

Blue Point Pellet Denmark ApS

Værftsvej 6 B, 4600 Køge

CVR no. 34 72 39 90

Annual report 2017

Approved at the Company's annual general meeting on 30 April 2018

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 2017.

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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

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, 30 April 2018
Executive Board:



Brent Marcel Thomas Keele

Board of Directors:



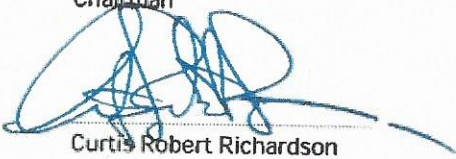
Brent Marcel Thomas Keele
Chairman



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 2017, which comprise 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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 as to 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 scepticism throughout the audit. We also:

Independent auditor's report

- ▶ 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.
- ▶ 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 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 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 the 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 the work we have performed, 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, 30 April 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Bo Leinum
State Authorised Public Accountant
MNE no.: mne10087

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 Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg,
Denmark

Management's review

Business review

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

Wood pellets

Blue Point Pellets (BPP) experienced many changes in 2017. Year over year, we saw a 82% increase in Revenue with only a 26% increase in Cost of Goods Sold. We also saw a decrease in general and administrative expenses of 31%. Combined, this accounted for a 17% decrease in the overall ordinary net loss for the business compared to 2016. We have in 2017 increased our production with 31% compared to 2016 and have seen a vast change in the demand for wood pellets this heating season. The spot market for wood pellets increased throughout 2017 and has continued to increase through the heating season. BPP is committed to fulfil all contracted sales volumes through the heating season and will take advantage of the attractive spot market when possible. Current sales negotiations for the 2018-2019 heating season are under way and we are seeing the correction in the market and higher prices.

Moving into 2018, BPP is continuing its commitment to cost reduction. We are adjusting blends to decrease the input raw material costs and looking into additives to help with color, increase durability, and create less wear on machines, all while decreasing input costs. BPP will also be entering into a long-term lease for port space located near our current facility. The space will provide storage for logs in the short-term and additional dry storage for sawdust by the end of 2018. To help ease the rising cost of logistics, BPP will be moving denser round wood and chipping onsite. In an effort to reduce the large amount of energy consumed at the plant, BPP is nearly complete with replacing the air transport system on the facilities' infeed with a conveyor system and installing new high efficiency hammer mills. We are estimating a 50% reduction in energy costs as a result of these modifications. We currently have one new hammer mill installed and it has proven the 50% reduction in energy costs. Two additional mills will be in place by the end of Q1.

We are very encouraged by the rapid increase in the market for wood pellets and by the improvements at the plant. We feel we have nearly weathered the storm of the market conditions over the past 4 years and look forward to increasing production at our more efficient facility.

Plastic

BPP has continued acquiring and modifying equipment on the plastic process side of our business. Testing in 2017 proved that we required a better way of screening out impurities as the recycled plastic was being processed. We were able to acquire and install a continuous screen changing system that has fixed many of the issues. Testing is nearly complete and we plan to be in production in Q1 of 2018. Market trends for high quality recycled plastic has continued to stay strong and we are very confident in the capability of this process and its future success for the business.

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 2018 and has confirmed to continue to do this for the remaining part of 2018 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 6 for more details.

Financial review

The income statement for 2017 shows a loss of DKK 30,231,168 against a loss of DKK 88,091,987 last year, and the balance sheet at 31 December 2017 shows equity of DKK 91,825,391. In the annual report for 2016, Management expected a reduced loss in 2017 compared to the loss incurred in 2016. The realized results for 2017 correspond to last year's expectations.

Management's review

During 2017, the share capital was increased through a debt conversion. The share capital was increased by a nominal amount of DKK 100,000 with a share premium of DKK 302,149,268 resulting in a positive equity at 31 December 2017.

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 2018, 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 1 January - 31 December

