FORM 10-Q

LIQTECH INTERNATIONAL INC - LIQT

Filed: August 11, 2016 (period: June 30, 2016)

Quarterly report with a continuing view of a company's financial position

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 six months ended June 30, 2016

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	**20-1431677**
(State or other jurisdiction of incorporation or organization)	(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 10, 2016, was 39,532,035 shares.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2016

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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

	As of June 30, 2016 Unaudited	As of December 31, 2015
Current Assets:		
Cash	$ 637,035	$ 1,370,591
Restricted cash balances	-	292,826
Accounts receivable, net	3,057,310	3,191,858
Other receivables	307,886	505,945
Cost in excess of billing	1,174,731	2,519,321
Inventories	5,207,094	4,916,671
Prepaid expenses	79,267	13,670
Current deferred tax asset	163,965	172,122
Total Current Assets	10,627,288	12,983,004
Property and Equipment, net of accumulated depreciation:	3,119,151	3,538,694
Other Assets:		
Investments at costs	22,259	21,838
Long term deferred tax asset	851,021	3,684,497
Goodwill	7,728,839	7,582,749
Other intangible assets	8,260	10,386
Deposits	259,416	252,378
Total Other Assets	8,869,795	11,551,848
Total Assets	$ 22,616,234,	$ 28,073,546

(Continued)

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of June 30, 2016	As of December 31, 2015
Current Liabilities:		
Current portion of notes payable	$ 15,024	$ -
Current portion of capital lease obligations	116,663	150,157
Accounts payable	1,594,655	3,455,085
Accrued expenses	1,269,820	1,441,840
Billing in excess of cost	126,753	175,338
Accrued income taxes payable	570	570
Deferred revenue / customers deposits	226,289	117,700
Total Current Liabilities	3,349,774	5,340,690
Long-term notes payable, less current portion	48,695	-
Long-term capital lease obligations, less current portion	126,182	165,572
Total Long-Term Liabilities:	174,877	165,572
Total Liabilities	3,524,651	5,506,262
Commitment and Contingencies See Note 11	-	-
Stockholders' Equity:		
Common stock; par value $0,001, 100,000,000 shares authorized, 39,532,035 and 39,532,035 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	39,532	39,532
Additional paid-in capital	36,120,808	36,087,808
Accumulated deficit	(11,675,781)	(7,592,709)
Deferred compensation	(351,018)	(590,742)
Other comprehensive income, net	(5,041,958)	(5,376,605)
Total Stockholders' Equity	19,091,583	22,567,284
Total Liabilities and Stockholders' Equity	$ 22,616,234	$ 28,073,546

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, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Net Sales	$ 4,019,338	$ 1,701,055	$ 7,649,306	$ 3,805,556
Cost of Goods Sold	2,890,984	2,259,497	5,774,994	4,410,964
Gross Profit	1,128,354	(558,442)	1,874,312	(605,408)
Operating Expenses:				
Selling expenses	512,179	745,212	1,103,247	1,437,935
General and administrative expenses	575,908	683,061	1,331,902	1,499,128
Non-cash compensation expenses	105,373	84,724	272,724	157,646
Research and development expenses	164,056	202,984	352,569	365,457
Total Operating Expense	1,357,516	1,715,981	3,060,442	3,460,166
Loss from Operations	(229,162)	(2,274,423)	(1,186,130)	(4,065,574)
Other Income (Expense)				
Interest and other income	-	49,459	-	49,702
Interest expense	(6,602)	(19,641)	(16,496)	(34,827)
Gain (loss) on investments	-	(71)	-	7,295
Gain (loss) on currency transactions	391	(100,450)	(12,159)	132,741
Total Other Income (Expense)	(6,211)	(70,703)	(28,655)	154,911
Loss before income taxes	(235,373)	(2,345,126)	(1,214,785)	(3,910,663)
Income Tax Expense (Income)	94,003	(575,575)	2,868,286	(967,104)
Net Loss	(329,376)	(1,769,551)	(4,083,071)	(2,943,559)
Less Net Loss Attributable To Non-Controlled Interests in Subsidiaries	-	24,356	-	21,760
Net Loss Attributable To LiqTech	$ (329,376)	$ (1,793,907)	$ (4,083,071)	$ (2,965,319)
Basic Loss Per Share	$ (0.01)	$ (0.05)	$ (0.10)	$ (0.08)
Weighted Average Common Shares Outstanding	39,532,035	39,490,496	39,532,035	39,447,876
Diluted Loss Per Share	$ (0.01)	$ (0.05)	$ (0.10)	$ (0.08)
Weighted Average Common Shares Outstanding Assuming Dilution	39,532,035	39,490,496	39,532,035	39,447,876

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net Loss	(329,376)	(1,769,551)	(4,083,071)	(2,943,559)
Currency Translation, Net of Taxes	(416,657)	769,625	334,647	(1,609,635)
Other Comprehensive Loss	$ (746,033)	$ (999,926)	$ (3,748,424)	$ (4,553,194)
Comprehensive Income (Loss) Attributable To Non-controlling Interest in Subsidiaries	-	736	-	(1,658)
Comprehensive Loss Attributable To LiqTech International Inc.	$ (746,033)	$ (1,000,662)	$ (3,748,424)	$ (4,551,536)

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

	For the Six Months Ended June 30,	
	2016	**2015**
Cash Flows from Operating Activities:		
Net Loss	$ (4,083,071)	$ (2,943,559)
Adjustments to reconcile net (loss) to net cash provided (used) by operations:		
Depreciation and amortization	669,697	691,325
Non-cash compensation	272,724	157,646
Bad debt expense	(8,747)	12,784
Reserve for obsolete inventory	97,771	54,767
Change in deferred tax asset / liability	2,841,633	(819,923)
(Increase) decrease in restricted cash	292,826	218,877
(Increase) decrease in accounts receivable	341,354	551,043
(Increase) decrease in inventory	(388,194)	(231,495)
(Increase) decrease in prepaid expenses/deposits	(72,635)	(13,511)
Increase (decrease) in accounts payable	(1,860,430)	(769,400)
Increase (decrease) in accrued expenses	(63,431)	801,012
Increase (decrease) in long-term contracts	1,296,005	648,446
Total Adjustments	3,418,573	1,301,571
Net Cash Used by Operating Activities	(664,498)	(1,641,988)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(69,741)	(142,113)
Net Cash Used by Investing Activities	(69,741)	(142,113)
Cash Flows from Financing Activities:		
Net payments on capital lease obligation	(72,885)	(138,410)
Payments on loans payable	(17,924)	-
Net Cash Used by Financing Activities	(90,809)	(138,410)
Gain (Loss) on Currency Translation	91,492	(829,788)
Net Decrease in Cash and Cash Equivalents	(733,556)	(2,752,299)
Cash and Cash Equivalents at Beginning of Period	1,370,591	5,853,752
Cash and Cash Equivalents at End of Period	$ 637,035	$ 3,101,453

