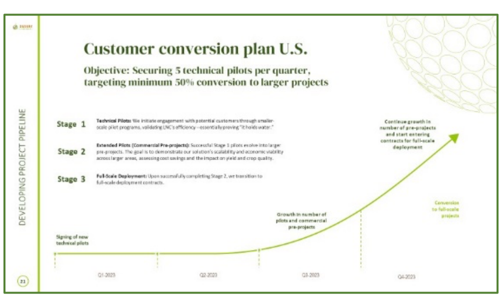

Desert Control's sales strategy for 2023 focuses on generating revenue and developing a pipeline of opportunities through technical pilots that target conversion to commercial pre-projects, with the objective to start converting pre-projects into contracts for large-scale deployment by the end of the year.

We secured five technical pilots in Q1 and have so far in Q2 achieved four new projects putting us on track according to our target of 5 per quarter.

As mentioned previously, we target a min of 50% conversion to larger deployments: This means that the 20 technical pilots in the U.S. this year, as an example, targets a minimum of 10 commercial pre-projects, of which we target a minimum of 5 contracts for large-scale deployment.

Our goal remains to secure the first contract for large-scale deployment by the end of the year.

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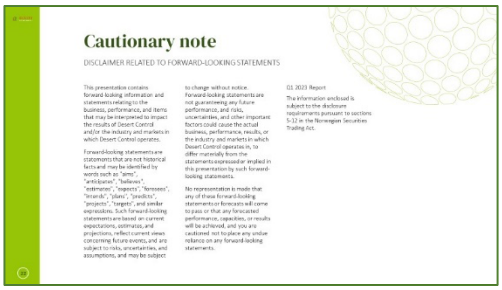

Please take note of the disclaimer relating to forward-looking statements.

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We will now start the Q&A session. We invite you to use the Q&A function for questions, and we will also answer questions submitted by email.

Q&A session *(Summarized written answers to questions raised for the Q&A)*

Q: In February, reports came that the State of Arizona provides financial support of 1 500 USD per acre for implementing water conservation methods. Is, or is LNC its way to be, a valid tool that grants access to this support?

A: We are well aware of this program and are also in close discussion with the University of Arizona, which manages this program. This particular grant program is designed for irrigation infrastructure; however, we have ongoing discussions with the University of Arizona, looking into potential ways for LNC as a technology to qualify for this program. There is no decision yet, but we have a very positive dialogue with the University about it. We are also addressing other areas of potential grants that are even more directly related to soil improvement and land improvement of sandy soil areas. Water conservation remains a significant priority for the U.S. Department of Agriculture; a lot of funding is flowing into these systems from initiatives like the Inflation Reduction Act, the Farm Bill, and others. We are working on multiple areas for this.

Q: How far have you come with the Q1 announced pilot project in the USA for Five Rivers Cattle Feeding?

A: The areas in the Five Rivers Cattle Feeding pilot (alfalfa project), have large plots of land requiring high capacity of LNC production. We deployed production capacity from UAE to the U.S. to have the required capacity to be able to treat these sizes of land. We have not yet started to deploy LNC in the field, but we have recently had some smaller tests on this deployment. We will keep you posted as we move into the delivery of this pilot.

Q: How many FTEs are there now in DC UAE and MDC, respectively?

A: In Desert Control Middle East (DCME), we have 14 FTE. For MDC, the joint venture for sales and delivery of LNC in UAE, what's important to know is that this is a joint venture between DCME and Mawarid with 11 000 people in their organization, which means that they have access to personnel and can quickly mobilize when larger projects eventually realize.

Q: Limoneira pre-project generated revenue of approx. $180k and is now fully deployed. What was the EBITDA margin for this pre-project if we exclude the cost structure of the headquarters and UAE operations?

A: We are not reporting on EBITDA margin at this point. However, I will share that for technical pilots, we expect insignificant revenue. Still, they are also more minor regarding capacity requirements and resources needed to deliver them. Regarding extended "stage two" pre-projects, like Limoneira, our objective is to reach a cost coverage basis. We do not expect significant profitability before we convert into full-scale projects.

Q: If the full-scale Limoneira contract materializes, how do you expect the contract structure to look like? Will it be split into phases with, i.e., 50,000 trees in each phase?

A: This is yet to be negotiated with the client to align both with their investment, CAPEX, and budgeting, as well as how they see this as achievable to gain the benefits demonstrated for the project. We believe that these phase three full-scale deployment contracts, in general, will be a mixture of contracts we deliver in a very short timeframe. Still, for larger scale projects, we foresee frame agreement where there will be stages of deployment. So, it will depend on several factors. Still, it's likely that with Limoneira, based on trees in Yuma, for example, that it will be split into sections as they have orchards that are naturally divided into different irrigation zones, which makes a good way of doing it. We also need to combine this with cost-effectiveness in utilizing mobilization and demobilization split on as high a volume of trees as possible.

Q: What size do you expect the average full-scale contract size to be in 2024 and 2025, respectively?

A: It's still early to say; however, we can start to make some calculations and estimations based on our experience with the size of Limoneira, which in an agri-business perspective is a mid to high-range size deployment. But it's too early to give clear guidance on our expectation for full-scale contracts of all pilots at this stage.

