

# LIQTECH INTERNATIONAL INC

## FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2013**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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, DK2750 Ballerup, Denmark**

(Address of principal executive offices)

(Zip Code)

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

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 Web site, 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 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

.

Accelerated filer

Non-accelerated filer

.(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, at August 14, 2013, was 24,511,500 shares.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES  
Quarterly Report on Form 10-Q  
For the Period Ended June 30, 2013

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## FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-Q 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.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<b>As of June 30, 2013</b>	<b>As of December 31, 2012</b>
	<b>UNAUDITED</b>	
<b>Current Assets:</b>		
Cash	\$ 2,066,280	\$ 3,873,338
Accounts receivable, net	1,943,316	2,855,184
Other receivables	247,730	371,001
Cost in excess of billing	254,717	217,586
Inventories	4,559,984	4,111,815
Prepaid expenses	49,606	130,560
Current deferred tax asset	280,251	267,332
	<u>9,401,884</u>	<u>11,826,816</u>
<b>Property and Equipment, net accumulated depreciation</b>	<u>6,136,593</u>	<u>6,649,817</u>
<b>Other Assets:</b>		
Long term receivable	-	118,258
Other investments	175,510	158,141
Long term tax asset	802,201	75,947
Other intangible assets	26,196	29,150
Deposits	180,792	182,020
	<u>1,184,699</u>	<u>563,516</u>
<b>Total Assets</b>	<u>\$ 16,723,176</u>	<u>\$ 19,040,149</u>

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

**LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	As of June 30, 2013	As of December 31, 2012
	UNAUDITED	
<b>Current Liabilities:</b>		
Current portion of capital lease obligations	\$ 204,006	\$ 203,503
Accounts payable	1,283,021	2,289,231
Accrued expenses	810,069	760,881
Billing in excess of cost	189,710	237,063
Accrued income taxes payable	1,000	1,000
Deferred revenue	287,112	265,543
<b>Total Current Liabilities</b>	<u>2,774,918</u>	<u>3,757,221</u>
Long-term capital lease obligations, less current portion	622,496	729,567
<b>Total Long-Term Liabilities</b>	<u>622,496</u>	<u>729,567</u>
<b>Total Liabilities</b>	<u>3,397,414</u>	<u>4,486,788</u>
<b>Stockholders' Equity:</b>		
Common stock; par value \$0.001, 100,000,000 shares authorized, 24,511,500 and 24,111,500 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	24,512	24,112
Additional paid-in capital	14,857,805	12,658,405
Retained earnings	532,780	2,510,693
Deferred compensation	(1,550,389)	(125,477)
Other comprehensive income, net	(565,603)	(542,806)
Non-controlled interest in subsidiaries	26,657	28,434
<b>Total Stockholders' Equity</b>	<u>13,325,762</u>	<u>14,553,361</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 16,723,176</u>	<u>\$ 19,040,149</u>

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

**LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES**  
**(UNAUDITED) CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net Sales</b>	\$ 2,805,921	\$ 3,953,335	\$ 6,205,069	\$ 10,295,056
<b>Cost of Goods Sold</b>	2,513,400	3,537,168	5,350,525	7,789,205
<b>Gross Profit</b>	292,521	416,167	854,544	2,505,851
<b>Operating Expenses:</b>				
Selling expenses	715,592	599,459	1,289,517	1,259,377
General and administrative expenses	541,824	518,017	1,204,129	1,207,928
Non-cash compensation expenses	743,519	32,602	774,888	65,203
Research and development expenses	111,254	152,626	258,239	379,300
<b>Total Operating Expense</b>	<b>2,112,189</b>	<b>1,302,704</b>	<b>3,526,773</b>	<b>2,911,808</b>
<b>Loss from Operations</b>	<b>(1,819,668)</b>	<b>(886,537)</b>	<b>(2,672,229)</b>	<b>(405,957)</b>
<b>Other Income (Expense)</b>				
Interest and other income	2,244	59,876	2,400	98,839
Interest (expense)	(12,952)	(41,372)	(24,657)	(125,888)
Gain (loss) on currency transactions	77,199	65,048	(36,974)	63,599
Loss on sale of fixed assets	(2,135)	-	(2,135)	-
<b>Total Other Income (Expense)</b>	<b>64,356</b>	<b>83,552</b>	<b>(61,366)</b>	<b>36,550</b>
<b>Loss Before Income Taxes</b>	<b>(1,755,312)</b>	<b>(802,985)</b>	<b>(2,733,595)</b>	<b>(369,407)</b>
<b>Income Tax Expense (Income)</b>	<b>(444,659)</b>	<b>(250,476)</b>	<b>(741,523)</b>	<b>(139,500)</b>
<b>Net Loss</b>	<b>(1,310,653)</b>	<b>(552,509)</b>	<b>(1,992,072)</b>	<b>(229,907)</b>
<b>Less Net Loss Attributable To Non-Controlled Interests in Subsidiaries</b>	<b>(2,551)</b>	<b>-</b>	<b>(14,159)</b>	<b>-</b>
<b>Net Loss Attributable To LiqTech</b>	<b>\$ (1,308,102)</b>	<b>\$ (552,509)</b>	<b>\$ (1,977,913)</b>	<b>\$ (229,907)</b>
<b>Basic Earnings Per Share</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>	<b>\$ (0.08)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Common Shares Outstanding</b>	<b>24,359,852</b>	<b>24,111,500</b>	<b>24,236,362</b>	<b>23,173,137</b>
<b>Diluted Earnings Per Share</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>	<b>\$ (0.08)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Common Shares Outstanding Assuming Dilution</b>	<b>24,359,852</b>	<b>24,111,500</b>	<b>24,236,362</b>	<b>23,173,137</b>