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

	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 16,496	$ 34,827
Income Taxes	$ 570	$ -
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Compensation upon vesting of stock options granted to employees	$ 192,074	$ 68,317
Compensation for vesting of restricted stock awards issued to the board of directors	38,833	88,000
Value of warrants issued for services	41,817	1,329
Total	$ 272,724	$ 157,646

During February 2016, the Company borrowed $81,643 to purchase a vehicle.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation

The consolidated financial statements include the accounts of LiqTech International, Inc. (“Parent”) 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 automated filtering systems, 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 International AS, a Danish corporation, incorporated on January 15, 2000 (“LiqTech Int. DK”), a 100% owned subsidiary of LiqTech USA, engages in development, design, application, marketing and sales of membranes on ceramic diesel particulate and liquid filters and catalytic converters in Europe, Asia and South America.

LiqTech NA, Inc. (“LiqTech NA”), incorporated in Delaware on July 1, 2005, a 100% owned subsidiary of LiqTech USA. LiqTech NA, Inc. 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, was a dormant subsidiary. The company was closed on March 6, 2015.

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. The Company is in the process of closing operations, which is expected to be completed during 2016.

LiqTech PTE Ltd, (“LiqTech Sing”) a 95% owned subsidiary of LiqTech Int. DK, incorporated in Singapore on January 19, 2012, engages in marketing and sale of liquid filters in Singapore and other countries in the area. The Company is in the process of closing operations, which is expected to be completed during 2016.

LiqTech Systems AS, a Danish Corporation ("LiqTech Systems") (Formerly Provital Solutions A/S) was incorporated on September 1, 2009 and engages in the manufacture of fully automated filtering systems for application within the pool and spa markets, marine applications, and a number of industrial applications within Denmark and international markets. The financial statements include the accounts of LiqTech Systems from the date of acquisition on July 31, 2014.

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 Systems 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 South Korean Won. The Company’s reporting currency is U.S. Dollar for the purpose of these financial statements. The foreign subsidiaries balance sheet accounts are translated into U.S. Dollars at the period-end exchange rates and all revenue and expenses are translated into U.S. Dollars at the average exchange rates prevailing during the three and six months ended June 30, 2016 and 2015. 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.

Cash, Cash Equivalents and Restricted Cash -- 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 a financial institution in the United States in excess of federally insured amounts at June 30, 2016 and December 31, 2015. At June 30, 2016 and December 31, 2015, the Company had cash balances of $0 and $292,826 that are restricted to secure guarantees issued by the Company. The cash is restricted until the underlying guarantees are released.

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

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 three months ended June 30, 2016 and the year ended December 31, 2015 is as follows:

	2016	2015
Allowance for doubtful accounts at the beginning of the period	$ 1,087,871	$ 1,654,290
Bad debt expense	(8,747)	80,729
Amount of receivables written off	(26,500)	(398,083)
Effect of currency translation	11,037	(249,065)
Allowance for doubtful accounts at the end of the period	$ 1,063,661	$ 1,087,871

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 4).

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.

Goodwill -- Goodwill is evaluated for impairment annually, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows.

Revenue Recognition and Sales Incentives -- The Company 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 long-term contracts for the installation of various water filtrations systems and grants from government entities for development and use of silicon carbide membranes in various water filtration and treatment applications. Revenues from long-term contracts and 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 long-term contract or grant multiplied by the long-term contract or 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 long-term contracts and grants include all direct material and labor costs and those indirect costs related to the project. Project costs are capitalized and accreted into cost of sales based on the percentage of the project completed. 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.

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

The aggregate of billings in excess of related costs incurred and income recognized on projects is shown as a current liability.

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

Advertising Cost -- Cost incurred in connection with advertising of the Company's products is expensed as incurred. Such costs amounted to $13,012 and $25,566 for the six months ended June 30, 2016 and 2015, respectively.

Research and Development Cost -- The Company expenses research and development costs for the development of new products and systems as incurred. Included in operating expense for the six months ended June 30, 2016 and 2015 were $352,569 and $365,457, 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.

Income (Loss) Per Share -- The Company calculates earnings (loss) 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 and warrants that have been granted but have not been exercised.

Stock Options and Awards -- The Companies has granted stock options and awards to certain key employees and directors. See Note 13. The Company accounts for options in accordance with the provisions of FASB ASC Topic 718, Compensation – Stock Compensation. Non-cash compensation costs of $192,074 and $68,317 have been recognized for the vesting of options and stock awards granted to employees with an associated recognized tax benefit of $43,699 and $0 for the six months ended June 30, 2016 and 2015, respectively.

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

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

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

Accounting Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets allowance for doubtful accounts receivable, cost in excess of billings, reserve for obsolete inventory, depreciation and impairment of property plant and equipment and impairment of goodwill and liabilities billings in excess of cost commitment and contingencies, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Recent Accounting Pronouncements -- In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

On July 9 2015, the FASB agreed to delay the effective date by one year; accordingly, the new standard is effective for us beginning in the first quarter of 2018 and we expect to adopt it at that time. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method, nor have we determined the impact of the new standard on our consolidated financial statements.

In 2015, the FASB issued an amended standard requiring that we classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current. The amended standard is effective for us beginning in the first quarter of 2017; early adoption is permitted and we are evaluating whether we will adopt early. The amended standard may be adopted on either a prospective or retrospective basis. We do not expect that the adoption of this standard will have a significant impact on our financial position or results of operations.

In February 2016, the FASB issued changes to the accounting for leases that primarily affect presentation and disclosure requirements. The new standard will require the recognition of a right to use asset and underlying lease liability for operating leases with an initial life in excess of one year. This standard is effective for us beginning in the first quarter of 2019. We have not yet determined the impact of the new standard on our 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 - RELATED PARTY TRANSACTIONS

During March 2015, an officer of LiqTech NA provided $25,000 in non-interest bearing advances to the Company. These advances were repaid in May 2015.

