

LIQTECH INTERNATIONAL INC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2012**

or

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

For the transition period from _____ to _____

Commission File Number: **000-53769**

LiqTech International, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-1431677

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

Industriparken 22C, DK2750 Ballerup, Denmark

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, at May 14, 2012, was 24,111,500 shares .

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2012

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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 March 31, 2012 <u>(UNAUDITED)</u>	As of December 31, 2011 <u></u>
Current Assets:		
Cash	\$ 6,552,392	\$ 1,033,057
Accounts receivable, net	5,309,656	5,299,569
Other receivables	785,444	1,528,362
Inventories	3,399,566	2,980,583
Prepaid expenses	285,290	301,375
Current deferred tax asset	47,383	17,786
Total Current Assets	<u>16,379,731</u>	<u>11,160,732</u>
Property and Equipment , net of accumulated depreciation	<u>7,049,330</u>	<u>6,647,217</u>
Other Assets:		
Other intangible assets	33,834	34,167
Other investments	41,361	6,483
Deposits	150,402	146,184
Total Other Assets	<u>225,597</u>	<u>186,834</u>
Total Assets	<u>\$ 23,654,658</u>	<u>\$ 17,994,783</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of March 31, 2012	As of December 31, 2011
	<u>(UNAUDITED)</u>	
Current Liabilities:		
Lines of credit	\$ -	\$ 1,259,936
Notes payable - current portion	-	259,396
Notes payable - related party, net of discount	3,467,750	3,328,183
Current portion of capital lease obligation	199,622	191,444
Accounts payable - trade	2,309,862	3,026,960
Accrued expenses	1,575,336	1,212,746
Accrued income taxes payable	126,130	3,710
Other accrued liabilities	5,919	154
	<u>7,684,619</u>	<u>9,282,529</u>
Total Current Liabilities		
Notes payable and long-term debt, less current portion	-	350,000
Long-term capital lease obligations, less current portion	929,689	950,351
Deferred tax liability	628,772	668,484
	<u>1,558,461</u>	<u>1,968,835</u>
Total Long-Term Liabilities		
Total Liabilities	<u>9,243,080</u>	<u>11,251,364</u>
Stockholders' Equity:		
Common stock; par value \$0.001, 100,000,000 shares authorized, 24,111,500 and 21,600,000 shares issued and outstanding at March 31, 2012, and December 31, 2011, respectively	24,112	21,600
Additional paid-in capital	12,835,952	5,603,517
Retained earnings	5,607,185	5,284,583
Deferred compensation	(235,680)	(268,282)
Other comprehensive income, net	(378,192)	(596,011)
Note receivable from a shareholder, net of discount	(3,467,750)	(3,328,183)
Non-controlled interest in subsidiaries	25,951	26,195
	<u>14,411,578</u>	<u>6,743,419</u>
Total Stockholders' Equity		
Total Liabilities and Stockholders' Equity	<u>\$ 23,654,658</u>	<u>\$ 17,994,783</u>

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

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

	For the Three Months Ended	
	March 31	
	2012	2011
Net Sales	\$ 6,341,721	\$ 2,917,395
Cost of Goods Sold	4,252,037	2,237,660
Gross Profit	<u>2,089,684</u>	<u>679,735</u>
Operating Expenses:		
Selling expenses	659,918	404,331
General and administrative expenses	722,512	277,793
Research and development	<u>226,674</u>	<u>113,538</u>
Total Operating Expenses	<u>1,609,104</u>	<u>795,662</u>
Income from Operations	<u>480,580</u>	<u>(115,927)</u>
Other Income (Expense)		
Interest and other income	38,963	10,726
Interest (expense)	(84,516)	(5,779)
(Loss) on currency transactions	<u>(1,449)</u>	<u>(27,372)</u>
Total Other Income (Expense)	<u>(47,002)</u>	<u>(22,425)</u>
Income Before Income Taxes	433,578	(138,352)
Income Tax Expense	110,977	(26,678)
Net Income (Loss)	322,601	(111,674)
Less Net Income (Loss) Attributable To Non-Controlled Interests in Subsidiaries	<u>-</u>	<u>16,528</u>
Net Income (Loss) Attributable To LiqTech	<u>322,601</u>	<u>(128,202)</u>
Basic Earnings Per Share	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
Weighted Average Common Shares Outstanding	<u>22,234,775</u>	<u>9,308,333</u>
Diluted Earnings Per Share	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
Weighted Average Common Shares Outstanding Assuming Dilution	<u>27,415,788</u>	<u>9,308,333</u>

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

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

	For the Three Months Ended	
	March 31,	
	2012	2011
Net Income(Loss)	322,601	(111,674)
Currency Translation, Net of Taxes	217,575	323,891
Other Comprehensive Income (Loss)	<u>\$ 540,176</u>	<u>\$ 212,217</u>
Comprehensive Income (Loss) Attributable to Non-controlling Interest in Subsidiaries	(244)	60,111
Comprehensive Income Attributable to LiqTech International, Inc.	<u>\$ 540,420</u>	<u>\$ 152,106</u>

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

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

	For The Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 322,601	\$ (111,674)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	348,607	295,855
Compensation from stock options	32,602	523
Bad debt expense	110,000	85,186
Change in deferred tax asset / liability	(50,216)	(74,945)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	622,831	(4,237)
(Increase) decrease in inventory	(418,983)	309,612
(Increase) decrease in prepaid expenses/deposits	11,868	(989,231)
Increase (decrease) in accounts payable	(717,098)	175,181
Increase (decrease) in accrued expenses	471,682	(25,001)
	411,293	(227,057)
Net Cash Provided (Used) by Operating Activities	733,894	(338,731)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(636,993)	(368,295)
Purchase of intangible assets	-	(4,952)
Purchase of long-term investments	(34,878)	-
	(671,871)	(373,247)
Net Cash Used by Investing Activities	(671,871)	(373,247)
Cash Flows from Financing Activities:		
Payments on notes payable	(609,396)	(25,000)
Net proceeds (payments) on lines of credit	(1,259,936)	238,960
(Payments) on notes payable - related party	-	-
(Payments) on capital lease obligation	(12,484)	86,572
Proceeds from issuance of common stock and warrants	7,234,947	-
Repurchase of common stock	-	-
Payments on related party notes receivable	-	-
	5,353,131	300,532
Net Cash Provided by Financing Activities	5,353,131	300,532
Gain on Currency Translation	104,181	326,307
Net Increase (Decrease) in Cash and Cash Equivalents	5,519,335	(85,139)
Cash and Cash Equivalents at Beginning of Period	1,033,057	559,259
Cash and Cash Equivalents at End of Period	\$ 6,552,392	\$ 474,120

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

For the Three Months Ended March 31, 2012

The Company recorded \$32,602 in stock compensation for options granted to employees.

For the Three Months Ended March 31, 2011

The Company recorded \$523 in stock compensation for options granted to employees.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVERSE ACQUISITION

On August 24, 2011, pursuant to an Agreement and Plan of Merger, dated as of August 23, 2011, by and among, LiqTech International, Inc. ("Parent") (formerly Blue Moose Media, Inc.), Blue Moose Delaware Merger Sub, Inc., ("BMD Sub"), a wholly owned subsidiary of Parent and LiqTech USA (the "Merger Agreement"), BMD Sub was merged with and into LiqTech USA (the "Merger") and as a result of the Merger, LiqTech USA became a wholly owned subsidiary of Parent. Prior to the Merger there were 4,155,250 shares of the common stock, par value \$.001 per share of Parent outstanding, pursuant to the Merger each of the 17,444.75 outstanding shares of the common stock of LiqTech USA, was exchanged for 1,000 shares of Parent's common stock, for a total of 17,444,750 shares resulting in 21,600,000 shares of Parent common stock being outstanding immediately following the Merger and warrants to acquire up to 6,500 shares of LiqTech USA's common stock at an exercise price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of Parent common stock at an exercise price of \$1.50 per share.

Business and Basis of Presentation - The consolidated financial statements include the accounts of LiqTech International, Inc., "Company", "us", "we" and "our" as used in this report refer to LiqTech International, Inc. and its subsidiaries (set forth below), which engages in the development, design, production, marketing and sale of diesel particulate air and liquid filters and kiln furniture in United States of America, Canada, Europe, Asia and Brazil.

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

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

LiqTech A/S ("LiqTech AS"), a Danish Corporation, incorporated on March 15, 1999, a wholly-owned subsidiary of LiqTech USA, engages in the development, design, production, marketing and sale of ceramic diesel particulate and liquid filters and kiln furniture in Europe, Asia and Brazil.

LiqTech International A/S, a Danish Corporation, incorporated on January 15, 2000, formerly known as CoMeTas A/S ("LiqTech Int. DK"), a 100% owned subsidiary of LiqTech AS, engages in development, design, application, marketing and sales of membranes on ceramic diesel particulate and liquid filters and catalytic converters in Europe, Asia and Brazil. LiqTech Int. DK was a 75% owned subsidiary from March 2011 to August 24, 2011 and a 60% owned subsidiary prior to March 2011.

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

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

The accompanying financial statements are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2012 and 2011 and for the periods then ended have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2011 audited financial statements. The results of operations for the periods ended March 31, 2012 and 2011 are not necessarily indicative of the operating results for the full year.

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



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

Functional Currency / Foreign Currency Translation -- The Group functional currency is the Danish Krone (“DKK”) and its reporting currency is U.S. Dollars for the purpose of these financial statements. The Company’s consolidated balance sheet accounts are translated into U.S. dollars at the period-end exchange rates (5.5705DKK and 5.7456DKK to \$1 at March 31, 2012 and at December 31, 2011, respectively) and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during the 2012 and 2011 (5.6724DKK and 5.3621DKK to \$1) in which these items arise. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders’ equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

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

Accounts Receivable -- Accounts receivable 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 March 31, 2012 and twelve months ended December 31, 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Allowance for doubtful accounts at the beginning of the period	\$ 389,032	\$ 452,266
Bad debt expense	110,000	208,275
Amount of receivables written off	-	(257,610)
Effect of currency translation	15,434	(13,899)
Allowance for doubtful accounts at the end of the period	<u>\$ 514,466</u>	<u>\$ 389,032</u>

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

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

	<u>2012</u>	<u>2011</u>
Furnace parts and supplies	\$ 197,867	\$ 151,412
Raw materials	623,477	920,065
Work in process	1,679,645	867,988
Finished goods	987,951	1,054,118
Reserve for obsolescence	(89,374)	(13,000)
Net Inventory	<u>\$ 3,399,566</u>	<u>\$ 2,980,583</u>

The Company’s inventory is held as collateral on the Company’s lines of credits.