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

**LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES**  
**(UNAUDITED) CONSOLIDATED STATEMENTS OF OTHER**  
**COMPREHENSIVE INCOME**

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Net Income (Loss)</b>	(1,310,653)	(552,509)	(1,992,072)	(229,907)
<b>Currency Translation, Net of Taxes</b>	83,648	(377,454)	(22,799)	(159,879)
<b>Other Comprehensive Income (Loss)</b>	<u>\$ (1,227,005)</u>	<u>\$ (929,963)</u>	<u>\$ (2,014,871)</u>	<u>\$ (389,786)</u>
<b>Comprehensive Income (Loss) Attributable To Non-controlling Interest in Subsidiaries</b>	11,392	-	(216)	(244)
<b>Comprehensive Income (Loss) Attributable To LiqTech International Inc.</b>	<u>\$ (1,238,397)</u>	<u>\$ (929,963)</u>	<u>\$ (2,014,655)</u>	<u>\$ (389,542)</u>

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

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

	<b>For the Six Months Period Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	\$ (1,977,913)	\$ (229,907)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	776,401	715,483
Non-cash compensation	774,888	65,203
Bad debt expense	47,366	110,000
Reserve for obsolete inventory	36,354	-
Change in deferred tax asset / liability	(739,173)	(220,461)
(Gain) Loss on sale of equipment	2,135	-
Non-controlled interest in subsidiary	(14,159)	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,106,031	2,036,303
(Increase) decrease in inventory	(484,523)	(582,648)
(Increase) decrease in prepaid expenses/deposits	82,182	140,005
Increase (decrease) in accounts payable	(1,006,210)	(1,735,228)
Increase (decrease) in accrued expenses	70,757	(213,562)
Increase (decrease) long term contracts	(84,484)	-
Total Adjustments	<u>567,565</u>	<u>315,095</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,410,348)</u>	<u>85,188</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(263,433)	(676,632)
Purchase of Long-term investments	(17,369)	(138,610)
Net Cash Used by Investing Activities	<u>(280,802)</u>	<u>(815,242)</u>
<b>Cash Flows from Financing Activities:</b>		
Payments on notes payable	-	(609,396)
Payments on lines of credit	-	(1,259,936)
(Payments) on notes payable - related party	-	(3,055,150)
Net (payments) proceeds on capital lease obligation	(106,568)	(122,667)
Proceeds from issuance of common stock and warrants	-	7,079,707
Payments on related party notes receivable	-	3,055,150
Net Cash Provided (Used) by Financing Activities	<u>(106,568)</u>	<u>5,087,708</u>
Loss on Currency Translation	(9,340)	(224,142)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,807,058)</b>	<b>4,133,512</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>3,873,338</b>	<b>1,033,057</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b><u>\$ 2,066,280</u></b>	<b><u>\$ 5,166,569</u></b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest	\$ 24,657	\$ 93,029
Income taxes	\$ 1,000	\$ -

**Supplemental Disclosures of Non-Cash Investing and Financing Activities:**

Compensation upon vesting of stock options granted to employees and the board of directors	\$	265,266	\$	65,203
Compensation for vesting of restricted stock awards issued to the board of directors		130,222		-
Value of stock granted for services		320,000		-
Value of warrants issued for services		59,400		-

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

**LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business and Basis of Presentation**

The consolidated financial statements include the accounts of LiqTech International, Inc. ("Parent") and its subsidiaries. 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 each of 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 of LiqTech AS are hereafter combined with LiqTech International AS.

LiqTech International AS, a Danish corporation, incorporated on January 15, 2000 (also herein after referred to as "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 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.

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 Singapore") 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.

The accompanying financial statements are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2013 and 2012 and for the periods then ended have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2012 audited financial statements. The results of operations for the periods ended June 30, 2013 and 2012 are not necessarily indicative of the operating results for the full year.

**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, the functional currency of LiqTech Singapore is the Singapore Dollar and the functional currency of LiqTech Asia is the South Korean Won. The Company's reporting currency is the 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 period ending June 30, 2013 and 2012, respectively. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders' equity. Transaction gains and losses that arose from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ( *Continued* )

**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 June 30, 2013 and December 31, 2012.

**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 six months ended June 30, 2013 and the year ended December 31, 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Allowance for doubtful accounts at the beginning of the period	\$ 1,243,500	\$ 389,032
Bad debt expense	47,366	1,078,365
Amount of receivables written off	-	(248,895)
Effect of currency translation	(4,340)	24,998
Allowance for doubtful accounts at the end of the period	<u>\$ 1,286,526</u>	<u>\$ 1,243,500</u>

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

**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, but 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ( *Continued* )

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** -- Costs incurred in connection with advertising of the Company’s products is expensed as incurred. Such costs amounted to \$20,739 and \$58,649, for the six months ended June 30, 2013 and 2012, respectively.

**Research and Development Cost** -- The Company expenses research and development costs for the development of new products as incurred. Included in operating expense for the six months ended June 30, 2013 and 2012 were \$258,239 and \$379,300, 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 Company has granted stock options to certain key employees (See Note 10). During the periods 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 \$774,888 and \$65,203 have been recognized for the vesting of options granted to employees with an associated recognized tax benefit of \$0 for each of the periods ended June 30, 2013 and 2012.

**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 February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2014, at which time the Company will include the required disclosures.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ( Continued )**

In March 2013, the FASB issued an accounting standard update requiring an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2015. The Company is currently evaluating the impact of this accounting standard update on its Consolidated 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.