NOTE 3 - INVENTORY

Inventory consisted of the following at June 30, 2016 and December 31, 2015:

	2016	2015
Furnace parts and supplies	$ 478,506	$ 466,538
Raw materials	1,249,566	1,498,406
Work in process	1,978,299	1,770,070
Finished goods and filtration systems	2,210,628	1,788,161
Reserve for obsolescence	(709,905)	(606,504)
Net Inventory	$ 5,207,094	$ 4,916,671

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2016 and December 31, 2015:

	Useful Life	2016	2015
Production equipment	3 - 10	$ 10,416,306	$ 10,536,377
Lab equipment	3 - 10	80,684	143,783
Computer equipment	3 - 5	196,510	269,526
Vehicles	3 - 5	41,143	40,365
Furniture and fixtures	5	149,562	141,502
Leasehold improvements	10	986,900	972,023
		11,871,105	12,103,576
Less Accumulated Depreciation		(8,751,954)	(8,564,882)
Net Property and Equipment		$ 3,119,151	$ 3,538,694

Depreciation expense amounted to $667,571 and $687,619 for the six months ended June 30, 2016 and 2015, respectively. The property and equipment is held as collateral on a lines of credit and guarantees with financial institutions. See Note 9.

NOTE 5 - INVESTMENTS AT COSTS

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, 2016	Level 1	Level 2	Level 3
Investments	-	-	22,259
Total	-	-	22,259

As of December 31, 2015	Level 1	Level 2	Level 3
Investments	-	-	21,838
Total	-	-	21,838

At June 30, 2016, our total investments of $22,259 consisted of an investment of $5,559 in LEA Technology in France to strengthen our sales channels in the French market and an investment of $16,700 in LiqTech Italy, to strengthen our sales channels in the Italian market.

At December 31, 2015, our total investments of $21,838 consisted of an investment of $5,460 in LEA Technology in France to strengthen our sales channels in the French market and an investment of $16,378 in LiqTech Italy, to strengthen our sales channels in the Italian market.

NOTE 6 - DEFINITE-LIFE INTANGIBLE ASSETS

At June 30, 2016 and December 31, 2015, definite-life intangible assets, net of accumulated amortization, consisted of patents on the Company's products of $8,260 and $ 10,386, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the six months ended June 30, 2016 and 2015 was $2,126 and $3,706, respectively. Expected future amortization expense for the years ended are as follows:

Year ending December 31,	**Amortization Expenses**
2016	$ 2,339
2017	2,840
2018	2,389
2019	692
Thereafter	-
	$ 8,260

NOTE 7 - GOODWILL

The following is a summary of goodwill:

	June 30, 2016
Goodwill at beginning of period	$ 7,582,749
Effect of currency translation	146,090
Goodwill at end of period	$ 7,728,839

Goodwill consists of:	**June 30, 2016**
LiqTech Systems A/S	$ 7,728,839

Goodwill is evaluated for impairment annually in the fourth quarter of the Company's fiscal year, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows. Key variables included in evaluating goodwill for impairment include the pipeline of proposed potential customer sales, budgeted reoccurring sales, risk free interest rate and risk premium rate and future budgeted operating results. The company recorded no impairment charge on goodwill, during the years ended December 31, 2015 as managements estimated fair value of the reporting unit exceeded the carrying value.

NOTE 8 - NOTES PAYABLE

The Company has a 4.02% Note payable used to purchase a vehicle with $63,719 and $0 balance outstanding as of June 30, 2016 and December 31, 2015. The note calls for monthly payments of $1,390, matures August 1, 2020 and is secured by the vehicle purchased.

The following represents the future maturities of long-term debt as of June 30, 2016:

Year ending December 31,		Payments
2016	$	7,512
2017		15,024
2018		15,024
2019		15,024
2020		11,135
Thereafter		-
	$	63,719
Long-term notes payable, less current portion	$	48,695
Current portion of notes payable		15,024
	$	63,719

NOTE 9 - LINES OF CREDIT

In connection with certain orders, we have to give the customer a working guarantee or a prepayment guarantee or security bond. For that purpose, we have a guarantee line of DKK 473,100 (approximately $70,600 at June 30, 2016) with a bank, subject to certain base limitations. As of June 30, 2016, we had DKK473,100 (approximately $70,600) outstanding on this line. This line of credit is guaranteed by Vækstfonden (the Danish state's investments fund) and is secured by certain assets of LiqTech Systems such as receivables, inventory and equipment.

NOTE 10 - LEASES

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

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2016 are as follows:

Year ending December 31,		Lease Payments
2016		354,612
2017		511,718
2018		295,995
Thereafter		-
Total Minimum Lease Payments	$	1,162,325

Lease expense charged to operations was $368,653 and $315,787 for the six months ended June 30, 2016 and 2015, respectively.

Capital Leases -- The Company leases equipment on various variable rate capital leases currently calling for monthly payments of approximately $9,809, $3,801, $622 and $559 expiring through July 2018. Included in property and equipment, at June 30, 2016 and December 31, 2015, the Company had recorded equipment on capital lease at $1,327,090 and $ 1,302,005, respectively, with related accumulated depreciation of $1,052,965 and $ 1,033,062, respectively.

During the six months ended June 30, 2016 and 2015, depreciation expense for equipment on capital leases amounted to $68,753, and $73,175, respectively, and has been included in depreciation expense. During the six months ended June 30, 2016 and 2015, interest expense on a capital lease obligation amounted to $9,805 and $14,737, respectively.

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

Year ending December 31,		**Lease Payments**
2016	$	102,737
2017		128,024
2018		24,966
Thereafter		-
Total minimum lease payments		255,727
Less amount representing interest		(12,882)
Present value of minimum lease payments		242,845
Less Current Portion		(116,663)
	$	126,182

NOTE 11 - 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, 2016 and 2015, matching contributions were expensed and totaled $5,735 and $7,612, respectively.

Contingencies -- From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

On September 9, 2014, Mr. Raffaele Bruno Tronchetti Provera ("Plaintiff"), the 60% owner of LiqTech Italy s.r.l. (the "Venture"), sued LiqTech International A/S, the 40% owner of the Venture ("Defendant"), for an amount of euro 750,000 (approximately $690,000 at December 31, 2015) before the Court of Como, Italy alleging, among other things, that certain products provided by Defendant to the Venture were defective. As of August 9, 2016, the case is in a preliminary stage where the court has appointed an expert in order to verify the quality of the products in order to determine whether there is sufficient evidence to proceed. An evaluation of the outcome will only be possible after the results of the court appointment expert are known. The defendant believes that the claims are without merit and intends to vigorously defend any litigation.

In connection with certain orders, we have to give the customer a working guarantee or a prepayment guarantee or security bond. For that purpose, we have a guarantee line of DKK 473,100 (approximately $70,600 at June 30, 2016) with a bank, subject to certain base limitations. As of June 30, 2016, we had DKK473,100 (approximately $70,600) in working guarantee against the line.

NOTE 12 - 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. 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%, Actual results could differ from these estimates.