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 twenty years (See Note 4).

Long-Term Investments -- Investments in non-public 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 amortizes the patents on a straight line basis over the estimated useful life of two to ten years.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Advertising Cost - Cost incurred in connection with advertising of the Company's products is expensed as incurred. Such costs amounted to \$20,447 and \$20,023 for the three months ended March 31, 2012 and 2011, respectively.

Research and Development Cost - The Company expenses research and development costs for the development of new products as incurred. Included in operating expense for the three months ended March 31, 2012 and 2011 are \$226,674, and \$113,538, respectively, of research and development costs.

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

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

Stock Options - The Companies have stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees and directors. The plans are more fully described in Note 13. During the years presented in the accompanying consolidated financial statements, the Company has granted options under its stock option plans. The Company accounts for options in accordance with the provisions of FASB ASC Topic 718, "Compensation – Stock Compensation". Non-cash compensation costs of \$32,602 and \$523 have been recognized for the vesting of options granted to employees with an associated recognized tax benefit of \$0 for the three months ended March 31, 2012 and 2011, respectively.

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

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

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

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

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

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

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

Notes Receivable From Related Parties - At December 31, 2010, LiqTech NA had a note receivable of \$80,000 from an officer bearing interest at 4%. The note was secured by the officer's stock in the Company and was due on demand. The note was paid in full during 2011. Interest income of \$0 and \$800 was recorded and received for the three months ended March 31, 2012 and 2011, respectively.

The Company has a 19,500,000 DKK (approximately \$3,500,609) note receivable, before the discount of \$32,859 as of March 31, 2012, from a shareholder resulting from the purchase of common shares and classified as equity in the accompanying financial statements. The note was discounted as the note does not accrue interest and is payable on June 30, 2012. During the three months ended March 31, 2012 the Company recorded interest income of \$32,589 as a result of amortization of the discount.

Notes Payable From a Related Party - The Company has a 19,500,000 DKK (approximately \$3,500,609) note payable before the discount of \$32,859 as of March 31, 2012, to current and former shareholders of LiqTech AS in connection with the LiqTech AS's reverse acquisition of LiqTech USA, concurrently with the Merger. The note was discounted as the note does not accrue interest and is payable on June 30, 2012. During the three months ended March 31, 2012 the Company recorded interest expense of \$32,589 as a result of amortization of the discount.

NOTE 3 - INVENTORY

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

	<u>2012</u>	<u>2011</u>
Furnace parts and supplies	\$ 197,867	\$ 151,412
Raw materials	623,477	920,065
Work in process	1,679,645	867,988
Finished goods	987,951	1,054,118
Reserve for obsolescence	<u>(89,374)</u>	<u>(13,000)</u>
Net Inventory	<u>\$ 3,399,566</u>	<u>\$ 2,980,583</u>

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

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>Useful Life</u>	<u>2012</u>	<u>2011</u>
Production equipment	3 – 10	\$ 11,039,674	\$ 10,025,051
Lab equipment	3 – 10	360,747	349,750
Computer equipment	3 – 5	244,368	236,155
Vehicles	3	10,897	10,565
Furniture and fixture	5	49,403	47,898

Leasehold improvements	10	<u>614,398</u>	<u>443,448</u>
		12,319,487	11,112,867
Less Accumulated Depreciation		<u>(5,270,157)</u>	<u>(4,465,650)</u>
Net Property and Equipment		<u>\$ 7,049,330</u>	<u>\$ 6,647,217</u>

Depreciation expense amounted to \$348,274 and \$291,477, for the three months ended March 31, 2012 and 2011, respectively. The Company's property and equipment is held as collateral on the lines of credit.

NOTE 5 – DEFINITE-LIFE INTANGIBLE ASSETS

At March 31, 2012 and December 31, 2011, definite-life intangible assets, net of accumulated amortization, consist of patents on the Company's products of \$33,834 and \$34,167, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the three months ended March 31, 2012 and 2011 is \$333 and \$4,378 respectively. Expected future amortization expense for the years ended are as follows:

<u>Year ending December 31,</u>	
2012	\$ 4,246
2013	5,627
2014	5,627
2015	5,627
2016	5,627
Thereafter	7,080
	<u>\$ 33,834</u>

NOTE 6 – LINES OF CREDIT

LiqTech AS has a DKK 6,000,000 (Approximately \$1,077,110 at March 31, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowings are due on demand. There was \$0 and \$882,003 outstanding as of March 31, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 4.46% per annum at March 31, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At March 31, 2012, the line had been paid down to \$0 outstanding, with \$1,077,110 available on the line of credit.

LiqTech Int. DK has a DKK 3,000,000 (Approximately \$538,555 at March 31, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. There was \$0 and \$377,933 outstanding as of March 31, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 4.46% per annum at March 31, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At March 31, 2012, the line had been paid down to \$0 outstanding, with \$538,555 available on the line of credit.

NOTE 7 – NOTES PAYABLE

Note Payable – In September 2011 LiqTech AS entered into a note payable agreement with a financial institution, wherein LiqTech AS borrowed \$475,000. On March 31, 2012, the note payable was paid off.

NOTE 8 – LEASES

Operating Leases - The Company leases office and production facilities under operating lease agreements expiring in August, 2013, March 2014, and July 2016. Some of these lease agreements have an option to extend

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

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2012	\$ 422,986
2013	\$ 545,264
2014	\$ 579,806
2015	\$ 594,256
2016	\$ 480,689
Thereafter	\$ 51,196
Total Minimum Lease Payments	\$ 2,674,197

Lease expense charged to operations was \$165,104 and \$131,274 for the three months ended March 31, 2012 and 2011, respectively.

Capital Lease - The Company leases equipment on various capital leases calling for monthly payments of \$2,109, \$2,961, \$11,799, \$4,573 and \$694 expiring through April 2017. At March 31, 2012 and at December 31, 2011, the Company had recorded equipment on capital lease at \$1,595,325 and \$1,546,696, respectively, with related accumulated depreciation of \$498,789 and \$430,070, respectively.

During the three months ended March 31, 2012 and 2011, depreciation expense for equipment on capital lease amounted to \$54,204, and \$45,198, respectively, and has been included in depreciation expense. During the three months ended March 31, 2012 and 2011, interest expense on capital lease obligation amounted to \$17,699, and \$17,621, respectively.

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

	<u>As of March 31, 2012</u>
2012	\$ 230,144
2013	257,297
2014	252,580
2015	220,334
2016	213,292
Thereafter	136,957
Total minimum lease payments	1,310,604
Less amount representing interest	(181,293)
Total present value of minimum lease payments	1,129,311
Less current portion	(199,622)
Long-term lease payments	\$ 929,689

NOTE 9 - AGREEMENTS AND COMMITMENTS

401(K) Profit Sharing Plan – LiqTech NA has a 401(k) profit sharing plan and trust covering certain eligible employees. The amount LiqTech NA contributes is discretionary. For the three months ending March 31, 2012 and 2011, matching contributions were expensed and totaled \$5,993 and \$3,921, respectively.

NOTE 10 – INCOME TAXES

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

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

	<u>2012</u>	<u>2011</u>
Vacation accrual	\$ 13,234	\$ 13,234
Reserve for sales returns	\$ 10,504	-
Reserve for obsolete inventory	23,645	4,552
Net current tax assets	<u>\$ 47,383</u>	<u>\$ 17,786</u>
Business tax credit carryover	-	-
Net operating loss carryover	217,241	130,118
Excess of book over tax depreciation	(846,013)	(798,602)
Net deferred tax liability	<u>\$ (628,772)</u>	<u>\$ (668,484)</u>

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

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

As of March 31, 2012, the Company had net operating loss carryovers of \$211,553 for U.S. Federal purposes expiring through 2032.

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

	<u>2012</u>	<u>2011</u>
Computed tax at expected statutory rate	\$ 147,417	\$ (52,659)
State and local income taxes, net of federal benefits	6,945	979
Non-deductible expenses	849	1,898
Non-US income taxed at different rates	(34,477)	23,104
Manufacture and other tax credits	(13,600)	-
Other items	3,843	-
Income tax expense	<u>\$ 110,977</u>	<u>\$ (26,678)</u>

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

	<u>2012</u>	<u>2011</u>
Current income tax expense:		
Danish	\$ 120,106	\$ -
Federal	60,600	37,000
State	2,779	500
Current tax expense	<u>\$ 183,485</u>	<u>\$ 37,500</u>
Deferred tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	\$ 43,766	\$ -
Net operating loss carryover	(87,021)	(64,178)
Allowance for doubtful accounts	(10,504)	-
Reserve for obsolete inventory	(18,750)	-
Deferred tax expense	<u>\$ (72,509)</u>	<u>(64,178)</u>
Income Tax Expense (Benefit)	<u>110,976</u>	<u>(26,678)</u>

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

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

NOTE 11 - ACQUISITIONS

On August 24, 2011, pursuant to the Merger Agreement, BMD Sub was merged with and into LiqTech USA, and as a result of the Merger, LiqTech USA became a wholly owned subsidiary of the Parent. Prior to the Merger there were 4,155,250 shares of common stock, par value \$.001 per share of the Parent outstanding, pursuant to the Merger each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of the Parent's common stock, for a total of 17,444,750 shares resulting in 21,600,000 shares of the Parent's common stock being outstanding immediately following the Merger and warrants to acquire up to 6,500 shares of LiqTech USA's common stock at an exercise price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of Parent common stock at an exercise price of \$1.50 per share.