**NOTE 2 – INVENTORY**

Inventory consisted of the following at June 30, 2013 and December 31, 2012:

	<b>2013</b>	<b>2012</b>
Furnace parts and supplies	\$ 1,090,941	\$ 986,278
Raw materials	743,237	705,025
Work in process	1,736,547	1,502,144
Finished goods	1,098,064	990,935
Reserve for obsolescence	(108,805)	(72,567)
Net Inventory	<u>\$ 4,559,984</u>	<u>\$ 4,111,815</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2013 and December 31, 2012:

	<b>Useful Life</b>	<b>2013</b>	<b>2012</b>
Production equipment	3 - 10	\$ 11,298,466	\$ 11,098,980
Lab equipment	3 - 10	352,400	355,096
Computer equipment	3 - 5	281,219	282,612
Vehicles	3	46,924	47,283
Furniture and fixture	5	64,643	64,038
Leasehold improvements	10	1,011,280	1,009,035
		<u>13,054,932</u>	<u>12,857,044</u>
Less Accumulated Depreciation		(6,918,339)	(6,207,227)
Net Property and Equipment		<u>\$ 6,136,593</u>	<u>\$ 6,649,817</u>

Depreciation expense amounted to \$773,447 and \$711,925, for the six months ended June 30, 2013 and 2012, respectively.

#### 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 June 30, 2013	Level 1	Level 2	Level 3
Investments	-	-	175,510
Total	-	-	175,510

  

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

At June 30, 2013 our total investment of \$175,510 consisted of an investment of \$6,532 in LEA Technology in France to strengthen our sales channels in the French market and an investment of \$168,978 in Bio Filtration Technology, a Danish company developing a biofuel and manure concentration technology.

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.

#### NOTE 5 – DEFINITE-LIFE INTANGIBLE ASSETS

At June 30, 2013 and December 31, 2012, definite-life intangible assets, net of accumulated amortization, consisted of patents on the Company's products of \$26,196 and \$29,150, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the six months ended June 30, 2013 and 2012 was \$2,954 and \$3,558, respectively.

Expected future amortization expenses for the following years are as follows:

Year ending December 31,	Amortization Expenses
2013	\$ 2,748
2014	5,496
2015	5,496
2016	5,496
2017	3,339
Thereafter	3,621
Total Amortization Expenses	\$ 26,196

#### NOTE 6 – LEASES

**Operating Leases** -- The Company leases office and production facilities under operating lease agreements expiring in February 2017 and August 2018. Some of these lease agreements have an option to extend.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2013 are as follows:

Year ending December 31,	Lease Payments
2013	\$ 327,870
2014	696,363
2015	714,309
2016	732,738
2017	490,558

Thereafter	298,708
Total Minimum Lease Payments	<u>\$ 3,260,546</u>

Lease expense charged to operations was \$382,766 and \$352,195 for the six months ended June 30, 2013 and 2012, respectively.

**Capital Lease** -- The Company leases equipment on various capital leases calling for monthly payments of \$11,526, \$4,467, \$2,892 and \$2,060 expiring through April 2017. Included in property and equipment, at June 30, 2013 and December 31, 2012, the Company had equipment on capital lease of \$1,518,956 and \$1,570,337, respectively, with related accumulated depreciation of \$755,090 and \$653,529, respectively.

During the six months ended June 30, 2013 and 2012, depreciation expense for equipment on capital lease amounted to \$107,003 and \$107,253, respectively, and has been included in depreciation expense. During the six months ended June 30, 2013 and 2012, interest expense on capital lease obligations amounted to \$26,307 and \$34,300, respectively.

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

	<b>As of June 30, 2013</b>
2013	\$ 125,672
2014	246,735
2015	215,236
2016	208,357
2017	133,787
Thereafter	-
<b>Total minimum lease payments</b>	<b>929,787</b>
Less amount representing interest	(103,285)
<b>Present value of minimum lease payments</b>	<b>826,502</b>
Less current portion	(204,006)
<b>Long-term lease payments</b>	<b>\$ 622,496</b>

#### **NOTE 7 – 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 six months ended June 30, 2013 and 2012, matching contributions were expensed and totaled \$7,463 and \$11,789, respectively.

#### **NOTE 8 – 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 June 30, 2013 and December 31, 2012:

	<b>2013</b>	<b>2012</b>
Vacation accrual	\$ 4,093	\$ 4,093
Allowance for doubtful Accounts	243,314	243,314
Reserve for obsolete inventory	32,844	19,925
Net current tax assets	\$ 280,251	\$ 267,332
Business tax credit carryover	25,379	25,379
Net operating loss carryover	1,583,941	856,517
Excess of book over tax depreciation	(807,119)	(805,949)
<b>Long term tax asset</b>	<b>\$ 802,201</b>	<b>\$ 75,947</b>

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 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 meets 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 be 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 June 30, 2013, the Company had net operating loss carryovers of approximately \$3,000,000 for U.S. federal tax purposes expiring through 2033, approximately \$715,000 for Danish tax purposes which do not expire, \$85,000 for German tax purposes which do not expire and \$65,000 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 was as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Computed tax at expected statutory rate	\$ (924,608)	\$ (125,599)
State and local income taxes, net of federal benefits	(8,533)	660
Non-deductible expenses	111,329	297
Non-US income taxed at different rates	80,847	(4,633)
Manufacture and other tax credits	-	(8,210)
Other items	(558)	(2,015)
Income tax expense (benefit)	<u>\$ (741,523)</u>	<u>\$ (139,500)</u>

The components of income tax expense (benefit) from continuing operations for the years ended June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Current income tax expense:		
Danish	\$ -	\$ 79,780
Federal	-	-
State	-	-
Current tax expense	<u>\$ -</u>	<u>\$ 79,780</u>
Deferred tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	\$ -	\$ 218,830
Net operating loss carryover	(728,604)	(413,378)
Allowance for doubtful accounts	-	(6,182)
Reserve for obsolete inventory	(12,919)	(18,550)
Deferred tax expense	<u>\$ (741,523)</u>	<u>\$ (219,280)</u>
Income tax expense (benefit)	<u>\$ (741,523)</u>	<u>\$ (139,500)</u>

Deferred income tax expense/(benefit) results primarily from the reversal of temporary timing differences between tax and financial statement income and net operating losses that can be used to offset taxable income in future years.