Current tax planning strategies, including our new Business Plan strategy, have management estimating that it is more likely not that the Danish business units will be able to generate pretax profit equal to or in excess of the net operating loss carryforwards. As of June 30, 2016 the Company had net operating loss carryovers of approximately $8,560,000 for U.S. Federal purposes expiring through 2035; approximately $5,392,000 for Danish tax purposes which do not expire; approximately $108,000 for German tax purposes which do not expire and approximately $113,000 for Singapore tax purposes which do not expire.

As of June 30, 2016 and December 31, 2015, the Company established a valuation allowance of $3,041,823 and $228,170 for the tax paying components LiqTech International Inc., LiqTech NA, LiqTech Singapore and LiqTech Germany as management could not determine that it was more than likely not that sufficient income could be generated by these components to realize the resulting net operating loss carry forwards of these components. The change in the valuation for the period ended June 30, 2016 was $2,813,653.

The Company is not relying on the reversal of deferred tax liabilities to realize the deferred tax assets. The same variable used by the Company in evaluating goodwill for impairment were used in assessing the realization of deferred tax assets (See Note 7).

The Company further considered the following positive and negative evidence:

<u>Positive Evidence</u>

1) The Company acquired LiqTech Systems AS on July 2014. LiqTech Systems designs water treatment system for pool filtration around the silicon carbide manufactured by LiqTech International AS. Synergies realized by the acquisition include accelerating the change of business strategy to manufacture and offer full water treatment systems.

2) During 2015, the Company secured and manufactured water treatment systems in the pool filtration, pre drinking water filters, ground water filtration, oil and gas, marine waste water, and mining industries.

3) The Company had profitable 2015 third and fourth quarter results. The Company noted a significant increase in proposed sales pipeline from December 31, 2014 to 2015.

4) In June 2015, the Company executed a Diesel Particular Filtration supplier contract in China.

5) For Danish tax purposes the Company is able to obtain tax refunds for research and development expenditures

Negative Evidence

1) The Company has noted a longer than anticipated sales cycle from proposals to signing filtration systems orders.

2) The Company has a net loss from operations for the year ended December 31, 2015.

3) The Company has a net loss from operations for the three and six months ended June 30, 2016.

4) The Company has experienced a decrease in DPF sales.

The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset (liabilities) at June 30, 2016 and December 31, 2015:

	2016	2015
Vacation accrual	$ 3,933	$ 3,933
Allowance for doubtful Accounts	4,574	14,089
Reserve for obsolete inventory	155,458	154,100
Net current tax assets	$ 163,965	$ 172,122
Business tax credit carryover	30,935	30,935
Deferred compensation	-	-
Net operating loss carryover	4,312,864	4,333,820
Excess of book over tax depreciation	(450,955)	(452,088)
Valuation Allowance	(3,041,823)	(228,170)
Long term deferred tax asset	$ 851,021	$ 3,684,497

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows for the six months ended June 30, 2016 and 2015:

	2016	2015
Computed tax at expected statutory rate	$ (413,027)	$ (1,337,022)
Non-deductible expenses	1,757	49,587
Non-US income taxed at different rates	(17,427)	288,402
Valuation Allowance	3,296,983	31,929
Income tax expense (benefit)	$ 2,868,286	$ (967,104)

The components of income tax expense (benefit) from continuing operations for the six months ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
Current income tax expense:		
Danish	$ -	$ -
Federal	-	-
State	-	-
Current tax (benefit)	$ -	$ -
Book in excess of tax depreciation	$ -	$ -
Deferred rent	-	-
Business tax credit carryover	-	-
Net operating loss carryover	(428,697)	(999,033)
Valuation Allowance	3,296,983	31,929
Deferred compensation	-	-
Accrued Vacation	-	-
Reserve for obsolete inventory	-	-
Deferred tax expense (benefit)	$ 2,868,286	$ (967,104)
Total tax expense (benefit)	$ 2,868,286	$ (967,104)

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

The Company files Danish and U.S. federal and Minnesota state income tax returns. LiqTech International AS is generally no longer subject to tax examinations for years prior to 2010 for their Danish tax returns. LiqTech NA is generally no longer subject to tax examinations for years prior to 2012 for U.S. federal and U.S. states tax returns.

NOTE 13 - INCOME (LOSS) 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 six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Profit (Loss) attributable to LiqTech International Inc.	$ (329,376)	$ (1,793,907)	$ (4,083,071)	$ (2,965,319)
Weighted average number of common shares used in basic earnings per share	39,532,035	39,490,496	39,532,035	39,447,876
Effect of dilutive securities, stock options and warrants	-	-	-	-
Weighted average number of common shares and potentially dilutive securities	39,532,035	39,490,496	39,532,035	39,447,876

For the six months ended June 30, 2016, Parent had 1,071,000 options outstanding to purchase common stock of Parent at $0.74 to $1.90 per share and Parent had 7,325,575 warrants outstanding to purchase common stock of Parent at $0.81 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, 2015, Parent had 603,500 options outstanding to purchase common stock of the Parent at $0.75 to $1.90 per share and Parent had 7,225,575 warrants outstanding to purchase common stock of the Parent at $1.00 to $4.06 per share, which were not included in the loss per share computation because their effect would be anti-dilutive.

NOTE 14 - STOCKHOLDERS' EQUITY

Common Stock -- Parent has 100,000,000 authorized shares of common stock, $0.001 par value. As of June 30, 2016 and December 31, 2015, respectively, there were 39,532,035 and 39,532,035 common shares issued and outstanding.

***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

On August 14, 2015, the Company issued an additional 27,253 shares of restricted stock valued at $20,167 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 27,253 shares vested on January 1, 2016.

On April 13, 2015, the Company issued an additional 100,000 shares of restricted stock valued at $75,000 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 33,333 shares vested on January 1, 2016, 33,333 shares will vest on January 1, 2017 and 33,334 shares will vest on January 1, 2018.

For the six months ended June 30, 2016 and 2015, the Company has recorded non-cash compensation expense of $38,833 and $88,000 relating to the awards, respectively.

Common Stock Purchase Warrants

A summary of the status of the warrants outstanding at June 30, 2016 is presented below:

	Warrants Outstanding			Warrants Exercisable	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$ 0.81	100,000	1.50	$ 0.81	100,000	$ 0.81
$ 1.00	200,000	1.50	$ 1.00	133,333	$ 1.00
$ 1.50	3,874,000	0.50	$ 1.50	3,874,000	$ 1.50
$ 1.65	400,000	3.08	$ 1.65	400,000	$ 1.65
$ 2.70	2,626,000	0.50	$ 2.70	2,626,000	$ 2.70
$ 4.06	125,575	0.69	$ 4.06	125,575	$ 4.06
Total	7,325,575	0.69	$ 1.96	7,258,908	$ 1.97

At June 30, 2016, the Company had 66,667 non-vested warrants. We have recorded non-cash compensation expense of $41,817 for the six months ended June 30, 2016 related to the warrants issued.

