

LIQTECH INTERNATIONAL INC

FORM 10-K (Annual Report)

Filed 03/27/13 for the Period Ending 12/31/12

Telephone	01145 2390 4545
CIK	0001307579
Symbol	LIQT
SIC Code	3590 - Miscellaneous Industrial And Commercial
Industry	Misc. Capital Goods
Sector	Capital Goods
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 000-53769

LiqTech International, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-1431677

(I.R.S. Employer Identification No.)

Industriparken 22C, DK 2750 Ballerup, Denmark

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: +4544986000

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

On June 30, 2012, the aggregate market value of the common stock outstanding and held by non-affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant based on the closing price of the registrant’s common stock of \$2.50 per share on June 30, 2012 was \$34,297,028. As of March 22, 2013, there were 24,111,500 shares of common stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
PART I	
Item 1 Business	1
Item 1A Risk Factors	12
Item 1B Unresolved Staff Comments	20
Item 2 Properties	20
Item 3 Legal Proceedings	20
Item 4 Mine Safety Disclosures	20
PART II	
Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6 Selected Financial Data	21
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A Quantitative and Qualitative Disclosures About Market Risk	32
Item 8 Financial Statements and Supplementary Data	32
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	34
Item 9A Controls and Procedures	34
Item 9B Other Information	35
PART III	
Item 10 Directors, Executive Officers and Corporate Governance	36
Item 11 Executive Compensation	40
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	44
Item 13 Certain Relationships and Related Transactions, and Director Independence	46
Item 14 Principal Accountant Fees and Services	46
PART IV	
Item 15 Exhibits and Financial Statement Schedules	47
Signatures	51

PART I

Item 1. Business

Overview

We are a clean technology company that provides state-of-the-art technologies for gas and liquid purification by manufacturing ceramic silicon carbide filters. For more than a decade, we have developed and manufactured products of re-crystallized silicon carbide. We specialize in three business areas: ceramic membranes for liquid filtration, diesel particulate filters for the control of soot exhaust particles from diesel engines and kiln furniture for the refractory industry. Using nanotechnology, we develop proprietary products using patented silicon carbide technology. Our products are based on unique silicon carbide membranes which facilitate new applications and improve existing technologies. We market our products from our offices in the United States and Denmark, and through local representatives in Italy, Germany, France, Korea, Brazil and Singapore. The products are shipped directly to customers from our production facilities in the United States and Denmark.

The terms “LiqTech”, “we”, “our”, “us”, the “Company” or any derivative thereof, as used herein refer to LiqTech International, Inc., a Nevada corporation, together with its direct and indirect wholly-owned subsidiaries, including LiqTech USA, Inc., a Delaware corporation (“LiqTech USA”), which owns all of the outstanding equity interest in LiqTech International A/S, a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark (“LiqTech Denmark International”) and LiqTech NA, Inc., a Delaware corporation (“LiqTech Delaware”). Collectively, LiqTech USA, LiqTech Denmark International and LiqTech Delaware are referred to herein as our “Subsidiaries”. On August 23, 2012, LiqTech A/S, a Danish limited company (“LiqTech Denmark”) and former subsidiary of the Company was merged with and into LiqTech Denmark International.

We conduct operations in the Kingdom of Denmark and the United States. Our Danish operations are located in the Copenhagen, Denmark area and our U.S. operations are conducted by LiqTech Delaware located in White Bear Lake, Minnesota. In October and December 2011, we opened sales offices in France and Germany and in January 2012, we opened a sales office in Singapore.

Reverse Acquisition

On August 24, 2011, pursuant to an Agreement and Plan of Merger, dated as of August 23, 2011 (the “Merger Agreement”), by and among Blue Moose Media, Inc. (“Blue Moose” and n/k/a the Company), Blue Moose Delaware Merger Sub, Inc. (“BMD Sub”), a wholly-owned subsidiary of Blue Moose and LiqTech USA, BMD Sub was merged with and into LiqTech USA (the “Merger”) and, as a result of the Merger, LiqTech USA became a wholly-owned subsidiary of Blue Moose.

Pursuant to the Merger, (a) each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of our common stock, for a total of 17,444,750 shares of our common stock resulting in 21,600,000 shares of our common stock being outstanding immediately following the merger and (b) warrants to acquire up to 6,500 shares of LiqTech USA’s common stock at a price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of our common stock at a price of \$1.50 per share.

LiqTech USA owns all of the outstanding equity interests in LiqTech Denmark International and LiqTech Delaware. In June and July 2011, LiqTech USA entered into agreements to acquire (i) all of the outstanding equity interests in LiqTech Denmark and (ii) all of the outstanding equity interests in LiqTech Denmark International and LiqTech Delaware not owned by LiqTech Denmark, directly from the holders of such equity interests (the “LiqTech Acquisition Agreements”). In exchange for such equity interests, LiqTech USA paid to such holders in the aggregate (i) \$4,637,315 in cash, (ii) promissory notes in the principal amount of DKK 19,500,000 (which was equal to \$3,765,351 based upon the currency exchange rate of \$1.00 = DKK 5.1788 as of August 22, 2011) and during June 30, 2012, these promissory notes have been paid off in full and (iii) 9,308.333 shares of LiqTech USA’s common stock.

Prior to completion of the Merger, LiqTech USA completed a private placement offering of 63 units at \$100,000 per unit, each such unit consisting of 40 shares of LiqTech USA’s common stock and 20 warrants to purchase LiqTech USA common stock, and received \$4,800,000 in cash and a promissory note for \$1,500,000 which was payable on September 7, 2011. Thereafter, in August 2011, LiqTech USA closed the transactions contemplated by the LiqTech Acquisition Agreements.

As a result of the Merger, Blue Moose changed its management and reconstituted its board of directors. As of the effective time of the Merger, Gordon Tattarsall, the president, the chief financial officer and the sole director of Blue Moose, resigned as president and chief financial officer. As Blue Moose's sole director, Mr. Tattarsall appointed Aldo Petersen as a director of Blue Moose. The Directors then appointed Lasse Andreassen and Soren Degen as the officers of Blue Moose, and Lasse Andreassen, Paul Burgon, John Nemelka and Michael Sonneland as directors of Blue Moose. However, the other new directors did not take office until September 5, 2011, which was ten days after we filed an Information Statement pursuant to Rule 14f-1 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and mailed that statement to our stockholders of record. In addition, Mr. Tattarsall resigned as a director of Blue Moose effective as of September 5, 2011.

Products

We manufacture and sell (i) ceramic membranes for the filtration of liquid; (ii) diesel particulate filters for the control of soot exhaust particles from diesel engines and (iii) to a much lesser extent, kiln furniture to support ceramics during the firing process.

Ceramic Silicon Carbide Membranes for Liquid Filtration

Under the "LiqTech" and "Cometas" brand names, we manufacture and sell ceramic silicon carbide membranes for liquid filtration using our patented silicon carbide technology ("SiC Filters") that currently focus on hydrocarbon production-derived contaminated water, which we refer to herein as "produced water" and pre-filtration for reverse osmosis. Our SiC Filters have been used in the following applications by our clients:

- *Produced water* : Our membranes can be used for the filtration of water from oil produced in offshore platforms. We have performed testing with many of the major international private and public oil and gas companies. We have recently been awarded a contract by one of the major international oil and gas companies to provide and service produced water filters on one of its offshore platforms. Our products have been delivered and the initial service period under the contract commenced.
- *Pre-filtration of reverse osmosis drinking water* : Prior to passing through reverse osmosis membranes to produce drinking or industrial water from sea or surface water, the sea or surface water must be pre-filtered. We have performed successful tests for the pre-filtration of sea and surface water for this purpose with numerous clients, including Arteron in Malaysia, a company producing compact drinking water, Hoimyoung Corp in South Korea, a supplier of industrial waste water systems and pretreatment for reverse osmosis, Kemic Vater Cleaning in Denmark, a supplier of drinking water equipment, and Puretec in Israel, a producer of reverse osmosis systems.
- *Treatment of ballast water* : Our liquid filtration membranes can be applied to limit the spreading of non-native species that may be transported in the ballast water of sea-going vessels. We have partnered with Singapore based companies and R&D centers to develop a solution for the ballast water treatment market. A distributor in Japan is in contact with shipyards seeking filtration solutions for our ballast water systems.
- *Industrial applications* : Our membranes have performed successful tests in industrial applications for the removal of a variety of substances such as heavy metal (Haldor Topsoe, Denmark), legionella (HYTEK Italy), manure (Biofuel Technology, Denmark), pool and spa water (Provital, Denmark) and raw sugar (Al Khaleej Sugar, UAE).
- *Producing clean drinking water* : The potential for the use of LiqTech SIC membranes in drinking water production is diverse and the benefits numerous. Some examples including: group water – removal of precipitated salts like iron and manganese; surface water – removal of organic suspended solids and humic acid; and sea water – pre-filtration before reverse osmosis.
- *Waste water treatment* : Our membranes can be used to remove suspended solids in waste water treatment. Our membranes have performed successful tests for treating waste water with Hydrosolutions, Puretec in Israel and Asia Pacific Water Technologies in South Korea.

Our products are based on the following silicon carbide membrane technologies:

- CoMem is a unique patented membrane technology that utilizes a cross-flow structure to handle high concentrations of suspended solids found in produced water from the oil and chemical industry, wastewater from industrial processes and manure filtration; and
- Aqua Solution integrates a dead-end structural design with cutting-edge membrane technology in a solution specifically designed for applications in pre-treatment for reverse osmosis, wastewater treatment and pool and spa filtration.

Our filters are manufactured with a silicon carbide ceramic membrane based on a patented technology, and we are not aware of any other company that makes both the substrate (honeycomb) and the membrane (the part which accomplishes the filtering) solely from silicon carbide.

The advantages of our SiC membrane compared to other pre-filtration systems for reverse osmosis are:

- Our SiC membrane offers the same water flow as commonly used sand filters which take up to 400 times more space and have pore sizes at least three times bigger than our SiC membrane, and reduces the number of membrane elements and pressure vessels;
- With our SiC membrane, high flow capacities are achieved at very low pressures, which reduces energy costs;
- Our SiC membrane reduces water consumption for sand filter backwash; and
- Our SiC membrane eliminates consumption/maintenance of cartridges.

On February 14, 2013, we announced that our ultra-filtration Silicon Carbide (SiC) membrane product has been approved for liquid sterilization according to the recognized American Society for Testing and Materials (ASTM) standard F838-05 for liquid filtration. This standard is widely used for pharmaceutical, food & beverage and drinking water applications. The combination of the unmatched performance of SiC membranes compared to any other ceramic membrane material in terms of liquid flux, chemical resistance and product life, now combined with the capability of providing sterile filtration, represents disruptive technology to the existing norm, and is an industry game-changer for Drinking Water, Biotech and Food & Beverage applications. Our SiC membranes enable mechanical removal of bacteria, which is cheaper and more reliable than any other sterilization technology. We believe we are the only membrane manufacturer worldwide to achieve liquid sterilization with a SiC membrane.

The independent Danish Technological Institute (DTI) laboratory conducted the certification according to the ASTM standard. Following the test procedure set forth by ASTM, our SiC membranes were evaluated in terms of bacteria rejection. DTI conducted in the sterile membrane certification that the membrane filter has the ability to retain bacteria corresponding to a log 7 reduction. The ability to retain bacteria corresponding to a log 7 reduction (99.99999% removal) is recognized as sterile filtration, i.e. the membrane can be considered as a bacterial barrier. On the basis of this achieved ASTM standard, we are now considering expanding our strategic focus beyond the existing business areas of industrial wastewater treatment and produced water treatment and toward new areas such as Biotech, food & beverage, and drinking water, where our SiC membranes may offer sterile filtration with a significant value proposition for the end-users.

On February 19, 2013, we announced that our SiC membranes are currently being used in the recovery of protein in a foodstuff application in China. FANRUNSI (Shanghai) Fluid Technology Co. Ltd., a Chinese engineering firm located in Shanghai, has installed 240 square meters of our SiC membranes at a Chinese customer location. The end-user is considering a further expansion of additional SiC membranes worth more than \$1 million in 2013.

On February 21, 2013, we announced the newest product to our portfolio, SiC membrane discs. The membrane disc system is based on a principle of creating cross-flow by rotating the membrane as an alternative to pumping the liquid across the membrane in the traditional tubular setup. Energy consumption is only 17% compared to regular cross-flow. The membrane disc system can handle liquids with high solid content and will therefore be used in applications such as wastewater treatment, manure concentration and pharmaceuticals. The application is also suitable in algae dewatering before final extraction of Omega 3 and other high-value content for production of feed or bio ethanol. These applications are growing markets, and all face a continuous challenge in finding energy-effective treatment solutions. We believe that our SiC membrane discs will set the standard for requirements in future system design, due to higher flux and better chemical resistance at a comparable price to other solutions. We believe the market for membrane discs has strong potential alongside our other tubular and flat sheet membranes.

The product was developed with funding from the Danish foundation for Green Development and Demonstration Program (*GUDP – Groen udvikling og demonstrations program*). The foundation has partially funded the development of the SiC membrane discs for concentration of manure, however, we retain full ownership of the intellectual property. Concentration of manure will enhance the production of biogas compared to gasification on raw manure, and will limit the CO₂ emission from transportation of the untreated manure prior to the gasification.

We intend to target the membrane disc product through a strategic partnership with an experienced system integrator. The system integrator has a long history in designing membrane disc equipment. The total market size for sludge treatment is estimated to reach US \$5.8 billion in 2013, growing at a compound annual growth rate of 4.6% (Source: Filtration Industry Analyst Volume 2008, Issue 12, December 2008, Pages 5). The membrane technology portion of this market is approximately 5% of the total market, or approximately \$290 million (own estimate).

In addition to the above, the International Feed Industry Federation states that the feed production market reached 873 million metric tons in 2012, representing a market worth US\$ 350 billion. It is further estimated that membranes could account for \$350-\$700 million of the total market (Transparency Market Research).

On March 5, 2013, we announced that we have launched a new state-of-the-art SiC Flat Sheet Membrane (FSM) disc for Membrane Bioreactors (MBR) and Moving Bed Bioreactors (MBBR) for wastewater treatment.

The FSM uses the outside-in filtration principle. This allows either a pressurized mode or a vacuum suction mode of operation which reduces the cost of installation. The FSM module is submerged in a tank containing dirty water and by applying moderate suction pressure, clean water is produced. This configuration is mainly used in modern MBR and MBBR wastewater treatment systems and reduces the strain on housings, pumps and controls. With this new expansion of the product portfolio, we believe we will be able to cover a wider spectrum of the market. While our tubular filter is suited for low-solid content feeds, the FSM is better suited for higher-solid content applications and our rotating discs target very high solid content feeds.

The high clean-water permeability of the SiC material, being around 20 times more permeable than conventional polymeric 0.1um UF membranes and 4 times more permeable than aluminum oxide 0.1um UF membranes (competing ceramic material), allows compact systems that save valuable footprint for our customers.

The FSM targets the waste water market, which we believe is among the most important applications in membrane technology. The MBR market reached a size of about US \$800 million in 2011 and is expected to grow at approximately 20% per year to exceed \$3 billion in 2018.

This new technology offers a flexible high-performance solution with the outstanding material advantages of SiC, providing customers ultra-compact systems with the reliability and robustness of a ceramic membrane.

We have entered into cooperation agreements with two system integrators with specific know-how and market access to develop market-driven products with what we believe to be the best value proposition. We currently expect to generate revenue from the sales of the Flat Sheet Membranes as early as 2013.

For the years ended December 31, 2012 and 2011, we received grants from governmental entities of \$549,648 and \$3,039,118, respectively. In 2011, we received a \$2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. If successful, we believe this will be the first inorganic reverse osmosis membrane ever developed. The goal is to produce clean drinking water from sea water.

We believe increased government regulation on the treatment of produced water may increase our sales of SiC membranes. Existing technology may have difficulty meeting any increased requirements because the hydro-cyclone technology currently used in most treatments of produced water is not effective at removing suspended solids and is prone to clogging.

For the years ended December 31, 2012 and December 31, 2011, our sales of liquid filters and services were \$4,192,063 and \$3,708,624, respectively, and accounted for 25% and 18% of our total sales, respectively.

Diesel Particulate Filters

We offer diesel particulate filters (“DPF”) for exhaust emission control solutions to the verified retrofit and the original equipment manufacturer (OEM) market through our direct sales force. DPF sales are generally made to distributors specializing in sales to end users. We use a proprietary “nano washcoat” to provide catalytic coating for anything from diesel particulate filters to catalytic converters. We have developed a robust silicon carbide diesel particulate filter that is especially useful for vehicles that produce a high soot load, and, if properly maintained, should last as long as the vehicle’s engine. Our DPFs are ideal for off-road vehicles because of their strength, chemical non-reactive nature, temperature resilience and thermal conductivity. Our DPF products are sold worldwide, under the LiqTech brand name.

Our silicon carbide filters can handle higher soot loads than filters that do not use a silicon carbide membrane, which makes them ideal for situations in which engines infrequently reach high enough temperatures to burn off soot. Examples include:

- Garbage trucks;
- Port vehicles;
- Diesel pickup trucks not carrying a full load;
- Off-road construction vehicles that idle for long periods of time; and
- Intra-city vehicles that do not reach highway speeds.

Most of our competitors’ DPFs do not use a silicon carbide membrane.

For the years ended December 31, 2012 and 2011, our sales of diesel particulate filters were \$12,181,744 and \$17,211,557, respectively, and accounted for 72% and 81% of our total sales, respectively.

Kiln Furniture

Kiln furniture refers to all items used in a kiln to support ceramics that creates additional space to maximize the number of items for each firing. Our high-quality SiC kiln furniture is thinner (allowing more items to be added for each firing), withstands higher heat, lasts longer and reduces the firing time (reducing energy costs) as compared to cordierite, mullite and oxide bonded kiln furniture.

We intend to produce kiln furniture as a means to maximize the efficiency of our manufacturing process and not as one of our primary products.

We began selling kiln furniture in 2011 and our sales for the years ended December 31, 2012 and December 31, 2011, were \$548,031 and \$271,996, respectively, and accounted for 3% and 1% of our total sales, respectively.

Our Competitive Strengths

We believe the following strengths position us to increase our revenue and profitability:

- ***Advantages of Silicon Carbide Membranes*** . Our diesel and liquid filtration products utilize silicon carbide membranes which have certain qualities that we believe make our products more desirable than those of our competitors. Unlike filtration products that use aluminum oxide, silicon carbide membranes are chemically inert and temperature resistant. Furthermore, silicon carbide membranes exhibit a high degree of hydrophilicity (hydrophilicity is the tendency of a surface to become wet or to absorb water) which results in unique flux (low energy consumption). Silicon carbide is also highly durable, with hardness next to diamonds, making it conducive to being used in a variety of industrial settings. As a result, we believe that such superior qualities make our products desirable in both exhaust emissions control products and liquid filtration products.

- **End Markets with Attractive Growth Characteristics** . We provide filtration products for retrofit markets and aftermarkets. We have the opportunity to provide filters to the large end markets with attractive growth prospects. The increase in global regulation of diesel particles is expected to drive growth in the DPF market. According to an industry publication, the global market for new DPF filters manufactured by OEMs is expected to increase from approximately 1.7 million units in 2010 to over 9 million units in 2020. The global market for retrofitting diesel engines with DPFs is expected to grow from approximately 5 million cumulative retrofit units in 2010 to approximately 20 million cumulative retrofits by 2025.

Water is essential to life on earth, and clean water shortages are expected to affect two-thirds of the human population by 2025. (Source: <https://blueplanetnetwork.org/water/>). According to Pike Research, the annual global investment in desalinization was estimated to reach \$16.6 billion by 2016. As a result, we anticipate that global demand will increase for products such as ours that can be used to provide clean water.

- **Broad Application of LiqTech Membranes** . Our membranes can and have been applied in a variety of settings, including the processing of industrial waste water, produced water and pretreatment of drinking water, prefilters for reverse osmosis, oil emulsion separation, bacteria removal, clearing of wine and beer, and separating metals from liquids used in industrial processes.
- **Marketing and Manufacturing in Two Key Markets and Expanding to Other Key Market**. We have successfully started production in the United States in addition to Denmark, where the production capacity has been increased. We have production and sales capacity in North America and Europe. We also sell our products through offices and agents in several key countries such as Brazil, Germany, Korea, France, Italy and Singapore, and we have established customer relations in more than 15 countries.
- **Strong and Experienced Management Team** . Our management team has significant experience in the clean technology and filtration industries, driving growth through development of new applications and technologies and cultivating relationships with customers. Our team has an average of more than 10 years of management experience. Our key managers have worked in the industry during the last 10 years.

Our Strategy

Our strategy is to create stockholder value by leveraging our competitive strengths and focusing on the opportunities in the end-markets we serve. Key features of our strategy include:

- **Enter New Geographic Markets and Expand Existing Markets** . We plan on continuing to manufacture and sell our products out of Denmark and the United States. In October 2011, the Company opened sales offices in France and Germany and in January 2012, we opened a sales office in Singapore. We also intend to expand our production capability to Asia when needed, by investing in a new production facility in South Korea, along with opening new marketing offices on the continent. In addition, we intend to establish sales outlets with technical support in other European nations such as Italy, while expanding to other markets such as Brazil. In certain other locations such as Japan, China and Australia, we intend to work with agents and partners to access such markets.
- **Continue to Strengthen Position in DPF Market** . We believe that we have a strong position in the retrofit market for diesel particle systems. We intend to continue our efforts to maintain our strength in this area. Furthermore, we intend to leverage our experience in the OEM market and expand our presence in the OEM market with new products relating to diesel particle systems. We intend to leverage our products and experience as the global DPF market is expected to undergo significant growth.
- **Continue to Develop and Improve Technologies and Open New End Markets** . We intend to continuously develop our ceramic membrane and improve the filtration efficiency for our filtration products. Through continuous development, we intend to find new uses for our products and plan to expand into any new markets that we believe would be appropriate for our company. One of our key strategies is to develop our membrane applications together with our customers including, for example, the development of the next generation of diesel filters with asymmetric design for the OEM market, which is being tested at a famous South Korean car manufacturer. We also plan on manufacturing a SiC membrane of 0.01 microns or less, which would position us to enter the ultrafiltration market. In our kiln furniture business, we plan on working towards developing a second generation of kiln furniture with no porosity.