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

NOTE 12 - EARNINGS PER SHARE

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

	For the Three Months Ended March 31	
	2012	2011
Net Income (Loss) attributable to LiqTech International Inc.	\$ 322,601	\$ (128,202)
Weighted average number of common shares used in basic earnings per share	22,234,775	9,308,333
Effect of dilutive securities, stock options and warrants	5,181,013	-
Weighted average number of common shares and potentially dilutive securities	27,415,788	9,308,333

The Company included all outstanding common stock equivalents in the calculation of weighted average common shares and potential dilutive common shares outstanding.

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

NOTE 13 - STOCKHOLDERS' EQUITY

Common Stock – The Company has authorized 100,000,000 shares of common stock, \$0.001 par value. As of March 31, 2012 and 2011, respectively, there were 24,111,500 and 9,308,333 common shares issued, and 24,111,500 and 9,308,333 common shares outstanding.

Voting

Holders of 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 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 our affairs, 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 common stock will be entitled to share ratably in the distribution of any of our remaining assets.

Other Matters

Holders of 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 preferred stock in one or more classes or series and to fix the designations, powers, preferences and rights, and 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 preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock.

Common Stock Purchase Warrants

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

Stock Options – In August 2011, the Company’s Board of Directors adopted a Stock Option Plan. Under the terms and conditions of the Plan, the board is empowered to grant stock options to employees, officers, and directors of the Companies. At March 31, 2012, the total number of shares of common stock granted under the Plan was 2,301,131 options.

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	3.0 - 3.5 Years
Volatility	0.07% - 52.69%
Risk free interest rate	2.33%
Dividend yield	0%

The Company recognized employee stock based compensation expense of \$32,602 and \$523 for the three months ended March 31, 2012 and 2011, respectively. At March 31, 2012 the Company had approximately \$235,680 of unrecognized compensation cost related to Non-vested options expected to be recognized through December 31, 2013.

A summary of the status of the options outstanding under the Company’s stock option plans at March 31, 2012 is presented below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 1.50-\$3.60	2,274,130	2.88 years	\$ 2.994	758,043	\$ 2.994

A summary of the status of the options granted under the Company's stock option plans at March 31, 2012, and changes during the year is presented below:

	March 31, 2012			
	Shares	Weighted Average Exercise Price	Average Remaining Life	Intrinsic Value
LiqTech International Inc.				
Outstanding at beginning of period	2,060,000	\$ 2.653	3.11	\$ 2,341,400
Granted	214,130	3.280	2.98	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	2,274,130	\$ 2.994	2.88	\$ 1,553,554
Vested and expected to vest	2,274,130	\$ 2.994	2.88	\$ 1,553,554
Exercisable at end of period	758,043	\$ 2.994	2.88	\$ 517,851

The Company had at December 31, 2011 2,060,000 non-vested options with a weighted average exercise price of \$2.653. At March 31, 2012 the Company had 2,274,130 non-vested options with a weighted average exercise price of \$2.994 and with a weighted average grant date fair value of \$0.18, resulting in unrecognized compensation expense of \$235,680, which is expected to be expensed over a weighted-average period of 1.75 years.

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

NOTE 14 - SIGNIFICANT CUSTOMERS / CONCENTRATION

The Company had four customers who accounted for 19%, 17%, 11% and 8% of total sales at March 31, 2012. The Company had four significant customers who accounted for 13%, 11%, 10% and 8% of total sales at March 31, 2011.

The Company sells filters throughout the world; sales by geographical region are as follows for the three months ended March 31, 2012 and 2011:

	For the Three Months Ended March 31	
	2012	2011
United States and Canada	\$ 1,897,671	\$ 977,163
South America	201,604	10,500
Asia	544,558	364,213
Europe	3,697,888	1,565,519
	<u>\$ 6,341,721</u>	<u>\$ 2,917,395</u>

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

	For the Three Months Ended March 31	
	2012	2011
Ceramic diesel particulate	\$ 5,337,566	\$ 2,393,473
Liquid filters	901,926	497,233

Kiln furniture

102,229	26,689
<u>\$ 6,341,721</u>	<u>\$ 2,917,395</u>

NOTE 15 – INSURANCE CLAIMS

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

The business interruption policy covered a period of twelve months from the date of the fire. The Company settled with the insurance company and received DKK 5,408,000 (approximately \$1,000,000 USD) under the business interruption policy. The Company will record the proceeds from the policy ratably over twelve month period covered. For the period ending March 31, 2012, the Company recorded DKK 1,600,903 (approximately \$300,000 USD) as an increase in sales, DKK 248,903 (approximately \$50,000 USD) as an increase in costs of goods sold and DKK 1,352,000 (approximately \$250,000 USD) as a deferral under the business interruption policy.

NOTE 16 – SUBSEQUENT EVENT

The Company's management reviewed material events through May 14, 2012.

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.

Overview

Overview

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

The terms "LiqTech", "we", "our", "us", the "Company" or any derivative thereof, as used herein refer to LiqTech International, Inc., a Nevada corporation, together with its direct and indirect wholly-owned subsidiaries, including LiqTech USA, Inc., a Delaware corporation ("LiqTech USA"), which owns all of the outstanding equity interest in LiqTech A/S, a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark ("LiqTech Denmark"), LiqTech International A/S (formerly known as Cometas A/S), a Danish limited company, organized under the Danish Act on Limited Companies of the Kingdom of Denmark ("LiqTech Denmark International") and LiqTech NA, Inc., a Delaware corporation ("LiqTech Delaware"). Collectively, LiqTech USA, LiqTech Denmark, LiqTech Denmark International 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 conducted by LiqTech Denmark and LiqTech Denmark International located in the Copenhagen, Denmark area and our U.S. operations are conducted by LiqTech Delaware located in White Bear Lake, Minnesota. In October 2011, the Company opened sales offices in France and Germany and in January 2012, we opened a sales office in Singapore.

Reverse Acquisition

Prior to August 24, 2011, Blue Moose was a "shell" company with no business or operations. On August 24, 2011, pursuant to the Merger Agreement by and among Blue Moose, BMD Sub and LiqTech USA, BMD Sub was merged with and into LiqTech USA and, as a result of the merger, LiqTech USA became a wholly owned subsidiary of Blue Moose. Pursuant to the Merger, (a) each of the 17,444.75 outstanding shares of the common stock of LiqTech USA was exchanged for 1,000 shares of our common stock, for a total of 17,444,750 shares of our common stock resulting in 21,600,000 shares of our common stock being outstanding immediately following the merger and (b) warrants to acquire up to 6,500 shares of LiqTech USA's common stock at a price of \$1,500 per share, were by their terms, converted into warrants to acquire up to 6,500,000 shares of our common stock at a price of \$1.50 per share.

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

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

As a result of the merger, Blue Moose changed its management and reconstituted its board of directors. As of the effective time of the merger, Gordon Tattarsall, the president, the chief financial officer and the sole director of Blue Moose, resigned as president and chief financial officer. As Blue Moose's sole director, Mr. Tattarsall appointed Aldo Petersen as a director of Blue Moose. The Directors then appointed Lasse Andreassen and Soren Degn as the officers of Blue Moose, and Lasse Andreassen, Paul Burgon, John Nemelka and Michael Sonneland as directors of Blue Moose. However, in accordance with the rules and regulations of the SEC, the other new directors did not take office until

September 5, 2011, which is ten days after we filed an Information Statement pursuant to Rule 14f-1 of the Securities and Exchange Act of 1934, as amended, and mailed that statement to our stockholders of record. In addition, at the effective time of the merger, Mr. Tattarsall resigned as a director of Blue Moose effective as of September 5, 2011.

Our Products

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

Diesel Particulate Filters

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

For the three months ended March 31, 2012 and 2011, our sales of DPFs were \$5,337,566 and \$2,393,473, respectively.

Ceramic Silicon Carbide Membranes for Liquid Filtration

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

- Produced water; and
- Pre-filtration of reverse osmosis drinking water;

and for use in:

- Industrial applications;
- Drinking water;
- Waste water treatment; and
- Ballast water.

Our SiC Filters are sold through our direct sales force under the LiqTech and CoMeTas brand names.

For the year ended December 31, 2010 we received \$434,957 of grants from governmental entities. In 2011 we received a \$2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. If successful, we believe this will be the first inorganic reverse osmosis membrane ever developed. The goal is to produce clean drinking water from sea water.

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

For the three months ended March 31, 2012 and 2011, our sales of liquid filters were \$901,926 and \$497,233, respectively.

Kiln Furniture

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

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

We began selling kiln furniture in 2011 and our sales for the three months ended March 31, 2012 and 2011 were \$102,229 and \$26,689, respectively.

Our Manufacturing

We currently manufacture our products in facilities located in Ballerup and Gentofte, Denmark and White Bear Lake, Minnesota. The main raw materials that we use in our manufacturing processes are silicon carbide, platinum and palladium. We purchase these commodities from various sources generally based upon availability and price. Our principal suppliers of these raw materials are the Saint Gobain Group, Washington Mills Ceramics Corporation, ESK Ceramics GmbH and Heraeus Germany. There is a limited supply of silicon carbide available to us. As other industries develop products utilizing silicon carbide, we may not be able to obtain adequate supplies of silicon carbide required for the manufacture of our existing and planned future water filtration products. Any increased demand for silicon carbide, platinum or palladium could increase the price we must pay to obtain it and could adversely affect our profitability. However, our management believes that we could obtain satisfactory substitutes for these materials should they become unavailable.

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

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

Our Sales

Our products are sold primarily to large industrial customers that use our products for gas and liquid filtration. To date, most of our sales have been in the transportation sector, and we are seeking to broaden our sales into other areas such as produced water in the oil and gas sector, desalination sector and other water purification areas. For the three months ended March 31, 2012, our four largest customers accounted for approximately 19%, 17%, 11% and 8%, respectively, of our net sales (approximately 55% in total). For the three months ended March 31, 2011, our four largest customers accounted for approximately 13%, 11%, 10% and 8%, respectively, of our net sales (approximately 42% in total). We plan to actively market our existing products to new customers as we increase our production capacity. We currently have 16 full time salesmen or distribution agents. We promote our products through direct contact to potential customers and by meeting potential customers in trade fairs and exhibitions.