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.

On February 15, 2016, the Company issued to LCL Finance Limited a warrant to purchase 100,000 shares at an exercise price of $0.81 per share. The warrants are exercisable immediately and will remain exercisable until December 31, 2017.

On June 4, 2015, the Company issued to Wolfe Axelrod Weinberger Associates, LLC a warrant to purchase 200,000 shares at an exercise price of $1.00 per share. The warrants vested 1/3 upon issuance, 1/3 on June 4, 2016, 1/3 will vest on June 2017, and will remain exercisable until December 31, 2017.

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 of Directors is empowered to grant stock options to employees, officers, and directors of the Company. At June 30, 2016, 1,071,000 options were granted and outstanding under the Plan.

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

	LiqTech International, Inc.
Expected term (in years)	5 - 10
Volatility	74.65 % to 76.87%
Risk free interest rate	1.38 % - 2.24%
Dividend yield	0%

The Company recognized stock based compensation expense related to the options of $192,074 and $68,465 for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016 the Company had approximately $260,734 of unrecognized compensation cost related to non-vested options expected to be recognized through December 31, 2025.

A summary of the status of the options outstanding under the Plan at June 30, 2016 is presented below:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.74	425,000	4.12	$ 0.74	0	$ 0.74
$ 0.75	100,000	3.79	$ 0.75	33,333	$ 0.75
$ 1.01	130,000	9.47	$ 1.01	130,000	$ 1.01
$ 1.57	100,000	1.29	$ 1.57	100,000	$ 1.57
$ 1.90	316,000	0.58	$ 1.90	316,000	$ 1.90
Total	1,071,000	3.43	$ 1.19	579,333	$ 1.58

A summary of the status of the options at June 30, 2016, and changes during the period are presented below:

	June 30, 2016			
	Shares	Weighted Average Exercise Price	Average Remaining Life	Weighted Average Intrinsic Value
Outstanding at beginning of period	1,071,000	$ 1.19	3.93	$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	1,071,000	$ 1.19	3.68	$ -
Vested and expected to vest	1,071,000	$ 1,19	3.68	$ -
Exercisable end of period	579,333	$ 1.58	2.88	$ -

At June 30, 2016, the Company had 491,667 non-vested options with a weighted average exercise price of $0.74 and with a weighted average grant date fair value of $0.46, resulting in unrecognized compensation expense of $136,534, which is expected to be expensed over a weighted-average period of 2.0 years.

The total intrinsic value of options at June 30, 2016 was $0. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at June 30, 2016 (for outstanding options), less the applicable exercise price.

NOTE 15 - SIGNIFICANT CUSTOMERS / CONCENTRATION

For the six months ended June 30, 2016, the Company had two customers who account for 27% and 25% on net sales, respectively.

The Company had no customers that accounted for more than 10% of total sales at June 30, 2015.

The Company sells products throughout the world; sales by geographical region are as follows for the three and six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
United States and Canada	$ 140,163	$ 330,577	$ 350,544	$ 920,617
Australia	94,245	105,366	222,742	212,557
South America	9,885	-	81,480	-
Asia	207,129	209,636	221,785	242,232
Europe	3,567,916	1,055,476	6,772,755	2,430,150
	$ 4,019,338	$ 1,701,055	$ 7,649,306	$ 3,805,556

The Company's sales by product line are as follows for the three and six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Ceramic diesel particulate	$ 1,145,171	$ 946,532	$ 2,568,277	$ 1,906,619
Liquid filters and systems	2,806,875	666,258	4,986,111	1,629,468
Kiln furniture	67,292	88,265	94,918	269,469
	$ 4,019,338	$ 1,701,055	$ 7,649,306	$ 3,805,556

NOTE 16 – ACQUISITION

Acquisition - On the July 29, 2014, the Company, through its subsidiary, LiqTech Int. DK, completed the acquisition of all of the issued and outstanding capital stock (the "Provital Shares") of Provital Solutions A/S, a Danish company ("Provital") from Masu A/S, a Danish company ("MASU"). In consideration for the Provital Shares, MASU received cash consideration in the sum of DKK 12,600,000, that is, approximately USD$2,300,000, and 4,044,782 shares of the Company's common stock (the "Payment Shares").

Two-thirds (2/3) of the Payment Shares have been held in escrow, of which one half were to be released from escrow upon determining that Provital, for the year ended December 31, 2014, achieved (i) gross revenues of not less than DKK 65,000,000 9,932,000 and EBITDA of DKK 6,500,000 that is, approximately USD$993,000, or (ii) EBITDA of not less than DKK 10,000,000 that is, approximately USD$1,528,000 and gross revenues of not less than DKK 50,000,000 that is, approximately USD$7,640,000. The other half were to be released from escrow upon determining that Provital, for the year ended December 31, 2015, achieved (i) gross revenues of not less than DKK 120,000,000 that is, approximately USD$18,335,000 and EBITDA of DKK 12,000,000 1,834,000, or (ii) EBITDA of not less than DKK 16,000,000 that is, approximately USD$2,445,000 and gross revenues of not less than DKK 80,000,000 that is, approximately USD$12,223,000. All escrowed Provital Shares remain in escrow as of June 30, 2016.

The purchase agreement includes "catch up" provisions that provide that the Payment Shares placed in escrow will be released from escrow if Provital (1) for the years ended December 31, 2014 and December 31, 2015, achieves accumulated gross revenues (i) exceeding DKK 185,000,000 and EBITDA of DKK 18,500,000 that is, approximately USD$2,827,000, or (ii) EBITDA of not less than DKK 26,000,000 that is, approximately USD$3,973,000 and gross revenues of not less than DKK 130,000,000 that is, approximately USD$19,863,000 or (2) for the year ending December 31, 2016, achieves gross revenues exceeding DKK 105,000,000 that is, approximately USD$16,043,000 and EBITDA of not less than DKK 21,000,000 that is, approximately USD$3,209,000. All such escrowed Provital Shares remain in escrow as of June 30, 2016.

NOTE 17 – SUBSEQUENT EVENTS

The Company's management reviewed material events through August 11, 2016 and there were no subsequent events.

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 23, 2016, 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 two business areas: ceramic membranes for liquid filtration and diesel particulate filters (DPFs) for the control of soot exhaust particles from diesel engines. We are phasing out the fabrication of 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. 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 Int. DK"), together with its direct wholly-owned subsidiary LiqTech Systems A/S, a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark ("LiqTech Systems") and LiqTech NA, Inc., a Delaware corporation ("LiqTech Delaware"). Collectively, LiqTech USA, LiqTech Int. DK, LiqTech Systems and LiqTech Delaware are referred to herein as our "Subsidiaries".