- **Continue Our Focus on Developing an Inorganic Reverse Osmosis Membrane** . There is no inorganic reverse osmosis membrane in the market today. In 2011, we received a \$2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. We intend to continue our research and development efforts to modify our membrane into one that can perform reverse osmosis over the next several years.

Our Industry

Overview

We primarily serve two industries — the diesel particle filter market and the liquid filtration market. Our goal is to position ourselves to expand on and leverage our products and technology and to take advantage of the favorable industry trends that we anticipate.

Liquid Filtration Market

Water is essential for life on earth and clean water is of vital importance for human survival. One-third of the human population is living today with clean water shortcomings and this is expected to increase to two-thirds of the population by 2025 due to the growing population. (Source: WHO - <http://www.who.int/heli/risks/water/water/en/index.html>). According to the World Health Organization, approximately 1.6 million children are killed every year due to unsafe water and the lack of basic sanitation. Due to the growing need for pure water for drinking and industrial purposes, the market for membrane filtration is growing rapidly, with more and larger plants being commissioned all over the world.

The growth is especially pronounced for reverse osmosis membranes. Reverse osmosis membranes are increasingly used for the production of drinking water (desalination of sea water or brackish water), for demineralised water in industrial processes (boiler feed water, microelectronics production), as well as in food processing and pharmaceutical production. Also, laboratories rely on pure water, for which demineralisation is an essential step. According to Pike Research, the annual global investment in desalination is forecasted to reach \$16.6 billion by 2016. According to another industry report, the aggregate water volume treated by membranes is expected to grow from 29 billion cubic meters in 2009 to 82 billion cubic meters in 2020.

Today's reverse osmosis membranes are made of polymers (plastics), arranged in spiral elements of standardized dimensions. In recent years, prices have dropped markedly, making membrane filtration more competitive. However, the technical limitations of polymer membranes remain as follows:

- The best plastic RO membranes use 3.5 kWh/cubic meter water and the flux (flow per square meter of membrane area) is low (typically 11 LMH).
- The plastic membranes are sensitive to damage, oxidizing chemicals (chlorine, ozone, etc.), temperatures above 40 C, and pH below 2 or above 12. These constraints limit the cleaning-in-place (CIP) methods that can be used to recover the membranes' permeability and limit microbial growth.
- The plastic membranes require excessive feed water pre-treatment for removal of particulates in order to prolong membrane life. For example, during stormy weather, interruptions of service may occur due to the amount of suspended solids in the feed water.
- There is a risk of bacterial contamination of the membranes. While bacteria are retained in the brine stream, bacterial growth on the plastic membrane itself can introduce tastes and odors into the product water. It is difficult to remove due to the sensitivity of the membrane.

The development of an inorganic reverse osmosis membrane is expected to improve the technology in two ways: a finer filter (desalination) and longer lifetime and cost reduction for the end user. We believe this will open a significantly larger market for us.

Diesel Particle Filter Market

Diesel emissions consist of several toxic gasses and particles: particle matter (soot), carbon monoxide and hydrocarbons. Soot has been linked to a variety of health problems in humans. Abt Associates, for the Clean Air Task Force, estimates that approximately 21,000 people in the U.S. die prematurely each year from breathing diesel soot, 3,000 of those from lung cancer. Another 27,000 heart attacks, 14,500 hospitalizations and 2.4 million lost work days a year are attributable to diesel particulate matter exposures. The Abt Associates report, using EPA science advisory board methodology, estimated that the monetary value of the health damages from diesel-related particulate matter in the U.S. was approximately \$139 billion (in 1999 dollars). Reducing diesel emissions will have both health benefits and social benefits to society, along with reduced costs.

In response to these health impacts, governments have been implementing legislation to regulate emissions from diesel engines. California implemented the Diesel Risk Reduction Plan which required the curtailment of diesel particle emissions by 25% by 2010 and a further 15% by 2020. New York City has implemented binding directives for the retrofitting of buses, garbage trucks and construction machines. In the European Union, Directive EC 715/2007 of June 20, 2007 defined particle count limits for certain cars and light utility vehicles. Also, in Europe, low emission zones have been implemented locally, creating a patchwork of regulation. The increase in global regulation of diesel particles is expected to drive growth in the DPF market. According to an industry publication, the global market for new DPF filters manufactured by OEMs is expected to increase from approximately 1.7 million units in 2010 to over 9 million units in 2020.

Our diesel particle filter removes more than 95% of the soot in diesel emissions and, in many installations, up to 99%. Our catalysts remove and reduce carbon monoxide and hydrocarbons in the same emission control system when installed on the filter or on a separate diesel oxidation catalyst.

Manufacturing

We currently manufacture our products in facilities located in Ballerup, Denmark and White Bear Lake, Minnesota. The main raw materials that we use in our manufacturing processes are silicon carbide, platinum and palladium. We purchase these commodities from various sources generally based upon availability and price. As other industries develop products utilizing silicon carbide, we may not be able to obtain adequate supplies of silicon carbide required for the manufacture of our existing and planned future water filtration products. Any increased demand for silicon carbide, platinum or palladium could increase the price we must pay to obtain it and could adversely affect our profitability. However, our management believes that we could obtain satisfactory substitutes for platinum and palladium (other soil types) should they become unavailable.

Prior to our entry into the subcontract agreement with Scandinavian Brake Systems, as discussed below, our manufacturing facilities operated at peak capacity. We currently have a subcontract agreement for production capacity with a subcontractor located in Tennessee. We have also entered into a subcontract agreement with Scandinavian Brake Systems to utilize the production capacity of their Notox division. The new subcontract arrangement, which has been extended through the end of 2014, has significantly increased our production capacity.

We have plans to expand our production capacity in both Denmark and Minnesota, primarily through additional investment in equipment relating to our liquid filtration products, when this becomes necessary.

Sales, Marketing and Distribution

Our products are sold primarily to large industrial customers that use our products for gas and liquid filtration. To date, most of our sales have been in the transportation sector, and we are seeking to broaden our sales into other areas such as produced water in the oil and gas sector, desalination sector and other water purification areas. For the year ended December 31, 2012, our four largest customers accounted for approximately 13%, 12%, 10% and 7%, respectively, of our net sales (approximately 42% in total). For the year ended December 31, 2011, our four largest customers accounted for approximately 11%, 10%, 10% and 8%, respectively, of our net sales (approximately 39% in total). We plan to actively market our existing products to new customers as we increase our production capacity. We currently have 10 full time salesmen or distribution agents. We promote our products through direct contact to potential customers and by meeting potential customers in trade fairs and exhibitions.

In certain instances, our products are delivered to the end customer through systems integrators. These systems integrators use our filtration products in larger filtration systems which eventually are installed in products used by the end customer. Due to the regulation surrounding the reasons why many of the end customers use filtration systems, the systems integrators often are required by such end customers to receive approval of their systems, including the components used in such systems, which requires the use of significant time and money. As a result, we believe that certain of the systems integrators that use our products will not replace our filters with competitive products unless there is good reason.

Intellectual Property

Our success depends in part upon our ability to obtain, maintain and protect intellectual property rights that cover our silicon carbide product forms, applications and/or manufacturing processes and specifications and the technology or know-how that enables these product forms, applications, processes and specifications, and to avoid and defend against claims that we infringe upon the intellectual property rights of others and to prevent the unauthorized use of our intellectual property. Silicon carbide is a well-known material which was developed over 100 years ago and thus, extensive research, development and publication on this material exists, making it difficult to obtain intellectual property rights to key elements of silicon carbide technology. Accordingly, at least some of the technology used in the manufacture of our re-crystallized silicon carbide products is not protected by patents. Where we consider it appropriate, we seek to protect our proprietary rights by filing United States and foreign patent applications related to technology, inventions and improvements that we consider patentable and important to the development and conduct of our business. We also rely on trade secrets, trademarks, licensing agreements, confidentiality and nondisclosure agreements, business partnerships and continuing technological innovation to safeguard our intellectual property rights and develop and maintain our competitive advantage.

As of March 18, 2013, we had one issued United States patent that we co-own with a third party, one pending United States patent application, three issued foreign patents (in Germany, China and South Korea) that we co-own with a third party and one pending European patent application which we co-own with a third party. The United States patent that we co-own is generally effective for 20 years from the filing date of the earliest U.S. or international application to which it claims priority. The scope and duration of each of our foreign patents varies in accordance with local law. Our patent strategy is generally uncertain and involves complex legal and factual questions. Our ability to maintain and solidify our proprietary technology may depend in part upon our success in obtaining patent rights and enforcing those rights once granted or licensed. We do not know whether any of our pending patent applications will result in the issuance of any patents. Our issued patents and those that may issue in the future may be challenged, invalidated, rendered unenforceable or circumvented, which could limit our ability to prevent competitors from marketing similar or related products, or shorten the term of patent protection that we may have for our products, processes and enabling technologies. In addition, the rights granted under any issued patents may not provide us with competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies, duplicate technology developed by us or otherwise possess intellectual property rights that could limit our ability to manufacture our products and operate our business.

We also rely on trade secret protection for our confidential and proprietary information. Trade secrets, however, can be difficult to protect. We may not be able to maintain our technology or know-how as trade secrets, and competitors may develop or acquire equally valuable or more valuable technology or know-how related to the manufacture of comparable silicon carbide products. We also seek to protect our confidential and proprietary information, in part, by requiring all employees, consultants and business partners to execute confidentiality and/or nondisclosure agreements upon the commencement of any employment, consulting arrangement or engagement with us. These agreements generally require that all confidential and proprietary information developed by the employee, consultant or business partner, or made known to the employee, consultant or business partner by us, during the course of the relationship with us, be kept confidential and not disclosed to third parties. These agreements may be breached and may not provide adequate remedies in the event of breach. To the extent that our employees, consultants or business partners use intellectual property owned by others in their work for and/or with us, disputes could arise as to the rights in related or resulting technologies, know-how or inventions. Moreover, while we also require customers and vendors to execute agreements containing confidentiality and/or nondisclosure provisions, we may not have obtained such agreements from all of our customers and vendors. In addition, our trade secrets may otherwise become known or be independently discovered by competitors, customers or vendors. Such customers or vendors may also be subject to laws and regulations that require them to disclose information that we would otherwise seek to keep confidential.

We also believe that having distinctive names may be an important factor in marketing our products, and therefore use trademarks to brand some of our products. As of March 18, 2013, we had one trademark registration in the United States (LiqTech NA) and four trademark registrations in the European Union (AQUA SOLUTION, CoMem, CDPX and FUTURE FILTRATION).

Government Regulation

We do not believe that we are subject to any special governmental regulations affecting our products in the countries in which we have operations, except that in Minnesota, we are required to comply with the Minnesota Air Pollution standards related to the use of our incinerator located in our Minnesota facilities. We are subject to numerous health and safety laws and regulations. In the United States, these laws and regulations include the Federal Occupation Safety and Health Act and comparable state legislation. We are also subject to similar requirements in other countries in which we have extensive operations, including Denmark, where we are subject to various regulations. These regulations are frequently changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We actively seek to maintain a safe, healthy and environmentally friendly workplace for all of our employees and those who work with us.

Environmental Matters

We are subject to a broad range of federal, state, local and foreign environmental laws and regulations which govern, among other things, air emissions, wastewater discharges and the handling, storage, disposal and release of wastes and hazardous substances. It is our policy to comply with applicable environmental requirements at all of our facilities. We are also subject to laws such as the Comprehensive Environmental Response, Compensation and Liability Act, that may impose liability retroactively and without fault for releases or threatened releases of hazardous substances at on-site or off-site locations. We are subject to similar requirements in Denmark and other European countries. From time to time, we have identified environmental compliance issues at our facilities. To date, compliance with environmental matters has not had a material effect upon the Company's capital expenditures or competitive position.

Research and Development

We currently have five full-time employees spending a majority of their working hours on research and development. For the years ended December 31, 2012 and 2011, we spent \$742,009 and \$502,413, respectively, on Company-sponsored research and development.

In 2011, we entered into a joint development agreement with Aalborg University ("Aalborg") and The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. In connection with the agreement, we were approved for a grant of \$2 million, and we are entitled to receive additional funding upon reaching certain milestones as provided in the agreement. Pursuant to a related agreement with Aalborg, any intellectual property produced during the project will be owned by Aalborg. However, we retain the right to obtain an exclusive license to this intellectual property, provided the use is related to our business. If successful, we believe that this will be the first inorganic reverse osmosis membrane ever developed. The goal is to produce clean drinking water from sea water.

Competition

Our products compete with other filters that are made using both ceramic and plastic membranes. Most of our competitors are large industrial companies. However, we believe our patented technology allows us to produce high quality, low cost products that give us an advantage over many of our competitors, many of which have greater financial, technological, manufacturing and personnel resources. We intend to continue to devote resources to improving our products in order to maintain our existing customers and to add new customers.

Employees

As of March 15, 2013, we had 80 employees, 74 of whom were full time employees. We had 51 employees at our operations in Denmark, including five in Research and Development, five in sales and two in executive management. We also had 24 employees in the United States, one of whom was in executive management; the others were employed in sales and production. We also had 4 employees in Singapore, one of whom was in executive management; the others were employed in sales and administration and one employee in Germany.

None of our employees are members of a labor union or are represented by workers' councils that have collective bargaining agreements. We believe that our relations with our employees are good.

Corporate Information

We are incorporated under the laws of the State of Nevada. Our principal executive offices are located at Industriparken 22C, 2750 Ballerup, Denmark, and our telephone number is +4544986000. We maintain an Internet website at www.liqtech.com. The information contained in, or accessible from, our website is not a part of this report.

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

We may be adversely affected by global and regional economic conditions and legislative, regulatory and political developments.

We sell our products around the world, and we expect to continue to derive a substantial portion of sales from outside the U.S. The recent worldwide recession has had, and the European debt crisis and the continuing uncertainty as to economic recovery may have, adverse consequences for our customers and our business. The uncertain macroeconomic environment in the U.S. and other countries around the globe from which we derive significant sales may adversely affect our results and could have a negative impact on demand for our products as the prospects, strength and timing of the current recovery remain uncertain as well as the possibility of a return to a recession in the U.S. and other countries around the globe. Customers or suppliers may experience cash flow problems and as a result, may modify, delay or cancel plans to purchase our products, and suppliers may significantly and quickly increase their prices or reduce their output. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, amounts owed to us. Any inability of current and/or potential customers to purchase our products and/or to pay us for our products may adversely affect our sales, earnings and cash flow. Sales and earnings could also be affected by our ability to manage the risks and uncertainties associated with the application of local legal requirements or the enforceability of laws and contractual obligations, trade protection measures, changes in tax laws, regional political instability, war, terrorist activities, severe or prolonged adverse weather conditions and natural disasters as well as health epidemics or pandemics.

Our inability to protect our intellectual property rights could negatively affect our business and results of operations.

Our ability to compete effectively depends in part upon developing, maintaining and/or protecting intellectual property rights relevant to our re-crystallized silicon carbide product forms, applications and manufacturing processes. We rely principally on a combination of patent protection, trade secret laws, confidentiality and non-disclosure agreements and trusted business relationships to establish, maintain and protect the intellectual property rights relevant to our business. These measures, however, may not be adequate in every given case to permit us to gain or keep any competitive advantage, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States. In particular, because silicon carbide is a well-known material (developed over 100 years ago), and there has been extensive research, development and publication related to this material and its wide range of applications, obtaining intellectual property rights to key elements of silicon carbide technology can be challenging. Accordingly, at least some of the technology employed in our manufacture of re-crystallized silicon carbide products is not protected by patents.

Where we consider it appropriate, we seek patent protection in the United States and other countries on technologies used in or relating to our re-crystallized silicon carbide product forms, applications and manufacturing processes. As of March 18, 2013, we had one issued United States patent and three issued foreign patents, all of which we co-own with a third party. The issuance of a patent is not conclusive as to its scope, validity and enforceability. Thus, any patent or patent application which may issue into a patent held by us could be challenged, invalidated or held unenforceable in litigation or proceedings before the U.S. Patent and Trademark Office and/or other patent tribunals, or circumvented by others. No consistent policy regarding the breadth of patent claims has emerged to date in the United States and the landscape could become more uncertain in view of future rule changes by the United States Patent and Trademark Office, the introduction of patent reform legislation and decisions in patent law cases by United States federal courts. The patent landscape outside the United States is even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. In addition, we may fail to apply for patents on important technologies or product candidates in a timely fashion, if at all, and our existing and future patents may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products or technologies, especially given the long history of silicon carbide development.

As of March 18, 2013, we had one pending United States patent application and one pending foreign patent applications. The issuance of patents from these applications involves complex legal and factual questions and, thus, we cannot assure that any of our pending patent applications will result in the issuance of patents to us. The United States Patent and Trademark Office and relevant foreign patent tribunals may deny or require significant narrowing of claims in our pending patent applications. Patents issued as a result of any of our pending patent applications may not cover our enabling technology and/or the products or processes that support our current or future business or afford us with significant commercial protection against others with similar technology. Proceedings before the United States Patent and Trademark Office could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. In addition, our pending patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus foreign patent applications may not be granted even if counterpart United States patents are issued.

Moreover, others may independently develop and obtain patents covering technologies that are similar or superior to the product forms, applications or manufacturing processes that we employ. If that happens, we may need to obtain licenses for these technologies and may not be able to obtain licenses on reasonable terms, if at all, which could limit our ability to manufacture our current and/or future products and operate our business. In addition, third parties could practice our intellectual property rights in territories where we do not have intellectual property protection. Such third parties may then try to import products made using our intellectual property rights into the United States or other countries.

Our contracts with third parties could negatively affect our intellectual property rights.

To further our product development efforts, we have and/or continue to work closely with customers, the Danish government and other third parties to research and develop advancements in silicon carbide product forms, applications, manufacturing processes and related products and technologies. We have entered into agreements with private third parties and have been awarded a research and development contract with the Danish government to independently and jointly research, design and develop new devices and systems that incorporate our silicon carbide technologies. We expect to enter into similar private agreements and be awarded similar government contracts in the future. In some instances, the research and development activities that we conduct under these contracts may produce intellectual property to which we may not have ownership or exclusive rights and will be unable to protect or monetize. Furthermore, there could be disputes between us and a private third party as to the ownership rights to any inventions that we develop in collaboration with such third party. Any such dispute may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management from our core business or harm our reputation.

We rely on trade secrets to protect our technology, and our failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

We rely in part on trade secret protection to protect confidential and proprietary information relating to our technology, particularly where we do not believe patent protection is appropriate or obtainable. We continue to develop and refine the manufacturing processes used to produce our re-crystallized silicon carbide products and believe that we have already developed, and will continue to develop, significant know-how related to these processes. Trade secrets however can be difficult to protect. We may not be able to maintain the secrecy of our know-how, and competitors may develop or acquire equally or more valuable know-how related to the manufacture of comparable silicon carbide products. Our strategy for scale-up of commercial production will continue to require us to share confidential and proprietary information with third parties. While we take reasonable efforts to protect our trade secrets, our employees, consultants, contractors or scientific and other advisors, or those of our business partners, may intentionally or inadvertently disclose our confidential and proprietary information to competitors. Any enforcement of claims by us that a third party has obtained and is using our trade secrets is expensive, time consuming and uncertain. In addition, foreign courts are sometimes less willing than United States courts to protect trade secrets.

We also require all employees, consultants and business partners to execute confidentiality and/or nondisclosure agreements upon the commencement of employment, consulting arrangement or other engagement with us, which agreements generally require that all confidential and proprietary information developed by such employee, consultant or business partner, or made known to such employee, consultant or business partner by us during the course of the relationship with us, be kept confidential and not disclosed to third parties. These agreements generally provide, with respect to employees, that inventions conceived by an individual in the course of rendering services to us will be our exclusive property. Nevertheless, these agreements may not be honored and our confidential and proprietary information may be disclosed, or these agreements may be unenforceable or difficult to enforce. We also require customers and vendors to execute agreements containing confidentiality and/or nondisclosure provisions. However, we may not have obtained such agreements from all of our customers and vendors. Some of our customers may also be subject to laws and regulations that require them to disclose information that we would otherwise seek to keep confidential. Our confidential and proprietary information may be otherwise disclosed without our authorization. For example, third parties might reverse engineer our manufacturing processes, independently develop substantially equivalent confidential and proprietary information or otherwise gain access to our trade secrets. Failure to maintain trade secret protection could enable others to produce competing products and adversely affect our competitive business position.

We could become subject to intellectual property litigation that could be costly, limit or cancel our intellectual property rights, divert time and efforts away from business operations, require us to pay damages and/or otherwise have an adverse material impact on our business.

The success of our business is highly dependent on protecting our intellectual property rights. Unauthorized parties may attempt to copy or otherwise obtain and use our products and/or enabling technology. Policing the unauthorized use of our intellectual property rights is difficult and expensive, as is enforcing these rights against unauthorized use by others. Identifying unauthorized use of our intellectual property rights is difficult because we may be unable to monitor the processes and/or materials being employed by other parties. The steps we have taken may not prevent unauthorized use of our intellectual property rights, particularly in foreign countries where enforcement of intellectual property rights may be more difficult than in the United States.

Our continued commercial success will also depend in part upon not infringing the patents or violating the intellectual property rights of third parties. We are aware of patents and patent applications generally relating to aspects of our technologies filed by, and issued to, third parties. Nevertheless, we cannot determine with certainty whether such patents or patent applications of other parties may materially affect our ability to conduct our business. There may be existing patents of which we are unaware that we may inadvertently infringe, resulting in claims against us or our customers. In the event that the manufacture, use and/or sale of our products or processes is challenged, or if our product forms or processes conflict with the patent rights of others, third parties could bring legal actions against us in the United States, Europe or other countries, claiming damages and seeking to enjoin the manufacturing and/or marketing of our products. Additionally, it is not possible to predict with certainty what patent claims may issue from any relevant third-party pending patent applications. Third parties may be able to obtain patents with claims relating to our product forms, applications and/or manufacturing processes which they could attempt to assert against us.

In either case, litigation may be necessary to enforce, protect or defend our intellectual property rights or to determine the validity and scope of the intellectual property rights of others. Any litigation could be unsuccessful, cause us to incur substantial costs, divert resources and the efforts of our personnel away from daily operations, harm our reputation and/or result in the impairment of our intellectual property rights. In some cases, litigation may be threatened or brought by a patent holding company or other adverse patent owner who has no relevant product revenues and against which our patents may provide little or no deterrence. If we are found to infringe any patents, we could be required to (1) pay substantial monetary damages, including lost profits, reasonable royalties and/or treble damages if an infringement is found to be willful and/or (2) totally discontinue or substantially modify any products or processes that are found to be in violation of another party's intellectual property rights. If our competitors are able to use our technology without payment to us, our ability to compete effectively could be harmed.