Government Regulation

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

Research and Development

We currently have five full-time employees spending a majority of their working hours on research and development. For the three months ended March 31, 2012 and 2011, we spent \$226,674 and \$113,538, respectively, for research and development.

Competition

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



Recent Developments

Letter of Intent with Pirelli & C. Eco Technology S.p.A.

On February 29, 2012, we entered into a non-binding letter of intent with Pirelli & C. Eco Technology S.p.A. (“Pirelli”) to acquire all of the outstanding equity interests in S.C. Pirelli & C. Eco Technology RO SRL (“S.C. Pirelli”), Pirelli’s Romanian subsidiary, which, among other assets, has a manufacturing facility in Bumbesti, Romania. The fixed assets of S.C. Pirelli that are used for its diesel particulate filter business, including the buildings at the Romanian manufacturing facility, are anticipated to have a net book value of Romanian Leu (RON) 66,978,129 (equivalent to approximately Euro 15.6 million or \$21 million) at December 31, 2011 as determined in accordance with International Financial Reporting Standards (IFRS). The land on which the manufacturing facility is located is under a long-term lease, and S.C. Pirelli will have the right to recover the investment made with respect to the buildings at the manufacturing site (net of accumulated depreciation over a period of 30 years). The letter of intent contemplates that we will pay \$15 million in cash to Pirelli as consideration for such purchase. At the time of the purchase, it is contemplated that the subsidiary will have no debt or other liabilities and that Pirelli will indemnify us against any such pre-closing debt and liabilities to the extent not reflected on the closing balance sheet.

The letter of intent also contemplates that Pirelli will invest \$19 million in shares of our common stock at a per share price equal to the lower of \$3.90 and the weighted average price of a share of our common stock for the 10 business days preceding the closing date of the transactions contemplated by the letter of intent. Pirelli will also receive one share of voting preferred stock, which will permit Pirelli to appoint one member of our board of directors. This share of preferred stock will automatically convert into one share of our common stock upon Pirelli ceasing to own in the aggregate 50% of the shares (as adjusted for stock splits and stock dividends) of our common stock acquired in connection with these transactions. If the maximum number of shares offered in this offering are sold, and assuming that the shares will be issued to Pirelli at a per share price of \$3.90, Pirelli will beneficially own approximately 14.0% of our outstanding shares of common stock.

It is contemplated that Pirelli and we will enter into an agreement for the supply of diesel particulate filters to Pirelli and for the assembly of retrofit systems for Pirelli. It is also contemplated that Pirelli will guarantee to cover up to RON 6.6 million of fixed costs and Euro 560,000 of salary in 2012 and RON 6.15 million of fixed costs and Euro 660,000 of salary in 2013 if the EBITDA of S.C. Pirelli is negative for such years. Furthermore, it is contemplated that Pirelli will support our research and development and worldwide sales efforts for filters and membranes.

In connection with such transactions, it is contemplated that Pirelli and Aldo Petersen will enter into a shareholder agreement pursuant to which each party will have rights of first refusal and tag along rights on sales of our common stock by the other party. All shares acquired by Pirelli in connection with the transactions contemplated by the letter of intent will be subject to a lock-up provision for one year from the closing date of such transactions. Mr. Petersen is also contemplated to enter into a lock-up agreement restricting his ability to transfer the shares beneficially owned by him for one year from the closing date of the transactions contemplated by the letter of intent. It is contemplated that Pirelli will be granted registration rights in respect of the shares of our common stock that it acquires pursuant to the above transactions upon the expiration of the lock-up period. Pirelli is also contemplated to receive certain veto rights in respect of strategic decisions relating to S.C. Pirelli.

The transactions contemplated by the letter of intent are subject to the execution of definitive agreements mutually agreeable to both parties and there is no assurance that such agreements will be executed or that the contemplated transactions will occur as described above or at all.

Subcontract with Scandinavian Brake Systems

We have recently entered into a new subcontract agreement with Scandinavian Brake Systems to utilize the production capacity of their Notox division. The new subcontract arrangement, which extends until the end of 2014, is expected to significantly increase our production capacity. We believe that the additional production capacity provided under this subcontract will allow us to meet our capacity requirements until the end of the subcontract period.

Opening of Singapore Office

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

March 2012 Registered Offering of Common Stock

On March 2, 2012, we completed the initial closing of a registered public offering of our common stock. As part of the initial closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of \$3.25. The net proceeds to us from the initial closing are approximately \$7.4 million. We intend to use the net proceeds from the offering for the development and

marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. Pending application of such proceeds, we expect to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations. Sunrise Securities Corp. acted as the exclusive placement agent for this transaction. As part of the compensation for the placement agent, we also issued to the placement agent and certain of its agents for \$100, warrants to purchase an aggregate of 125,575 shares of our common stock (equal to 5% of the shares of common stock sold by the placement agent and its agents in the offering). The warrants will have an exercise price equal to \$4.06 (or 125% of the offering price of the shares sold in the offering) and may be exercised on a cashless basis. The warrants are exercisable for a period of five years commencing after the effective date of the registration statement related to the offering. The warrants are subject to a lock-up restriction for 180 days pursuant to FINRA Rule 5110(g). The warrants are not redeemable by us.

Results of Operations

The following table sets forth our revenues, expenses and net income for the three months ended March 31, 2012 and 2011. The financial information below is derived from our unaudited condensed consolidated financial statements included elsewhere in this report.

	Period ended March 31,					
	2012		2011		Period to period change	
	2012	As a % of Sales	2011	As a % of Sales	US\$	Percent %
NET SALES	6,341,721	100%	2,917,395	100%	3,424,326	117.4
Cost of goods sold	4,252,037	67.0	2,237,660	76.7	2,014,377	90.0
Gross Profit	\$ 2,089,684	33.0	\$ 679,735	23.3	1,409,949	207.4
OPERATING EXPENSES:						
Selling and Marketing	659,918	10.4	404,331	13.9	255,587	63.2
General and Administrative Expenses	722,512	11.4	277,793	9.5	444,719	160.1
Research and Development	226,674	3.6	113,538	3.9	113,136	99.6
Total Operating Expenses	1,609,104	25.4	795,662	27.3	813,442	102.2
Income from Operating	480,580	7.6	(115,927)	(4.0)	596,507	514.6
Interest and Other Income	38,963	0.6	10,726	0.4	28,237	263.3
Interest (Expense)	(84,516)	(1.3)	(5,779)	(0.2)	(78,737)	1362.5
(Loss) on investments	-	-	-	-	-	-
Gain on Currency Transactions	(1,449)	(0.0)	(27,372)	(0.9)	25,923	(94.7)
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-	-
Total Other Income (Expense)	(47,002)	(0.7)	(22,425)	(0.8)	(24,577)	109.6
Income Before Income Taxes	433,578	6.8	(138,352)	(4.7)	571,930	413.4
Income Taxes Expense	110,977	1.7	(26,678)	(0.9)	137,654	516.0
Net Income	322,601	5.1	(111,674)	(3.8)	434,276	388.9
Less Net income attributable to the Non - controlled interest in Subsidiaries	-	-	16,528	0.6	(16,528)	(100.0)
Net Income attributable to LiqTech	\$ 322,601	5.1	\$ (128,202)	(4.4)	450,804	351.6

Comparison of the three month periods ended March 31, 2012 and March 31, 2011

Revenues

Net sales for the three month period ended March 31, 2012 were \$6,341,721 compared to \$2,917,395 for the same period in 2011, representing an increase of \$3,424,326, or 117.4%. The increase in demand for our products resulted in an increase in sales of DPFs to \$5,337,566, Liquid filters to \$901,926 and Kiln furniture to \$102,229. The increase in demand for our DPFs is mainly due to the adoption of the Low Emission Zone in London and a general increase in our sales activities. The increase in demand for our Liquid filters and Kiln furniture is due to an increase in general investing in our sales activities all over the world.

Gross profit

Gross profit for the three month period ended March 31, 2012 were \$2,089,684 compared to \$679,735 for the same period in 2011 representing an increase of \$1,409,949 or 207.4%. The increase in gross profit is mainly due to the increase in sales and an increase in the gross margin.

Expenses

Total operating expenses for the three month period ended March 31, 2012 were \$1,609,104, an increase of \$813,442, or 102.2%, compared to \$795,662 for the same period in 2011. This increase in operating expenses is attributable to an increase in general and administrative expenses of \$444,719 or 160.1%, an increase in research and development expenses of \$113,139 or 99.6%, and an increase in selling expenses of \$255,587 or 63.2% compared to the same period in 2011.

Selling expenses for the three month period ended March 31, 2012 were \$659,918 compared to \$404,331 for the same period in 2011, representing an increase of \$255,587 or 63.2%. This increase is attributable to an increase in costs in general and our increase in investment in our sales resources and investment in new markets primarily in Germany and Singapore.

General and administrative expenses for the three month period ended March 31, 2012 were \$722,512 compared to \$277,793 for the same period in 2011, representing an increase of \$444,719, or 160.1%. This increase is mainly attributable to an increase in costs incurred in connection with the reverse acquisition in August 2011 and costs related to our March 2012 registered offering. During the period ended March 31, 2012, the Company added an additional \$110,000 to its bad debt reserve compared to the same period in 2011. Furthermore, we have included an additional \$32,602 of compensation expense for options granted to employees and management which were not a part of the costs for three months period ended March 31, 2011.

Research and development expenses for the three month period ended March 31, 2012 were \$226,674 compared to \$113,538 for the same period in 2011, representing an increase of \$113,136, or 99.6%. This increase is attributable to an increase in investment in our products consistent with our plan to continuously improve and develop our products.

Net Income

Net income for the three month period ended March 31, 2012 was \$322,601 compared to \$(128,202) for the same period in 2011, representing an increase of \$450,804. This increase was primarily attributable to an increase of \$1,409,949 in our gross profit, partly offset by an increase of \$813,442 in operating expenses. The largest contributors to the increase in operating expenses was an increase in general and administrative expenses of \$444,719, or 160.1%, research and development expenses of \$113,139 or 99.6% and selling expenses of \$255,587 or 63.2%, compared to the same period in 2011.