We conduct operations in the Kingdom of Denmark and the United States. Our Danish operations are located in the Copenhagen area and LiqTech Systems are located in Hobro in Jutland, Denmark, and our U.S. operations are conducted by LiqTech Delaware located in White Bear Lake, Minnesota.

Our Strategy

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

- **Enter New Geographic Markets and Expand Existing Markets.** We plan to continue to manufacture and sell our products out of Denmark and the United States. We intend to continue to develop our organization in Denmark and the United States and we plan to expand our production facilities in the United States to include manufacturing of systems. We have opened sales offices in France and in Italy. In addition to utilizing local representatives, we intend to establish sales outlets with technical support in other European nations, while expanding our presence in Asia. We intend to work with agents and partners to access such markets.

- **Continue to Strengthen Position in DPF Market.** We believe that we have a strong position in the retrofit market for diesel particulate filter (DPF) systems. We intend to continue our efforts to maintain our strength in this area. Furthermore, we intend to leverage our experience in the OEM market and expand our presence in the OEM market with new products relating to DPF systems.

- **Continue to Develop and Improve Technologies and Open New End Markets.** We intend to continuously develop our ceramic membranes and improve the filtration efficiency for our filtration products. Through continuous development, we intend to find new uses for our products and plan to expand into any new markets that we believe would be appropriate for our Company. One of our key strategies is to develop our membrane applications together with our customers including, for example, the development of the next generation of DPFs with asymmetric design for the OEM market.

- **Continue Our Focus on Selling and on Development New Standard Units.** We will continue our focus on selling systems based on our unique SIC membranes. We will also combine the ceramic membranes with other technologies to be able to offer our customers a complete solution. We will continue our focus to develop smaller standard systems, like our ground water treatment unit and our residential swimming pool units. These units will be sold through a network of agents and partnerships.

Recent Developments

Recent Signed Contracts

On June 8, 2015, we announced that we signed a three-year agent agreement with a Chinese company to promote and sell the Company's DPFs in the Chinese market. At the same time, the Company received a purchase order for $814,000 from a large Chinese OEM and retrofit customer. This order was delivered in July 2015.

On June 15, 2015, we announced that we have signed a framework agreement with the Luxemburg based company APATEQ S.A. The framework agreement is for the delivery of LiqTech´s SiC Ultra Fine filters and housings for use in the oil and gas industry. At the same time, the Company also received a purchase order for $165,000.

On June 17, 2015, we announced that we have received a $6.1 million order for a complete system to remove heavy metals from the waste water from an international mining company. The system is based on the Company´s Ultra Filtration membranes and also includes pre-treatment and a de-watering unit to further reduce the amount of harmful waste water to be handled. Final installation is expected to be completed in the first half of 2016.

On June 18, 2015, we announced that we have received an $830,000 purchase order for two systems based on the company's SiC membranes. The systems were delivered in 2015.

On September 30, 2015, we announced that we received a $790,000 order from an international mining company. The order is for a newly developed highly chemical resistant composite multi-housing for the Company´s SiC membranes, chemical storage tanks and process equipment. The order was delivered in first quarter 2016.

On February 22, 2016, we announced that we received an approximately $2.0 million order for a groundwater treatment plant. The order is from the company Synertech for a project in Serbia. LiqTech will deliver engineering and key components for precipitation of arsenic, boron, iron and manganese and a complete Ultra Filtration system based on the Company´s SiC membranes. The order was delivered in the second quarter of 2016.

On March 3, 2016, we announced that we received a $150,000 order from a new customer in the municipal pool market in France. The order was received by LiqTech´s distributor Lea Technology Group and is the first pool related system order from a French customer.

On May 4, 2016, we announced that the Company has received a $2.0 million follow-on order for the Ground Water Treatment Plant in Serbia that was announced by the Company in February 2016. The total value of the project is $4.0 million and the order is expected to be delivered partly in the second quarter and partly in the third quarter of 2016.

On July 21, 2016, we announced that we have entered into a strategic relationship with one of the leading Chinese companies for DPFs, Kailong High Technology Co. Ltd., to provide Kailong with advanced silicon carbide material for DPF filters. The framework agreement is valued at $2.2 million with the first order of $0.375 million slated for September 2016 delivery. The balance will be shipped later upon customary quality approvals.

Results of Operations

The financial information below is derived from our unaudited condensed consolidated financial statements included elsewhere in this report.

The following table sets forth our revenues, expenses and net income for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,					
					Period to Period Change	
	2016	As a % of Sales	2015	As a % of Sales	US$	Percent %
Net Sales	4,019,338	100%	1,701,055	100%	2,318,283	136.3
Cost of Goods Sold	2,890,984	71.9	2,259,497	132.8	631,487	27.9
Gross Profit	1,128,354	28.1	(558,442)	(32.8)	1,686,796	(302.1)
Operating Expenses						
Selling and Marketing	512,179	12.7	745,212	43.8	(233,033)	(31.3)
General and Administrative	575,908	14.3	683,061	40.2	(107,153)	(15.7)
Non-cash compensation	105,373	2.6	84,724	5.0	20,649	24.4
Research and Development	164,056	4.1	202,984	11.9	(38,928)	(19.2)
Total Operating Expenses	1,357,516	33.8	1,715,981	100.9	(358,465)	(20.9)
Loss from Operating	(229,162)	(5.7)	(2,274,423)	(133.7)	2,045,261	(89.9)
Other Income (Expense)						
Interest and Other Income	-	-	49,459	2.9	(49,459)	(100.0)
Interest Expense	(6,602)	(0.2)	(19,641)	(1.2)	13,039	(66.4)
(Loss) on Investments	-	-	(71)	(0.0)	71	(100.0)
Gain (loss) on Currency Transactions	391	0.0	(100,450)	(5.9)	100,841	(100.4)
Total Other Income (Expense)	(6,211)	(0.2)	(70,703)	(4.2)	64,492	(91.2)
Loss Before Income Taxes	(235,373)	(5.9)	(2,345,126)	(137.9)	2,109,753	(90.0)
Income Taxes Expense (Income)	94,003	2.3	(575,575)	(33.8)	669,578	(116.3)
Net Loss	(329,376)	(8.2)	(1,769,551)	(104.0)	1,440,175	(81.4)
Less net income attributable to the non-controlled interest in subsidiaries	-	-	24,356	1.4	(24,356)	(100.0)
Net Loss attributable to LiqTech	(329,376)	(8.2)	(1,793,907)	(105.5)	1,464,531	(81.6)