We face competition and technological advances by competitors which could adversely affect the sales of our products.

The growth of our company depends in part on maintaining and growing the sales of our current products in our markets, but also in developing new products and technologies. There is significant competition among companies that provide solutions for pollutant emissions from diesel engines and water purification solutions. Several companies market products that compete directly with our products. Other companies offer products that potential customers may consider to be acceptable alternatives to our products and services, including products that are verified by the EPA or other environmental authorities. We face direct competition from companies with greater financial, technological, manufacturing and personnel resources. Newly developed products could be more effective and cost efficient than our current or future products.

Failure to obtain required raw materials could affect our ability to supply products to our customers.

We use silicon carbide, platinum and palladium in the manufacture of our products. As other industries develop products utilizing silicon carbide, we may not be able to obtain adequate supplies of silicon carbide required for the manufacture of our existing and planned future water filtration products. Any increased demand for silicon carbide, platinum or palladium could increase the price we must pay to obtain it and could adversely affect our profitability.

We rely on sub-contractors to meet current demand for our products and we will need to obtain additional manufacturing capacity in order to increase production of our existing products or to produce our proposed new products.

We do not have sufficient internal manufacturing capacity to meet the current demand for our products, and we rely on subcontractors to enable us to meet this demand. Since we rely on our subcontractors for a significant amount of our production capacity, the loss of the services of our subcontractors would have a material adverse effect on our business. Our plans for the growth of our business rely upon increasing sales of our existing products and developing and marketing new products. We do not have adequate internal manufacturing facilities to substantially increase production of our products and obtaining additional manufacturing capacity in-house will require substantial capital expenditures. We may not be able to locate such additional facilities, and, if located, we may not have the capital resources to obtain or construct them.

Historically, we have been dependent on a few major customers for a significant portion of our company's revenue. Our revenue could decline if we are unable to maintain or develop relationships with additional customers and our results of operations could be adversely affected if any one of these customers is unable to meet their financial obligations to us.

For the year ended December 31, 2012, we had four (4) customers who accounted for approximately 42% of our total revenues. During the year ended December 31, 2011, we had four customers who accounted for approximately 39% of our total revenues. If we are unable to diversify our customer base, our future results will be heavily dependent on these customers. If any one of these customers reduces their demand for our products, it will have a material adverse effect on our operations.

A significant portion of our account receivables is concentrated with these major customers, some of whom have limited working capital resources. The failure of any such customers to pay amounts owed to us in a timely fashion could have an adverse effect on our results of operations.

Foreign currency fluctuations could adversely impact financial performance.

Our reporting currency is the United States dollar. Because of our activities in Denmark, the United Kingdom, the European Continent, Singapore and South Korea, we are exposed to fluctuations in foreign currency rates. We may manage the risk to such exposure by entering into foreign currency futures and option contracts. Foreign currency fluctuations may have a significant effect on our operations in the future.

The recent European debt crisis could have a material adverse effect on our European operations.

The recent European debt crisis and related European financial restructuring efforts have contributed to instability in the global credit markets and may cause the value of the Euro to further deteriorate. If global economic and market conditions, or economic conditions in Europe, the United States or other key markets remain uncertain or deteriorate further, the value of the Euro and the credit market may weaken. While we do not transact a significant amount of business in Greece, Spain or Italy, the general financial instability in those countries could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. If this were to occur, it could adversely affect our European customers and suppliers and in turn have a materially adverse effect on our European business and results of operations.

Future growth of our business depends in part, on the general availability of funding for emissions control programs, as well as enforcement of existing emissions-related environmental regulations and further tightening of emission standards worldwide.

Future growth of our business depends in part on the general availability of funding for emissions control programs, which can be affected by economic as well as political reasons. For example, in light of the recent budget crisis in California, funding was not available for a state-funded emissions control project and its start date was pushed back. A recent budget proposal put forth by the Obama administration did not include funding for the EPA's Diesel Emissions Reduction Act program in fiscal 2012. Funding for these types of emissions control projects drives the demand for our diesel particulate filters. If such funding is not available, it can negatively affect our future growth prospects. In addition to funding, we also expect that our future business growth will be driven, in part, by the enforcement of existing emissions-related environmental regulations and tightening of emissions standards worldwide. If such standards do not continue to become stricter, are loosened or are not enforced by governmental authorities due to commercial and business pressure or otherwise, it could have a material adverse effect on our business, operating results, financial condition and long-term prospects.

We face constant changes in governmental standards by which our products are evaluated, and if we cannot meet any such changes, some of our products could become obsolete.

We believe that, due to the constant focus on the environment and clean air and clean water standards throughout the world, a requirement in the future to adhere to new and more stringent regulations both in the U.S. and abroad is possible as governmental agencies seek to improve standards required for certification of products intended to promote clean air and water. In the event our products fail to meet these ever-changing standards, some or all of our products may become obsolete, which could have an adverse effect on our business, operating results, financial condition and long-term prospects.

Our results may fluctuate due to certain regulatory, marketing and competitive factors over which we have little or no control.

The factors listed below, some of which we cannot control, may cause our revenue and results of operations to fluctuate significantly:

- Actions taken by regulatory bodies relating to the verification, registration or health effects of our products;
- The extent to which existing and newly developed products obtain market acceptance;
- The timing and size of customer purchases;
- Customer concerns about the stability of our business, which could cause them to seek alternatives to our solutions and products; and
- Increases in raw material costs.

Any liability for environmental harm or damages resulting from technical faults or failures of our products could be substantial and could materially adversely affect our business and results of operations.

Customers rely upon our products to meet emissions control standards imposed upon them by the government. Failure of our products to meet such standards could expose us to claims from customers. Our products are also integrated into goods used by consumers, and therefore a malfunction or the inadequate design of our products could result in product liability claims. Any liability for environmental harm or damages resulting from technical faults or failures could be substantial and could materially adversely affect our business and results of operations. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products, which would materially impact our financial condition and operating results.

We could become liable for damages resulting from our manufacturing activities.

The nature of our manufacturing operations exposes us to potential claims and liability for environmental damage, personal injury, loss of life and damage to, or destruction of, property. Our manufacturing operations are subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our manufacturing operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures to bring our operations within compliance with such regulations. If we fail to comply with applicable environmental laws and regulations, manufacturing guidelines, and workplace safety requirements, governmental authorities may seek to impose fines and penalties on us or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under such circumstances, we could be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims for which may not have sufficient or any insurance coverage for claims.

We will incur significant costs as a result of operating as a public company, and our management may be required to devote substantial time to compliance initiatives.

As a public company, we will incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC, have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls as well as mandating certain corporate governance practices. Our management and other personnel will devote a substantial amount of time and financial resources to these compliance initiatives.

If we fail to staff our accounting and finance function adequately, or maintain internal control systems adequate to meet the demands that are placed upon us as a public company, we may be unable to report our financial results accurately or in a timely manner and our business and stock price may suffer. The costs of being a public company, as well as diversion of management's time and attention, may have a material adverse effect on our future business, financial condition and results of operations.

We will need to add qualified additional personnel as we expand our business, and we may not be able to employ such persons, which will affect our ability to expand.

Our current employees are spending virtually all of their time on our existing products and customers. In order to expand our product offerings and customer base, we will need to hire additional qualified personnel. We may not be able to locate such persons, and even if we locate them, we may not have the funds to employ them.

We may depend upon outside advisors, who may not be available on reasonable terms and as needed.

To supplement the business experience of our officers and directors, we may be required to employ accountants, technical experts, attorneys, or other consultants or advisors. Our Board, without any input from stockholders, will make the selection of any such advisors. Furthermore, we anticipate that such persons will be engaged on an "as needed" basis without a continuing fiduciary or other obligation to us, and we cannot assure you that their services will be available to us on a timely basis.

Our success will depend, to a large degree, on the expertise and experience of the members of our management team.

Our success is, to a large degree, dependent upon the expertise and experience of the management team and its ability to attract and retain quality personnel. The loss of the services of one or more of such personnel could have a material adverse effect on our business. Our business may be adversely affected if we are unable to continue to attract and retain such personnel.

A significant portion of our assets and the majority of our officers and directors are located outside of the United States, and therefore it may be difficult for an investor to enforce within the United States any judgments obtained against us or such officers and directors.

A significant portion of our assets are located outside of the United States. In addition, the majority of our officers and directors are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for an investor to affect service of process or enforce within the United States any judgments obtained against us or such officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts of other jurisdictions would recognize or enforce judgments of United States courts obtained against us or our directors and officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in other jurisdictions against us, or such officers and directors predicated upon the securities laws of the United States or any state thereof.

We may have insufficient funds to develop our business, which may adversely affect our future growth.

On March 2, 2012, we completed a registered public offering of our common stock whereby we issued and sold 2,511,500 shares at a per share price of \$3.25 and generated net proceeds of approximately \$7.1 million. We also issued to the placement agent and certain of its agents for \$100, warrants to purchase an aggregate of 125,575 shares of our common stock with an exercise price equal to \$4.06 which are exercisable for a period of five years commencing after the effective date of the registration statement related to the offering.

We intend to use the net proceeds from the offering for the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. However, we can provide no assurance that the net proceeds from the offering will be adequate to achieve our long term goals. The continued growth of our business will depend in part upon our ability to continue to develop new products and to make strategic acquisitions. We may not generate sufficient cash flow from our operations to allow us to fund these activities. We may need to sell additional equity or borrow funds in order to develop these growth strategies and our inability to raise the additional capital and/or borrow the funds needed to implement these plans may adversely affect our business and future growth.

RISKS RELATED TO OUR COMMON STOCK

There is a limited trading market for our common stock, which could make it difficult for you to liquidate an investment in our common stock in a timely manner.

Our common stock is currently quoted on the Over the Counter Bulletin Board (“OTCBB”) and the OTC Markets — OTCQX tier. Because there is a limited public market for our common stock, you may not be able to liquidate your investment when you want. An active trading market for our common stock may not develop.

The lack of an active public trading market means that you may not be able to sell your shares of common stock when you want, thereby increasing your market risk. Until our common stock is listed on a securities exchange, we expect that it will continue to be traded on the OTCBB and the OTC Markets — OTCQX tier or on another over-the-counter quotation system. However, an investor may find it difficult to obtain accurate quotations regarding the common stock’s market value. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity.

If securities analysts do not publish research or reports about our business or if they downgrade us or our sector, the price of our common stock could decline.

The trading market for our common stock will depend in part on research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who cover us downgrades us or the industry in which we operate or the stock of any of our competitors, the price of our common stock will probably decline. If one or more of these analysts ceases coverage altogether, we could lose visibility, which could also lead to a decline in the price of the common stock.

Approximately 35.9% of our common stock is controlled by our officers and directors, who have the ability to substantially influence the election of directors and other matters submitted to stockholders.

As of March 18, 2013, 9,551,464 shares, or 35.9%, of our common stock, including stock options and warrants, were beneficially owned by our officers and directors, including 5,713,541 shares, or 21.9%, of our common stock beneficially owned by Aldo Petersen, our Chairman of the Board and 2,634,221 shares, or 10.8%, of our common stock beneficially owned by Lasse Andreassen, our CEO. As a result, our officers and directors and Aldo Petersen and Lasse Andreassen, in particular, are expected to continue to have the ability to significantly influence the election of our Board of Directors and the outcome of all other issues submitted to our stockholders. The interests of these principal stockholders may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders. One consequence to this substantial influence or control is that it may be difficult for investors to remove our management. This could also deter unsolicited takeovers, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

We cannot assure you that our common stock will become listed on a securities exchange and the failure to do so may adversely affect your ability to dispose of our common stock in a timely fashion.

The New York Stock Exchange, NYSE AMEX (“AMEX”) and the NASDAQ Stock Market recently amended their listing rules to restrict the ability of companies that have completed reverse mergers to list their securities on such exchanges. In order to become eligible to list their securities on such exchanges, reverse merger companies must have had their securities traded on a U.S. over-the-counter market (for example, the OTCBB) for at least one year, maintained a certain closing price for a period of not less than 30 of the most recent 60 days prior to the filing of an initial listing application and prior to listing, subject to certain company size and market capitalization qualifications, and timely filed with the SEC all required reports since the consummation of the reverse merger, including one annual report containing audited financial statements for a full fiscal year commencing after the date of the filing of the Form 8-K containing the company’s Form 10 information. As such, although we plan to seek listing of our common stock on the AMEX or on NASDAQ as soon as reasonably practicable, we do not currently meet the new listing standards. We may not be able to satisfy the initial listing standards of the AMEX or NASDAQ in the foreseeable future or at all. Even if we are able to list our common stock on such exchanges, we may not be able to maintain a listing of the common stock on such stock exchange.

The market price and trading volume of our common stock may be volatile, which may adversely affect its market price.

The market price of our common stock could be subject to significant fluctuations due to factors such as:

- actual or anticipated fluctuations in our financial condition or results of operations;
- the success or failure of our operating strategies and our perceived prospects; realization of any of the risks described in this section; failure to be covered by securities analysts or failure to meet the expectations of securities analysts;
- a decline in the stock prices of peer companies; and
- a discount in the trading multiple of our common stock relative to that of common stock of certain of our peer companies due to perceived risks associated with our smaller size.

As a result, shares of our common stock may trade at prices significantly below the price you paid to acquire them. Furthermore, declines in the price of our common stock may adversely affect our ability to conduct future offerings or to recruit and retain key employees, including our managing directors and other key professional employees.

You may experience dilution as a result of future issuances of our securities.

In general, stockholders do not have preemptive rights to any common stock issued by us in the future. Therefore, stockholders may experience additional dilution of their equity investment if we issue additional shares of common stock in the future, including shares issuable under equity incentive plans, or if we issue securities that are convertible into shares of our common stock.

Our common stock is considered a “penny stock” and may be difficult to sell.

Trades of our common stock are subject to Rule 15c-9 promulgated by the SEC under the Exchange Act, which imposes certain requirements on broker-dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, broker-dealers must make a special suitability determination for purchasers of the securities and receive the purchaser’s written agreement to the transaction prior to sale. The SEC also has other rules that regulate broker-dealer practices in connection with transactions in “penny stocks”. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities listed on a national securities exchange, provided that current price and volume information with respect to transactions in that security is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. These disclosure requirements have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result of the foregoing, investors may find it difficult to sell their shares.

We have no current plan to pay dividends on our common stock, and investors may lose the entire amount of their investment.

We have no current plans to pay dividends on our common stock. Therefore, investors will not receive any funds absent a sale of their shares. We cannot assure investors of a positive return on their investment when they sell their shares nor can we assure that investors will not lose the entire amount of their investment.

Provisions in our certificate of incorporation and bylaws could discourage a change in control, or an acquisition of us by a third party, even if the acquisition would be favorable to you, thereby adversely affecting existing stockholders.

Our Articles of Incorporation and bylaws contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our Company, even when these attempts may be in the best interests of stockholders. For example, our certificate of incorporation authorizes our Board of Directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. These provisions and others that could be adopted in the future could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Industriparken 22C, 2750 Ballerup, Denmark. We lease approximately 55,000 square feet at our Ballerup location, of which approximately 10,000 square feet is used for office space and 45,000 square feet is used for production. The lease is for a term of six years until August, 2018. Our U.S. operations are located at 1800 - 1810 Buerkle Road White Bear Lake, Minnesota 55110 where we lease approximately an aggregate of 45,000 square feet, of which 6,000 square feet is used for office space and 39,000 square feet is used for production. The lease will expire on February 28, 2017.

Item 3. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of December 31, 2012, we were not a party to in any legal proceeding that we believe would have a material adverse effect on our business, financial condition or operating results.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is currently quoted on the OTCBB and the OTC Markets — OTCQX tier. Prior to the Merger, there was not an active market and no trading volume during fiscal year 2010. The following table sets forth the high and low bid prices for the common stock for the periods indicated:

	<u>High</u>	<u>Low</u>
2013		
1st Quarter (through March 22, 2013)	\$ 2.54	\$ 1.28
2012		
4th Quarter	\$ 1.70	\$ 1.23
3rd Quarter	2.20	1.36
2nd Quarter	3.31	2.21
1st Quarter	4.50	3.13
2011		
4th Quarter	\$ 3.23	\$ 3.15
3rd Quarter	3.40	3.01
2nd Quarter	—	—
1st Quarter	—	—
2010		
4th Quarter	\$ —	\$ —
3rd Quarter	—	—
2nd Quarter	—	—
1st Quarter	—	—

The above table is based on a report provided by the OTC Markets Group, Inc. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions.

Based upon information supplied to us by our transfer agent as of March 13, 2013, we had approximately 69 stockholders of record.

We do not intend to declare or pay dividends on our common stock in the foreseeable future. Instead, we generally intend to invest any future earnings in our business. Subject to Nevada law, our Board of Directors will determine the payment of future dividends on our common stock, if any, and the amount of any dividends in light of:

- any contractual restrictions limiting our ability to pay dividends that may be applicable at such time;
- our earnings and cash flow;
- our capital requirements;
- our financial condition; and
- other factors our board of directors deems relevant.

Item 6. Selected Financial Data

We are not required to provide selected financial data disclosures because we are a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Certain statements made in this Annual Report on Form 10-K are "forward-looking statements" regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are a Nevada corporation, formerly named Blue Moose Media, Inc. In October, 2011, we changed our name to LiqTech International, Inc. We have for more than a decade developed and manufactured products of re-crystallized silicon carbide. Among these, we have been specializing in three business areas: ceramic membranes for liquid filtration, diesel particulate filters for the control of soot exhaust particles from diesel engines and kiln furniture for the refractory industry. We are a cleantech company that provides state-of-the-art technologies for gas and liquid purification by manufacturing ceramic silicon carbide filters. Using nanotechnology, we develop proprietary products using patented silicon carbide technology. Our products are based on unique silicon carbide membranes which facilitate new applications and improve existing technologies.

Reverse Acquisition

On August 24, 2011, pursuant to the Merger Agreement by and among Blue Moose, BMD Sub and LiqTech USA, BMD Sub was merged with and into LiqTech USA and, as a result of the Merger, LiqTech USA became a wholly owned subsidiary of Blue Moose. Pursuant to the Merger, (a) each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of our common stock, for a total of 17,444,750 shares of our common stock resulting in 21,600,000 shares of our common stock being outstanding immediately following the Merger and (b) warrants to acquire up to 6,500 shares of LiqTech USA's common stock at a price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of our common stock at a price of \$1.50 per share.

LiqTech USA owns all of the outstanding equity interests in LiqTech Denmark, LiqTech Int. DK (formerly known as Cometas) and LiqTech Delaware. In June and July 2011, LiqTech USA entered into agreements to acquire (i) all of the outstanding equity interests in LiqTech Denmark and (ii) all of the outstanding equity interests in LiqTech Int. DK and LiqTech Delaware not owned by LiqTech Denmark, directly from the holders of such equity interests (the "LiqTech Acquisition Agreements"). In exchange for such equity interests, LiqTech USA agreed to pay to such holders in the aggregate (i) \$4,637,315 in cash, (ii) promissory notes in the principal amounts of DKK 19,500,000 (which was equal to \$3,765,351 based upon the currency exchange rate of \$1.00 = DKK 5.1788 as of August 22, 2011) and (iii) 9,308,333 shares of LiqTech USA's common stock.

Prior to completion of the Merger, LiqTech USA completed a private placement offering of 63 units at \$100,000 per unit, each such unit consisting of 40 shares of LiqTech USA's common stock and 20 warrants to purchase LiqTech USA common stock, and received \$4,800,000 in cash and a promissory note for \$1,500,000 payable on September 7, 2011. Thereafter, in August 2011, LiqTech USA closed the transactions contemplated by the LiqTech Acquisition Agreements.

As a result of the Merger, Blue Moose changed its management and reconstituted its board of directors. As of the effective time of the Merger, Gordon Tattarsall, the president, the chief financial officer and the sole director of Blue Moose, resigned as president and chief financial officer. As Blue Moose's sole director, Mr. Tattarsall appointed Aldo Petersen as a director of Blue Moose. The Directors then appointed Lasse Andreassen and Soren Degn as the officers of Blue Moose, and Lasse Andreassen, Paul Burgon, John Nemelka and Michael Sonneland as directors of Blue Moose. However, the other new directors did not take office until September 5, 2011, which is ten days after we filed an Information Statement pursuant to Rule 14f-1 of the Securities and Exchange Act of 1934, as amended, and mailed that statement to our stockholders of record. In addition, Mr. Tattarsall resigned as a director of Blue Moose effective as of September 5, 2011.

2012 Developments

Opening of Singapore Office

On January 17, 2012, we announced the establishment of a representative office in Singapore. The new Singapore office will service the South East Asian markets covering our entire product portfolio.

March 2012 Registered Offering of Common Stock

On March 2, 2012, we completed a registered public offering of our common stock. As part of the closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of \$3.25. The net proceeds to us from the closing were approximately \$7.1 million. We have used the net proceeds from the offering for debt repayment, the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. We have invested the remaining proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations. Sunrise Securities Corp. acted as the exclusive placement agent for this transaction. As part of the compensation for the placement agent, we also issued to the placement agent and certain of its agents for \$100, warrants to purchase an aggregate of 125,575 shares of our common stock (equal to 5% of the shares of common stock sold by the placement agent and its agents in the offering). The warrants have an exercise price equal to \$4.06 (or 125% of the offering price of the shares sold in the offering) and may be exercised on a cashless basis. The warrants are exercisable for a period of five years commencing after February 13, 2012, which was the effective date of the registration statement related to the offering. The warrants were subject to a lock-up restriction for 180 days pursuant to FINRA Rule 5110(g). The warrants are not redeemable by us.

OEM Supply Agreement

On December 14, 2012, through our Singapore subsidiary LiqTech PTE Ltd., we entered into a non-exclusive OEM Supply Agreement for our SiC membrane technology with Shanghai Denovo Environment Protection Co., Ltd., a company organized under the laws of China and one of the leading industrial waste water firms in China. The agreement includes progressive minimum order quantities for the years 2013 - 2016 for Denovo to maintain the supply agreement.