The Company files Danish, U.S. federal and Minnesota state income tax returns 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 9 – 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 three and six months ended June 30, 2013 and 2012:

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Income (Loss) attributable to LiqTech International Inc.	\$ (1,308,102)	\$ (552,509)	\$ (1,977,913)	\$ (229,907)
Weighted average number of common shares used in basic earnings per share	24,359,852	24,111,500	24,236,362	23,173,137
Effect of dilutive securities, stock options and warrants	-	-	-	-
Weighted average number of common shares and potentially dilutive securities	<u>\$ 24,359,852</u>	<u>\$ 24,111,500</u>	<u>\$ 24,236,362</u>	<u>\$ 23,173,137</u>

For the six months ended June 30, 2013, Parent had 2,564,130 options outstanding to purchase common stock of Parent at \$1.50 to \$3.60 per share and Parent had 7,025,575 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 six months ended June 30, 2012, Parent had 2,274,130 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.

## **NOTE 10 - STOCKHOLDERS' EQUITY**

### ***Common Stock***

Parent has authorized 100,000,000 shares of common stock, \$0.001 par value. As of June 30, 2013 and December 31, 2012, there were 24,511,500 and 24,111,500 shares of common stock issued and outstanding, respectively.

### ***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 Issuance**

During the three months ended June 30, 2013, the Company issued 100,000 shares of common stock valued at \$320,000 for services rendered.

The Company issued an additional 300,000 shares of restricted stock valued at \$960,000 for services provided and to be provided by the board of directors. The Company will recognize the non-cash compensation of the award over the requisite service period, of which 133,333 shares will vest on December 31, 2013, 133,333 shares will vest on December 31, 2014 and 33,334 shares will vest on December 31, 2015. As of June 30, 2013, the Company has recorded deferred compensation of \$829,778 and non-cash compensation expense of \$130,222 relating to the awards.

## **Common Stock Purchase Warrants**

We have outstanding warrants to purchase 7,025,575 shares of Parent common stock, of which 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, 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 and 400,000 warrants are exercisable for cash at a price of \$2.35 per share of Parent common stock and will expire on March 31, 2014. At June 30, 2013 the Company had 300,000 non-vested warrants with a weighted average exercise price of \$2.35, resulting in unrecognized compensation expense of \$178,200, which is expected to be expensed over a weighted-average period of 0.75 years. We have recorded a non-cash compensation expense of \$59,400 for the period ended June 30, 2013. 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. For so long as 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 Company. At June 30, 2013, 2,564,130 options were granted and outstanding under the Plan.

The Company recognizes compensation costs for stock option awards 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 (Years)	3.0	-	3.5
Volatility	0.07%	-	52.69%
Risk free interest rate	2.33%		
Dividend yield	0%		

The Company recognized stock based compensation expense of \$395,488 and \$65,203 for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013 the Company had approximately \$542,411 of unrecognized compensation cost related to non-vested options expected to be recognized through March 31, 2017.

A summary of the status of the options outstanding under the Company's stock option plans at June 30, 2013 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	1.65	\$ 1.50	301,667	\$ 1.50	
\$2.35	600,000	3.75	\$ 2.35	150,000	\$ 2.35	
\$3.00 - \$3.60	1,511,630	1.68	\$ 3.06	912,753	\$ 3.06	
Total	2,564,130	2.14	\$ 2.62	1,364,420	\$ 2.64	

A summary of the status of the options at June 30, 2013, and changes during the period is presented below:

	June 30, 2013			
	Shares	Weighted Average Exercise Price	Average Remaining Life	Weighted Average Intrinsic Value
Outstanding at beginning of period	1,964,130	\$ 2.70	2.15	\$ 0
Granted	600,000	2.35	3.75	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	2,564,130	\$ 2.62	2.14	\$ 995,075
Vested and expected to vest	2,564,130	\$ 2.62	2.14	\$ 995,075
Exercisable end of period	1,364,420	\$ 2.64	1.88	\$ 995,075

At June 30, 2013 the Company had 1,199,710 non-vested options with a weighted average exercise price of \$2.59 and with a weighted average grant date fair value of \$0.54, resulting in unrecognized compensation expense of \$542,411, which is expected to be expensed over a weighted-average period of 3.37 years.

The total intrinsic value of options at June 30, 2013 was \$995,075. Intrinsic value is measured using the fair market value at the date

of exercise (for shares exercised) or at June 30, 2013 (for outstanding options), less the applicable exercise price.

## NOTE 11 - SIGNIFICANT CUSTOMERS / CONCENTRATION

The Company had no customers that accounted for more than 10% of total sales at June 30, 2013. The Company had four significant customers that accounted for 18%, 11%, 9% and 5% of total sales at June 30, 2012.