Q: Can you shed some light on the strategic review that you're currently undertaking with your advisors? Separately, what is the status of the pilot projects in the UAE and the J.V. with Mawarid?

A: We are currently reviewing our business model for UAE and the Middle East. This is part of our strategic review, and we will share in detail more updates about this when the review process is concluded.

Q: Has any progress in the strategic move forward (referring to the hire of Pareto Securities) regarding loans and share capital?

A: As mentioned, one part of this is looking at some evolution and transformation of our business model, which we expect to impact the mentioned areas. I can't share any details right now, but we are making progress, and we will share a detailed update once we have finished and concluded the strategic review.

Q: When do you expect to see cost savings from UAE and the MDC? Cash burn is still similar to Q1 last year

A: There will be a certain lag between restructuring action, such as moving personnel, and gaining full impact of other cost savings. We already see savings on the burn rate for UAE, and the 50 % OPEX reduction we communicated earlier will be reflected in the numbers for the third or fourth quarter this year. Also, I want to add that compared to Q1 last year; there are a significantly higher number of employees in the U.S., which increases the burn rate. We have also had some changes in Norway that impact our burn rate, but in total, our financial runway remains as previously communicated.

Q: Could you elaborate on the commercial status & process in the UAE?

A: I have already mentioned that UAE and the Middle East are part of the strategic review we are working on. I have also mentioned that we finally achieved the first certification on the product in UAE for organic farming. There is one more outstanding certification to complete; a product registration with the Ministry of

Environment and Climate Change. This is also the reason why we earlier this year established one more company entity in UAE because we needed an industrial manufacturing entity (caused by the change to the indirect model with a JV sales and distribution partner, we needed to have both a trading license and a manufacturing license to have the required business licenses to make this transition work). We are in the final stages of certification, and the completion will unlock even more significant opportunities for MDC.

Q: How many employees have moved from D.C. middle east to MDC in total?

A: In December, we had 48 employees in DCME; we now have 14 employees in DCME. A good portion of those have moved to our joint venture MDC.

Q: Can you please share updates on the strategic review announced last month?

A: We have already addressed this.

Q: How much cash do you expect to raise in 2023/24 to facilitate Desert Control's business during that time? What degree of shareholder dilution do you expect?

A: Our focus is to safeguard and build long-term shareholder value. No one wants to see a high degree of dilution, including the board, the company's management, and our shareholders. We will focus on making sure through the strategic review that we address a broad range of opportunities, including financing business, development, and structural opportunities to both unlock cash and reduce burn rate to make the organization more efficient so that we can balance the capital need on short term with the value creation through our customer conversion model. The objective is that larger-scale capital injections will be growth capital related. I cannot give you an exact answer to the question, but I can say that it will be done in a way that takes shareholder value into the equation – and naturally, if the share price is trading at low levels, you want to avoid raising more than what's needed to get to trigger points, which is our focus. We are focused on delivering on our customer conversion model – and using the momentum of this to demonstrate that it holds water on the small and mid-scale and that we are able to drive conversion of these projects into full-scale deployments; this will put us on the right track to consider growth capital.

Q: How long will the current Cash balance last? Have you gotten any positive feedback from loans/bank? Will our Shares be diluted? What can we expect?

A: Some of these are covered in the question above. When it comes to the runway, nothing has changed, all the fundamentals of Desert Control are still very strong, and we have not had any events that have changed our runaway from what we have communicated earlier. We still have a financial runaway, as communicated, to the end of this year. We announced this process proactively to be able to work with some strategic opportunities that would have been difficult to manage as a publicly listed company that we have confidence will create good value going forward.

Q: Are you still optimistic about the future for D.C.?

A: Yes, of course, I am very optimistic. Any startup journey, and especially the pathway of going from the pre-revenue stage through commercialization, is a critical part of any company's journey. I have the pleasure of spending time in the field with the team, meeting with clients, and the impact of our work. Also, seeing the incoming interest, even from markets where we are not even operating yet. The macro drivers behind what we address with our solution have not slowed down. We are in a world where water stress is not getting any less. The impact of climate change, increasing temperatures, droughts, and pressure on land and natural resources continues to increase. We are committed to being part of the solution, especially for areas of sandy soil which are the ones that are the most exposed to these challenges. So yes, I am definitely a believer in the potential of the innovation we have, and we are working diligently to make sure that we can bring this to the world!

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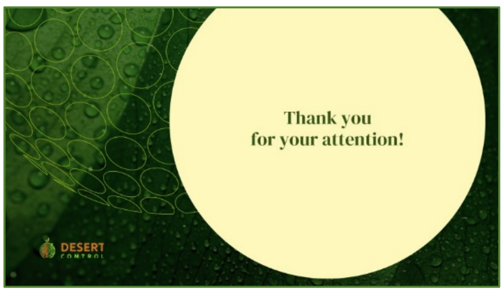

Thank you for all the good questions in the Q&A

Thank you for joining the Desert Control Q1 2023 and Year-to-Date Company Update.