On March 20, 2013, LiqTech Denmark International entered into a Joint Development Agreement with FMC Technologies, Inc. ("FMC") pursuant to which the parties shall combine their respective expertise to develop a filtration system for processing flowback fluids in unconventional shale oil/gas applications (i.e., oil and gas resources which cannot be explored, developed and produced by conventional processes). LiqTech Denmark International shall provide the Company's SiC Filters and FMC shall provide certain operational, field know-how, engineering, and fabricating technical resources in order to develop a robust filtration system. In connection with the development agreement, the parties also entered into a master supply agreement whereby LiqTech Denmark International shall supply SiC Filters to FMC, on an exclusive basis for unconventional shale oil/gas applications and on a non-exclusive basis for other gas/oil processing applications. To maintain exclusivity through 2014, FMC has agreed to purchase a minimum amount of SiC Filters for a commercial test unit which is anticipated to be completed by June 30, 2014. FMC will determine the success of the system by the end of 2014 and if successful, FMC will commit to additional purchases within six months and exclusivity will be extended through June 30, 2015. To maintain exclusivity beyond that point, FMC has agreed to purchase certain minimum amounts of SiC Filters through the end of 2016, 2018 and thereafter in accordance with an agreed upon schedule. The agreement may be terminated by FMC at any time upon notice to LiqTech Denmark International.

Results of Operations

Results of Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

The following table sets forth our revenues, expenses and net income for the year ended December 31, 2012 and 2011.

	2012	As a % of Sales	2011	As a % of Sales	Period to period change	
					US\$	Percent %
Net Sales	16,921,838	100%	21,192,177	100%	(4,270,339)	(20.2)
Cost of goods sold	14,217,713	84.0	16,164,366	76.3	(1,946,653)	(12.0)
Gross Profit	2,704,125	16.0	5,027,811	23.7	(2,323,686)	(46.2)
Operating Expenses						
Selling and Marketing	2,434,541	14.4	1,484,992	7.0	949,549	63.9
General and Administrative	3,421,658	20.2	1,943,333	9.2	1,478,325	76.1
Research and Development	742,009	4.4	502,413	2.4	239,596	47.7
Total Operating Expenses	6,598,208	39.0	3,930,738	18.5	2,667,470	67.9
Income (loss) from Operating	(3,894,083)	(23.0)	1,097,073	5.2	(4,991,156)	(455.0)
Other Income (Expense):						
Interest and Other Income	158,632	0.9	100,986	0.5	57,646	57.1
Interest (Expense)	(148,611)	(0.9)	(203,682)	(1.0)	55,071	(27.0)
(Loss) on investments	(102,612)	(0.6)	(57,684)	(0.3)	(44,928)	77.9
Gain (loss) on Currency Transactions	48,145	0.3	10,271	0.0	37,874	368.7
Gain (Loss) on Sale of Fixed Assets	(889)	(0.0)	411,436	1.9	(412,325)	(100.2)
Total Other Income (Expense)	(45,335)	(0.3)	261,327	1.2	(306,662)	(117.3)
Income Before Income Taxes	(3,939,418)	(23.3)	1,358,400	6.4	(5,297,818)	(390.0)
Income Taxes Expense	(1,165,528)	(6.9)	359,508	1.7	(1,525,036)	(424.2)
Net Income	(2,773,890)	(16.4)	998,892	4.7	(3,772,782)	(377.7)
Less Net income attributable to the Non-controlled interest in Subsidiaries	-	-	81,681	0.4	(81,681)	(100.0)
Net Income attributable to LiqTech	(2,773,890)	(16.4)	917,211	4.3	(3,691,101)	(402.4)

Revenues

Net sales for the year ended December 31, 2012 were \$16,921,838 compared to \$21,192,177 for the same period in 2011, representing a decrease of \$4,270,339, or 20.2%. The decrease in sales consist of a decrease in sales of DPFs of \$5,029,813 and an increase in sales of liquid filters and kiln furniture of \$483,439 and \$276,035, respectively. The decrease in demand for our DPFs is mainly due to a postponement in use of mandates in the U.S. market and the completion of the Low Emission Zone mandate in London, which contributed to our net sales for the year ended December 31, 2011 but did not have the same effect in 2012. The increase in demand for our liquid filters and kiln furniture is due to an increase in worldwide sales of those products.

Gross Profit

Gross profit for the year ended December 31, 2012 was \$2,704,125 compared to \$5,027,811 for same period in 2011, representing a decrease of \$2,323,686, or 46.2%. The decrease in gross profit was due to a decrease in sales and lower gross margin for the year ended December 31, 2012 compared to the same period in 2011. Included in the gross profit is depreciation of \$1,510,846 and \$1,379,667 for the years ended December 31, 2012 and 2011, respectively.

Expenses

Total operating expenses for the year ended December 31, 2012 were \$6,598,208, representing an increase of \$2,667,470, or 67.9%, compared to \$3,930,738 for the same period in 2011.

Selling expenses for the year ended December 31, 2012 were \$2,434,541 compared to \$1,484,992 for the same period in 2011, representing an increase of \$949,549 or 63.9%. This increase is attributable to an increase in costs in general, the increase in investment in our sales resources and investment in new markets primarily in Germany and Singapore. While we believe that increased investment in sales may produce attractive returns for the Company, profitability from such investments will likely take several fiscal quarters to be realized.

General and administrative expenses for the year ended December 31, 2012 were \$3,421,658 compared to \$1,943,333 for the same period in 2011, representing an increase of \$1,478,325, or 76.1%. This increase is mainly attributable to an increase in expenses related to being a U.S. public company and during the year ended December 31, 2012, the Company also added an additional \$1,078,365 to its bad debt reserve compared to \$205,275 for the same period in 2011. Included in the year ending December 31, 2012 is \$120,498 of non-cash compensation expense for options granted to employees and management compared to \$123,984 for year ended December 31, 2011.

Research and development expenses for the year ended December 31, 2012 were \$742,009 compared to \$502,413 for the same period in 2011, representing an increase of \$239,596, or 47.7%. This increase is attributable to increased research and development expenditures, especially for our investments in our new SiC membrane products for the year ending December 31, 2012 compared to the same period in 2011.

Net Income

Net income attributable to the Company for the year ended December 31, 2012 was a loss of \$2,773,890 compared to a profit of \$917,211 for the comparable period in 2011, representing a decrease of \$3,691,101. This decrease was primarily attributable to a decrease of \$2,323,686 in our gross profit, a decrease in total other income of \$306,662 and an increase in operating expenses of \$2,667,470. This was partly offset by a decrease of \$1,525,036 in income tax expense. The largest contributor to the increase in operating expenses was an increase in administrative expenses of \$1,478,325 or 76.1% primarily due to an additional bad debt reserve expense of \$1,078,365.

Results of Operations for the Year Ended December 31, 2011 Compared to the Year ended December 31, 2010

The following table sets forth our revenues, expenses and net income for the year ended December 31, 2011 and 2010.

	2011	As a % of Sales	2010	As a % of Sales	Period to period change	
					US\$	Percent %
Net Sales	21,192,177	100%	15,728,817	100%	5,463,360	34.7
Cost of Goods Sold	16,164,366	76.3	12,054,973	76.6	4,109,393	34.1
Gross Profit	5,027,811	23.7	3,673,844	23.4	1,353,967	36.9
Operating Expenses:						
Selling and marketing	1,484,992	7.0	1,476,656	9.4	8,336	0.6
General and administrative	1,943,333	9.2	1,748,596	11.1	194,737	11.1
Research and development	502,413	2.4	421,518	2.7	80,895	19.2
Total Operating Expenses	3,930,738	18.5	3,646,770	23.2	283,968	7.8
Income from Operations	1,097,073	5.2	27,074	0.2	1,069,999	3,952.1
Other Income (Expense):						
Interest and other income	100,986	0.5	64,916	0.4	36,070	55.6
Interest (expense)	(203,682)	(1.0)	(214,520)	(1.4)	10,838	(5.1)
(Loss) on investments	(57,684)	(0.3)	(123,647)	(0.8)	65,963	(53.3)
Gain on currency transactions	10,271	0.0	86,377	0.5	(76,106)	(88.1)
Gain (Loss) on sale of fixed assets	411,436	1.9	(9,801)	(0.1)	421,237	(4,297.9)
Total Other Income (Expense)	261,327	1.2	(196,675)	(1.3)	458,002	(232.9)
Income Before Income Taxes	1,358,400	6.4	(169,601)	(1.1)	1,528,001	(900.9)
Income taxes expense	359,508	1.7	145,531	0.9	213,977	147.0
Net Income	998,892	4.7	(315,132)	(2.0)	1,314,024	(417.0)
Less Net Loss Attributable to the Non-controlled Interest in Subsidiaries	81,681	0.4	(308,503)	2.0	(390,184)	(126.5)
Net Income attributable to LiqTech	917,211	4.3	(6,629)	(0.0)	923,840	(13,936.3)

Revenues

Net sales for the year ended December 31, 2011 were \$21,192,177 compared to \$15,728,817 for the same period in 2010, representing an increase of \$5,463,360, or 34.7%. The increase was mainly due to an increase in demand for our products consisting of an increase in sales of Ceramic Diesel Particulate Filters (DPFs) of \$3,390,695 and Ceramic Liquid Filters (SiC Filters) of \$1,800,669 and kiln furniture of \$271,996, which we believe are attributable to increasing demand for our DPFs and SiC Filters in North America and the adoption of the Low Emission Zone in London.

Gross Profit

Gross profit for the year ended December 31, 2011 was \$5,027,811 compared to \$3,673,844 for same period in 2010, representing an increase of \$1,353,967, or 36.9%. The increase was mainly due to increasing demand for our products which we believe is primarily attributable to increasing demand for our DPFs and SiC Filters in North America and the adoption of the Low Emission Zone in London. The gross profit margin for the year ended December 31, 2011 was 23.7% compared to 23.4% for the year ended December 31, 2010. Included in the gross profit is depreciation of \$1,379,667 and \$1,152,099 for the years ended December 31, 2011 and 2010, respectively.

Expenses

Total operating expenses for the year ended December 31, 2011 were \$3,930,738, representing an increase of \$283,968, or 7.8%, compared to \$3,646,770 for the same period in 2010.

Selling expenses for the year ended December 31, 2011 were \$1,484,992 compared to \$1,476,656 for the same period in 2010, representing an increase of \$8,336 or 0.6%. The increase is due to increased costs and an investment in more sales resources during the last quarter of 2011.

General and administrative expenses for the year ended December 31, 2011 were \$1,943,333 compared to \$1,748,596 for the same period in 2010, representing an increase of \$194,737, or 11.1%. This increase is mainly due to increased costs including an additional \$123,984 of non-cash compensation expense for options granted to employees and management which were not a part of the costs for year ended December 31, 2010. Furthermore, we had increased legal and accounting costs due to the Company becoming a public company in August 2011.

Research and development expenses for the year ended December 31, 2011 were \$502,413 compared to \$421,518 for the same period in 2010, representing an increase of \$80,895, or 19.2%. The increase is due to increased costs and our increasing investments in SiC Filters, especially in North America, especially during the last quarter of 2011.

Net Income

Net income attributable to the Company for the year ended December 31, 2011 was a profit of \$917,211 compared to a loss of \$6,629 for the year ended December 31, 2010, representing an increase of \$923,840. This increase was primarily attributable to an increase of \$1,353,967 in our gross profit and an increase in total other income of \$458,002, partly offset by an increase of \$283,968 in operating expenses, an increase in income tax expense of \$213,977 and an increase in net loss attributable to the non-controlled interest in subsidiaries of \$390,184. The largest contributor to the increase in operating expenses was an increase in administrative expenses of \$194,737 or 11.1%, primarily due to the non-cash expense related to options issued to directors and officers.

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through internally generated cash from operations and our available lines of credit. At December 31, 2012, we had cash of \$3,873,338 and working capital of \$8,069,595 and at December 31, 2011 we had cash of \$1,033,057 and working capital of \$1,878,203. At December 31, 2012, our working capital increased by \$6,191,392. Total current assets were \$11,826,816 and \$11,416,893 at December 31, 2012 and 2011, respectively and total current liabilities were \$3,757,221 and \$9,538,690 at December 31, 2012 and 2011, respectively. Lines of credit, note payable and note payable related party alone represented a decrease in debt for 2012 of \$4,847,515 and contributed to the increased working capital at December 31, 2012.

On March 2, 2012, we completed a registered public offering of our common stock. As part of the initial closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of \$3.25. The net proceeds to us from the initial closing were approximately \$7.1 million. We intend to use the net proceeds from the offering for the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. Pending application of such proceeds, we expect to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations.

The notes payable to related parties at December 31, 2011 represented promissory notes issued by LiqTech USA to the previous shareholders of LiqTech Denmark as part of LiqTech USA's acquisition of the outstanding equity interests in LiqTech Denmark, LiqTech Int. DK (formerly known as Cometas) and LiqTech Delaware in accordance with the terms of the LiqTech Acquisition Agreements. The promissory notes were paid off in June 2012.

LiqTech Denmark International has a DKK 6,000,000 (approximately \$1,060,239 and \$1,044,277 at December 31, 2012 and 2011, respectively) standby line of credit with Sydbank A/S. Outstanding borrowings are due on demand. Interest is calculated based on CIBOR plus a margin of 3 percentage points and is payable quarterly. As of December 31, 2012, the interest on this line of credit was at 3.81%. This line of credit is guaranteed by LiqTech Delaware. This line of credit is also secured by certain of our receivables, inventory and equipment. There was \$0 and \$882,081 outstanding as of December 31, 2012 and December 31, 2011, respectively. At December 31, 2012, there was \$1,060,239 available under this credit line.

LiqTech Denmark International has a DKK 3,000,000 (approximately \$530,120 and \$522,139 at December 31, 2012 and 2011, respectively) standby line of credit with Sydbank A/S, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. Interest is calculated based on CIBOR plus a margin of 3 percentage points and is payable quarterly. As of December 31, 2012, the interest on this line of credit was at 3.81%. This line of credit is guaranteed by LiqTech Delaware. This line of credit is also secured by certain of our receivables, inventory and equipment. There was \$0 and \$377,933 outstanding as of December 31, 2012 and December 31, 2011, respectively. As of December 31, 2012, there was \$530,120 available under this credit line.

In general, lines of credit in Denmark are due on demand. We do not believe that any of our lines of credit will be called but, if they were called, we believe that we could refinance with other lenders in Denmark with similar terms.

We believe that our cash flow together with currently available funds from our existing lines of credit and other potential sources of funds will be sufficient to fund our anticipated working capital needs and capital spending requirements for the foreseeable future. However, if we were to incur any unanticipated expenditures or the negative trend of our operating cash flow does continue, such circumstances could put a substantial burden on our cash resources.

We may also need additional funds for possible future strategic acquisitions of businesses, products or technologies complementary to our business. If additional funds are required, we may raise such funds from time to time through public or private sales of equity or debt securities. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could materially adversely impact our growth plans and our financial condition and results of operations. Additional equity financing may be dilutive to holders of our common stock, and debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate our business.

Cash Flows

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Cash provided (used) by operating activities is net income (losses) adjusted for certain non-cash items and changes in assets and liabilities. Cash used by operating activities for the year ended December 31, 2012 was \$478,077, representing a decrease of \$483,225, compared to cash provided by operating activities of \$5,148 for the year ended December 31, 2011. The \$483,225 in cash used by operating activities for the year ended December 31, 2012 was mainly due to the net loss of \$2,773,890, the increases of \$1,161,098 in inventory and the decrease of \$2,405,123 in accounts receivable and a decrease of \$737,729 in accounts payables.

The increases in inventory was due to the increased in demand for water filters and kiln furniture and slower activity in diesel particulate filters caused by the delay in enforcing clean air mandates. Accounts receivable and other receivable decreased due to lower sales, higher allowance for doubtful receivables and the receipt of approximately \$730,000 in insurance proceeds included in other receivables at December 31, 2011. Accounts payable decreased due to greater liquidity and payment of obligations.

Cash used in investing activities was \$1,743,141 for the year period ended December 31, 2012, as compared to cash used in investing activities of \$946,640 for the year period ended December 31, 2011. Cash used in investing activities increased in 2012, compared to 2011, primarily due to proceeds of \$689,827 received in 2011 on insurance claims as a result of fire of the company's building in 2011. We anticipate that we will continue to invest in additional production equipment in order to meet the demand for our products.

Cash provided by financing activities was \$5,001,650 for the year period ended December 31, 2012, as compared to cash provided by financing activities of \$1,742,613 for the year period ended December 31, 2011. The increase of \$3,259,037 in cash provided by financing activities in 2012, compared to 2011, was primarily due to cash received in connection with the stock offering in first quarter 2012, where the Company issued 2,511,500 new shares at 3.25 per share.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Cash used by operating activities for the year ended December 31, 2011 was \$52,536, representing a decrease of \$1,801,678, compared to cash provided by operating activities of \$1,749,142 for the year period ended December 31, 2010. This decrease was due to change in working capital of \$1,871,385 partly offset by adjustment for non-cash items of \$1,475,148 and net income of \$998,892.

Changes in assets and liabilities as of December 31, 2011 compared to December 31, 2010 included the following:

Accounts receivable and other receivable increased by \$3,281,560 due to higher sales in the year ended December 31, 2011 compared to the year ended December 31, 2010, and a receivable resulting from an insurance claim. Accounts payable increased by \$1,961,394 due to the higher activity level in the year ended December 31, 2011 compared to the year ended December 31, 2010.

Cash used in investing activities was \$888,956 for the year ended December 31, 2011, as compared to cash used in investing activities of \$1,339,605 for the year ended December 31, 2010. Cash used in investing activities decreased in 2011, compared to 2010, primarily due to an approximately \$233,000 higher investment in production equipment and intangibles offset by proceeds received on insurance claims as a result of fire. We anticipate that we will continue to invest in additional production equipment in order to meet the continuing increase in the demand for our products.

Cash provided by financing activities was \$1,742,613 for the year period ended December 31, 2011, as compared to cash provided by financing activities of \$67,179 for the year period ended December 31, 2010. The increase of approximately \$1,675,000 in cash provided by financing activities in 2011, compared to 2010, was primarily due to cash received in connection with the Merger in 2011.

Off Balance Sheet Arrangements

As of December 31, 2012, we had no off-balance sheet arrangements other than normal operating leases. We are not aware of any material transactions which are not disclosed in our consolidated financial statements.

Operating Leases — The Company leases office and production facilities under operating lease agreements expiring in August, 2018, February 2017, December 2016 and January 2014. Some of these lease agreements have a right to extend.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2012 are as follows:

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2013	\$ 658,550
2014	699,439
2015	717,478
2016	736,001
2017	493,920
Thereafter	300,994
Total Minimum Lease Payments	\$ 3,606,382

Significant Accounting Policies and Critical Accounting Estimates

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our consolidated financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

- the assessment of collectability of accounts receivable, which impacts operating expenses when and if we record bad debt or adjust the allowance for doubtful accounts;

- the assessment of recoverability of long-lived assets, which impacts gross margin or operating expenses when and if we record asset impairments or accelerate their depreciation;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions), which impact our provision for taxes;
- the valuation of inventory, which impacts gross margin; and
- the recognition and measurement of loss contingencies, which impact gross margin or operating expenses when we recognize a loss contingency, revise the estimate for a loss contingency, or record an asset impairment.

We discuss these policies further below, as well as the estimates and judgments involved.

Accounts Receivable / Long Term Receivable / Allowance for Doubtful Accounts / Bad Debt

We assess the collectability of accounts receivable and long term receivable on an ongoing basis and establish an allowance for doubtful accounts when collection is no longer reasonably assured. In establishing the allowance, factors we consider include known troubled accounts, historical experience, age, and other currently available evidence.

The roll forward of the allowance for doubtful accounts for the year ended December 31, 2012 and December 31, 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Allowance for doubtful accounts at the beginning of the period	\$ 389,032	\$ 452,266
Bad debt expense	1,078,365	208,275
Amount of receivables written off	(248,895)	(257,610)
Effect of currency translation	24,998	(13,899)
Allowance for doubtful accounts at the end of the period	<u>\$ 1,243,500</u>	<u>\$ 389,032</u>

On January 21, 2013, we received notice that a customer who accounted for 12.4 % and 6.4% of total sales for the year ended December 31, 2012 and 2011, had the courts appoint a receiver. The Company has established an allowance of \$700,000 against the receivables due from this customer.

Long-Lived Assets

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping's carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by comparing the difference between the asset grouping's carrying value and its fair value. Long-lived assets such as goodwill, intangible assets, and property, plant and equipment are considered non-financial assets, and are recorded at fair value only if an impairment charge is recognized.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our ceramic filter manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific filter manufacturing tools and building improvements. If we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful lives. During the years ended December 31, 2012 and 2011, no impairment charge of long-lived assets has been recorded.

Revenue Recognition and Sales Incentives

The Company's accounts for revenue recognition in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), FASB ASC 605 Revenue Recognition. The Company recognizes revenue when rights and risk of ownership have passed to the customer, when there is persuasive evidence of an arrangement, product has been shipped or delivered to the customer, the price and terms are finalized, and collections of resulting receivable is reasonably assured. Products are primarily shipped FOB shipping point at which time title passes to the customer. In some instances the Company uses common carriers for the delivery of products. In these arrangements, sales are recognized upon delivery to the customer. The Company's revenue arrangements with its customers often include early payment discounts and such sales incentives are recorded against sales.

In Denmark, Value Added Tax ("VAT") of 25% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

Income Taxes

We must make estimates and judgments in determining the provision for taxes for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover the deferred tax assets recorded on our consolidated balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely. Recovery of a portion of our deferred tax assets is impacted by management's plans and methods of allocating research and development costs to the underlying reporting units.

The calculation of our tax liabilities involves uncertainties in the application of complex tax regulations in Denmark and the United States. When a tax position is determined uncertain, we recognize liabilities based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. If uncertainties arise we re-evaluate the tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory. As of December 31, 2012, we had total furnace parts and supplies of \$986,278, raw material of \$705,025, work-in-process inventory of \$1,502,144, total finished goods inventory of \$990,935 and reserve for obsolescence of \$72,567. The estimated future demand is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, acceptance of the product by the customer and the various environmental authorities, competitor's products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand, and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

In order to determine what costs can be included in the valuation of inventory, we must determine normal capacity at our manufacturing and assembly and test facilities, based on historical production, compared to total available capacity. If the factory production is below the established normal capacity level, a portion of our manufacturing overhead costs would not be included in the cost of inventory, and therefore would be recognized as cost of sales in that period, which would negatively impact our gross margin. We refer to these costs as excess capacity charges. Over the past two years we have experienced no excess capacity charges. We have had to outsource the firing of products to meet demand.