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through internally generated cash from operations and our available lines of credit. At March 31, 2012, we had cash of \$6,552,392 and working capital of \$8,695,122 and at December 31, 2011 we had cash of \$1,033,056 and working capital of \$1,878,203. At March 31, 2012, our working capital increased by \$6,816,919 including the notes payable to related parties classified as a current liability, compared to December 31, 2011. We intend to repay these notes when we collect the \$3,467,750 of notes receivable classified as equity in the accompanying financial statements. Excluding these notes payable to related parties from the calculation of working capital, working capital at March 31, 2012 was \$12,162,872 representing a \$10,284,669 increase compared to December 31, 2011.

On March 2, 2012, we completed the closing of a registered public offering of our common stock. As part of the initial closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of \$3.25. The net proceeds to us from the initial closing were approximately \$7.4 million. We intend to use the net proceeds from the offering for the development and marketing of our products, the engineering, development and testing of our membranes, and the opening of local sales offices in certain countries outside of the U.S. and Denmark. Pending application of such proceeds, we expect to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations.

The notes payable to related parties at March 31, 2012 represent promissory notes issued by LiqTech USA to the previous shareholders of LiqTech Denmark as part of LiqTech USA's acquisition of the outstanding equity interests in LiqTech Denmark, LiqTech Int. DK (formerly known as Cometas), and LiqTech Delaware in accordance with the terms of the LiqTech Acquisition Agreements. The promissory notes due to the related parties will mature on June 30, 2012 but may be prepaid at the option of LiqTech USA. The promissory notes are guaranteed by us. The promissory notes are personally guaranteed by David Nemelka, a shareholder, and are secured by 2,700,000

shares of our common stock owned by Mr. Nemelka. The notes payable are offset against notes receivable from stockholders of \$3,467,750 as of March 31, 2012.

LiqTech AS has a DKK 6,000,000 (approximately \$1,077,110 at March 31, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowings are due on demand. There was \$0 and \$882,003 outstanding as of March 31, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 4.46% p.a. at March 31, 2012 and the line is secured by the Company's receivables, inventory and equipment. At March 31, 2012, the line had been paid down to \$0 outstanding, with \$1,077,110 available on the line of credit.

LiqTech Int. DK has a DKK 3,000,000 (approximately \$538,555 at March 31, 2012) standby line of credit with a bank, subject to certain borrowing base limitations. Outstanding borrowing is due on demand. There was \$0 and \$377,933 outstanding as of March 31, 2012 and December 31, 2011, respectively. Interest is charged quarterly at 4.46% p.a. at March 31, 2012 and the line is secured by certain of the Company's receivables, inventory and equipment. At March 31, 2012, the line had been paid down to \$0 outstanding, with \$538,555 available on the line of credit.

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

In September 2011 LiqTech AS entered into a note payable agreement with a financial institution, wherein LiqTech AS borrow \$475,000. During March 31, 2012, the note payable was paid off.

Cash Flows

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Cash from operations for the three months ended March 31, 2012 was \$733,894, an increase of \$1,019,206 compared to the three months ended March 31, 2011 due to an increase in working capital of \$458,068 and an increase in adjustment

Changes in assets and liabilities as of March 31, 2012 compared to December 31, 2011 included the following:

Accounts receivable increased by \$10,087 in the quarter ended March 31, 2012 compared to the quarter ended December 31, 2011, other receivables decreased by \$742,918, mainly due to the collecting of approx. \$730,000 from the business interruption insurance. Accounts payable decreased by \$717,098 due to the lower activity level in the quarter ended March 31, 2012 compared to the quarter ended December 31, 2011.

Cash used for investing activities increased during the three months ended March 31, 2012, compared to the same period in 2011. This increase is primarily attributable to an approximately \$210,901 or 49.5% increase in investment in production equipment and an \$34,878 increase in investment in the purchase of long-term investments. We have and will continue to invest in additional production equipment in order to meet the continuing increase in the demand for our products.

The increase of approximately \$5,052,599 in cash provided by financing activities in the three months ended March 31, 2012, compared to the same period in 2011 was primarily due to the approx. \$ 7.4 million in cash received in connection with the March 2012 registered offering of 2,511,500 common shares during the reporting period.

Significant Accounting Policies

Critical Accounting Estimates

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

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

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

Accounts Receivable/ Allowance for Doubtful Accounts / Bad Debt

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

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

	<u>2012</u>	<u>2011</u>
Allowance for doubtful accounts at the beginning of the period	\$ 389,032	\$ 452,266
Bad debt expense	110,000	208,275
Amount of receivables written off	-	(257,610)
Effect of currency translation	15,434	(13,899)
Allowance for doubtful accounts at the end of the period	<u>\$ 514,466</u>	<u>\$ 389,032</u>

Long-Lived Assets

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

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

Income Taxes

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

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

The calculation of our tax liabilities involves uncertainties in the application of complex tax regulations in Denmark and the United States. When a tax position is determined uncertain, we recognize liabilities based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible

outcomes. If uncertainties arise we re-evaluate the tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory.

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

	<u>2012</u>	<u>2011</u>
Furnace parts and supplies	\$ 197,867	\$ 151,412
Raw materials	623,477	920,065
Work in process	1,679,645	867,988
Finished goods	987,951	1,054,118
Reserve for obsolescence	<u>(89,374)</u>	<u>(13,000)</u>
Net Inventory	<u>\$ 3,399,566</u>	<u>\$ 2,980,583</u>

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

The estimated future demand is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, acceptance of the product by the customer and the various environmental authorities, competitor's products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand, and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

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

Loss Contingencies and Litigation

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

Recent Enacted Accounting Standards

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

Off Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both of our president and chief financial officer, carried out an evaluation of the effectiveness 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 president 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 president and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(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.

As a smaller reporting company we are not required to provide the information required by this Item.

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

Effective January 1, 2012, the Company's Board of Directors adopted the Amended and Restated Bylaws of the Company and the Code of Business Conduct and Ethics which are filed herewith as Exhibits 3.4 and 14.1, respectively. The Bylaws were primarily updated to provide for uncertificated shares, and the Code of Business Conduct Ethics was adopted with the purpose of assuring that all employees and officers of the Company and its subsidiaries understand and adhere to high ethical standards of conduct.

ITEM 6. EXHIBITS

Exhibit No.	Description	Location
1.1	Placement Agency Agreement, dated March 2, 2012, by and between LiqTech International, Inc. and Sunrise Securities Corp.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
2.1	Agreement and Plan of Merger dated as of August 23, 2011 by and among Blue Moose Media, Inc., LiqTech USA, Inc. and BMD Sub	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3(i) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
3.2	Certificate of Amendment to the Articles of Incorporation	Incorporated by reference to Exhibit A to the Company's Information Statement on Schedule 14C as filed with the SEC on September 20, 2011
3.3	Bylaws	Incorporated by reference to Exhibit 3(ii) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
3.4	Amended and Restated Bylaws, effective January 1, 2012	Provided herewith
4.1	Form of Common Stock Certificate	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012

4.2	Form of Warrant issued to Investors in the Private Placement	Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
4.3	Form of Warrant issued to Sunrise Securities Corp.	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
10.1	Form of Securities Purchase Agreement by and between LiqTech USA, Inc. and each of the investors in the Private Placement	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
10.2	Employment Agreement dated July 29, 2011 between LiqTech A/S and Lasse Andreasson	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011 (translated in English)
101	Employment Agreement dated November 16, 2005 between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
10.4	Addendum to Employment Agreement, dated December 15, 2011, between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.5	Employment Agreement, dated July 29, 2011, between LiqTech International Inc. and Soren Degn (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.6	Lease Agreements for 1800 - 1810 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011
10.7	Lease Agreement for 1800 - 1816 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.8	Lease Agreement for Grusbakken 12, DK-2820 Gentofte Denmark	Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.9	Lease Agreement for Industriparken 22C, 2750 Ballerup, Denmark	Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.10	DKK 6,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)

10.11	DKK 3,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.12	Note Payable Agreement between LiqTech A/S and Sydbank A/S, for the principal amount of \$475,000 USD	Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 15, 2011 (translated in English)
10.13	Form of Guarantee in respect of obligations of LiqTech A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.14	Form of Guarantee in respect of obligations of LiqTech International A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.15	Form of Guarantee in respect of obligations of LiqTech NA, Inc. (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.16	Form of Promissory Note payable to certain related parties	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.17	Business Mortgage of LiqTech A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
10.18	Business Mortgage of LiqTech International A/S (translated in English)	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
14.1	Code of Conduct and Ethics, effective January 1, 2012	Provided herewith
21	List of Subsidiaries	Incorporated by reference to the Company's Annual Report on Form 10-K as filed with the SEC on March 29, 2012
31.1	Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith

32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith
101. INS	XBRL Instance Document	Provided herewith
101. CAL	XBRL Taxonomy Extension Calculation Link base Document	Provided herewith
101. DEF	XBRL Taxonomy Extension Definition Link base Document	Provided herewith
101. LAB	XBRL Taxonomy Label Link base Document	Provided herewith
101. PRE	XBRL Extension Presentation Link base Document	Provided herewith
101. SCH	XBRL Taxonomy Extension Scheme Document	Provided herewith

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

LiqTech International, Inc.

Dated: May 15, 2012

/s/ Lasse Andreassen

Lasse Andreassen, Chief Executive Officer
(Principal Executive Officer)

Dated: May 15, 2012

/s/ Soren Degn

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

AMENDED AND RESTATED BYLAWS OF
LIQTECH INTERNATIONAL, INC.
a Nevada Corporation

ARTICLE I

STOCKHOLDERS' MEETINGS

Section 1.1 Place of Meetings.

All meetings of the stockholders of the Corporation shall be held at the Corporation's corporate headquarters, or at any other place, within or without the State of Nevada, or by means of any electronic or other medium of communication, as the Board of Directors of the Corporation (the "Board") may designate for that purpose from time to time.

Section 1.2 Annual Meetings.

An annual meeting of the stockholders shall be held each year on the date and at the time set by the Board, at which time the stockholders shall elect, by the greatest number of affirmative votes cast, the directors to be elected at the meeting and transact such other business as properly may be brought before the meeting.