Income statement

Note	DKK	<u>2017</u>	<u>2016</u>
	Gross margin	-53,702,128	-62,488,329
8	Administrative expenses	-8,457,525	-12,197,731
	Operating profit/loss	-62,159,653	-74,686,060
	Financial income	33,412,667	0
3	Financial expenses	-1,484,182	-13,405,927
	Profit/loss before tax	-30,231,168	-88,091,987
	Tax for the year	0	0
	Profit/loss for the year	<u>-30,231,168</u>	<u>-88,091,987</u>
	Recommended appropriation of profit/loss	<u>-30,231,168</u>	<u>-88,091,987</u>
	Retained earnings/accumulated loss	<u>-30,231,168</u>	<u>-88,091,987</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	<u>2017</u>	<u>2016</u>
	ASSETS		
	Fixed assets		
4	Intangible assets		
	Software	27,292	0
		<u>27,292</u>	<u>0</u>
5	Property, plant and equipment		
	Plant and machinery	49,908,043	51,025,000
	Other fixtures and fittings, tools and equipment	7,374,284	6,485,977
	Plant and machinery in progress	39,225,999	31,716,665
		<u>96,508,326</u>	<u>89,227,642</u>
	Investments		
	Deposits	6,370,922	6,280,719
		<u>6,370,922</u>	<u>6,280,719</u>
	Total fixed assets	<u>102,906,540</u>	<u>95,508,361</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	2,246,830	3,248,480
	Finished goods and goods for resale	6,274,021	18,960,557
		<u>8,520,851</u>	<u>22,209,037</u>
	Receivables		
	Trade receivables	10,758,500	7,922,468
	Other receivables	3,465,457	7,869,564
	Prepayments	2,061,385	749,286
		<u>16,285,342</u>	<u>16,541,318</u>
	Cash	9,712,897	5,953,572
	Total non-fixed assets	<u>34,519,090</u>	<u>44,703,927</u>
	TOTAL ASSETS	<u>137,425,630</u>	<u>140,212,288</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
6	Share capital	180,000	80,000
	Share premium account	302,149,268	0
	Retained earnings	-210,503,877	-180,272,709
	Total equity	<u>91,825,391</u>	<u>-180,192,709</u>
	Provisions		
7	Other provisions	9,449,512	0
	Total provisions	<u>9,449,512</u>	<u>0</u>
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	15,118,903	9,411,933
	Payables to group entities	19,725,617	309,912,129
	Other payables	1,306,207	1,080,935
		<u>36,150,727</u>	<u>320,404,997</u>
	Total liabilities other than provisions	<u>36,150,727</u>	<u>320,404,997</u>
	TOTAL EQUITY AND LIABILITIES	<u>137,425,630</u>	<u>140,212,288</u>

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

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January 2016	80,000	0	-92,180,722	-92,100,722
Transfer through appropriation of loss	0	0	-88,091,987	-88,091,987
Equity at 1 January 2017	80,000	0	-180,272,709	-180,192,709
Capital increase	100,000	302,149,268	0	302,249,268
Transfer through appropriation of loss	0	0	-30,231,168	-30,231,168
Equity at 31 December 2017	180,000	302,149,268	-210,503,877	91,825,391

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Blue Point Pellet Denmark ApS for 2017 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.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Non-current assets acquired in foreign currencies are measured at the exchange rate at the transactions date.

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.

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 statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statement 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.

Balance sheet

Intangible assets

Intangible assets include software licences.

Intangible assets are measured at cost less accumulated amortisation and impairment losses.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Provisions

Provisions comprise anticipated expenses relating to onerous contracts. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 customers.

DKK	2017	2016
3 Financial expenses		
Interest expenses, group entities	1,379,944	1,929,196
Other interest expenses	15,540	0
Exchange adjustments	0	11,438,002
Exchange losses	88,698	38,729
	1,484,182	13,405,927
4 Intangible assets		
DKK		Software
Cost at 1 January 2017		0
Additions in the year		32,750
Cost at 31 December 2017		32,750
Impairment losses and amortisation at 1 January 2017		0
Amortisation/depreciation in the year		5,458
Impairment losses and amortisation at 31 December 2017		5,458
Carrying amount at 31 December 2017		27,292
Amortised over		2,5 years

Financial statements 1 January - 31 December

Notes to the financial statements

5 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 2017	59,707,958	6,738,623	31,716,665	98,163,246
Additions for the year	355,710	181,879	14,262,205	14,799,794
Disposals for the year	0	-13,050	0	-13,050
Transfer from other accounts	4,526,497	2,226,374	-6,752,871	0
Cost at 31 December 2017	64,590,165	9,133,826	39,225,999	112,949,990
Impairment losses and depreciation at 1 January 2017	8,682,958	252,646	0	8,935,604
Amortisation/depreciation in the year	5,999,164	1,507,620	0	7,506,784
Amortisation/depreciation and impairment of disposals in the year	0	-724	0	-724
Impairment losses and depreciation at 31 December 2017	14,682,122	1,759,542	0	16,441,664
Carrying amount at 31 December 2017	49,908,043	7,374,284	39,225,999	96,508,326

6 Share capital

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 2018 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 2018. 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.

7 Other provisions

The provisions are expected to be payable in:

DKK	2017	2016
0-1 year	9,449,512	0
	9,449,512	0

8 Staff costs

Average number of full-time employees	25	18
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Financial statements 1 January - 31 December

Notes to the financial statements

9 Contractual obligations and contingencies, etc.

Other financial obligations

Rent and lease liabilities include rent obligations totalling DKK 14,177 thousand in interminable rent agreements with remaining contract terms of up to 3 years. Furthermore, the Company has liabilities under operating leases for production machines, totalling DKK 2,692 thousand, with remaining contract terms of 2-4 years.

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 2020.

10 Collateral

An amount of DKK 2,250 thousand has been placed on an escrow account as a guarantee for future purchases, primarily electricity.

11 Related parties

Ownership

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

Name	Domicile
Blue Point Pellet, LLC	Colorado, USA