Loss Contingencies

We are subject to various legal and administrative proceedings and asserted and potential claims, accruals related to product warranties and potential asset impairments (loss contingencies) that arise in the ordinary course of business. An estimated loss from such contingencies is recognized as a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is required if there is at least a reasonable possibility that a loss has been incurred. The outcomes of legal and administrative proceedings and claims, and the estimation of product warranties and asset impairments, are subject to significant uncertainty. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. With respect to estimating the losses associated with repairing and replacing parts in connection with product warranty, we make judgments with respect to customer claim rates. Current warranty estimates are immaterial for accrual or further disclosure. At least quarterly, we review the status of each significant matter, and we may revise our estimates. These revisions could have a material impact on our results of operations and financial position.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are not required to provide quantitative and qualitative disclosures about market risk because we are a smaller reporting company.

Item 8. Financial Statements and Supplementary Data.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

	Page
Reports of Independent Registered Public Accounting Firm	F1
Consolidated Balance Sheets at December 31, 2012 and 2011	F2
Consolidated Statements of Operations for the years ended December 31, 2012 and 2011	F4
Consolidated Statement of Other Comprehensive Income for the years ended December 31, 2012 and 2011	F5
Consolidated Statement of Stockholders' Equity for the years ended December 31, 2012 and 2011	F6
Consolidated Statement of Cash Flows for the years ended December 31, 2012 and 2011	F7
Notes to the Consolidated Financial Statements	F9

4397 South Albright Drive, Salt Lake City, Utah 84124
(801) 277-2763 Phone • (801) 277-6509 Fax

Board of Directors
LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
Industriparken 22C, DK
2750 Ballerup, Denmark

We have audited the accompanying consolidated balance sheets of LiqTech International, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, other comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, and audit of its internal controls over financial reporting for the year ended December 31, 2012 and 2011. Our audit included consideration of internal controls over financial reporting as a basis for designing 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 controls over financial reporting for the year ended December 31, 2012 and 2011. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of LiqTech International, Inc. and subsidiaries as of December 31, 2012 and 2011 and the results of their operations and their cash flows for the years ended December 31, 2012, and 2011, in conformity with generally accepted accounting principles in the United States.

/s/ Gregory & Associates, LLC
Salt Lake City, Utah
March 26, 2013

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>As of</u> <u>December 31,</u> <u>2012</u>	<u>As of</u> <u>December 31,</u> <u>2011</u>
Current Assets:		
Cash	\$ 3,873,338	\$ 1,033,057
Accounts receivable, net	2,855,184	5,299,569
Other receivables	371,001	1,528,362
Cost in excess of billing	217,586	256,161
Inventories	4,111,815	2,980,583
Prepaid expenses	130,560	301,375
Current deferred tax asset	<u>267,332</u>	<u>17,786</u>
Total Current Assets	<u>11,826,816</u>	<u>11,416,893</u>
Property and Equipment , net accumulated depreciation	<u>6,649,817</u>	<u>6,647,217</u>
Other Assets:		
Long term receivable	118,258	-
Other investments	158,141	6,483
Long term tax asset	75,947	-
Other intangible assets	29,150	34,167
Deposits	<u>182,020</u>	<u>146,184</u>
Total Other Assets	<u>563,516</u>	<u>186,834</u>
Total Assets	<u>\$ 19,040,149</u>	<u>\$ 18,250,944</u>

(Continued)

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>As of</u> <u>December 31,</u> <u>2012</u>	<u>As of</u> <u>December 31,</u> <u>2011</u>
Current Liabilities:		
Lines of credit	\$ -	\$ 1,259,936
Notes payable - current portion	-	259,396
Notes payable - related party, net of discount	-	3,328,183
Current portion of capital lease obligations	203,503	191,444
Accounts payable - trade	2,289,231	3,026,960
Accrued expenses	760,881	1,375,714
Billing in excess of cost	237,063	93,347
Accrued income taxes payable	1,000	3,710
Deferred revenue	265,543	-
	<u>3,757,221</u>	<u>9,538,690</u>
Notes payable and long-term debt, less current portion	-	350,000
Long-term capital lease obligations, less current portion	729,567	950,351
Deferred tax liability	-	668,484
	<u>729,567</u>	<u>1,968,835</u>
Total Liabilities	<u>4,486,788</u>	<u>11,507,525</u>
Stockholders' Equity:		
Common stock; par value \$0,001, 100,000,000 shares authorized, 24,111,500 and 21,600,000 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	24,112	21,600
Additional paid-in capital	12,658,405	5,603,517
Retained earnings	2,510,693	5,284,583
Deferred compensation	(125,477)	(268,282)
Other comprehensive income, net	(542,806)	(596,011)
Note receivable from a shareholder, net of discount	-	(3,328,183)
Non-controlled interest in subsidiaries	28,434	26,195
	<u>14,553,361</u>	<u>6,743,419</u>
Total Liabilities and Stockholders' Equity	<u>\$ 19,040,149</u>	<u>\$ 18,250,944</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	2012	2011
Net Sales	\$ 16,921,838	\$ 21,192,177
Cost of Goods Sold	<u>14,217,713</u>	<u>16,164,366</u>
Gross Profit	<u>2,704,125</u>	<u>5,027,811</u>
Operating Expenses:		
Selling expenses	2,434,541	1,484,992
General and administrative	3,421,658	1,943,333
Research and development	<u>742,009</u>	<u>502,413</u>
Total Operating Expenses	<u>6,598,208</u>	<u>3,930,738</u>
Income (Loss) from Operations	<u>(3,894,083)</u>	<u>1,097,073</u>
Other Income (Expense)		
Interest and other income	158,632	100,986
Interest (expense)	(148,611)	(203,682)
(Loss) on investments	(102,612)	(57,684)
Gain on currency transactions	48,145	10,271
Gain (loss) on sale of fixed assets	<u>(889)</u>	<u>411,436</u>
Total Other Income (Expense)	<u>(45,335)</u>	<u>261,327</u>
Income (Loss) Before Income Taxes	(3,939,418)	1,358,400
Income Tax Expense (Benefit)	<u>(1,165,528)</u>	<u>359,508</u>
Net Income (Loss)	(2,773,890)	998,892
Less Net Income Attributable To Non-Controlled Interests in Subsidiaries	<u>-</u>	<u>81,681</u>
Net Income (Loss) Attributable To LiqTech	<u>\$ (2,773,890)</u>	<u>\$ 917,211</u>
Basic Earnings (Loss) Per Share	<u>\$ (0.12)</u>	<u>\$ 0.06</u>
Weighted Average Common Shares Outstanding	<u>23,644,883</u>	<u>14,165,217</u>
Diluted Earnings (Loss) Per Share	<u>\$ (0.12)</u>	<u>\$ 0.06</u>
Weighted Average Common Shares Outstanding Assuming Dilution	<u>23,644,883</u>	<u>16,096,973</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	2012	2011
	<u> </u>	<u> </u>
Net Income (Loss)	(2,773,890)	998,892
Currency Translation, Net of Taxes	<u>53,205</u>	<u>327,323</u>
Other Comprehensive Income (Loss)	<u>\$ (2,720,685)</u>	<u>\$ 1,326,215</u>
Comprehensive Income (Loss) Attributable To Non-controlling Interest in Subsidiaries	<u>2,239</u>	<u>94,246</u>
Comprehensive Income (Loss) Attributable To LiqTech International Inc.	<u>\$ (2,722,924)</u>	<u>\$ 1,231,969</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2012 and 2011

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Other Compre- hensive Income</u>	<u>Deferred Compen- sation</u>	<u>Share- holder Recei- vable</u>	<u>Non- controlled Interest in Subsidiaries</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>						
BALANCE, December 31, 2010	9,308,333	\$ 9,309	46,070	\$ (25,019)	\$ 2,532,776	\$ 4,367,372	\$ (256,123)	\$ -	\$ (80,000)	\$ 1,222,151
Contribution of 15% interest of LiqTech International AS	-	-	-	-	280,039	-	-	-	-	(325,208)
Cancellation of shares held in treasury	-	-	(46,070)	25,019	(25,019)	-	-	-	-	-
Recapitalization of subsidiary and acquisition of non-controlled interest in LiqTech International AS and LiqTech NA	8,136,417	8,136	-	-	2,427,610	-	-	-	(5,144,751)	(964,994)
Amortization of discount on shareholder receivable	-	-	-	-	-	-	-	-	(54,882)	-
Currency adjustment on note receivable / payable	-	-	-	-	-	-	-	-	371,450	-
Recapitalization of subsidiary	4,155,250	4,155	-	-	(4,155)	-	-	-	-	-
Deferred compensation on options issued to directors and employees	-	-	-	-	392,266	-	-	(392,266)	-	-
Stock based compensation expense recognized for the year ended December 31, 2011	-	-	-	-	-	-	-	123,984	-	-
Payments received on shareholder receivables	-	-	-	-	-	-	-	-	1,580,000	-
Currency translation, net	-	-	-	-	-	-	(339,888)	-	-	12,565
Net Income for the year ended December 31, 2011	-	-	-	-	-	917,211	-	-	-	81,681
BALANCE, December 31, 2011	<u>21,600,000</u>	<u>\$ 21,600</u>	<u>-</u>	<u>-</u>	<u>\$ 5,603,517</u>	<u>\$ 5,284,583</u>	<u>\$ (596,011)</u>	<u>\$ (268,282)</u>	<u>\$ (3,328,183)</u>	<u>\$ 26,195</u>
Common shares issued for cash at \$3.25 per share, net of offering cost of \$927,428, March 2012	2,511,500	2,512	-	-	7,077,195	-	-	-	-	-
Payment received on shareholder receivables	-	-	-	-	-	-	-	-	3,434,891	-
Amortization of discount on Shareholder receivable	-	-	-	-	-	-	-	-	(65,718)	-
Stock based compensation expense recognized for the year ended December 31, 2012	-	-	-	-	-	-	-	120,498	-	-
Forfeiture of Stock Based Compensation	-	-	-	-	(22,307)	-	-	22,307	-	-
Currency translation, net	-	-	-	-	-	-	53,205	-	(40,990)	2,239
Net Loss for the year ended December 31, 2012	-	-	-	-	-	(2,773,890)	-	-	-	-
BALANCE, December 31, 2012	<u>24,111,500</u>	<u>\$ 24,112</u>	<u>-</u>	<u>-</u>	<u>\$ 12,658,405</u>	<u>\$ 2,510,693</u>	<u>\$ (542,806)</u>	<u>\$ (125,477)</u>	<u>\$ -</u>	<u>\$ 28,434</u>

LiqTech International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Increase (Decrease) in Cash and Cash Equivalents

	For the Years Ended	
	December 31	
	2012	2011
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (2,773,890)	\$ 998,892
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	1,515,863	1,379,667
Compensation from stock options	120,494	123,984
Bad debt expense	1,078,365	208,275
Change in deferred tax asset / liability	(993,977)	177,658
Gain/Loss on sale of equipment	889	(411,436)
Loss on Long- term investments	102,612	57,684
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,405,123	(3,593,340)
(Increase) decrease in inventory	(1,161,098)	(1,094,902)
(Increase) decrease in prepaid expenses/deposits	134,980	(293,470)
Increase (decrease) in accounts payable	(737,729)	1,961,393
Increase (decrease) in accrued expenses	(352,000)	653,557
Increase (decrease) long term contracts	182,291	(162,814)
	<u>2,295,813</u>	<u>(993,744)</u>
Net Cash Provided (Used) by Operating Activities	<u>(478,077)</u>	<u>5,148</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,491,374)	(1,572,300)
Proceeds from sale/recovery of property and equipment	2,493	689,827
Purchase of Long-term investments	<u>(254,270)</u>	<u>(64,167)</u>
Net Cash Used by Investing Activities	<u>(1,743,151)</u>	<u>(946,640)</u>
Cash Flows from Financing Activities:		
(Payments on) proceeds from notes payable	(609,396)	109,396
Net proceed (payments) on lines of credit	(1,259,936)	226,848
(Payments) on notes payable - related party	(3,055,150)	-
Payments on capital lease obligation	(208,725)	(202,719)
Net Proceeds from issuance of common stock and warrants	7,079,707	4,607,087
Repurchase of common stock	-	(4,577,999)
Payments on related party notes receivable	<u>3,055,150</u>	<u>1,580,000</u>
Net Cash Provided by Financing Activities	<u>5,001,650</u>	<u>1,742,613</u>
Gain (Loss) on Currency Translation	59,859	(327,323)
Net Increase (Decrease) in Cash and Cash Equivalents	2,840,281	473,798
Cash and Cash Equivalents at Beginning of Period	<u>1,033,057</u>	<u>559,259</u>
Cash and Cash Equivalents at End of Period	<u>\$ 3,873,338</u>	<u>\$ 1,033,057</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents

	For the Years Ended	
	December 31	
	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 18,796	\$ 203,682
Income Taxes	\$ 0	\$ 359,508

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

For the year ended December 31, 2012

None

For the year ended December 31, 2011

The Company recorded a \$280,039 capital contribution for the receipt of 400 shares of its subsidiary LiqTech International AS (former CoMeTas AS) with a non-controlling interest's value of \$325,208.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation

The consolidated financial statements include the accounts of LiqTech International, Inc. ("Parent"). The terms "Company", "us", "we" and "our" as used in this report refer to Parent and its subsidiaries, which are set forth below. The Company engages in the development, design, production, marketing and sale of liquid filters, diesel particulate air filters and kiln furniture in United States, Canada, Europe, Asia and South America. Set forth below is a description of Parent and its subsidiaries:

LiqTech International, Inc., a Nevada corporation organized in July 2004, formerly known as Blue Moose Media, Inc.

LiqTech USA, a Delaware corporation and a wholly-owned subsidiary of Parent formed in May 2011.

LiqTech A/S ("LiqTech AS"), a Danish corporation, incorporated on March 15, 1999, a 100% owned subsidiary of LiqTech USA, engages in the development, design, production, marketing and sale of ceramic diesel particulate filters and kiln furniture in Europe, Asia and South America. On August 23, 2012, LiqTech AS was merged into LiqTech International A/S, a Danish corporation ("LiqTech International AS") and all activities from the two companies are hereafter combined in LiqTech International AS.

LiqTech International AS, a Danish corporation, incorporated on January 15, 2000 ("LiqTech Int. DK"), a 100% owned subsidiary of LiqTech USA, engages in development, design, application, marketing and sales of membranes on ceramic diesel particulate and liquid filters and catalytic converters in Europe, Asia and South America. LiqTech Int. DK was a 75% owned subsidiary from March 2011 to August 24, 2011 and a 60% owned subsidiary prior to March 2011.

LiqTech NA, Inc. ("LiqTech NA") a 100% owned subsidiary of LiqTech International AS and LiqTech USA, incorporated in Delaware on July 1, 2005, engages in the production, marketing and sale of ceramic diesel particulate and liquid filters and kiln furniture in United States and Canada. Prior to August 2011, LiqTech AS held a 90% interest in LiqTech NA.

LiqTech Asia ("LiqTech Asia") a 60% owned subsidiary of LiqTech Int. DK, incorporated in South Korea on July 20, 2006, is currently a dormant subsidiary.

LiqTech Germany ("LiqTech Germany") a 100% owned subsidiary of LiqTech Int. DK, incorporated in Germany on December 9, 2011, engages in marketing and sale of liquid filters in Germany.

LiqTech PTE Ltd. ("LiqTech Sing") a 95% owned subsidiary of LiqTech Int. DK, incorporated in Singapore on January 19, 2012, engages in marketing and sale of liquid filters in Singapore and other countries in the area.

Consolidation — The consolidated financial statements include the accounts and operations of the Company. The non-controlling interests in the net assets of the subsidiaries are recorded in equity. The non-controlling interests of the results of operations of the subsidiaries are included in the results of operations and recorded as the non-controlling interest in subsidiaries. All material inter-company transactions and accounts have been eliminated in the consolidation.

Functional Currency / Foreign currency translation — The functional currency of LiqTech International, Inc., LiqTech USA, Inc. and LiqTech NA is the U.S. Dollar. The Functional Currency of LiqTech Int DK and LiqTech AS is the Danish Krone ("DKK"), the functional currency of LiqTech Germany is the Euro and the functional currency of LiqTech Singapore is the Singapore Dollar, the functional Currency of LiqTech Asia is South Korean Won. The Company's reporting currency is U.S. Dollar for the purpose of these financial statements. The foreign subsidiaries balance sheet accounts are translated into U.S. dollars at the period-end exchange rates and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during the years 2012 and 2011. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

Cash and Cash Equivalents — The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no balances held in financial institution in the United States in excess of federally insured amounts at December 31, 2012 and December 31, 2011.

Accounts Receivable — Accounts receivables consist of trade receivables arising in the normal course of business. The Company establishes an allowance for doubtful accounts which reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

The roll forward of the allowance for doubtful accounts for the year ended December 31, 2012 and December 31, 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Allowance for doubtful accounts at the beginning of the period	\$ 389,032	\$ 452,266
Bad debt expense	1,078,365	208,275
Amount of receivables written off	(248,895)	(257,610)
Effect of currency translation	24,998	(13,899)
Allowance for doubtful accounts at the end of the period	<u>\$ 1,243,500</u>	<u>\$ 389,032</u>

Inventory — Inventory is carried at the lower of cost or market, as determined on the first-in, first-out method.

Inventory consists of the following at December 31, 2012 and December 31, 2011:

	<u>2012</u>	<u>2011</u>
Furnace parts and supplies	\$ 986,278	\$ 151,412
Raw materials	705,025	920,065
Work in process	1,502,144	867,988
Finished goods	990,935	1,054,118
Reserve for obsolescence	(72,567)	(13,000)
Net Inventory	<u>\$ 4,111,815</u>	<u>\$ 2,980,583</u>

The Company's inventory is held as collateral on the Company's lines of credit.

Property and Equipment — Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized, upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets which range from three to ten years (See Note 3).

Long-Term Investments — Investments in non-consolidated companies are included in long-term investments in the consolidated balance sheet and are accounted for under the cost method and equity method. For these non-quoted investments, we regularly review the assumptions underlying the operating performance and cash flow forecasts based on information requested from these privately held companies. Generally, this information may be more limited, may not be as timely as and may be less accurate than information available from publicly traded companies. Assessing each investment's carrying value requires significant judgment by management. If it is determined that there is an-other-than-temporary decline in the fair value of a non-public equity security, we write-down the investment to its fair value and record the related write-down as an investment loss in the consolidated statement of operations.

Intangible Assets — Definite life intangible assets include patents. The Company accounts for definite life intangible assets in accordance with Financial Accounting Standards Board, (“FASB”) Accounting Standards Codification, (“ASC”) Topic 350, “Goodwill and Other Intangible Assets” and amortized the patents on a straight line basis over the estimated useful life of two to ten years.

Revenue Recognition and Sales Incentives — The Company's accounts for revenue recognition in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (SAB 101), FASB ASC 605 Revenue Recognition. The Company recognizes revenue when rights and risk of ownership have passed to the customer, when there is persuasive evidence of an arrangement, product has been shipped or delivered to the customer, the price and terms are finalized, and collections of resulting receivable is reasonably assured. Products are primarily shipped FOB shipping point at which time title passes to the customer. In some instances the Company uses common carriers for the delivery of products. In these arrangements, sales are recognized upon delivery to the customer. The Company's revenue arrangements with its customers often include early payment discounts and such sales incentives are recorded against sales.

The Company has received various grants from government entities for development and use of silicon carbide membranes in various water filtration and treatment applications. Revenues from grants are recognized on the percentage-of-completion method, measured by the percentage of project costs incurred to date to estimated total project costs for each grant multiplied by the grant income on a project by project basis. This method is used because management considers costs incurred to be the best available measure of progress on contracts in process.

Project costs of the grants include all direct material and labor costs and those indirect costs related to project. Project costs are capitalized and accreted into cost of sales based on the percentage of the project completed. The Company has never recorded a loss on these projects, should a loss be estimated on an incomplete project it would be recorded in the period in which such a loss is determined. Changes in estimated profitability of a project are recognized in the period in which the revisions are determined. The aggregate of costs incurred and income recognized on incomplete projects are recorded as costs in excess of billings and are shown as a current asset. The aggregate of billings in excess of related costs incurred and income recognized on projects is shown as a current liability.

In Denmark, Value Added Tax (“VAT”) of 25% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

Advertising Cost — Cost incurred in connection with advertising of the Company's products is expensed as incurred. Such costs amounted to \$78,030 and \$47,645, for the year ended December 31, 2012 and 2011, respectively.

Research and Development Cost — The Company expenses for research and development costs for the development of new products as incurred. Included in operating expense for the years ended December 31, 2012 and 2011 were \$742,009, and \$502,413, respectively, of research and development costs.

Income Taxes — The Company accounts for income taxes in accordance with FASB ASC Topic 740 Accounting for Income Taxes. This statement requires an asset and liability approach for accounting for income taxes.

Earnings / (Loss) Per Share — The Company calculates earnings per share in accordance with FASB ASC 260 Earnings Per Share. Basic earnings per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares included in the diluted earnings per share calculation include in-the-money stock options that have been granted but have not been exercised.

Stock Options — The Companies have granted stock options to certain key employees. See Note 13. During the years presented in the accompanying consolidated financial statements, the Company has granted options. The Company accounts for options in accordance with the provisions of FASB ASC Topic 718, Compensation – Stock Compensation. Non-cash compensation costs of \$120,494 and \$123,984 have been recognized for the vesting of options granted to employees with an associated recognized tax benefit of \$0 for the years ended December 31, 2012 and 2011, respectively.

Fair Value of Financial Instruments — The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, investments, accounts payable, accrued expenses, capital lease obligations and notes payable approximates their recorded values due to their short-term maturities.