The Company sells products throughout the world, and sales by geographical region were as follows for the three and six months ended June 30, 2013 and 2012:

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended June 30</b>		<b>Ended June 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
United States and Canada	\$ 876,391	\$ 1,566,935	\$ 1,527,410	\$ 3,464,606
Australia	15,644	-	168,390	48,914
South America	4,760	57,374	25,380	258,978
Asia	332,930	275,256	1,151,482	819,815
Europe	1,576,196	2,053,770	3,332,407	5,702,743
	<u>\$ 2,805,921</u>	<u>\$ 3,953,335</u>	<u>\$ 6,205,069</u>	<u>\$ 10,295,056</u>

The Company's sales by product line were as follows for the three and six months ended June 30, 2013 and 2012:

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Ceramic diesel particulate	\$ 1,539,971	\$ 2,519,393	\$ 3,472,276	\$ 7,856,959
Liquid filters	1,035,918	1,384,691	2,238,870	2,286,618
Kiln furniture	230,032	49,251	493,923	151,479
	<u>\$ 2,805,921</u>	<u>\$ 3,953,335</u>	<u>\$ 6,205,069</u>	<u>\$ 10,295,056</u>

## NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through August 13, 2013.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this quarterly report. In addition, the following discussion should be read in conjunction with our annual report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 27, 2013, and the financial statements and notes thereto. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

### 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.

### Our 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 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, Hoimyung 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 ballast water filtration 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 are numerous. Some examples include: group water – removal of precipitated salts such as 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 a sterile membrane 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 that 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 of raw manure, and will limit the CO<sub>2</sub> 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 \$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) . We believe the membrane technology portion of this market is approximately 5% of the total market, or approximately \$290 million.

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 \$350 billion. It is further estimated that membranes could account for \$350-\$700 million of the total market according to 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 to save valuable footprint space 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 \$800 million in 2011 and is expected to grow at approximately 20% per year to exceed \$3 billion in 2018 according to Global water market research team at Frost & Sullivan. Published in Waterworld Magazine ([www.waterworld.com/articles/wwi/print/volume-27/issue-2/regulars/creative-finance/membrane-multiplier-mbr.html](http://www.waterworld.com/articles/wwi/print/volume-27/issue-2/regulars/creative-finance/membrane-multiplier-mbr.html)) .

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 expect to generate revenue from the sales of the FSMs during 2013.

For the years ended December 31, 2012 and 2011, we received grants from governmental entities of \$549,648 and \$3,039,118,

respectively. For the period ended June 30, 2013, we received grants from governmental entities of approximately \$275,000. 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 may 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 six months ended June 30, 2013 and June 30, 2012, our sales of liquid filters and services were \$2,238,870 and \$2,286,618, respectively, and accounted for 36% and 22% 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 six months ended June 30, 2013 and June 2012, our sales of diesel particulate filters were \$3,472,276 and \$7,856,959, respectively, and accounted for 56% and 76% 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 six months ended June 30, 2013 and June 30, 2012, were \$493,923 and \$151,479, respectively, and accounted for 8% and 2% of our total sales, respectively.

### ***Our 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. There is a limited supply of silicon carbide available to us. 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 these materials should they become unavailable.



Prior to our entry into the new 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 new subcontract agreement with Scandinavian Brake Systems to utilize the production capacity of their Notox division. The new subcontract arrangement, which extends until the end of 2014, is expected to significantly increase 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 market, desalination market and other water purification markets. We had no customers who accounted for more than 10% of total sales at June 30, 2013. For the six months ended June 30, 2012, our four largest customers accounted for approximately 18%, 11%, 9% and 5%, respectively, of our net sales (approximately 43% in total). We plan to actively market our existing products to new customers as we increase our production capacity. We currently have 13 full-time sales personnel or distribution agents. We promote our products through direct contact to potential customers and by meeting potential customers in trade fairs and exhibitions.

### **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.

### **Research and Development**

We currently have five full-time employees spending a majority of their time on research and development. For the six months ended June 30, 2013 and 2012, we spent \$258,239 and \$379,300, respectively, on research and development.

### **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.

### **Recent Developments**

On May 13, 2013 we announced that we have signed an exclusive agreement to supply SiC membranes for Fan Run Si (Shanghai) Fluid Technology Co., Ltd. ("Fanrunsi"). Under the agreement, Fanrunsi will have exclusivity in China as a buyer of the Company's products for soy bean protein recovery (bio tech) and soy bean waste water treatment. During the exclusive three-year period, Fanrunsi will commit to a minimum purchase order value totaling more than \$6 million to maintain their exclusivity for the period. In addition, Fanrunsi has placed a second order of \$190,000 on April 25, 2013.

On April 23, 2013 we announced that we received an order of SiC membranes for public pool installations in the U.S. valued at \$500,000. The purchase order was placed by Provital Solutions, based in Denmark. The SiC membranes will be delivered over the next 12 months, and based on the initial positive feedback, Provital expects more installations this year.

On April 1, 2013 Mr. Helmer was appointed as our new Chief Executive Officer. Over the course of more than 40 years Mr. Helmer has in many different situations successfully demonstrated his talent for leading and growing companies into meaningfully larger and more profitable companies including his role as CEO of GIGA A/S, a Danish company in the NKT Group. When he joined GIGA as its seventh employee, it had limited capital, was not profitable and had revenue of less than \$1 million. In less than 5 years, GIGA employed 100 people,

and was generating revenues and pre-tax profit of \$135 million and \$73 million, respectfully. In 2000 Intel (USA) acquired GIGA for \$1.25 billion.

## Results of Operations

The following tables set forth our revenues, expenses and net income for the three and six months ended June 30, 2013 and 2012. The financial information below is derived from our unaudited condensed consolidated financial statements included elsewhere in this report.

