

Blue Point Pellet Denmark ApS

Værftsvej 6 B, 4600 Køge

CVR no. 34 72 39 90

Annual report 2016

Approved at the annual general meeting of shareholders on *29 May 2017*

Chairman:


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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Blue Point Pellet Denmark ApS for the financial year 1 January - 31 December 2016.


The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 29 May 2017
Executive Board:



Brent Marcel Thomas Keele

Board of Directors:



Brent Marcel Thomas Keele
Chairman



John Leslie Allen



James Lee Parke



Curtis Robert Richardson

Independent auditor's report

To the shareholder of Blue Point Pellet Denmark ApS

Opinion

We have audited the financial statements of Blue Point Pellet Denmark ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter in the financial statements

We draw attention to note 2 in the financial statements, which reflects that the value of the Company's production facilities are associated with considerable uncertainty. We have not modified our opinion in respect of this matter.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 and the additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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 internal control.

Independent auditor's report

- ▶ 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 in preparing the financial statements 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 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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 29 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Bo Sigurd Leinum
State Authorised Public Accountant

Management's review

Company details

Name	Blue Point Pellet Denmark ApS
Address, Postal code, City	Værftsvej 6 B, 4600 Køge
CVR no.	34 72 39 90
Established	28 September 2012
Registered office	Køge
Financial year	1 January - 31 December
Board of Directors	Brent Marcel Thomas Keele, Chairman John Leslie Allen James Lee Parke Curtis Robert Richardson
Executive Board	Brent Marcel Thomas Keele
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvold Helmuhs Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Management commentary

Business review

The Company was established on 1 October 2012. The main activity of the Company is production and sale of pellets and blocks for industrial, commercial and residential purposes.

The Company purchased the production facilities located in Køge from the Parent Company in late December 2014. The equipment was second hand and had not been in production for some years. Therefore, the Company needed to update and enhance the equipment. It was originally planned that the update and enhancement should have been completed in 2014 for the production to start in 2014. It was, however, during 2014 decided that the Company should produce its own steam to be used for the production, which required the installation of additional equipment postponing the launch of production.

From January 2015 through August 2015, Blue Point Pellets Denmark ApS ("BPP") conducted research and development tests on wood pellet production. At the beginning of September 2015, process improvement measures were implemented at BPP's facility as production of wood pellets for sale began at the end of the year. In October 2015, a sound dampening system was installed on the air transport system to allow the facility to operate for 24 hour shifts, three days a week. BPP began running 24 hour shifts in December 2015. In an effort to support BPP's increased production, BPP hired additional employees, and implemented an accounting, sales, and inventory system to better track sales and costs.

Currently, BPP has two main product lines, bulk wood pellets and bagged wood pellets. BPP is pleased to announce that they sold their first shipload of bulk pellets in the first quarter of 2016. In an effort to increase sales and open BPP up to new markets, BPP is in the process of obtaining raw material sustainability certifications on both bulk and bagged wood pellets.

BPP is also exploring new markets in the area of plastic pellet production. Accordingly, plastic pellet line installations at the BPP facility are nearly complete, and manufacturing will begin early in the second quarter of 2017. The market for plastic pellets is very young and is continuing to be developed. BPP has strategic partners helping with procurement, sales, and market development. In connection to the plastic pellet line, BPP is also exploring markets in the area of pallet block production. BPP is installing a pallet block press line, which is anticipated to be completed and in production by the end of 2017. Plastic pallet blocks are a new technology and markets will need to be developed alongside the product.

We, at Blue Point Pellets, are excited for the future of our pellets in the bulk wood, bagged wood, plastic, and plastic block markets. We will be continually working on streamlining processes, fulfillment, logistics, and sales to better serve our customers and their increasing demands.

The premises, on which the production facilities are located, are rented from GGD Global Green Developer ApS. The Company has entered into an agreement with an option to buy part of the premises. The option expires no later than 30 September 2018.

Recognition and measurement uncertainties

The valuation of the production facilities are based on expected future cash flow. The future cash flow is subject to uncertainty as it is dependent on successful future production and on entering commercial sales contracts with customers.

The annual report is based on the assumption of the Company being a going concern. The Parent Company has, as in the past, financed the operations in the first part of 2017 and has confirmed to continue to do this for the remaining part of 2017 as required.

Furthermore, the Parent Company will not demand any repayment of the advances made to the Company unless the funds of the Company permit repayment.

Reference is made to note 2 and 5 for more details.

Unusual matters having affected the financial statements

During 2016, it was identified that costs relating to the financial year 2012/2013 had not been recognised.