Accounting Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Recent Accounting Pronouncements — In May 2011, the Financial Accounting Standards Board (FASB) issued amended standards to achieve a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards. For assets and liabilities categorized as Level 3 and recognized at fair value, these amended standards require disclosure of quantitative information about unobservable inputs, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. In addition, these amended standards require that we disclose the level in the fair value hierarchy for financial instruments disclosed at fair value but not recorded at fair value. These new standards are effective for us beginning in the first quarter of 2012; early adoption of these standards is prohibited. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

In June 2011, the FASB issued amended standards to increase the prominence of items reported in other comprehensive income. These amendments eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and require that all changes in stockholders' equity — except investments by, and distributions to, owners — be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, these amendments require that we present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. We adopted the new standards effective January 1, 2012 and resulted only in changes to presentation of our financial statements.

Other recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the Company's present or future financial statements.

Restatement — The common shares outstanding, common stock and additional paid in capital have been restated in the December 31, 2010 financial statements to reflect the 9,308,333 shares par value of \$0.001 per share issued for the 1,560 shares par value of DKK 1,000 per share of LiqTech AS in connection with the Merger.

Reclassification - The financial statements for the period ended December 31, 2011 have been reclassified to conform to the headings and classifications used in the December 31, 2012 financial statements.

NOTE 2 — RELATED PARTY TRANSACTIONS

Notes Receivable from Related Parties -- At December 31, 2010, LiqTech NA had a note receivable of \$80,000 from an officer of the Company bearing interest at 4%. The note was secured by the officer's stock in the Company and was due on demand. The note was paid in full as of December 31, 2011. Interest income of \$1,600 and \$3,200 was recorded and received for the year ended December 31, 2011 and 2010, respectively.

Notes Receivable From Related Parties -- During June 2012, the Company collected a 19,500,000 DKK note receivable from a shareholder of the Company resulting from the purchase of common shares and was previously classified as equity in the accompanying financial statements. The note was discounted as the note did not accrue interest. During the years ended December 31, 2012 and 2011 the Company recorded interest income of \$65,178 and \$54,882, respectfully, as a result of amortization of the discount.

Notes Payable From a Related Party -- During June, 2012, the Company paid a 19,500,000 DKK note payable to current and former shareholders of LiqTech AS in connection with the LiqTech AS's reverse acquisition of LiqTech USA, concurrently with the Merger. The note was discounted as the note did not accrue interest. During the years ended December 31, 2012 and 2011, the Company recorded interest expense of \$65,178 and \$54,882, respectfully, as a result of amortization of the discount.

NOTE 3 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2012 and December 31, 2011:

	<u>Useful Life</u>	<u>2012</u>	<u>2011</u>
Production equipment	3 - 10	\$ 11,098,980	\$ 10,025,051
Lab equipment	3 - 10	355,096	349,750
Computer equipment	3 - 5	282,612	236,155
Vehicles	3	47,283	10,565
Furniture and fixture	5	64,038	47,898
Leasehold improvements	10	1,009,035	443,448
		<u>12,857,044</u>	<u>11,112,867</u>
Less Accumulated Depreciation		<u>(6,207,227)</u>	<u>(4,465,650)</u>
Net Property and Equipment		<u>\$ 6,649,817</u>	<u>\$ 6,647,217</u>

Depreciation expense amounted to \$1,505,435 and \$1,332,280, for the year ended December 31, 2012 and 2011, respectively. The Company's property and equipment is held as collateral on the lines of credit.

NOTE 4 - INVESTMENTS

The following tables summarize Level 1, 2 and 3 financial assets and financial (liabilities) by their classification in the Statement of Financial Position:

As of December 31, 2012	Level 1	Level 2	Level 3
Investments	-	-	158,141
Total	-	-	158,141
As of December 31, 2011	Level 1	Level 2	Level 3
Investments	-	-	6,483
Total	-	-	6,483

At December 31, 2012 our total investment of \$158,141 consisted of an investment of \$6,557 in LEA Technology in France to strengthen our sales channels in the French market and an investment of \$151,584 in Bio Filtration Technology, a Danish company developing a biofuel and manure concentration technology.

At December 31, 2011 our investment of \$6,483 consisted of an investment in LEA Technology in France to strengthen our sales channels in the French market.

NOTE 5 — DEFINITE-LIFE INTANGIBLE ASSETS

At December 31, 2012 and December 31, 2011, definite-life intangible assets, net of accumulated amortization, consist of patents on the Company's products of \$29,150 and \$34,167, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the years ended December 31, 2012 and 2011 was \$5,017 and \$47,387, respectively. Expected future amortization expense for the years ended are as follows:

Year ending December 31,	Amortization Expenses
2013	\$ 5,539
2014	5,539
2015	5,539
2016	5,539
2017	3,363
Thereafter	3,631
	<u>\$ 29,150</u>

NOTE 6 — LINES OF CREDIT

LiqTech Denmark International has a DKK 6,000,000 (approximately \$1,060,239 and \$1,044,277 at December 31, 2012 and 2011, respectively) standby line of credit with Sydbank A/S. Outstanding borrowings are due on demand. Interest is calculated based on CIBOR plus a margin of 3 percentage points and is payable quarterly. As of December 31, 2012, the interest on this line of credit was at 3.81%. This line of credit is guaranteed by LiqTech Delaware. This line of credit is also secured by certain of our receivables, inventory and equipment. There was \$0 and \$882,081 outstanding as of December 31, 2012 and December 31, 2011, respectively. At December 31, 2012, there was \$1,060,239 available under this credit line.

LiqTech Denmark International has a DKK 3,000,000 (approximately \$530,120 and \$522,139 at December 31, 2012 and 2011, respectively) standby line of credit with Sydbank A/S, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. Interest is calculated based on CIBOR plus a margin of 3 percentage points and is payable quarterly. As of December 31, 2012, the interest on this line of credit was at 3.81%. This line of credit is guaranteed by LiqTech Delaware. This line of credit is also secured by certain of our receivables, inventory and equipment. There was \$0 and \$377,933 outstanding as of December 31, 2012 and December 31, 2011, respectively. As of December 31, 2012, there was \$530,120 available under this credit line.

In general, lines of credit in Denmark are due on demand. We do not believe that any of our lines of credit will be called but, if they were called, we believe that we could refinance with other lenders in Denmark with similar terms.

NOTE 7 — NOTES PAYABLE

In September 2011 LiqTech AS entered into a note payable agreement with a financial institution, whereby LiqTech AS borrowed \$475,000. The note payable was paid off in March 2012.

NOTE 8 — LEASES

Operating Leases — The Company leases office and production facilities under operating lease agreements expiring in August, 2018, February 2017, December 2016 and January 2014. In some of these lease agreements the Company has the right to extend.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2012 are as follows:

Year ending December 31,	Lease Payments
2013	\$ 658,550
2014	699,439
2015	717,478
2016	736,001
2017	493,920
Thereafter	300,994
Total Minimum Lease Payments	\$ 3,606,382

Lease expense charged to operations was \$761,831 and \$565,412, for the year ended December 31, 2012, and 2011.

Capital Leases — The Company leases equipment on various variable rate capital leases currently calling for monthly payments of approximately \$2,076, \$2,914, \$11,614 and \$4,501 expiring April 2017. At December 31, 2012 and 2011, the Company had recorded equipment on capital lease at \$1,570,337 and \$1,546,696, respectively, with related accumulated depreciation of \$653,529 and \$430,070, respectively.

During the years ended December 31, 2012 and 2011, depreciation expense for equipment on capital lease amounted to \$211,879, and \$153,762, respectively, and has been included in depreciation expense. During the years ended December 31, 2012 and 2011, interest expense on a capital lease obligation amounted to \$64,211 and \$49,405, respectively. In August 2011, the Company entered into a new capital lease to purchase and install an additional furnace for \$412,561 to increase production capacity

Future minimum capital lease payments are as follows for the periods ended December 31:

Year ending December 31,	Lease Payments
2013	\$ 253,268
2014	248,623
2015	216,883
2016	209,951
2017	134,811
Thereafter	0
Total minimum lease payments	1,063,536
Less amount representing interest	(130,466)
Present value of minimum lease payments	933,070
Less Current Portion	(203,503)
	\$ 729,567

NOTE 9 — AGREEMENTS AND COMMITMENTS

401(K) Profit Sharing Plan — LiqTech NA has a 401(k) profit sharing plan and trust covering certain eligible employees. The amount LiqTech NA contributes is discretionary. For the year ending December 31, 2012 and 2011, matching contributions were expensed and totaled \$21,531 and \$20,879, respectively.

NOTE 10 — INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC Topic 740, Accounting for Income Taxes; which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined.

The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset (liabilities) at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Vacation Accrual	\$ 4,093	\$ 13,234
Allowance for doubtful accounts	243,314	-
Reserve for obsolete inventory	19,925	4,552
Net current tax assets	<u>\$ 267,332</u>	<u>\$ 17,786</u>
Business tax credit carryover	25,379	-
Net operating loss carryover	856,517	130,118
Excess of book over tax depreciation	(805,949)	(798,602)
Net deferred tax assets (liability)	<u>\$ 75,947</u>	<u>\$ (668,484)</u>

In accordance with prevailing accounting guidance, the Company is required to recognize and disclose any income tax uncertainties. The guidance provides a two-step approach to recognize and disclose any income tax uncertainties. The guidance provides a two-step approach to recognizing and measuring tax benefits and liabilities when realization of the tax position is uncertain. The first step is to determine whether the tax position meet the more-likely-than-not condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%.

The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which can difficult to determine and can only be estimated. Management estimates that it is more likely than not that the Company will generate adequate net profits to use the deferred tax assets; management has estimated that all of the deferred tax will be realized and consequently, a valuation allowance was not recorded.

As of December 31, 2012 the Company had net operating loss carryovers of approximately \$1,600,000 for U.S. Federal purposes expiring through 2032; \$258,471 for Danish tax purposes which do not expire; \$43,000 for German tax purposes which do not expire and \$42,000 for Singapore tax purposes which do not expire.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the company's effective rate is as follows at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Computed tax at expected statutory rate	\$ (1,470,216)	\$ 444,553
State and local income taxes, net of federal benefits	(13,925)	6,945
Non-deductible expenses	64,645	26,269
Non-US income taxed at different rates	202,029	(87,033)
Manufacture and other tax credits	-	(30,974)
Other items	51,939	(252)
Income tax expense (benefit)	<u>\$ (1,165,528)</u>	<u>\$ 359,508</u>

The components of income tax expense (benefit) from continuing operations for the years ended December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Current income tax expense (benefit)		
Danish	\$ -	\$ 25,665
Federal	(160,920)	145,662
State	(25,983)	10,523
Current tax expense (benefit)	<u>\$ (186,903)</u>	<u>\$ 181,850</u>

Deferred tax expense (benefit) arising from:	<u>2012</u>	<u>2011</u>
Excess of tax over financial accounting depreciation	\$ 5,906	\$ 8,749
Deferred rent	-	2,506
Business tax credit carryover	(25,379)	2,528
Net operating loss carryover	(709,603)	177,109
Allowance for doubtful accounts	(243,314)	-
Accrued Vacation	9,141	(13,234)
Reserve for obsolete inventory	(15,373)	-
Current tax expense (benefit)	<u>\$ (978,622)</u>	<u>\$ 177,658</u>

Deferred income tax expense / (benefit) results primarily from the reversal of temporary timing differences between tax and financial statement income.

The Company files Danish and U.S. federal, Minnesota state income tax returns, and LiqTech AS and LiqTech International AS are generally no longer subject to tax examinations for years prior to 2007 for their Danish tax returns. LiqTech NA is generally no longer subject to tax examinations for years prior to 2008 for U.S. federal and U.S. states tax returns.

NOTE 11 — ACQUISITIONS

On August 24, 2011, pursuant to the Merger Agreement, BMD Sub was merged with and into LiqTech USA and as a result of the Merger, LiqTech USA became a wholly owned subsidiary of Parent. Prior to the Merger there were 4,155,250 shares of the common stock, par value \$0.001 per share of Parent outstanding, pursuant to the Merger each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of Parent common stock, for a total of 17,444,750 shares resulting in 21,600,000 shares of Parent common stock being outstanding immediately following the Merger and warrants to acquire up to 6,500 shares of LiqTech USA's common stock at an exercise price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of Parent common stock at an exercise price of \$1.50 per share.

In connection with the Merger, shareholders of Parent contributed and cancelled 89,960,000 common shares of the Parent thereby reducing the common share outstanding to 4,155,250. Prior to the Merger, LiqTech USA completed a private placement offering of 63 Units at \$100,000 per Unit (the "Offering"), each such Unit consisting of 40 shares of LiqTech USA common stock (2,520,000 common shares of Parent after giving effect to the 1,000 for 1 share conversion into Parent upon the closing of the Merger) and a LiqTech USA Warrant for 20 shares of LiqTech USA common stock (1,260,000 warrants to purchase common shares of Parent after giving effect to the 1,000 for 1 share conversion into Parent upon closing of the Merger), for gross proceeds of \$4,800,000 in cash and a promissory note for \$1,500,000 payable on September 7, 2011. Prior to the Offering, LiqTech USA issued 2,946,417 common shares (2,949,417 common shares of Parent after giving effect to the 1,000 for 1 shares conversion into Parent upon the closing of the Merger) and warrants to purchase 1,440 common shares at an exercise price of \$1,500 per share (warrants to purchase 1,440,000 common shares of Parent at an exercise price of \$1.50 per share after giving effect to the 1,000 for 1 share conversion into Parent upon closing of the Merger) for gross proceeds of \$50,000 in cash and 19,500,000 DKK notes payable (\$3,765,351 based upon the currency exchange rate of \$1.00 = 5.1788 DKK as August 22, 2011). The note was discounted \$120,600 as the note does not accrue interest and is payable on June 30, 2012. In connection with the Merger, LiqTech, USA acquired all of the outstanding equity interests in LiqTech AS and all of the outstanding equity interests in LiqTech Int. DK and LiqTech NA not owned by LiqTech AS, directly from the holders of such equity interests. In exchange for such equity interests LiqTech USA paid the holders, in the aggregate of \$4,577,999, promissory notes in the aggregate principal amount of 19,500,000 DKK (\$3,765,351 based upon the currency exchange rate of \$1.00 = 5.1788 DKK as August 22, 2011) and 9,308.333 common shares of LiqTech USA (9,308,333 common shares of Parent after giving effect to the 1,000 for 1 shares conversion into Parent upon closing of the Merger).

NOTE 12 — EARNINGS PER SHARE

The following data shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of potential dilutive common stock for the year ended December 31, 2012 and 2011:

	For the Year Ended December 31	
	2012	2011
Net Income (Loss) attributable to LiqTech International Inc.	\$ (2,773,890)	917,211
Weighted average number of common shares used in basic earnings per share	23,644,883	14,165,217
Effect of dilutive securities, stock options and warrants	-	1,931,756
Weighted average number of common shares and potential dilutive common shares outstanding used in dilutive earnings per share	23,644,883	16,096,973

For the year ended December 31, 2012, Parent had 1,964,130 options outstanding to purchase common stock of Parent at \$1.50 to \$3.60 per share and Parent had 6,625,575 warrants outstanding to purchase common stock of Parent at \$1.50 to \$4.06 per share, which were not included in the loss per share computation because their effect would be anti-dilutive.

For the year ended December 31, 2011, the Company included all outstanding common stock equivalents in the calculation of weighted average common shares and potential dilutive common shares outstanding.

The weighted average common shares outstanding used in the calculation of earning per shares for the year ended December 31, 2011, reflects the 9,308,333 issued to the former shareholders of LiqTech AS in connection with the reverse acquisition.

NOTE 13 — STOCKHOLDERS' EQUITY

Common Stock — Parent has 100,000,000 authorized shares of common stock, \$0.001 par value. As of December 31, 2012 and 2011, respectively, there were 24,111,500 and 21,600,000 common shares issued and outstanding.

On March 2, 2012, Parent completed a registered public offering of its common stock. As part of the closing, Parent issued 2,511,500 shares of common stock at a per share price of \$3.25 and generated net proceeds of approximately \$7.1 million, net of offering cost of \$1,082,668.

On April 19, 2011, the Company received 400 common shares, with a non-controlled interest value of \$325,208 (15% of the outstanding common shares) of LiqTech Int. DK upon the departure of the Chief Executive Officer and recorded a capital contribution of \$280,039.

Voting

Holders of Parent common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders, including the election of directors, and do not have any right to cumulate votes in the election of directors.

Dividends

Subject to the rights and preferences of the holders of any series of preferred stock which may at the time be outstanding, holders of Parent common stock are entitled to receive ratably such dividends as our Board of Directors from time to time may declare out of funds legally available.

Liquidation Rights

In the event of any liquidation, dissolution or winding-up of affairs of Parent, after payment of all of our debts and liabilities and subject to the rights and preferences of the holders of any outstanding shares of any series of our preferred stock, the holders of Parent common stock will be entitled to share ratably in the distribution of any of our remaining assets.

Other Matters

Holders of Parent common stock have no conversion, preemptive or other subscription rights, and there are no redemption rights or sinking fund provisions with respect to the common stock. All of the issued and outstanding shares of common stock on the date of this report are validly issued, fully paid and non-assessable.

Preferred Stock

Our Board of Directors has the authority to issue Parent preferred stock in one or more classes or series and to fix the designations, powers, preferences and rights, the qualifications, limitations or restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any class or series, without further vote or action by the stockholders. The issuance of Parent preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock.

Common Stock Purchase Warrants

We have outstanding warrants to purchase 6,625,575 shares of Parent common stock. 6,500,000 warrants are exercisable for cash at a price of \$1.50 per share of common stock and will expire on December 31, 2016 and 125,575 warrants are exercisable for cash at a price of \$4.0625 per share of Parent common stock and will expire on March 7, 2017. The exercise price of the warrants and the number of shares underlying the warrants are subject to adjustment for stock dividends, subdivisions of the outstanding shares of common stock and combinations of the outstanding shares of common stock. While the warrants remain outstanding, we are required to keep reserved from our authorized and unissued shares of common stock a sufficient number of shares to provide for the issuance of the shares underlying the warrants.

Stock Options

In August 2011, Parent's Board of Directors adopted a Stock Option Plan (the "Plan"). Under the terms and conditions of the Plan, the board is empowered to grant stock options to employees, officers, and directors of the Companies. At December 31, 2012, 1,964,130 options were granted and outstanding under the Plan.

The Company recognizes compensation costs for stock option awards to employees based on their grant-date fair value. The value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used to estimate the fair values of the stock options granted using the Black-Scholes option-pricing model are as follows:

	LiqTech International, Inc.
Expected term (in years)	3.0 - 3.5
Volatility	0.07% - 52.69%
Risk free interest rate	2.33%
Dividend yield	0%

The Company recognized employee stock based compensation expense of \$120,494 and \$123,984 for the year end December 31, 2012 and 2011, respectively. At December 31, 2012 the Company had approximately \$125,477 of unrecognized compensation cost related to non-vested options expected to be recognized through December 31, 2013.

A summary of the status of the options outstanding at December 31, 2012 is presented below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.50	452,500	2.15	\$ 1.50	301,667	\$ 1.50
\$3.00 - \$3.60	1,511,630	2.15	\$ 3.05	841,376	\$ 3.05
\$1.50 - \$3.60	1,964,130	2.15	\$ 2.70	1,143,043	\$ 2.70

A summary of the status of the options at December 31, 2012, and changes during the year is presented below:

	December 31, 2012			
	Shares	Weighted Average Exercise Price	Average Remaining Life	Intrinsic Value
Outstanding at beginning of period	2,060,000	\$ 2.69	3.15	\$ 2,341,400
Granted	214,130	3.28	2.15	-
Exercised	-	-	-	-
Forfeited	(310,000)	2.81	-	-
Expired	-	-	-	-
Outstanding at end of period	1,964,130	\$ 2.70	2.15	\$ -
Vested and expected to vest	1,964,130	\$ 2.70	2.15	\$ -
Exercisable at end of period	1,143,043	\$ 2.70	2.15	\$ -

At December 31, 2012 the Company had 821,087 non-vested options with a weighted average exercise price of \$2.70 and with a weighted average grant date fair value of \$0.18, resulting in unrecognized compensation expense of \$125,477, which is expected to be expensed over a weighted-average period of 1 year.

The total intrinsic value of options exercised during the year ended December 31, 2012 was \$0. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at December 31, 2012 (for outstanding options), less the applicable exercise price.

NOTE 14 — SIGNIFICANT CUSTOMERS / CONCENTRATION

For the year ended December 31, 2012, our four largest customers accounted for approximately 13%, 12%, 10% and 7%, respectively, of our net sales (approximately 42% in total). For the year ended December 31, 2011, our four largest customers accounted for approximately 11%, 10%, 10% and 8%, respectively, of our net sales (approximately 39% in total).

The Company sells products throughout the world; sales by geographical region are as follows for the year ended December 31, 2012 and 2011:

	For the Year Ended December 31	
	2012	2011
United States and Canada	\$ 5,993,355	\$ 6,640,642
South America	442,996	17,949
Asia	1,490,017	1,292,143
Europe	8,995,470	13,241,443
	<u>\$ 16,921,838</u>	<u>\$ 21,192,177</u>

The Company's sales by product line are as follows for the year ended December 31, 2012 and 2011:

	For the Year Ended December 31	
	2012	2011
Ceramic diesel particulate	\$ 12,181,744	\$ 17,211,557
Liquid filters	4,192,063	3,708,624
Kiln furniture	548,031	271,996
	<u>\$ 16,921,838</u>	<u>\$ 21,192,177</u>

NOTE 15 — INSURANCE CLAIMS

On July 19, 2011, the building housing LiqTech Int. DK's corporate office and production facility suffered damages resulting from a fire in the roof structure and portions of the corporate offices. The production facility suffered structural and water damages making the facility unsafe for future use. The Company located a new facility and moved their operations and usable equipment. The Company filed claims under two insurance policies on LiqTech Int. DK, a DKK 15,500,000 (approximately \$2,750,000 USD) policy for casualty losses and a DKK 10,000,000 (approximately \$1,800,000) policy for business interruptions.

The business interruption policy covered a period of twelve months from the date of the fire. The Company settled with the insurance company and received DKK 5,408,000 (approximately \$1,000,000) under the business interruption policy. The Company recorded the proceeds from the policy ratably over twelve month period covered. For the years ended December 31, 2012 and 2011, the Company recorded DKK 3,201,806 and DKK 3,201,806 (approximately \$600,000 and \$600,000) as an increase in sales, DKK 497,806 and DKK 497,806 (approximately \$100,000 and \$100,000) as an increase in costs of goods sold.