	Three months ended June 30,					
	2013	As a % of Sales	2012	As a % of Sales	Period to period change	
					US\$	Percent %
<b>Net Sales</b>	2,805,921	100%	3,953,335	100%	(1,147,414)	(29.0)
Cost of Goods Sold	2,513,400	89.6	3,537,168	89.5	(1,023,768)	(28.9)
Gross Profit	<b>292,521</b>	10.4	<b>416,167</b>	10.5	<b>(123,646)</b>	(29.7)
<b>Operating Expenses:</b>						
Selling and Marketing	715,592	25.5	599,459	15.2	116,133	19.4
General and Administrative	541,824	19.3	518,017	13.1	23,807	4.6
Non-cash compensation	743,519	26.5	32,602	0.8	710,917	2,180.6
Research and Development	111,254	4.0	152,626	3.9	(41,372)	(27.1)
Total Operating Expenses	<b>2,112,189</b>	75.3	<b>1,302,704</b>	33.0	<b>809,485</b>	62.1
<b>Income (loss) from Operating</b>	<b>(1,819,668)</b>	(64.9)	<b>(886,537)</b>	(22.4)	<b>(933,131)</b>	105.3
Interest and Other Income	2,244	0.1	59,876	1.5	(57,632)	(96.3)
Interest (Expense)	(12,952)	(0.5)	(41,372)	(1.0)	28,420	(68.7)
Gain (loss) on Currency Transactions	77,199	2.8	65,048	1.6	12,151	18.7
Gain (Loss) on Sale of Fixed Assets	(2,135)	(0.1)	-	-	(2,135)	-
<b>Total Other Income (Expense)</b>	<b>64,356</b>	2.3	<b>83,552</b>	2.1	<b>(19,196)</b>	(23.0)
Income Before Income Taxes	<b>(1,755,312)</b>	(62.6)	<b>(802,985)</b>	(20.3)	<b>(952,327)</b>	118.6
Income Taxes Expense (Income)	(444,659)	(15.8)	(250,476)	(6.3)	(194,183)	77.5
<b>Net Loss</b>	<b>(1,310,653)</b>	(46.7)	<b>(552,509)</b>	(14.0)	<b>(758,144)</b>	137.2
Less net income attributable to the non-controlled interest in subsidiaries	(2,551)	(0.1)	-	-	(2,551)	-
<b>Net Loss attributable to LiqTech</b>	<b>(1,308,102)</b>	(46.6)	<b>(552,509)</b>	(14.0)	<b>(755,593)</b>	136.8

	Six months ended June 30,					
	2013	As a % of Sales	2012	As a % of Sales	Period to period change	
					US\$	Percent %
<b>Net Sales</b>	6,205,069	100%	10,295,056	100%	(4,089,987)	(39.7)
Cost of Goods Sold	5,350,525	86.2	7,789,205	75.7	(2,438,680)	(31.3)
Gross Profit	<b>854,544</b>	13.8	<b>2,505,851</b>	24.3	<b>(1,651,307)</b>	(65.9)
<b>Operating Expenses</b>						
Selling and Marketing	1,289,517	20.8	1,259,377	12.2	30,140	2.4
General and Administrative	1,204,129	19.4	1,207,928	11.7	(3,799)	(0.3)
Non-cash compensation	774,888	12.5	65,203	0.6	709,685	1,088.4
Research and Development	258,239	4.2	379,300	3.7	(121,061)	(31.9)
Total Operating Expenses	<b>3,526,773</b>	56.8	<b>2,911,808</b>	28.3	<b>614,965</b>	21.1
<b>Income (loss) from Operating</b>	<b>(2,672,229)</b>	(43.1)	<b>(405,957)</b>	(3.9)	<b>(2,266,272)</b>	558.3
Interest and Other Income	2,400	0.0	98,839	1.0	(96,439)	(97.6)
Interest (Expense)	(24,657)	(0.4)	(125,888)	(1.2)	101,231	(80.4)
Gain (loss) on Currency Transactions	(36,974)	(0.6)	63,599	0.6	(100,573)	(158.1)
Gain (Loss) on Sale of Fixed Assets	(2,135)	(0.0)	-	0.0	(2,135)	-
<b>Total Other Income (Expense)</b>	<b>(61,366)</b>	(1.0)	<b>36,550</b>	0.4	<b>(97,916)</b>	(267.9)
Income Before Income Taxes	<b>(2,733,595)</b>	(44.1)	<b>(369,407)</b>	(3.6)	<b>(2,364,188)</b>	640.0
Income Taxes Expense (Income)	(741,523)	(12.0)	(139,500)	(1.4)	(602,023)	431.6

<b>Net Loss</b>	<b>(1,992,072)</b>	<b>(32.1)</b>	<b>(229,907)</b>	<b>(2.2)</b>	<b>(1,762,165)</b>	<b>766.5</b>
Less net income attributable to the non-controlled interest in subsidiaries	(14,159)	(0.2)	-	0.0	(14,159)	-
<b>Net Loss attributable to LiqTech</b>	<b>(1,977,913)</b>	<b>(31.9)</b>	<b>(229,907)</b>	<b>(2.2)</b>	<b>(1,748,006)</b>	<b>760.3</b>

## Comparison of the three month periods ended June 30, 2013 and June 30, 2012

### Revenues

Net sales for the three month period ended June 30, 2013 were \$2,805,921 compared to \$3,953,335 for the same period in 2012, representing a decrease of \$1,147,414, or 29.0%. The decrease in sales consisted of a decrease in sales of DPFs and liquid filters of \$979,422 and \$348,773, respectively and an increase in sales of kiln furniture of \$180,781. The decrease in demand for our DPFs is mainly due to a postponement in use of mandates in the US market and the absence of new low emissions zone activity in Europe. The decrease in revenue for our liquid filters compared to the same period in 2012 is mainly due to delays in the acceptance of our pending contracts. The increase in demand for our kiln furniture is due to an increase in worldwide sales of our products.

### Gross profit

Gross profit for the three month period ended June 30, 2013 was \$292,521 compared to \$416,167 for the same period in 2012, representing a decrease of \$123,646 or 29.7%. The decrease in gross profit was due to a decrease in sales for the period ended June 30, 2013 compared to the same period in 2012.