	Six Months Ended June 30,					
					Period to Period Change	
	2016	As a % of Sales	2015	As a % of Sales	$	Percent %
Net Sales	7,649,306	100%	3,805,556	100%	3,843,750	101.0
Cost of Goods Sold	5,774,994	75.5	4,410,964	115.9	1,364,030	30.9
Gross Profit	1,874,312	24.5	(605,408)	(15.9)	2,479,720	(409.6)
Operating Expenses						
Selling and Marketing	1,103,247	14.4	1,437,935	37.8	(334,688)	(23.3)
General and Administrative	1,331,902	17.4	1,499,128	39.4	(167,226)	(11.2)
Non-cash compensation	272,724	3.6	157,646	4.1	115,078	73.0
Research and Development	352,569	4.6	365,457	9.6	(12,888)	(3.5)
Total Operating Expenses	3,060,442	40.0	3,460,166	90.9	(399,724)	(11.6)
Loss from Operating	(1,186,130)	(15.5)	(4,065,574)	(106.8)	2,879,444	(70.8)
Other Income (Expense)						
Interest and Other Income	-	-	49,702	1.3	(49,702)	(100.0)
Interest Expense	(16,496)	(0.2)	(34,827)	(0.9)	18,331	(52.6)
Gain on Investments	-	-	7,295	0.2	(7,295)	(100.0)
Gain (loss) on Currency Transactions	(12,159)	(0.2)	132,741	3.5	(144,900)	(109.2)
Total Other Income (Expense)	(28,655)	(0.4)	154,911	4.1	(183,566)	(118.5)
Loss Before Income Taxes	(1,214,785)	(15.9)	(3,910,663)	(102.8)	2,695,878	(68.9)
Income Taxes Expense (Income)	2,868,286	37.5	(967,104)	(25.4)	3,835,390	(396.6)
Net Income	(4,083,071)	(53.4)	(2,943,559)	(77.3)	(1,139,512)	38.7

Less net income attributable to the non-controlled interest in subsidiaries	-	-	21,760	0.6	(21,760)	(100.0)
Net Income attributable to LiqTech	(4,083,071)	(53.4)	(2,965,319)	(77.9)	(1,117,752)	37.7

Comparison of the Three Months Ended June 30, 2016 and June 30, 2015

Revenues

Net sales for the three months ended June 30, 2016 were $4,019,338 compared to $1,701,055 for the same period in 2015, representing an increase of 2,318,283 or 136.3%. The increase in sales consist of an increase in sales of DPFs of $198,639 and an increase in sales of liquid filters and systems of $2,140,617 and a decrease in sales of kiln furniture of $20,973. The increase in demand for our DPFs is mainly due to an increase in market activity in general compared to the same period last year. The increase in demand for our liquid filters and systems was a result of increased order inflow that is now starting to materialize into revenue. The decrease in demand for our kiln furniture is due to our decision not to focus on this product line anymore.

Gross Profit

Gross profit for the three months ended June 30, 2016 was $1,128,354 compared to a gross loss of $558,442 for same period in 2015, representing an increase of $1,686,796. The increase in gross profit was due to higher sales activity compared to the same period in 2015. Included in gross profit is depreciation of $317,209 and $341,948 for the three months ended June 30, 2016 and 2015, respectively.

Expenses

Total operating expenses for the three months ended June 30, 2016 were $1,357,516 representing a decrease of $358,465 or 20.9%, compared to $1,715,981 for the same period in 2015. This decrease in operating expenses is attributable to a decrease in selling and marketing expenses of $233,033, or 31.3%, a decrease in general and administrative expenses of $107,153, or 15.7%, an increase in non-cash compensation expenses of $20,649, or 24.4% and a decrease in research and development expenses of $38,928, or 19.2%, compared to the same period in 2015.

Selling expenses for the three months ended June 30, 2016 were $512,179 compared to $745,212 for the same period in 2015, representing a decrease of $233,033, or 31.3%. This decrease is attributable to a cost reduction in selling expenses in general and a centralization of the sales structure compared to the same period in 2015.

General and administrative expenses for the three months ended June 30, 2016 were $575,908 compared to $683,061 for the same period in 2015, representing a decrease of $107,153, or 15.7%. This decrease is attributable to a general cost reduction in general expenses.

Non-cash compensation expenses for the three months ended June 30, 2016 were $105,373 compared to $84,724 for the same period in 2015, representing an increase of $20,649, or 24.4%. This increase is attributable to increased non-cash compensation expense for options, shares and warrants for services performed granted to directors, employees and management.

The following is a summary of our non-cash compensation:

	For the Three Months Ended	
	June 30, 2016	June 30, 2015
Compensation upon vesting of stock options granted to employees	$ 81,548	$ 35,228
Compensation for vesting of restricted stock awards issued to the board of directors	19,417	48,167
Value of Warrants granted for services	4,408	1,329
Total Non-Cash Compensation	$ 105,373	$ 84,724

Research and development expenses for the three months ended June 30, 2016 were $164,056 compared to $202,984 for the same period in 2015, representing a decrease of $38,928, or 19.2%. This decrease is attributable to a cost reduction in research and development expenditures in general for the three months ending June 30, 2016 compared to the same period in 2015.

Net Income Attributable to the Company

Net loss attributable to the Company for the three months ended June 30, 2016 was a loss of $329,376 compared to a loss of $1,793,907 for the comparable period in 2015, representing a decrease in loss of $1,464,531, or 81.6%. This decrease in loss was primarily attributable to a higher sales, higher gross profit and lower total operating expenses. This was partly offset an increase in income tax expense of $669,578.

Comparison of the Six Months Ended June 30, 2016 and June 30, 2015

Revenues

Net sales for the six months ended June 30, 2016 were $7,649,306 compared to $3,805,556 for the same period in 2015, representing an increase of $3,843,750, or 101.0%. The increase in sales consisted of an increase in sales of DPFs of $661,658 and an increase in sales of liquid filters and systems of $3,356,643 and a decrease in sales of kiln furniture of $174,551. The increase in demand for our DPFs is mainly due to an increase in market activity in general compared to the same period in 2015. The increase in demand for our liquid filters and systems was a result of increased order inflow that is now starting to materialize into revenue. The decrease in demand for our kiln furniture is due to our decision not to focus on this product line anymore.

Gross Profit

Gross profit for the six months ended June 30, 2016 was $1,874,312 compared to a loss of $605,408 for same period in 2015, representing an increase of $2,479,720, or 409.6%. The increase in gross profit was due to higher sales activity and improved gross margin compared to the same period in 2015. Included in the gross profit is depreciation of $669,697 and $691,325 for the six months ended June 30, 2016 and 2015, respectively.