The Company received DKK 5,584,015 (approximately \$1,040,000) under the casualty loss policy and has written off production equipment and leasehold improvements with a net book value of DKK 1,519,532 (approximately \$285,000) resulting in a DKK 2,284,112 (approximately \$425,000) gain from the loss. The proceeds from the policy were used to replace the equipment and leasehold improvements in the new facility.

The remaining DKK 1,780,371 (approximately \$330,000) received was for the recovery of expenses as a consequent of the fire.

Included in other receivables as of December 31, 2011, is DKK 4,205,604, (approximately \$730,000) which was collected in 2012 and DKK 2,704,000 (approximately \$470,000) in accrued liability, which was ratably recorded to income through July 2012.

NOTE 16 — SUBSEQUENT EVENT

The Company's management reviewed material events through March 25, 2013

On February 26, 2013 we appointed Mr. Mark Vernon, Group Chief Executive Officer of Spirax-Sarco Engineering plc (London Stock Exchange: SPX) to our Board of Directors. Mr. Vernon has enjoyed a long career in the industrial engineering industry, with broad experience in strategic planning, operations management, marketing, sales and new product development. He has travelled extensively, visiting over 65 countries worldwide, and has established businesses and manufacturing operations in many emerging markets. Since April 2008, Mr. Vernon has served as Group Chief Executive Officer of Spirax-Sarco a multi-national industrial engineering company headquartered in the UK, comprising more than 50 operating companies located in 35 countries around the world with revenues exceeding \$1 billion. Mr. Vernon joined Spirax-Sarco in 2003 as President of the Group's USA operating company before being appointed to their Board of Directors in 2006 with responsibility for business operations in North and South America. Mr. Vernon also currently serves as a Director of Senior plc, a \$1.2 billion UK-based aerospace and industrial engineering business.

On January 21, 2013, we received notice that a customer who accounted for 12.4 % and 6.4% of total sales for the year ended December 31, 2012 and 2011, had the courts appoint a receiver. The Company has established an allowance of \$700,000 against the receivables due from this customer.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Blue Moose historically retained Pritchett, Siler & Hardy, P.C. (“PSH”) as its principal accountant. In connection with the closing of the Merger, we terminated PSH and retained Gregory & Associates, LLC as our principal accountant. Our Board of Directors approved the change, effective August 24, 2011.

PSH’s reports on our financial statements for the years ended December 31, 2010 and 2009 included in the Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the SEC did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that their reports included disclosure of uncertainty regarding Blue Moose’s ability to continue as a going concern.

From inception through August 24, 2011, Blue Moose had no disagreements with PSH on matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Blue Moose had not consulted with Gregory & Associates, LLC on any matter prior to the Merger.

We have authorized PSH to respond fully to the inquiries of Gregory & Associates, LLC concerning any matters discussed above. We have provided PSH with a copy of the above statements. We have requested that PSH furnish us with a letter addressed to the SEC stating whether PSH agrees with the above statements and, if not, stating the respects in which it does not agree. A copy of such letter from PSH is incorporated by reference as Exhibit 16 hereto.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Exchange Act Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, both of our chief executive officer and chief financial officer concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on International Control Over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company’s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even internal controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. The effectiveness of our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the possibility of human error, and the risk of fraud. The projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies may deteriorate. Because of these limitations, there can be no assurance that any system of internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework.

Based on its assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2012.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the permanent exemption of the Commission which require the Company to provide only management's report in this report.

Item 9B. Other Information

Effective September 30, 2012, Michael Sonneland resigned from the Company's Board of Directors for personal reasons. Mr. Sonneland remains a shareholder of the Company owning 519,239 shares.

On October 31, 2012, the Company entered into a Bonus and Services Agreement with Aldo Petersen, the Chairman of our Board of Directors, pursuant to which the Company awarded Mr. Petersen DKK 400,000 (approximately \$68,846) in consideration for investor relations and other services previously provided to the Company, and pursuant to which the Company shall compensate Mr. Petersen DKK 50,000 (approximately \$8,606) on a monthly basis for on-going investor relations and other services which are mutually agreeable by both parties for a period of one (1) year unless otherwise agreed to in writing by the parties. A copy of the Bonus and Services Agreement is incorporated by reference herewith as Exhibit 10.19.

Effective February 26, 2013, the Board of Directors of Parent appointed Mark Vernon to serve as a member of the Board until his successor is duly elected, qualified and seated or until his earlier resignation or removal. Mr. Vernon will receive \$20,000 per annum as compensation for his service on the Board. Mr. Vernon's participation in any other compensation plans or arrangements has not been definitively determined as of the filing date of this annual report. Mr. Vernon replaces Jens Kampmann as a member of the Board. Mr. Kampmann amicably resigned from the Board effective February 26, 2013.

On March 25, 2013, we entered into an amendment Agreement to Mr. Andreassen's employment agreement pursuant to which, effective March 31, 2013, Mr. Andreassen shall no longer serve as chief executive officer of LiqTech International, Inc., however he will instead serve as chief operating officer of LiqTech Denmark International. Mr. Andreassen's compensation shall remain the same however we may terminate Mr. Andreassen by giving him 30 days prior written notice, and in such case we shall pay him 12 months salary (including pension and vacation) in a lump sum at the termination date. Mr. Andreassen may terminate upon not less than 3 months prior written notice to us, and in such case we shall pay him salary (including pension and vacation) for one year. The amendment is provided herewith this annual report as Exhibit 10.20.

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below is information concerning our directors, senior executive officers and other key employees.

<u>Name</u>	<u>Age</u>	<u>Titles</u>
Aldo Petersen	51	Chairman of the Board
Lasse Andreassen	60	Chief Executive Officer (Principal Executive Officer) and Director
Soren Degn	43	Chief Financial Officer (Principal Financial and Accounting Officer)
Paul Burgon	42	Director
John F. Nemelka	47	Director
Mark Vernon	60	Director

According to our bylaws, the number of directors at any one time may not be less than one or more than seven. The maximum number of directors at any one time may be increased by a vote of a majority of the directors then serving.

Our charter provides for the annual election of directors. At each annual meeting of stockholders, our directors will be elected for a one-year term and serve until their respective successors have been elected and qualified. It is anticipated that the Board of Directors will meet at least quarterly.

Executive officers are appointed by and serve at the pleasure of the Board of Directors. A brief biography of each director and executive officer follows:

Aldo Petersen . Aldo Petersen has been Chairman of the Board of LiqTech International, Inc. since August 2011. He has been the Chief Executive Officer of APE Invest A/S, a private Danish investment company, since 1996. Until 2006, Mr. Petersen was also the chief executive officer of EuroTrust (formerly known as Telepartner), a formerly NASDAQ-listed company that he founded in 1986. Prior to EuroTrust, he started and sold one of Denmark's first hedge funds, Dansk Fromue Invest. Mr. Petersen was a major investor in Greentech, a renewable energy company that builds wind farms in Denmark, Germany, Poland and Italy. He is a private investor in wind farms in Germany and France, and was also a major investor in Football Club Copenhagen (listed on the Copenhagen Stock Exchange). Mr. Petersen has a B.A. degree in Economics from Copenhagen Business School.

Lasse Andreassen . Mr. Andreassen has served as Chief Executive Officer and as a Director of LiqTech International, Inc. since August 2011. In 1999, Mr. Andreassen co-founded LiqTech and has served as its CEO since 2002. From 1997 to 2001, Mr. Andreassen held Director positions at Kampsax (a consulting firm). From 1995 to 1997, Mr. Andreassen worked as the Director of Operations for Hydro Texaco Denmark. Previously, he also was Vice President of Danfoss's system control business and Director of Operations for the Mexican division of Niro Atomizers. Mr. Andreassen has a B.S. degree in Mechanical Engineering from Københavns Teknikum.

Soren Degn . Mr. Degn has served as CFO of LiqTech International, Inc. since August 2011. From 2008 until 2011, he was the CFO of Guava, a publicly listed internet advertising company. From 2007 to 2008, Mr. Degn served as CFO of Advance Renewable Energy Ltd. From 2001 to 2006, he was the CFO of EuroTrust (a NASDAQ/AIM listed Company, formerly known as Telepartner). From 1996 to 2001, he was the financial controller at Kampsax (a consulting company). From 1989 to 1996, he worked at KPMG in Denmark. Mr. Degn has a B.A. degree in Business Administration and an M.B.A. from Copenhagen Business School.

Paul Burgon . Mr. Burgon has been a director of LiqTech International, Inc. since September 5, 2011. Mr. Burgon is currently the Vice President of Business Development for Steel Partners, LLC. From 2010 to 2012, Mr. Burgon was the interim Chief Financial Officer of SWK Holdings Corporation (OTCBB: SWKH) and was the Principal and CFO of NightWatch Capital Advisors, LLC from 2005 to 2012. Mr. Burgon was a Manager and then Director of Corporate Development for Danaher Corporation (NYSE: DHR) from 1998 to 2005, where he completed approximately 50 transactions with a value of almost \$2 billion. Mr. Burgon led corporate development at Fluke Corporation from 1997 to 1998 and worked at Coopers and Lybrand's Acquisition Advisory Group from 1994 to 1997. Mr. Burgon holds a B.S.B.A. degree (cum laude) in Finance and International Business and an International Executive M.B.A. degree from the McDonough School of Business at Georgetown University.

John F. Nemelka . Mr. Nemelka has served as a Director of LiqTech International, Inc. since September 5, 2011. Mr. Nemelka has been serving as the interim CEO of SWK Holdings, a publicly traded company, since January 2010 and a director since October 2005. He founded NightWatch Capital Group, LLC, an investment management business, and has served as its managing principal since its formation in July 2001. Since October 2009, Mr. Nemelka has also been serving on the Board of Directors of SANUWAVE Health, Inc., a publicly traded company. Mr. Nemelka holds a B.S. degree in Business Administration from Brigham Young University and an M.B.A. degree from the Wharton School at the University of Pennsylvania.

Mark Vernon. Mr. Vernon has served as a Director of LiqTech International, Inc. since February 26, 2013. Mr. Vernon is Chief Executive Officer, Executive Director of Spirax-Sarco Engineering plc (London Stock Exchange: SPX), a multi-national industrial engineering company headquartered in the UK comprising more than 50 operating companies located in 35 countries around the world with revenues exceeding \$1 billion. and has served in such capacity since April 2008. He joined Spirax-Sarco in 2003 as President of that company's steam business in the USA. Mr Vernon was appointed to the Board of Spirax-Sarco in 2006, with director responsibilities for operations in North and South America. He became Chief Operating Officer in 2007 and served in that position until his appointment as Chief Executive Officer in April 2008. In May 2011, Mr Vernon joined the Board as a Non-Executive Director of Senior plc, a \$1.2 billion UK-based aerospace and industrial engineering business . Mr Vernon has had a long career in the industrial engineering industry, serving previously as Group Vice-president of Flowserve's Flow Control Business Unit, Group Vice-president of Durco International and President of Valtek International, a global controls business.

Director Expertise

The following is a brief description of the specific experience and qualifications, attributes or skills of each director that led to the conclusion that such person should serve as a director of the Company.

Mr. Andreassen's knowledge regarding our operations and the markets in which we compete provides a critical link between management and the Board, enabling the Board to provide its oversight function with the benefit of management's perspective of the business.

Mr. Burgon's hands-on experience in public company corporate governance and corporate finance provides the Board with a unique perspective on corporate governance matters and corporate finance matters. Given his financial experience, Mr. Burgon has been determined by our Board to be an Audit Committee Financial Expert.

Mr. Nemelka's experience is investment management and his hands-on experience in public company corporate governance provides the Board with the perspective of an active investor with a critical understanding of the capital raising markets and corporate governance matters.

Mr. Petersen's knowledge regarding our history and operations provides a critical link between management and the Board, enabling the Board to provide its oversight function with the benefit of management's perspective of the business.

Mr. Vernon's extensive global experience in the industrial engineering industry, particularly in North and South America, provides the Board with valuable insight in the markets the Company serves, as well as proven management and Board expertise.

Family Relationships

None of our Directors or executive officers is related by blood, marriage or adoption.

Director Independence

Our Board of Directors has determined that Messrs. Burgon, Nemelka and Vernon are independent as that term is defined in the listing standards of the NYSE Amex. In making these determinations, our Board of Directors has concluded that none of our independent directors has an employment, business, family or other relationship which, in the opinion of our Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our other directors, Messrs. Andreassen and Petersen, are not considered independent under these rules because Mr. Andreassen serves as an executive officer and Mr. Petersen has influence as a significant stockholder. We expect that our independent directors will meet in executive session (without the participation of executive officers or other non-independent directors) at least two times each year.

Committees of our Board of Directors

Committee Composition

Our Board of Directors has an audit committee, a compensation committee, and a governance committee. The following table sets forth the current membership of each of these committees:

Audit Committee

Paul Burgon*
John F. Nemelka

Compensation Committee

John F. Nemelka*
Paul Burgon

Governance Committee

Aldo Petersen*
John F. Nemelka

* Chairman of the committee

Audit Committee

Our audit committee consists of Paul Burgon (Chair) and John Nemelka each of whom is an independent director as defined in the NYSE Amex rules and SEC rules. Based upon past employment experience in finance and other business experience requiring accounting knowledge and financial sophistication, our Board of Directors has determined that Mr. Burgon is an "Audit Committee Financial Expert" as defined in Item 407(d)(5) of Regulation S-K, and that each member of our audit committee is able to read and understand fundamental financial statements. We have implemented a written charter for our audit committee that provides that our audit committee is responsible for:

- appointing, compensating, retaining, overseeing and terminating our independent auditors and pre-approving all audit and non-audit services permitted to be performed by the independent auditors;
- discussing with management and the independent auditors our annual audited financial statements, our internal control over financial reporting, and related matters;
- reviewing and approving any related party transactions;
- meeting separately, periodically, with management, the internal auditors and the independent auditors;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our Board of Directors from time to time; and
- reporting regularly to the Board of Directors.

During the fiscal year ended December 31, 2012, the Audit Committee met four times.

Compensation Committee

Our compensation committee consists of John F. Nemelka (Chair) and Paul Burgon, each of whom is an independent director as defined in the NYSE Amex rules, a “non-employee director” under Rule 16b-3 promulgated under the Exchange Act, and an “outside director” for purposes of Section 162(m) of the Code. We have implemented a written charter for our compensation committee that provides that our compensation committee is responsible for:

- reviewing and making recommendations to our Board Directors regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and making recommendations to our Board of Directors regarding bonuses for our officers and other employees;
- reviewing and making recommendations to our Board of Directors regarding stock-based compensation for our directors and officers;
- administering our stock option plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our Board of Directors after the business combination from time to time.

During the fiscal year ended December 31, 2012, the Compensation Committee met two times.

Governance Committee

Our governance committee consists of Aldo Petersen (Chair) and John F. Nemelka. Mr. Nemelka is an independent director as defined in the NYSE Amex rules. We have implemented a written charter for our governance committee that provides that our governance committee is responsible for:

- overseeing the process by which individuals may be nominated to our Board of Directors;
- identifying potential directors and making recommendations as to the size, functions and composition of our Board of Directors and its committees;
- considering nominees proposed by our stockholders;
- establishing and periodically assessing the criteria for the selection of potential directors;
- making recommendations to the Board of Directors on new candidates for Board membership; and
- overseeing corporate governance matters.

In making nominations, the governance committee intends to submit candidates who have high personal and professional integrity, who have demonstrated exceptional ability and judgment and who are effective, in conjunction with the other nominees to the Board of Directors, in collectively serving the long-term interests of the stockholders. In evaluating nominees, the governance committee intends to take into consideration attributes such as leadership, independence, interpersonal skills, financial acumen, business experiences, industry knowledge, and diversity of viewpoints.

During the fiscal year ended December 31, 2012, the Governance Committee met 4 times.

Legal Proceedings Involving Officers and Directors

To the knowledge of the Company after reasonable inquiry, no current director or executive officer of the Company during the past ten years, has (i) been convicted in a criminal proceeding (excluding traffic violations or other minor offenses), (ii) been a party to any judicial or administrative proceeding (except for any matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, U.S. federal or state securities laws, or a finding of any violation of U.S. federal or state securities laws, (iii) filed a petition under federal bankruptcy laws or any state insolvency laws or has had a receiver appointed for the person's property or (iv) been subject to any judgment, decree or final order enjoining, suspending or otherwise limiting for more than 60 days, the person from engaging in any type of business practice, acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity or engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws, (v) been found by a court of competent jurisdiction in a civil action or by the Commission to have violated any Federal or State securities law, and the judgment in such civil action or finding by the Commission has not been subsequently reversed, suspended, or vacated, (vi) been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated, (vii) been the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of: (a) any Federal or State securities or commodities law or regulation, (b) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or (c) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity, or (viii) been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Code of Ethics

We adopted a code of conduct and ethics on January 1, 2012.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires a company's officers and directors, and persons who own more than ten percent (10%) of a registered class of a company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than ten percent (10%) stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that all reports under Section 16(a) required to be filed by its officers and directors and greater than ten percent (10%) beneficial owners were timely filed, except that Mr. Vernon has not filed a Form 3 upon his appointment as a Director of Parent.

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth certain information with respect to compensation for the years ended December 31, 2012 and 2011 earned by or paid to our chief executive officer and our most highly compensated executive officer in 2012 whose total compensation exceeded \$100,000 (the "named executive officers"). Although Soren Degn, our Chief Financial Officer, is included in the disclosure below, he was not a named executive officer in fiscal year 2011 because he received less than \$100,000 in total compensation during 2011. Furthermore, Jens Kjær, the former CEO of Cometas A/S (now known as LiqTech Denmark International), is not a named executive officer for 2011 because he was not an executive officer at the end of fiscal year 2011.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock	Option	Nonequity	Nonqualified	Total	
		(\$)(1)	(\$)	Awards	Awards	Incentive	Deferred	Other	(\$)
Lasse Andreassen, Chief Executive Officer (3)	2012	\$ 212,048	—	—	\$ 118,167	—	—	\$21,205 (4)	\$ 351,420
	2011	\$ 104,428	—	—	\$ 3,139	—	—	\$ 7,832 (4)	\$ 115,399
	2010	147,438	—	—	—	—	—	—	147,438
Donald S. Debelak, Former Head of U.S. Operations (6)	2012	163,505	—	—	70,900	—	—	—	234,405
	2011	162,000	—	—	2,485	—	—	—	164,485
	2010	162,000	—	—	—	—	—	—	162,000
Soren Degn, Chief Financial Officer (5)	2012	180,241	—	—	70,900	—	—	18,024 (4)	269,165
	2011	64,397	—	—	2,616	—	—	—	67,013
	2010	—	—	—	—	—	—	—	—

- (1) Total salaries for Mr. Andreassen for 2010 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.6133, as of December 31, 2010. Total salaries for Messrs. Andreassen and Degn for 2011 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.7456, as of December 31, 2011. Total salaries for Messrs. Andreassen and Degn for 2012 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.6591, as of December 31, 2012. We do not make any representation that the Danish Krone amounts could have been, or could be, converted into U.S. dollars at such rate on December 31, 2010, December 31, 2011 or December 31, 2012, or at any other rate.
- (2) These amounts represent the aggregate grant date fair value for stock awards granted in fiscal year 2012, computed in accordance with FASB ASC Topic 718. See notes to consolidated financial statements contained elsewhere in this report for further information on the assumptions used to value stock options. On March, 2012, Messrs. Andreassen, Debelak and Degn were granted stock options to purchase 118,167, 70,900 and 70,900 shares of common stock, respectively, at \$3.28 per share. The vesting schedule of such options is as follows: one-third of the options vested immediately, one third of such options vest on March 23, 2013 and one third of such options vest on March 23, 2014. All of these options will expire on March 22, 2015.
- (3) For the years ended December 31, 2011 and 2010, Mr. Andreassen was entitled to an annual base salary of approximately \$182,749 and \$178,000, respectively. From January 2011 until October 2011, Mr. Andreassen was entitled to an annual base salary of DKK 1,000,000. From October 2011 until December 2011, Mr. Andreassen was entitled to an annual base salary of DKK 1,200,000.
- (4) Pursuant to Mr. Andreassen's employment agreement, Mr. Andreassen received \$21,205 and 7,832 of contributions from the Company to his individual retirement account in 2012 and 2011, respectively. Pursuant to Mr. Degn's employment agreement, Mr. Degn received \$18,024 of contributions from the Company to his individual retirement account in 2012.
- (5) Mr. Degn became our chief financial officer in August 2011. Pursuant to his employment agreement, Mr. Degn is entitled to an annual base salary of approximately \$180,241. Mr. Degn was not an executive officer of the Company in fiscal year 2010.
- (6) Mr. Debelak resigned from his position in July 2012.

Employment Arrangements

During the year ended December 31, 2012, we had employment agreements with Messrs. Andreassen, Debelak and Degn.

Mr. Andreassen's previous employment agreement was terminated in October 2011. Under that agreement, Mr. Andreassen's annual compensation included an annual base salary of approximately DKK 1,000,000 (or approximately \$176,706 based on the currency exchange rate of \$1.00 = DKK 5.6591 as of December 31, 2012) plus an annual bonus in an amount equal to 10% of our annual net profit. In addition, upon termination of his employment (i) by us for any reason, other than for Cause, he was entitled to a severance payment equal to 24 months of his salary; and (ii) by him voluntarily, he was required to provide us with 12 months prior notice.

Effective upon the closing of the Merger, we entered into a new employment agreement with Lasse Andreassen for his continued employment as our chief executive officer. Under the agreement, Mr. Andreassen will (i) through January 2013, earn a base annual salary of approximately DKK 1,200,000 (or approximately \$212,048 based on the currency exchange rate of \$1 = DKK 5.5691 as of December 31, 2012); (ii) be entitled to an annual bonus of three year options exercisable for the number of shares of our common stock determined by multiplying earnings before interest expense and taxes (EBIT) by a factor of 0.25 and dividing the resulting product by the average price per share of our common stock during the 10 days before the publication of our results of operations for the last completed fiscal year; (iii) be entitled to monthly contributions from us into his retirement plan of an amount equal to 10% of his monthly salary; (iv) be entitled to participate in all of our employee benefit programs available to management executives, including health and long-term disability insurance; (v) upon termination by us for any reason other than for "Cause," as defined in his employment agreement, be entitled to a severance payment equal to 36 months of his salary; and (vi) provide us with 24 months prior notice upon his voluntary termination of employment.