Management's review

Management commentary

Accordingly, Management has treated the change in accordance with Section 52(2) of the Danish Financial Statements Act regarding corrections of material misstatements. Consequently, comparative figures and opening equity have been restated in these financial statements.

Further reference is made to the accounting policies where the financial impact has been disclosed.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

For 2017, a reduced loss is expected. It is Management's assessment that the Company in 2019 will reach a break-even and from 2020 will generate profit.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	<u>2016</u>	<u>2015</u>
	Gross margin	-62,488,329	-26,447,063
6	Administrative expenses	<u>-12,197,731</u>	<u>-17,294,560</u>
	Operating profit/loss	-74,686,060	-43,741,623
	Financial income	0	123,510
3	Financial expenses	<u>-13,405,927</u>	<u>-13,034,529</u>
	Profit/loss before tax	-88,091,987	-56,652,642
	Tax for the year	0	0
	Profit/loss for the year	<u>-88,091,987</u>	<u>-56,652,642</u>
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	<u>-88,091,987</u>	<u>-56,652,642</u>

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2016	2015
	ASSETS		
	Fixed assets		
4	Property, plant and equipment		
	Plant and machinery	51,025,000	53,804,462
	Other fixtures and fittings, tools and equipment	6,485,977	3,729,595
	Plant and machinery in progress	31,716,665	17,552,337
		<u>89,227,642</u>	<u>75,086,394</u>
	Investments		
	Deposits	6,280,719	5,832,979
		<u>6,280,719</u>	<u>5,832,979</u>
	Total fixed assets	<u>95,508,361</u>	<u>80,919,373</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	3,248,480	5,187,422
	Finished goods and goods for resale	18,960,557	13,546,779
		<u>22,209,037</u>	<u>18,734,201</u>
	Receivables		
	Trade receivables	7,922,468	2,051,538
	Other receivables	7,869,564	11,578,135
	Prepayments	749,286	0
		<u>16,541,318</u>	<u>13,629,673</u>
	Cash	5,953,572	11,733,454
	Total non-fixed assets	<u>44,703,927</u>	<u>44,097,328</u>
	TOTAL ASSETS	<u>140,212,288</u>	<u>125,016,701</u>
	EQUITY AND LIABILITIES		
	Equity		
5	Share capital	80,000	80,000
	Retained earnings	-180,272,709	-92,180,722
	Total equity	<u>-180,192,709</u>	<u>-92,100,722</u>
	Liabilities		
	Current liabilities		
	Trade payables	9,411,933	13,730,526
	Payables to group entities	309,912,129	203,054,497
	Other payables	1,080,935	332,400
		<u>320,404,997</u>	<u>217,117,423</u>
	Total liabilities other than provisions	<u>320,404,997</u>	<u>217,117,423</u>
	TOTAL EQUITY AND LIABILITIES	<u>140,212,288</u>	<u>125,016,701</u>

- 1 Accounting policies
- 2 Recognition and measurement uncertainties
- 7 Contractual obligations and contingencies, etc.
- 8 Collateral
- 9 Related parties

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2015	80,000	-31,230,165	-31,150,165
Correction of material misstatement	0	-4,297,915	-4,297,915
Transfer through appropriation of loss	0	-56,652,642	-56,652,642
Equity at 1 January 2016	80,000	-92,180,722	-92,100,722
Transfer through appropriation of loss	0	-88,091,987	-88,091,987
Equity at 31 December 2016	80,000	-180,272,709	-180,192,709

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Blue Point Pellet Denmark ApS for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Changes in accounting policies

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

- Yearly reassessment of residual values of property, plant and equipment.

In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions (The executive order on transitional provisions based in connection with the application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts) with future effect only as a change in accounting estimates with no impact on equity.

The change does not affect the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Material misstatements

During 2016, it was identified that costs relating to the financial year 2012/2013 had not been recognised.

Accordingly, Management has treated the change in accordance with Section 52(2) of the Danish Financial Statements Act regarding corrections of material misstatements. Consequently, comparative figures and opening equity have been restated in the financial statements for 2016.

As a result of the adjustments, caused by the material misstatement, the comparative figures have been restated with the following adjustments:

- Payables to group entities at 31 December 2015 have increased from DKK 198,756,582 to DKK 203,054,497.

- The equity at 1 January 2015 has decreased from DKK -31,230,165 to DKK -35,528,080, resulting in a change in equity at 31 December 2015 from DKK -87,882,807 to DKK -92,180,722.

Reference is made to the comments in Management's review.