Section 1.3 Special Meetings.

Special meetings of the stockholders, for the purpose or purposes set forth in the relevant notices, may be called at any time by the Chairman of the Board, the Chief Executive Officer or the Board.

Section 1.4 Notice of Meetings.

(a) Notice of each meeting of stockholders, whether annual or special, shall be given at least ten (10) and not more than sixty (60) days prior to the date thereof by the Secretary or any Assistant Secretary causing to be delivered to each stockholder of record entitled to vote at such meeting a written notice stating the time and place of the meeting and the purpose or purposes for which the meeting is called. Such notice shall be signed by the Chief Executive Officer, the Secretary or any Assistant Secretary and shall be (1) mailed postage prepaid to a stockholder at the stockholder's address as it appears on the stock books of the Corporation, or (2) delivered to a stockholder by any other method of delivery permitted at such time by Nevada and federal law and by any exchange on which the Corporation's shares shall be listed at such time. If any stockholder has failed to supply an address or otherwise specify an alternative method of delivery that is permitted by (2) above, notice shall be deemed to have been given if mailed to the address of the Corporation's corporate headquarters or published at least once in a newspaper having general circulation in the county in which the Corporation's corporate headquarters is located.

(b) A special meeting shall not be required to be held: (1) with respect to any matter within twelve (12) months after any annual or special meeting of stockholders at which the same matter was included on the agenda, or if the same matter will be included on the agenda at an annual meeting to be held within ninety (90) days after the receipt by the Corporation of such request or (ii) if the purpose of the special meeting is not a lawful purpose or if such request violates applicable law.

(c) It shall not be necessary to give any notice of the adjournment of any meeting, or the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken; provided, however, that when a meeting is adjourned for 30 days or more, notice of the adjourned meeting shall be given as in the case of the original meeting. The Corporation may transact any business which may have been transacted at the original meeting.

Section 1.5 Consent by Stockholders.

Any action, except the removal of directors, that the stockholders could take at a meeting may be taken without a meeting if one or more written consents, setting forth the action taken, shall be signed and dated, before or after such action, by the holders of outstanding stock of each voting group entitled to vote thereon having not less than the minimum number of votes with respect to each voting group that would be necessary to authorize or take such action at a meeting at which all voting groups and shares entitled to vote thereon were present and voted. The consent shall be delivered to the Corporation for inclusion in the minutes or filing with the corporate records.

Section 1.6 Quorum.

(a) The presence in person or by proxy of the persons entitled to vote a majority of the Corporation's voting shares at any meeting constitutes a quorum for the transaction of business. Shares shall not be counted in determining the number of shares represented or required for a quorum or in any vote at a meeting if the voting of them at the meeting has been enjoined or for any reason they cannot be lawfully voted at the meeting.

(b) The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of stockholders leaving less than a quorum.

(c) In the absence of a quorum, a majority of the shares present in person or by proxy and entitled to vote may adjourn any meeting from time to time until a quorum shall be present in person or by proxy.

Section 1.7 Voting Rights.

(a) Except as otherwise provided in the Corporation's Articles of Incorporation (as the same has been or may be amended from time to time, the "Articles"), at each meeting of the stockholders, each stockholder of record of the Corporation shall be entitled to one vote for each share of stock standing in the stockholder's name on the books of the Corporation. Except as otherwise provided by law, the Articles or these Bylaws, if a quorum is present: (i) directors shall be elected by a plurality of the votes of the shares of capital stock of the Corporation present in person or represented by proxy at the meeting and entitled to vote on the election of directors; and (ii) action on any matter, other than the election of directors, shall be approved if the majority of votes cast in person or by proxy are in favor of such action.

(b) The Board may fix a date as the record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders. Such record date shall not precede the date on which the Board adopted the resolution fixing the record date and shall not be more than sixty (60) days or less than ten (10) days prior to the date of such meeting.

Section 1.8 Proxies.

Every stockholder entitled to vote may do so either in person or by written, electronic, telephonic or other proxy executed in accordance with the provisions of Section 78.355 of the Nevada Revised Statutes.

Section 1.9 Manner of Conducting Meetings/Authority to Adjourn.

To the extent not in conflict with Nevada law, the Articles or these Bylaws, meetings of stockholders shall be conducted pursuant to such rules as may be adopted by the chairman of such meeting. The Chairman may adjourn a meeting of stockholders, whether or not a quorum exists.

Section 1.10. Nature of Business at Meetings of Stockholders.

(a) No business may be transacted at any special meeting of stockholders, other than business that is (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board (or any duly authorized committee thereof), or the Chief Executive Officer or Chairman of the Board or (b) otherwise properly brought before the meeting by or at the direction of the Board (or any duly authorized committee thereof), the Chairman of the Board, or the Chief Executive Officer.

(b) No business may be transacted at any annual meeting of stockholders, other than business that is (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board (or any duly authorized committee thereof), (2) otherwise properly brought before the meeting by or at the direction of the Board (or any duly authorized committee thereof), the Chairman of the Board, or the Chief Executive Officer, or (3) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 1.10 and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 1.10.

(c) In addition to any other applicable requirements, for business to be properly brought by a stockholder before an annual meeting, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

(d) To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the Corporation's corporate headquarters not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs.

(e) To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting of stockholders (1) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (2) the name and record address of such stockholder, (3) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (4) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (5) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting.

(f) No business shall be conducted at the annual meeting, or at any special meeting, of stockholders except business brought before the meeting in accordance with the procedures set forth in this Section 1.10. If the chairman of any meeting determines that business was not properly brought before the meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

1.11. Advance Notice of Director Nominations by Shareholders and Shareholder Proposals.

(a) Nomination of Directors. Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders (1) pursuant to the Corporation's notice of meeting, (2) by or at the direction of the Board of Directors or (3) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Section 1.11(a), who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Section 1.11(a). The foregoing clause shall be the exclusive means for a stockholder to make any nomination of a person or persons for the election to the Board of Directors of the Corporation at an annual meeting or special meeting of the stockholders. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting of stockholders; *provided, however*, that in the event that the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 60 days after such anniversary date, then to be timely such notice must be received by the Corporation no later than the later of 70 days prior to the date of the meeting or the 10th day following the day on which public announcement of the date of the meeting was made. With respect to special meetings of stockholders, such notice must be delivered to the Secretary not more than 90 days prior to such meeting and not later than the later of (i) 60 days prior to such meeting or (ii) 10 days following the date on which public announcement of the date of such meeting is first made by the Corporation. For purposes of this Section 1.11, public disclosure of the date of a forthcoming meeting may be made by the Corporation not only by giving formal notice of the meeting, but also by notice to a national securities exchange (if the Corporation's common stock is then listed on such exchange), by filing a report under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (if the Corporation is then subject thereto), by mailing to stockholders, or by a general press release. Such stockholder's notice shall set forth:

(i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and

(ii) as to the stockholder giving the notice:

(A) the name and address, as they appear on the Corporation's books, of such stockholder and any Stockholder Associated Person (defined below) covered by clause (B) below,

(B) (1) the class and number of shares of the Corporation which are, directly or indirectly, held of record or are beneficially owned by such stockholder or by any Stockholder Associated Person, (2) any Derivative Positions (defined below) held or beneficially held by the stockholder or any Stockholder Associated Person, (3) any rights to dividends of the Corporation that are separable from the underlying shares of the Corporation held by the stockholder or any Stockholder Associated Person, (4) any proportionate interest in the Corporation's securities held by a partnership in which the stockholder or any Stockholder Associated Person is a general partner, either directly or indirectly, (5) any performance-related fees that such stockholder or any Stockholder Associated Person is entitled to based on any increase or decrease in the value of the Corporation's securities, and (6) whether and the extent to which any hedging (including any short-interest positions) or other transaction or series of transactions have been entered into by or on behalf of such stockholder or any Stockholder Associated Person, or any other agreement, arrangement or understanding has been made by or on behalf of such stockholder or any Stockholder Associated Person, if the effect of or intent of any of the foregoing is to increase or decrease the voting power of such stockholder or any Stockholder Associated Person with respect to Corporation's securities, and

(C) any proxy, contract, arrangement, understanding or relationship pursuant to which such stockholder or any Stockholder Affiliated Person has the right to vote any security of the Corporation.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible to serve as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 1.11(a). The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 1.11(a), a stockholder shall also comply with all applicable requirements of the Exchange Act, and the rules and regulations thereunder with respect to the matters set forth in this Section 1.11(a). Notwithstanding anything to the contrary herein, no provision of these Bylaws shall be deemed to prohibit or restrict the ability of the Board of Directors of the Corporation to fill vacancies in the membership of the Board of Directors of the Corporation pursuant to Nev. Rev. Stat. §§ 78.335 or pursuant to any other statutory or contractual right of the Board of Directors of the Corporation to fill any such vacancy.

“ Stockholder Associated Person ” of any stockholder means (x) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (y) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder and (z) any person controlling, controlled by or under common control with such Stockholder Associated Person.

“ Derivative Position ” means any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise.