On March 25, 2013, we entered into an amendment Agreement to Mr. Andreassen's employment agreement pursuant to which, effective March 31, 2013, Mr. Andreassen shall no longer serve as chief executive officer of LiqTech International, Inc., however he will instead serve as chief operating officer of LiqTech Denmark International. Mr. Andreassen's compensation shall remain the same however we may terminate Mr. Andreassen by giving him 30 days prior written notice, and in such case we shall pay him 12 months salary (including pension and vacation) in a lump sum at the termination date. Mr. Andreassen may terminate upon not less than 3 months prior written notice to us, and in such case we shall pay him salary (including pension and vacation) for one year. The amendment is provided herewith this annual report as Exhibit 10.20.

The employment agreement with Mr. Debelak was entered into on, and became effective as of, November 16, 2005. Mr. Debelak's employment agreement was amended on December 15, 2011, effective as of November 16, 2011. The term of the employment agreement was through November 1, 2014 due to the exercise of an extension option. Mr. Debelak's annual compensation included an annual base salary of \$162,000, and he was entitled to receive annually a number of options equal to 0.15 multiplied by our EBIT, divided by our average share price during the ten (10) days prior to the publication of our financial results. One-third of the options vested immediately, one-third of such options were exercisable after 12 months of the grant and one-third of such options were exercisable after 24 months of the grant. He was also entitled to participate in all of our employee benefit programs available to management executives, including health and long-term disability insurance.

We had the right to terminate Mr. Debelak's employment as a result of a "Permanent Disability," "for Cause," or "without Cause," as defined in his employment agreement. Mr. Debelak could also have been terminated without Cause only upon 12 months' prior written notice by us, and he was obligated to provide at least 6 months advance notice prior to resigning from his position. In the event that Mr. Debelak was terminated without Cause, Mr. Debelak was entitled to his annual compensation and continuation of his health insurance coverage for a period of 12 weeks after the termination date in return for a Release of Claims. In addition, Mr. Debelak had agreed not to solicit our customers or compete with us for a period of two (2) years from the date of his termination.

On July 19, 2012, we accepted Mr. Debelak's resignation from his position. Effective February 20, 2013, the parties terminated the employment agreement, with all rights and obligations of both parties terminating as of February 20, 2013 with the exception of certain restrictive covenants and all post-termination obligations of Mr. Debelak set forth in the employment agreement. In connection with the termination, Mr. Debelak was paid \$13,500 representing an amount equal to one month's salary under the employment agreement, the parties executed mutual releases and stipulated that the stock option agreements dated August 24, 2011 (for 142,000 shares), August 24, 2011 (for 42,500 shares) and March 23, 2012 (for 58,399 shares) shall remain in effect until the termination dates set forth in those stock option agreements.

Effective upon the closing of the Merger, we entered into an employment agreement with Soren Degn for his employment as our Finance Director/CFO. Under the agreement, Mr. Degn will (i) through January 2013, earn a base annual salary of approximately DKK 1,020,000 (or approximately \$180,241 based on the currency exchange rate of \$1 = DKK 5.6591 as of December 31, 2012); (ii) be entitled to an annual bonus of three year options exercisable for the number of shares of our common stock determined by multiplying earnings before interest expense and taxes (EBIT) by a factor of 0.15 and dividing the resulting product by the average price per share of our common stock during the 10 days before the publication of our results of operations for the last completed fiscal year; (iii) be entitled to monthly contributions from us into his retirement plan of an amount equal to 10% of his monthly salary; (iv) be entitled to participate in all of our employee benefit programs available to management executives, including health and long-term disability insurance; (v) upon termination by us for any reason other than for "Cause," as defined in his employment agreement, be entitled to a severance payment equal to 24 months of his salary; and (vi) provide us with 12 months prior notice upon his voluntary termination of employment.

Outstanding Equity Awards at Last Fiscal Year End

The following table sets forth all outstanding equity awards held by our named executive officers as of December 31, 2012.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Exercisable (1)	Number of Securities Underlying Unexercised	Equity Incentive Plan Awards: No. of Securities Underlying Unexercised Options (1)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested
Lasse Andreassen	180,000	—	60,000	\$ 3.00	02/28/15	—	—	—	—
	60,000	—	20,000	\$ 1.50	02/28/15	—	—	—	—
	97,332	—	64,888	\$ 3,28	02/22/15	—	—	—	—
Soren Degn	150,000	—	50,000	\$ 3.00	02/28/15	—	—	—	—
	50,000	—	16,667	\$ 1.50	02/28/15	—	—	—	—
	58,399	—	38,933	\$ 3,28	02/22/15	—	—	—	—

Compensation of Directors

In order to attract and retain qualified independent directors, in November, 2011, we adopted a compensation plan for non-employee directors. Such plan includes cash as well as equity-based compensation. As part of this compensation plan, annually each independent director is to receive \$10,000, and the chairman of the audit committee is to receive \$20,000. In addition, on December 16, 2011, each independent director received 20,000 options with one-third to vest immediately, one-third to vest on September 1, 2012, and one-third to vest on September 1, 2013. The options also include a three-year expiration period.

The following table provides information regarding compensation that was earned or paid to the individuals who served as non-employee directors during the year ended December 31, 2012. Except as set forth in the table, during 2011, directors did not earn nor receive cash compensation or compensation in the form of stock awards, option awards or any other form.

Name	Fees earned or paid in cash (1)	Stock awards	Option awards (2)	Non-equity incentive plan compensation	Non-qualified deferred compensation earnings	All other compensation	Total
John Nemelka	\$ 10,000	—	\$ —	—	—	—	\$ 10,000
Michael Sonneland	5,000	—	—	—	—	—	5,000
Paul Burgon	20,000	—	—	—	—	—	20,000
Mark Vernon	—	—	—	—	—	—	—
Jens Kampmann	2,500	—	—	—	—	—	2,500

- (1) Our independent directors are entitled to cash compensation of \$10,000 per year and the chairman of our audit committee is entitled to \$20,000 per year.
- (2) These amounts represent the aggregate grant date fair value for stock awards granted in fiscal year 2012, computed in accordance with FASB ASC Topic 718. As such, these amounts do not correspond to the compensation actually realized by each director for the period. See notes to consolidated financial statements contained elsewhere in this report for further information on the assumptions used to value stock options.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of March 19, 2013, certain information regarding the beneficial ownership of our common stock, the only class of capital stock we have currently outstanding, of (i) each director and “named executive officers” (as defined in the section titled “Executive Compensation — Summary Compensation Table”) individually, (ii) our chief financial officer, (iii) all directors and executive officers as a group, and (iv) each person known to us who is known to be the beneficial owner of more than 5% of our common stock. In accordance with the rules of the SEC, “beneficial ownership” includes voting or investment power with respect to securities. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

Name of Beneficial Owner(1)	Shares of Common Stock Beneficially Owned (2)	Percentage of Common Stock Beneficially Owned (3)
Lasse Andreassen(4)	2,634,221	10.8%
Donald S. Debelak(5)	565,599	2.3%
Soren Degn(6)	490,266	2.0%
Aldo Petersen(7)	5,713,541	21.9%
Paul Burgon(8)	32,503	*
John F. Nemelka(9)	115,333	*
Mark Vernon	0	*
All executive officers and directors as a group (7 persons)(10)	9,551,464	35.9%
<i>5% Shareholders:</i>		
Laksya Ventures, Inc.(11)	3,199,792	13.3%
David Nemelka(12)	2,480,617	10.3%

* Less than one percent.

- (1) Unless otherwise indicated, the address for each person listed above is: c/o LiqTech International A/S, Industriparken 22C 12, DK-2750 Ballerup, Denmark.
- (2) Under the rules and regulations of the SEC, beneficial ownership includes (i) shares actually owned, (ii) shares underlying options and warrants that are currently exercisable and (iii) shares underlying options and warrants that are exercisable within 60 days of March 19, 2013. All shares beneficially owned by a particular person under clauses (ii) and (iii) of the previous sentence are deemed to be outstanding for the purpose of computing the percentage ownership of that person but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.
- (3) Based on 24,111,500 shares issued and outstanding as of March 19, 2013.
- (4) Shares are owned by El Salto ApS, a Danish entity. The voting and disposition of the shares owned by El Salto is controlled by Mr. Andreassen. Includes the vested portion of 337,332 stock options, of which 60,000 stock options have an exercise price of \$1.50 per share and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, 180,000 stock options have an exercise price of \$3.00 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013 and 97,332 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014.
- (5) Includes the vested portion of 190,000 stock options, of which 47,500 stock options have an exercise price of \$1.50 per share and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, and 142,500 stock options have an exercise price of \$3.00 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013 and 58,399 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014. Mr. Debelak resigned from his position on July 19, 2012.
- (6) Includes 205,000 shares and 113,000 shares owned by LD Consulting ApS (former SHD Invest ApS) and LHD Invest ApS, respectively, each of which is a Danish entity. The voting and disposition of the shares owned by LD Consulting ApS and LHD Invest ApS are controlled by Mr. Degn. Also includes the vested portion of 258,399 stock options. 50,000 stock options have an exercise price of \$1.50 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, 150,000 stock options have an exercise price of \$3.00 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013 and 58,399 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014.
- (7) Includes (i) 5,713,541 shares owned by APE Invest A/S, a Danish entity controlled by Mr. Petersen, of which 1,900,000 shares underlie a 5-year warrant immediately exercisable at an exercise price of \$1.50 per share.
- (8) Includes the vested portion of 20,000 stock options at an exercise price of \$3.60. The options vest in three equal annual installments on December 16, 2011, September 1, 2012 and September 1, 2013.
- (9) Includes the vested portion of 20,000 stock options at an exercise price of \$3.60. The options vest in three equal annual installments on December 16, 2011, September 1, 2012 and September 1, 2013.
- (10) Includes five-year warrants immediately exercisable for an aggregate of 1,900,000 shares at an exercise price of \$1.50 per share.
- (11) Includes five-year warrants immediately exercisable for an aggregate of 1,900,000 shares at an exercise price of \$1.50 per share. The voting and disposition of the shares owned by Laksya Ventures is controlled by Neil Persh.
- (12) Includes five-year warrants immediately exercisable for an aggregate of 960,000 shares at an exercise price of \$1.50 per share.

We know of no arrangements, including pledges, by or among any of the forgoing persons, the operation of which could result in a change of control of us.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons

The Company had a DKK 19,500,000 (approximately \$3,765,351) note receivable, net of a discount of \$65,718 as of December 31, 2011, from David Nemelka, a significant shareholder and a relative of one of our directors, resulting from the purchase of common shares and classified as equity in the accompanying financial statements. The note was discounted \$120,600 as the note does not accrue interest and was payable on June 30, 2012. During the year ended December 31, 2012 the Company recorded interest income of \$65,178 as a result of amortization of the discount. The note receivable was paid in June, 2012.

We recorded a \$1,500,000 note receivable from the sale of common shares with \$52,912 remaining outstanding as of September 30, 2011. The \$52,912 was collected in October 2011.

As of December 31, 2011, the Company had a DKK 19,500,000 (approximately \$3,765,351) note payable, net of a discount of \$65,718, to current and former stockholders of LiqTech Denmark in connection with LiqTech Denmark's reverse acquisition of LiqTech USA, concurrently with the Merger. The note was discounted \$120,600 as the note does not accrue interest and is payable on June 30, 2012. During the year ended December 31, 2012, our recorded interest expense was \$65,178 as a result of amortization of the discount. El Salto ApS, controlled by Lasse Andreassen, had a receivable of DKK 13,000,000 (\$2,262,601), APE Invest ApS, controlled by Aldo Petersen, had a receivable of DKK 1,900,000 (\$330,688), Laksysa Ventures, Inc., controlled by Neil Persh, had a receivable of DKK 1,900,000 (\$330,688) and SHD Invest ApS, controlled by Soren Degn, had a receivable of DKK 492,000 (\$85,631). The note payable was paid in June, 2012.

The Company has no transactions with related persons for the year ended December 31, 2012.

Policies and Procedures for Related Party Transactions

Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates, in which the amount involved exceeds \$120,000 must first be presented to our audit committee for review, consideration and approval. All of our directors, executive officers and employees will be required to report to our audit committee any such related party transaction. In approving or rejecting the proposed agreement, our audit committee will consider the relevant facts and circumstances available and deemed relevant to the audit committee, including, but not limited to, the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our audit committee will approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our audit committee determines in the good faith exercise of its discretion.

Item 14. Principal Accountant Fees and Services

Audit and Audit-Related Fees

The aggregate fees billed or expected to be billed by our independent auditors for the audit of our annual consolidated financial statements for the year ended December 31, 2012 and for the review of our quarterly financial statements during 2012 was \$129,411. Our auditors did not provide any tax compliance or planning services or any services other than those described above. The aggregate fees billed by our principal auditors for the audit of our annual consolidated financial statements for the year ended December 31, 2011 was \$103,394. Our auditors did not provide any tax compliance or planning services or any services other than those described above.

Audit Committee Pre-approval

The policy of the Audit Committee is to pre-approve all audit and non-audit services provided by the independent accountants. These services may include audit services, audit-related services, tax fees, and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The Audit Committee has delegated pre-approval authority to certain committee members when expedition of services is necessary. The independent accountants and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent accountants in accordance with this pre-approval delegation, and the fees for the services performed to date. All of the services described above in this Item 14 were approved in advance by the Audit Committee during the fiscal year ended December 31, 2012.

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules

The financial statements are set forth under Item 8 of this Annual Report. The following financial statement schedule for the years ended December 31, 2012 and December 31, 2011 is included in this Annual Report on Form 10-K:

a. Valuation and Qualifying Accounts for the years ended December 31, 2012 and December 31, 2011.

	Balance Beginning of Year	Charges to Costs and Expenses	Deductions (1)	Balance End of Year
Year Ended December 31, 2012				
Allowance for inventory obsolescence	\$ 13,000	\$ 59,566	\$ -	\$ 72,566
Allowance for doubtful accounts	389,032	1,078,365	(223,897)	1,243,500
Totals	<u>\$ 402,032</u>	<u>\$ 1,137,931</u>	<u>\$ (223,897)</u>	<u>\$ 1,316,066</u>

	Balance Beginning of Year	Charges to Costs and Expenses	Deductions (1)	Balance End of Year
Year Ended December 31, 2011				
Allowance for inventory obsolescence	\$ 13,000	\$ -	\$ -	\$ 13,000
Allowance for doubtful accounts	452,266	208,275	(271,509)	389,032
Totals	<u>\$ 465,266</u>	<u>\$ 208,275</u>	<u>\$ (271,509)</u>	<u>\$ 402,032</u>

(1) Includes write-offs and the impact of foreign currency exchange rates.

Schedules other than that listed above are omitted because the conditions requiring their filing do not exist or because the required information is provided in the Consolidated Financial Statements, including the Notes thereto. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Exhibits

Exhibit No.	Description	Location
1.1	Placement Agency Agreement, dated March 2, 2012, by and between LiqTech International, Inc. and Sunrise Securities Corp.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
2.1	Agreement and Plan of Merger dated as of August 23, 2011 by and among Blue Moose Media, Inc., LiqTech USA, Inc. and BMD Sub	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3(i) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009



3.2	Certificate of Amendment to the Articles of Incorporation	Incorporated by reference to Exhibit A to the Company's Information Statement on Schedule 14C as filed with the SEC on September 20, 2011
3.3	Bylaws	Incorporated by reference to Exhibit 3(ii) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 4.1 to the Company's Form 10-K as filed with the SEC on March 29, 2012
4.2	Form of Warrant issued to Investors in the Private Placement	Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
4.3	Form of Warrant issued to Sunrise Securities Corp.	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
10.1	Form of Securities Purchase Agreement by and between LiqTech USA, Inc. and each of the investors in the Private Placement	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
10.2	Employment Agreement dated July 29, 2011 between LiqTech A/S and Lasse Andreasson	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011 (translated in English)
10.3	Employment Agreement dated November 16, 2005 between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
10.4	Addendum to Employment Agreement, dated December 15, 2011, between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.4 to the Company's Form 10-K as filed with the SEC on March 29, 2012

10.5	Employment Agreement, dated July 29, 2011, between LiqTech International Inc. and Soren Degn (translated in English)	Incorporated by reference to Exhibit 10.5 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.6	Lease Agreements for 1800 - 1810 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011
10.7	Lease Agreement for 1800 - 1816 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.7 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.8	Lease Agreement for Grusbakken 12, DK-2820 Gentofte Denmark	Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.9	Lease Agreement for Industriparken 22C, 2750 Ballerup, Denmark	Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.10	DKK 6,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.11	DKK 3,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.12	Note Payable Agreement between LiqTech A/S and Sydbank A/S, for the principal amount of \$475,000 USD	Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 15, 2011 (translated in English)
10.13	Form of Guarantee in respect of obligations of LiqTech A/S (translated in English)	Incorporated by reference to Exhibit 10.13 to the Company's Form 10-K as filed with the SEC on March 29, 2012

10.14	Form of Guarantee in respect of obligations of LiqTech International A/S (translated in English)	Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.15	Form of Guarantee in respect of obligations of LiqTech NA, Inc. (translated in English)	Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.16	Form of Promissory Note payable to certain related parties	Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.17	Business Mortgage of LiqTech A/S (translated in English)	Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.18	Business Mortgage of LiqTech International A/S (translated in English)	Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.19	Bonus and Services Agreement, dated October 31, 2012, by and between the Company and Aldo Petersen	Incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 14, 2012
10.20	Agreement, dated March 25, 2013, by and among LiqTech International, Inc., LiqTech Denmark International and Mr. Lasse Andreassen.	Provided herewith
21	List of Subsidiaries	Incorporated by reference to Exhibit 21 to the Company's Form 10-K as filed with the SEC on March 29, 2012
31.1	Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith
101. INS	XBRL Instance Document	Provided herewith
101. CAL	XBRL Taxonomy Extension Calculation Link base Document	Provided herewith
101. DEF	XBRL Taxonomy Extension Definition Link base Document	Provided herewith
101. LAB	XBRL Taxonomy Label Link base Document	Provided herewith
101. PRE	XBRL Extension Presentation Link base Document	Provided herewith
101. SCH	XBRL Taxonomy Extension Scheme Document	Provided herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIQTECH INTERNATIONAL, INC.

Date: March 27, 2013

By: /s/ Lasse Andreassen
Lasse Andreassen
Chief Executive Officer, Principal Executive Officer and Director

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Lasse Andreassen</u> Lasse Andreassen	Chief Executive Officer, Principal Executive Officer and Director	March 27, 2013
<u>/s/ Aldo Petersen</u> Aldo Petersen	Chairman of the Board of Directors	March 27, 2013
<u>/s/ Soren Degn</u> Soren Degn	Chief Financial Officer, Principal Financial and Accounting Officer	March 27, 2013
<u>/s/ Paul Burgon</u> Paul Burgon	Director	March 27, 2013
<u>/s/ John F. Nemelka</u> John F. Nemelka	Director	March 27, 2013
<u>/s/ Mark Vernon</u> Mark Vernon	Director	March 27, 2013

The following changes to "direktørkontrakt" between LiqTech A/S now LiqTech International A/S CVR: 25121031 (the Company) and Lasse Andreassen (the Executive), from 29th of July 2011, have been agreed, on the ~~22nd~~²⁵ of March 2013.

SD
/h

The purpose of this change is to assist the new CEO to be introduced to the industry, take advantage of Lasse Andreassens experience to strengthen the management of production and product development

New position and title. The position of the Executive as CEO, (Administrerende direktør) will be terminated March 31st 2013 and changed to COO (chief operating officer) with responsibility for Production and development and/or what will be agreed with the new CEO. Lasse Andreassen will be de-registered by the Company as CEO both in the Company and in the parent company, no later than end of April 2013 and it will be announced no later same date.

Compensation. Will continue unchanged.

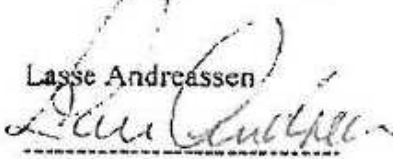
Termination of employment. Employment of the Executive can only be terminated by the Company regardless of cause by giving the Executive 30 day's written notice, in this case the Company shall pay to the Executive 12 month salary including pension, vacation as stated in the contract, to be paid as a lump sum in full at the termination date.

Termination by the Executive regardless of cause by giving 3 month written notice. In this cases the Company shall pay to the Executive salary in one year including pension, vacation as stated in the contract.

Non-Competition clause in respect of competitive business to the company. The Executive agrees that as long as a compensation of dkk 35.000 per month from termination date, is paid, the Executive shall not engage or participate, directly or indirectly, as principal, agent, executive, director, proprietor, joint venturer, trustee, employee, employer, consultant, partner or in any other capacity whatsoever, in the conduct or management of, or own any stock or any other equity investment in or debt of, or provide any services of any nature whatsoever to or in respect of any business that is competitive with the business conducted by the Company.

These changes will be governed by Danish law as the contract.

Lasse Andreassen

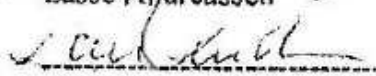


LiqTech International A/S

Søren Degn



Lasse Andreassen



LiqTech International inc

Aldo Petersen



John Nemelka



Paul Burgon

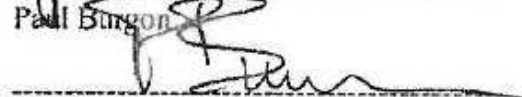


EXHIBIT 31.1

**OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302**

I, Lasse Andreassen, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Liqtech International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2013

By: /s/ Lasse Andreassen

Name: Lasse Andreassen

Title: Chief Executive Officer, Principal Executive
Officer and Director

EXHIBIT 31.2

**OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302**

I, Soren Degn, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Liqtech International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2013

By: /s/ Soren Degn
Name: Soren Degn
Title: Chief Financial Officer and Principal Financial
and Accounting Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Liqtech International, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 27, 2013

By: /s/ Lasse Andreassen

Name:Lasse Andreassen

Title: Chief Executive Officer, Principal Executive
Officer and Director

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Liqtech International, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 27, 2013

By: /s/ Soren Degn

Name: Soren Degn

Title: Chief Financial Officer and Principal Financial
and Accounting Officer

A signed original of this written statement required by Section 906, or other document authentications, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.