Expenses

Total operating expenses for the six months ended June 30, 2016 were $3,060,442 representing a decrease of $399,724, or 11.6% compared to $3,460,166 for the same period in 2015. This decrease in operating expenses is attributable to a decrease in selling and marketing expenses of $334,688, or 23.3%, a decrease in general and administrative expenses of $167,226, or 11.2%, an increase in non-cash compensation expenses of $115,078, or 73.0% and a decrease in research and development expenses of $12,888, or 3.5% compared to the same period in 2015.

Selling expenses for the six months June 30, 2016 were $1,103,247 compared to $1,437,935 for the same period in 2015, representing a decrease of $334,688, or 23.3%. This decrease is attributable to a cost reduction in selling expenses in general and a centralization of the sales structure compared to the same period in 2015.

General and administrative expenses for the six months ended June 30, 2016 were $1,331,902 compared to $1,499,128 for the same period in 2015, representing a decrease of $167,226, or 11.2. %. This decrease is attributable to a general cost reduction in general expenses.

Non-cash compensation expenses for six months ended June 30, 2016 were $272,724 compared to $157,646 for the same period in 2015, representing an increase of $115,078, or 73.0%. This increase is attributable to increased non-cash compensation expense for options, shares and warrants for services performed granted to directors, employees and management.

The following is a summary of our non-cash compensation:

	For the six Months Ended	
	June 30, 2016	June 30, 2015
Compensation upon vesting of stock options granted to employees	$ 192,074	$ 68,317
Compensation for vesting of restricted stock awards issued to the board of directors	38,833	88,000
Value of Warrants granted for services	41,817	1,329
Total Non-Cash Compensation	$ 272,724	$ 157,646

Research and development expenses for the six months ended June 30, 2016 were $352,569 compared to $365,457 for the same period in 2015, representing a decrease of $12,888, or 3.5%. This decrease is attributable to a cost reduction in research and development expenditures in general for the six months ending June 30, 2016 compared to the same period in 2015.

In the six month period ended June 30, 2016, the Company established a valuation allowance of $3.0 million for the tax-paying entities of LiqTech International Inc., LiqTech NA, LiqTech Singapore and LiqTech Germany. As a part of our revised business strategy, the Company is producing and invoicing all membranes and systems from our Danish operations. As North American sales of DPF products continue to decrease, management has determined that it is unlikely that sufficient DPF sales income would be generated in North America to realize the resulting net operating loss carry forwards.

Net Loss Attributable to the Company

Net income attributable to the Company for the six months ended June 30, 2016 was a loss of $4,083,071 compared to a loss of $2,965,319 for the comparable period in 2015, representing an increase in loss of $1,117,752, or 37.7%. This increase in loss was primarily attributable to an increase in income tax expense of 3,835,390. This was partly offset by an increase in sales, higher gross profit and lower total operating expenses.

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through offerings of equity instruments, internally generated cash from operations and our available lines of credit. At June 30, 2016 and August 12, 2016, the Company did not have any available lines of credit with any lender. At June 30, 2016, we had cash of $637,035 and working capital of $7,277,514 and at December 31, 2015, we had cash and restricted cash of $1,663,417 and working capital of $7,642,314. At June 30, 2016, our working capital decreased by $364,800 compared to December 31, 2015. Total current assets were $10,627,288 and $12,983,004 at June 30, 2016 and at December 31, 2015, respectively, and total current liabilities were $3,349,774 and $5,340,690 at June 30, 2016 and at December 31, 2015, respectively.

In connection with certain orders, we have to give the customer a working guarantee or a prepayment guarantee or security bond. For that purpose, we previously had a guarantee credit line of DKK 473,100 (approximately $70,600 at June 30, 2016) with a bank, subject to certain base limitations. As of June 30, 2016, we had DKK473,100 (approximately $70,600) in working guarantee against the line. This line of credit is guaranteed by Vækstfonden (the Danish state's investments fund) and is secured by certain assets of LiqTech Systems such as receivables, inventory and equipment.

We believe that our cash flow and other potential sources of funds, including cash raised from the sale of common stock of the Company, will be sufficient to fund our anticipated working capital requirements for the next twelve months. However, if we were to incur any unanticipated expenditures, including an increase in our allowance for doubtful accounts or the negative trend of our operating cash flow continues, this could have a negative effect on our operations and 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

Six months ended June 30, 2016 Compared to six months ended June 30, 2015

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 six months ended June 30, 2016 was $664,498, representing a decrease of $977,490 compared to cash used by operating activities of $1,641,988 for the six months ended June 30, 2015. The $977,490 decrease in cash used by operating activities for the six months ended June 30, 2016 was mainly due to an increase of $2,841,633 in deferred tax asset / liability, an increase in of $1,296,005 in long-term contracts and a decrease of $341,354 in accounts receivable. This was partially offset by a net loss of $4,083,071, an increase of $388,194 in inventory and a decrease of $ 1,860,430 in accounts payable.

The increase in long-term contracts, increase of in inventory and the decrease in accounts receivable and accounts payable were all due to normal variations in the ordinary course of business.

Cash used in investing activities was $69,741 for the six months ended June 30, 2016, as compared to cash used in investing activities of $142,113 for the six months ended June 30, 2015. Cash used in investing activities decreased by $72,372 for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. This decrease was due to a period over period decrease of $72,372 in the purchase of property.

Cash used by financing activities was $90,809 for the six months ended June 30, 2016, as compared to cash used by financing activities of $138,410 for the three months ended June 30, 2015. This change of $47,601 in cash provided by financing activities for the six months ended June 30, 2016, compared to 2015, was mainly due to a decrease in payments proceeds on capital lease obligations.

Off Balance Sheet Arrangements

As of June 30, 2016, we had no off-balance sheet arrangements other than normal operating leases. We are not aware of any material transactions, which are not disclosed in our consolidated financial statements.

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

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2016 are as follows:

Year ending December 31,	Lease Payments
2016	354,612
2017	511,718
2018	295,995
Thereafter	-
Total Minimum Lease Payments	$ 1,162,325

Significant Accounting Policies and Critical Accounting Estimates

There have been no significant changes in our significant accounting policies and critical accounting estimates since the filing of our Annual Report on Form 10-K for the period ended December 31, 2015.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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 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 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 11, 2016

/s/ Sune Mathiesen

Sune Mathiesen, Chief Executive Officer
(Principal Executive Officer)

Dated: August 11, 2016

/s/ Soren Degn

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

Exhibit 31.1

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Sune Mathiesen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2016 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 11, 2016

By: */s/ Sune Mathiesen*
Name: Sune Mathiesen
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, 2016 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 11, 2016

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, 2016 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 11, 2016

By: */s/ Sune Mathiesen*
Name: Sune Mathiesen
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, 2016 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 11, 2016

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.