### Expenses

Total operating expenses for the three month period ended June 30, 2013 were \$2,112,189, an increase of \$809,485, or 62.1%, compared to \$1,302,704 for the same period in 2012. This increase in operating expenses is attributable to an increase in selling and marketing expenses of \$116,133 or 19.4%, an increase in general and administrative expenses of \$23,807 or 4.6%, an increase in non-cash compensation expenses of \$710,917 or 2,180.6% and a decrease in research and development expenses of \$41,372 or 27.1% compared to the same period in 2012.

Selling and marketing expenses for the three month period ended June 30, 2013 were \$715,592 compared to \$599,459 for the same period in 2012, representing an increase of \$116,133 or 19.4%. This increase is attributable to increased selling and marketing expenditures for the three month period ending June 30, 2013 compared to the same period in 2012. Although we believe that investment in sales will 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 three month period ended June 30, 2013 were \$541,824 compared to \$518,017 for the same period in 2012, representing an increase of \$23,807 or 4.6%. This increase is attributable to increased bad debt reserve of \$19,411 for the three month period ending June 30, 2013 compared to the same period in 2012.

Non-cash compensation expenses for the three month period ended June 30, 2013 were \$743,519 compared to \$32,602 for the same period in 2012, representing an increase of \$710,917 or 2,180.6%. This increase is attributable to increased non-cash compensation expense for share and warrants for services performed and options granted to employees and management.

The Following is a Summary of Non-Cash Compensation

	For the Three Months Ended	
	June 30, 2013	June 30, 2012
Compensation upon vesting of stock options granted to employees and the board of directors	\$ 233,897	\$ 32,602
Compensation for vesting of restricted stock awards issued to the board of directors	130,222	-
Value of stock granted for third-party services	320,000	-
Warrants	59,400	-
Total Non-Cash Compensation	\$ 743,519	\$ 32,602

Research and development expenses for the three month period ended June 30, 2013 were \$111,254 compared to \$152,626 for the same period in 2012, representing a decrease of \$41,372 or 27.1%. This decrease is attributable to decreased research and development expenditures for the three month period ending June 30, 2013 compared to the same period in 2012.

### Net Income/(Loss) Attributable to LiqTech

Net loss attributable to the Company for the three month period ended June 30, 2013 was \$1,308,102 compared to a net loss attributable to the Company of \$552,509 for the same period in 2012, representing a decrease of \$755,593. This decrease was primarily attributable to a

decrease of \$123,646 in our gross profit and an increase in operating expenses of \$809,485 partially offset by a decrease of \$194,183 in income tax expense. The largest contributor to the increase in operating expenses was an increase in non-cash compensation expenses of \$710,917 or 2,180.6%%, compared to the same period in 2012.

### **Comparison of the six month periods ended June 30, 2013 and June 30, 2012**

#### ***Revenues***

Net sales for the six month period ended June 30, 2013 were \$6,205,069 compared to \$10,295,056 for the same period in 2012, representing a decrease of \$4,089,987, or 39.7%. The decrease in sales consisted of a decrease in sales of DPFs and liquid filters of \$4,384,683 and \$47,748, respectively and an increase in sales of kiln furniture of \$342,444. The decrease in demand for our DPFs is mainly due to a postponement in use of mandates in the US market and the absence of \_new low emissions zone activity in Europe. The decrease in revenue for our liquid filters compared to the same period in 2012 is mainly due to delays in the acceptance of our pending contracts. The increase in demand for our kiln furniture is due to an increase in worldwide sales of our products.

## ***Gross profit***

Gross profit for the six month period ended June 30, 2013 was \$854,544 compared to \$2,505,851 for the same period in 2012, representing a decrease of \$1,651,307 or 65.9%. The decrease in gross profit was due to a decrease in sales for the period ended June 30, 2013 compared to the same period in 2012.

## ***Expenses***

Total operating expenses for the six month period ended June 30, 2013 were \$3,526,773, an increase of \$614,965, or 21.1%, compared to \$2,911,808 for the same period in 2012. This increase in operating expenses is attributable to an increase in selling and marketing expenses of \$30,140 or 2.4%, an increase in non-cash compensation expenses of \$709,685 or 1,088.4%, a decrease in general and administrative expenses of \$3,799 or 0.3% and a decrease in research and development expenses of \$121,061 or 31.9% compared to the same period in 2012.

Selling and marketing expenses for the six month period ended June 30, 2013 were \$1,289,517 compared to \$1,259,377 for the same period in 2012, representing an increase of \$30,140 or 2.4%. This increase is attributable to increased selling and marketing expenditures for the six month period ending June 30, 2013 compared to the same period in 2012. Although we believe that investment in sales will 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 six month period ended June 30, 2013 were \$1,204,129 compared to \$1,207,928 for the same period in 2012, representing a decrease of \$3,799 or 0.3%.

Non-cash compensation expenses for the six month period ended June 30, 2013 were \$774,888 compared to \$65,203 for the same period in 2012, representing an increase of \$709,685 or 1,088.4%. This increase is attributable to increased non-cash compensation expense for shares, warrants for services and options granted to employees and management.

The Following is a Summary of Non-Cash Compensation

	For the Six Months Ended	
	June 30, 2013	June 30, 2012
Compensation upon vesting of stock options granted to employees and the board of directors	\$ 265,266	\$ 65,203
Compensation for vesting of restricted stock awards issued to the board of directors	130,222	-
Value of stock granted for third-party services	320,000	-
Warrants	59,400	-
Total Non-Cash Compensation	\$ 774,888	\$ 65,203

Research and development expenses for the six month period ended June 30, 2013 were \$258,239 compared to \$379,300 for the same period in 2012, representing a decrease of \$121,061 or 31.9%. This decrease is attributable to decreased research and development expenditures for the six month period ending June 30, 2013 compared to the same period in 2012.