(b) Notice of Business . At any meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (y) by or at the direction of the Board of Directors or (z) by any stockholder of the Corporation who is a stockholder of record at the time of giving of the notice provided for in this Section 1.11(b), who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 1.11(b). For business to be properly brought before a stockholder meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder’s notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year’s annual meeting of stockholders; *provided, however* , that in the event that the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 60 days after such anniversary date then to be timely such notice must be received by the Corporation no later than the later of 70 days prior to the date of the meeting or the 10th day following the day on which public announcement of the date of the meeting was made. With respect to special meetings of stockholders, such notice must be delivered to the Secretary not more than 90 days prior to such meeting and not later than the later of (y) 60 days prior to such meeting or (z) 10 days following the date on which public announcement of the date

of such meeting is first made by the Corporation. A stockholder’s notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the meeting:

(i) the information required to be disclosed in solicitations of proxies with respect to the matter pursuant to Regulation 14A of the Exchange Act;

(ii) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting;

(iii) the name and address, as they appear on the Corporation’s books, of the stockholder proposing such business and any Stockholder Associated Person covered by clauses (iv) and (v) below;

(iv) (A) the class and number of shares of the Corporation which are, directly or indirectly, held of record or are beneficially owned by such stockholder or by any Stockholder Associated Person, (B) any Derivative Positions held or beneficially held by the stockholder or any Stockholder Associated Person, (C) any rights to dividends of the Corporation that are separable from the underlying shares of the Corporation held by the stockholder or any Stockholder Associated Person, (D) any proportionate interest in the Corporation’s securities held by a partnership in which the stockholder or any Stockholder Associated Person is a general partner, either directly or indirectly, (E) any performance-related fees that such stockholder or any Stockholder Associated Person is entitled to based on any increase or decrease in the value of the Corporation’s securities, and (F) whether and the extent to which any hedging (including any short-interest positions) or other transaction or series of transactions have been entered into by or on behalf of such stockholder or any Stockholder Associated Person, or any other agreement, arrangement or understanding has been made by or on behalf of such stockholder or any Stockholder Associated Person, if the effect of or intent of any of the foregoing is to increase or decrease the voting power of such stockholder or any Stockholder Associated Person with respect to Corporation’s securities; and

(v) any material interest of the stockholder or any Stockholder Associated Person in such business, including all arrangements, agreements and understandings with the stockholder or Stockholder Associated Person in connection with the proposed business.

Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at a stockholder meeting except as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.11(b). The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of the Bylaws, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 1.11(b), a stockholder shall also comply with all applicable requirements of the Exchange Act, and the rules and regulations thereunder with respect to the matters set forth in this Section 1.11(b).

ARTICLE II DIRECTORS—MANAGEMENT

Section 2.1 Powers.

Subject to the limitations of Nevada law, the Articles and these Bylaws as to action to be authorized or approved by the stockholders, all corporate powers shall be exercised by or under authority of, and the business and affairs of this Corporation shall be controlled by, the Board.

Section 2.2 Number and Qualification; Change in Number

(a) Subject to Section 2.2(b), the authorized number of directors of this Corporation shall be not less than two nor more than eight (8) , with the exact number to be established from time to time by resolution of the Board. All directors of this Corporation shall be at least twenty-one (21) years of age.

(b) The Board may increase the number of directors at any time and from time to time; provided, however, that the number of directors may never be increased by more than one during any twelve (12) month period, except upon the affirmative vote of two-thirds (2/3) of the directors. This provision may not be amended except by a like vote.

Section 2.3 Nominations.

Nominations for the election of Directors shall be made in accordance with the provisions of Sections 1.11 of these By-laws.

Section 2.4 Election.

Each director's term of office shall begin immediately after election and shall continue until the next annual stockholders meeting and his successor is duly elected and qualified. Directors elected by the Board or stockholders to fill a vacancy on the Board shall hold office for the balance of the term to which such director is elected.

Section 2.5. Vacancies.

(a) Any vacancies in the Board may be exclusively filled by a majority vote of the remaining directors, though less than a quorum, or by a sole remaining director. Each director so elected shall hold office for the balance of the term to which such director is elected. The power to fill vacancies may not be delegated to any committee appointed in accordance with these Bylaws.

(b) A vacancy or vacancies shall be deemed to exist in case of the death, permanent and total disability, resignation, retirement or removal of any director, or if the directors or stockholders increase the authorized number of directors but fail to elect the additional director or directors at a meeting at which such increase is authorized or at an adjournment thereof, or if the stockholders fail at any time to elect the full number of authorized directors.

(c) If the Board accepts the resignation of a director tendered to take effect at a future time, the Board shall have power to immediately elect a successor who shall take office when the resignation shall become effective.

(d) No reduction of the number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

Section 2.6 Removal of Directors.

Any one or more director(s) may be removed from office, with or without cause, by the affirmative vote of two-thirds of all the outstanding shares voting together and not by class. For purpose of this Section 2.6, cause shall be defined as (i) a director's conviction (treating a nolo contendere plea as a conviction) of a serious felony involving (a) moral turpitude or (b) a violation of federal or state securities laws with the exception of a conviction based entirely on vicarious liability, (ii) the director's commission of any material act of dishonesty such as embezzlement, resulting or intended to result in material personal gain or enrichment of such director at the expense of the Corporation or any of its subsidiaries and which act, if made the subject of criminal charges, would be reasonably likely to be charged as a felony, or (iii) the director being adjudged legally incompetent by a court of competent jurisdiction.

Section 2.7 Resignations.

Any director of the Corporation may resign at any time either by oral tender of resignation at any meeting of the Board or by giving written notice thereof to the Chairman of the Board, Secretary or the Chief Executive Officer. Such resignation shall take effect at the time it specifies, and the acceptance of such resignation shall not be necessary to make it effective.

Section 2.8 Place of Meetings.

(a) Regular and special meetings of the Board shall be held at the corporate headquarters of the Corporation or at such other place within or without the State of Nevada as may be designated for that purpose by the Board.

(b) Meetings of the Board may be held in person or by means of any electronic or other medium of communication approved by the Board from time to time.

Section 2.9 Chairman of the Board.

Except as otherwise provided in these bylaws, the Chairman of the Board shall preside at all meetings of the Board of Directors. The Chairman of the Board may, but need not be an employee of the Corporation.

Section 2.10 Regular Meetings.

(a) Regular meetings of the Board shall be held at such time and place within or without the State of Nevada as may be agreed upon from time to time by a majority of the Board.

(b) Notwithstanding the provisions of Section 2.12, no notice need be provided of regular meetings, except that a written notice shall be given to each director of the resolution establishing a regular meeting date or dates, which notice shall set forth the date, time and place of the meeting(s). Except as otherwise provided in these Bylaws or the notice of the meeting, any and all business may be transacted at any regular meeting of the Board.

Section 2.11 Special Meetings.

Special meetings of the Board shall be held whenever called by the Chairman of the Board, the Chief Executive Officer or two-thirds (2/3) of the directors. Except as otherwise provided in these Bylaws or the notice of the meeting, any and all business may be transacted at any special meeting of the Board.

Section 2.12 Notice; Waiver of Notice.

Notice of each regular Board meeting not previously approved by the Board and each special Board meeting shall be (a) mailed by U.S. mail to each director not later than two (2) days before the day on which the meeting is to be held, (b) sent to each director by overnight delivery service, telex, facsimile transmission, telegram, cablegram, radiogram, e-mail, any other electronic transmission permitted by Nevada law or delivered personally not later than 5:00 p.m. (EST time) on the day before the date of the meeting, or (c) provided to each director by telephone not later than 5:00 p.m. (EST time) on the day before the date of the meeting. Any director who attends a regular or special Board meeting and (x) waives notice by a writing filed with the Secretary, (y) is present thereat and asks that his/her oral consent to the notice be entered into the minutes or (z) takes part in the deliberations thereat without expressly objecting to the notice thereof in writing or by asking that his/her objection be entered into the minutes shall be deemed to have waived notice of the meeting and neither that director nor any other person shall be entitled to challenge the validity of such meeting.

Section 2.13 Notice of Adjournment.

Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place is fixed at the meeting adjourned.

Section 2.14 Quorum.

A majority of the number of directors as fixed by the Articles or these Bylaws, or by the Board pursuant to the Articles or these Bylaws, shall be necessary to constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which there is a quorum, when duly assembled, is valid as a corporate act; provided, however, that a minority of the directors, in the absence of a quorum, may adjourn from time to time or fill vacant directorships in accordance with Section 2.5 but may not transact any other business. The directors present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of directors, leaving less than a quorum.

Section 2.15 Action by Unanimous Written Consent.

Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all members of the Board consent in writing thereto. Such written consent shall be filed with the minutes of the proceedings of the Board and shall have the same force and effect as a unanimous vote of such directors.

Section 2.16 Compensation.

The Board may pay to directors a fixed sum for attendance at each meeting of the Board or of a standing or special committee, a stated retainer for services as a director, a stated fee for serving as a chair of a standing or special committee and such other compensation, including benefits, as the Board or any standing committee thereof shall determine from time to time. Additionally, the directors may be paid their expenses of attendance at each meeting of the Board or of a standing or special committee.

Section 2.17 Transactions Involving Interests of Directors.

In the absence of fraud, no contract or other transaction of the Corporation shall be affected or invalidated by the fact that any of the directors of the Corporation is interested in any way in, or connected with any other party to, such contract or transaction or is a party to such contract or transaction; provided, however, that such contract or transaction satisfies Section 78.140 of the Nevada Revised Statutes. Each and every person who is or may become a director of the Corporation hereby is relieved, to the extent permitted by law, from any liability that might otherwise exist from contracting in good faith with the Corporation for the benefit of such person or any person in which such person may be interested in any way or with which such person may be connected in any way. Any director of the Corporation may vote and act upon any matter, contract or transaction between the Corporation and any other person without regard to the fact that such director also is a stockholder, director or officer of, or has any interest in, such other person; provided, however, that such director shall disclose any such relationship and/or interest to the Board prior to a vote and/or action.

ARTICLE III
OFFICERS

Section 3.1 Executive Officers.

The Corporation shall have a President, Secretary and a Treasurer. The officers of the Corporation may also include, without limitation, one or more of each of the following: Chief Executive Officer, Chief Financial Officer, Executive Chairman, Vice Chairman, Chief Corporate Officer, Chief Operating Officer, Chief Medical Officer, Senior Executive Vice President, Executive Vice President, Senior Vice President, Vice President, Group and/or Division President. Any person may hold two or more offices. Each officer of the Corporation shall be elected by the Board, may be classified by the Board as an executive officer or a non-executive officer (or as a non-officer) at any time, and shall serve at the pleasure of the Board.

Section 3.2 Intentionally Omitted

Section 3.3 Removal and Resignation; No Right to Continued Employment

(a) Any executive officer may be removed at any time by the Board, either with or without cause.

(b) Any officer may resign at any time by giving written notice to the Board, the Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect as of the date of the receipt of such notice, or at any later time specified therein; provided, however, that such officer may be removed at any time notwithstanding such resignation. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(c) The fact that an employee has been elected by the Board to serve as an executive officer or appointed to serve as an officer shall not entitle such employee to remain an officer or employee of the Corporation.