Income statement

Revenue

Income from the sale of wood pellets is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Gross margin

The items revenue, production costs and other operating income have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Production costs

Production costs include expenses incurred to generate the year's revenue and expenses incurred during test productions. The item includes direct and indirect expenses relating to raw materials, consumables, labour, rent and leasing as well as depreciation of production equipment.

Research costs, development costs not satisfying the criteria for capitalisation and depreciation of capitalised development costs are also recognised under production costs.

Administrative expenses

Administrative expenses comprise staff costs for the administration, rental costs, consultant fees, travel expenses, insurance and other administrative expenses, etc.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

On initial recognition, items of property, plant and equipment are measured at cost.

Plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation.

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Production overheads and borrowing costs are not included in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets, which are as follows:

Plant and machinery:	10 years
Furniture and equipment:	3-5 years

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of fixed assets

The carrying amount of property, plant and equipment is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not included in the cost price.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective indication that a receivable is impaired. If there is objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income.

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the value at which they are expected to be utilised.

Other payables

Other payables are measured at net realisable value.

2 Recognition and measurement uncertainties

Material accounting estimates relate to the valuation of the production facilities.

The valuation of the production facilities are encumbered with considerable uncertainty. The carrying amount of the production facilities is subject to a test for indications of impairment. The recoverable amount of the production facilities, based on the future cash flow is, however, encumbered with considerable uncertainty as the future cash flow is dependent on successful future production and on entering commercial sales contracts with costumers.

DKK	2016	2015
3 Financial expenses		
Interest expenses, group entities	1,929,196	706,509
Exchange adjustments	11,438,002	12,328,020
Exchange losses	38,729	0
	<u>13,405,927</u>	<u>13,034,529</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

4 Property, plant and equipment

DKK	Plant and machinery	Other fixtures and fittings, tools and equipment	Plant and machinery in progress	Total
Cost at 1 January 2016	58,094,032	3,967,722	18,146,195	80,207,949
Additions in the year	3,064,883	264,260	17,849,832	21,178,975
Disposals in the year	-2,479,022	-14,266	-730,390	-3,223,678
Transfer from other accounts	1,028,065	2,520,907	-3,548,972	0
Cost at 31 December 2016	<u>59,707,958</u>	<u>6,738,623</u>	<u>31,716,665</u>	<u>98,163,246</u>
Impairment losses and depreciation at 1 January 2016	4,289,570	238,127	593,858	5,121,555
Amortisation/depreciation in the year	6,872,410	28,785	0	6,901,195
Reversal of amortisation/depreciation and impairment of disposals	<u>-2,479,022</u>	<u>-14,266</u>	<u>-593,858</u>	<u>-3,087,146</u>
Impairment losses and depreciation at 31 December 2016	<u>8,682,958</u>	<u>252,646</u>	<u>0</u>	<u>8,935,604</u>
Carrying amount at 31 December 2016	<u>51,025,000</u>	<u>6,485,977</u>	<u>31,716,665</u>	<u>89,227,642</u>

5 Share capital

At 31 December 2016, the net equity was negative by DKK 180,192,709 and consequently, the Company has lost its share capital. For 2017, a reduced loss is expected. It is Management's assessment that the Company in 2019 will reach a break-even and from 2020 will start generating profit. It is Management's expectation that the Company within the next few years will be able to re-establish the share capital through own earnings.

Management has presented the annual report based on an assumption of going concern. The Parent Company has, as in the past, financed the operations in the first part of 2017 and intends to continue to do this as required. The Parent Company and the investor behind the Parent Company have confirmed that they will continue to provide financial support as and when it may be required for the Company to meet the liabilities until and after 31 December 2017. In addition, the Parent Company will not recall or demand any repayment whatsoever of the advances made to the Company unless the funds of the Company permit repayment.

The share capital, nominal DKK 80,000 divided into 80,000 shares of DKK 1.00, has been unchanged since the establishment of the Company.

6 Staff costs

Average number of full-time employees	<u>18</u>	<u>16</u>
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7 Contractual obligations and contingencies, etc.

Other financial obligations

Rent and lease liabilities include a rent obligation totalling DKK 17,667 thousand in interminable rent agreements with remaining contract terms of 4 years. Furthermore, the Company has liabilities under operating leases for production machines, totalling DKK 4,299 thousand, with remaining contract terms of 2-4 years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Collateral

An Amount of DKK 2,356 thousand has been placed on an escrow account as a guarantee for future purchases, primarily electricity.

9 Related parties

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the share capital:

<u>Name</u>	<u>Domicile</u>
Blue Point Pellet, LLC	Colorado, USA