## ***Net Income/(Loss) Attributable to LiqTech***

Net loss attributable to the Company for the six month period ended June 30, 2013 was \$1,977,913 compared to a net loss attributable to the Company of \$229,907 for the same period in 2012, representing a decrease of \$1,748,006. This decrease was primarily attributable to a decrease of \$1,651,307 in our gross profit and an increase in operating expenses of \$614,965 partially offset by a decrease of \$602,023 in income tax expense. The largest contributor to the increase in operating expenses was an increase in non-cash compensation expenses of \$709,685 or 1,088.4%, compared to the same period in 2012.

## **Liquidity and Capital Resources**

We have historically satisfied our capital and liquidity requirements through internally generated cash from operations and lines of credit. At the filing date the Company did not have any available lines of credit with any lender. At June 30, 2013, we had cash of \$2,066,280 and working capital of \$6,626,966 and at December 31, 2012 we had cash of \$3,873,338 and working capital of \$8,069,595. At June 30, 2013, our working capital decreased by \$1,442,629 compared to December 31, 2012. Total current assets were \$9,401,884 and \$11,826,816 at June 30, 2013 and December 31, 2012, respectively and total current liabilities were \$2,774,918 and \$3,757,221 at June 30, 2013 and December 31, 2012, respectively.

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 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.

In general, lines of credit in Denmark are due on demand. Our lines of credit with the bank were called in July 2013, but we believe that we can refinance our lines of credit with other lenders in Denmark with similar terms. Since our public offering in March 2012 we have not drawn any amount on our lines of credit.

We believe that our cash flow 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**

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 period ended June 30, 2013 was \$1,410,348, representing a decrease of \$1,495,536, compared to cash provided by operating activities of \$85,188 for the period ended June 30, 2012. The \$1,410,348 in cash used by operating activities for the period ended June 30, 2013 was mainly due to the net loss of \$1,977,913, the increases of \$484,523 in inventory and a decrease of \$1,006,210 in accounts payable, partially offset by a decrease of \$1,106,031 in accounts receivable.

The increases in inventory, the decrease in accounts receivable and the decrease in accounts payable were all due to normal variations in the ordinary course of business.

Cash used in investing activities was \$280,802 for the year period ended June 30, 2013, as compared to cash used in investing activities of \$815,242 for the period ended June 30, 2012. Cash used in investing activities decreased in 2013, compared to 2012 during the reporting periods and this decrease was primarily due to a decrease of \$413,199 in the purchase of equipment.

Cash used in financing activities was \$106,568 for the year period ended June 30, 2013, as compared to cash provided by financing activities of \$5,087,708 for the period ended June 30, 2012. This change of \$5,194,276 in cash provided by financing activities in 2012, compared to 2013, was primarily due to cash received in connection with the stock offering during the first quarter 2012, when the Company issued 2,511,500 new shares of common stock at \$3.25 per share.

## **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 / Allowance for Doubtful Accounts / Bad Debt***

We assess the collectability of accounts 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.



## ***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 six months ended June 30, 2013 and 2012, 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 June 30, 2013, we had total furnace parts and supplies of \$1,090,941, raw material of \$743,237, work-in-process inventory of \$1,736,547, total finished goods inventory of \$1,098,064 and reserve a for obsolescence of \$108,805. The estimated future demand is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and production. 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 some of the firing of products in order 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.

## **Recent Enacted Accounting Standards**

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Note 1: Recently Enacted Accounting Standards" in the accompanying Financial Statements.

## **Off Balance Sheet Arrangements**

We are not aware of any material transactions which are not disclosed in our consolidated financial statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **(a) Evaluation of Disclosure Controls and Procedures**

Our management, under supervision and with the participation of both of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (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.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

#### **(b) 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.

### **PART II - OTHER INFORMATION**

#### **ITEM 1A. RISK FACTORS.**

Not required for a “smaller reporting company.”

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On June 20, 2013, the Company issued 100,000 shares of common stock for services to a non-affiliated third party. The Company issued an additional 300,000 restricted common shares for services provided by the board, over the requisite service period in which 133,333 shares will vest on December 31, 2013, 133,333 shares will vest on December 31, 2014 and 33,334 shares will vest on December 31, 2015.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

None.

#### **ITEM 5. OTHER INFORMATION**

None

#### **ITEM 6. EXHIBITS**

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

3.3 Amended and Restated Bylaws, effective January 1, 2012

Incorporated by reference to Exhibit 3.4 to  
the Company's Form 10-Q as filed with the  
SEC on May 15, 2012

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 Andreassen	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	Incorporated by reference to Exhibit 10.20 to the Company's Form 10-K as filed with the SEC on March 27, 2013
10.21	Director Contract, dated March 27, 2013, by and between Mr. Finn Helmer and LiqTech Denmark International	Incorporated by reference to the Company's Form 10-Q as filed with the SEC on May 15, 2013
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 the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

LiqTech International, Inc.

Dated: August 14, 2013

/s/ Finn Helmer

Finn Helmer, Chief Executive Officer  
(Principal Executive Officer)

Dated: August 14, 2013

/s/ Soren Degn

Soren Degn, Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT 31.1**

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

I, Finn Helmer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2013 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: August 14, 2013

By: /s/ Finn Helmer

Name: Finn Helmer

Title: Chief Executive Officer and Principal Executive Officer

**EXHIBIT 31.2**

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

I, Soren Degn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2013 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: August 14, 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 Quarterly Report of Liqtech International, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013 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: August 14, 2013

By: /s/ Finn Helmer

Name: Finn Helmer

Title: Chief Executive Officer and Principal Executive 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.

**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 Quarterly Report of Liqtech International, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013 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: August 14, 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.