Section 3.4 Vacancies.

A vacancy in any office due to death, permanent and total disability, retirement, resignation, removal, disqualification or any other cause may be filled in any manner prescribed in these Bylaws for regular elections or appointments to such office or may not be filled.

Section 3.5 Executive Chairman and Vice Chairman.

The Executive Chairman shall preside, in the absence of the Chief Executive Officer, at all meetings of the stockholders and shall exercise and perform such other powers and duties as from time to time may be assigned by the Board. In the absence of the Executive Chairman and the Chief Executive Officer, a Vice Chairman shall preside at all meetings of the stockholders and exercise and perform such other powers and duties as from time to time may be assigned by the Board. A Vice Chairman need not be a member of the Board.

Section 3.6 Chief Executive Officer.

Subject to the oversight of the Board, the Chief Executive Officer shall have general supervision, direction and control of the business and affairs of the Corporation. The Chief Executive Officer shall preside at all meetings of the stockholders and, in the absence of the Chairman of the Board, at all meetings of the Board. If not a member of the Board, the Chief Executive Officer shall be an ex officio member of the Executive Committee of the Board and shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and such other powers and duties as may be assigned by the Board.

Section 3.7 President.

In the absence or disability of the Chief Executive Officer, the President shall perform all of the duties of the Chief Executive Officer and when so acting shall have all the powers and be subject to all the restrictions upon the Chief Executive Officer, including the power to sign all instruments and to take all actions which the Chief Executive Officer is authorized to perform by the Board of Directors or these Bylaws. The President shall have the general powers and duties usually vested in the office of president of a corporation and such other powers and duties as may be prescribed by the Board.

Section 3.8 Chief Financial Officer

The Chief Financial Officer shall exercise direction and control of the financial affairs of the Corporation, including the preparation of the Corporation's financial statements. The Chief Financial Officer shall have the general powers and duties usually vested in the office of the chief financial officer of a corporation and such other powers and duties as may be assigned by the Board.

Section 3.9 Chief Operating Officer.

Subject to the oversight of the Chief Executive Officer, the Chief Operating Officer shall exercise direction and control over the day-to-day operations of the Corporation. In the case of the death or total and permanent disability of the Chief Executive Officer and the President(s), the Chief Operating Officer or Chief Corporate Officer, in order of rank or seniority, shall perform all of the duties of such officer, and when so acting shall have all the powers of and be subject to all the restrictions upon such officer, including the power to sign all instruments and to take all actions that such officer is authorized to perform by the Board or these Bylaws. The Chief Operating Officer shall have the general powers and duties of management usually vested in the office of the chief operating officer of a corporation and such other powers and duties as from time to time may be assigned to the Chief Operating Officer by the Executive Chairman, the Chief Executive Officer or Board.

Section 3.10 Chief Corporate Officer.

Subject to the oversight of the Chief Executive Officer, the Chief Corporate Officer shall exercise direction and control over the day-to-day corporate functions of the Corporation. In the case of the death or total and permanent disability of the Chief Executive Officer and the President, the Chief Operating Officer or Chief Corporate Officer, in order of rank or seniority, shall perform all of the duties of such officer, and when so acting shall have all the powers of and be subject to all the restrictions upon such officer, including the power to sign all instruments and to take all actions that such officer is authorized to perform by the Board or these Bylaws. The Chief Corporate Officer shall have the general powers and duties of management usually vested in the office of chief corporate officer of a corporation and such other powers and duties as from time to time may be assigned to the Chief Corporate Officer by the Executive Chairman, the Chief Executive Officer or the Board.

Section 3.11 Chief Medical Officer

The Chief Medical Officer shall exercise direction and control of the medical affairs of the Corporation, including the preparation of any medical related regulatory documents and advising on any medical related matters for the Corporation. The Chief Medical Officer shall have the general powers and duties usually vested in the office of the chief medical officer of a corporation and such other powers and duties as may be assigned by the Executive Chairman, the Chief Executive Officer or the Board.

Section 3.12 Senior Executive Vice President, Executive Vice President, Senior Vice President and Vice President.

In the case of the death or total and permanent disability of the Chief Executive Officer and the President, the Chief Operating Officer and the Chief Corporate Officer, a corporate Senior Executive Vice President, an Executive Vice President, a Group President, in the order of rank and seniority, shall perform all of the duties of such officer, and when so acting shall have all the powers of and be subject to all the restrictions upon such officer, including the power to sign all instruments and to take all actions that such officer is authorized to perform by the Board or these Bylaws. Each such officer shall have the general powers and duties usually vested in such office. Each operating region, division, group or corporate staff function officer shall have the general powers and duties usually vested in such office. Each such officer shall have such other powers and perform such other duties as from time to time may be assigned to them respectively by the Executive Chairman, the Chief Executive Officer or the Board.

Section 3.13 Secretary and Assistant Secretaries.

(a) The Secretary shall record and keep, or cause to be kept, all votes and the minutes of all proceedings in a book or books to be kept for that purpose at the corporate headquarters of the Corporation, or at such other place as the Board may from time to time determine; and perform like duties for the Executive and other committees of the Board, when required. In addition, the Secretary shall keep or cause to be kept, at the registered office of the Corporation in the State of Nevada, those documents required to be kept thereat by Section 5.2 of the Bylaws and Section 78.105 of the Nevada Revised Statutes.

(b) The Secretary shall give, or cause to be given, notice of meetings of the stockholders and special meetings of the Board, and shall perform such other duties as may be assigned by the Executive Chairman, the Chief Executive Officer or Board, under whose supervision the Secretary shall be. The Secretary shall keep in safe custody the seal of the Corporation and affix the same to any instrument requiring it. When required, the seal shall be attested by the Secretary's; the Treasurer's or an Assistant Secretary's signature. The Secretary or an Assistant Secretary hereby is authorized to issue certificates, to which the corporate seal may be affixed, attesting to the incumbency of officers of this Corporation or to actions duly taken by the Board, the Executive Committee, any other committee of the Board or the stockholders.

(c) The Assistant Secretary or Secretaries, in the order of their seniority, shall perform the duties and exercise the powers of the Secretary and perform such duties as the Executive Chairman, the Chief Executive Officer or Board of Directors shall prescribe in the case of death or total and permanent disability of the Secretary.

Section 3.14 Treasurer and Assistant Treasurers.

(a) The Treasurer shall deposit all moneys and other valuables in the name, and to the credit, of the Corporation, with such depositories as may be determined by the Treasurer. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board or permitted by the Chief Executive Officer or Chief Financial Officer, shall render to the Chief Executive Officer, Chief Financial Officer and directors, whenever they request it, an account of all transactions and shall have such other powers and perform such other duties as may be prescribed by the Board or these Bylaws or by the Executive Chairman or the Chief Executive Officer.

(b) The Assistant Treasurer or Treasurers, in the order of their seniority, shall perform the duties and exercise the powers of the Treasurer and perform such duties as the Executive Chairman, the Chief Executive Officer or Board of Directors shall prescribe in the case of death or total and permanent disability of the Treasurer.

Section 3.15 Additional Powers, Seniority and Substitution of Officers.

In addition to the foregoing powers and duties specifically prescribed for the respective officers, the Board may by resolution from time to time (a) impose or confer upon any of the officers such additional duties and powers as the Board may see fit, (b) determine the order of seniority among the officers, and/or (c) except as otherwise provided above, provide that in the case of death or total and permanent disability of any officer or officers, any other officer or officers shall temporarily or indefinitely assume the duties, powers and authority of the officer or officers who died or became totally and permanently disabled. Any such resolution may be final, subject only to further action by the Board, granting to any of the Chief Executive Officer, President, Executive Chairman or Vice Chairman (or Chairmen) such discretion as the Board deems appropriate to impose or confer additional duties and powers, to determine the order of seniority among officers and/or to provide for substitution of officers as above described.

Section 3.16 Compensation.

The officers of the Corporation shall receive such compensation as shall be fixed from time to time by the Board or a committee thereof. Unless otherwise determined by the Board, no officer shall be prohibited from receiving any compensation by reason of the fact that such officer also is a director of the Corporation.

Section 3.17 Transaction Involving Interest of an Officer.

In the absence of fraud, no contract or other transaction of the Corporation shall be affected or invalidated by the fact that any of the officers of the Corporation is interested in any way in, or connected with any other party to, such contract or transaction, or are themselves parties to such contract or transaction; provided, however, that such contract or transaction complies with Section 78.140 of the Nevada Revised Statutes. Each and every person who is or may become an officer of the Corporation hereby is relieved, to the extent permitted by law, when acting in good faith, from any liability that might otherwise exist from contracting with the Corporation for the benefit of such person or any person in which such person may be interested in any way or with which such person may be connected in any way.



ARTICLE IV
EXECUTIVE AND OTHER COMMITTEES

Section 4.1 Standing Committees.

(a) The Board may appoint an Executive Committee, an Audit Committee and a Compensation Committee, consisting of such number of members as the Board may designate, consistent with the Articles, these Bylaws and the laws of the State of Nevada.

(b) The Executive Committee shall have and may exercise, when the Board is not in session, all of the powers of the Board in the management of the business and affairs of the Corporation, but the Executive Committee shall not have the power to fill vacancies on the Board, to change the membership of or to fill vacancies in the Executive Committee or any other Committee of the Board, to adopt, amend or repeal these Bylaws or to declare dividends or other distributions.

(c) The Audit Committee shall select and engage, on behalf of the Corporation and subject to the consent of the stockholders, and fix the compensation of, a firm of certified public accountants. It shall be the duty of the firm of certified public accountants, which firm shall report to the Audit Committee, to audit the books and accounts of the Corporation and its consolidated subsidiaries. The Audit Committee shall confer with the auditors to determine, and from time to time shall report to the Board upon, the scope of the auditing of the books and accounts of the Corporation and its consolidated subsidiaries. If required by Nevada or federal laws, rules or regulations, or by the rules or regulations of any exchange on which the Corporation's shares shall be listed, the Board shall approve a charter for the Audit Committee and the Audit Committee shall comply with such charter in the performance of its duties.

(d) The Compensation Committee shall establish a general compensation policy for the Corporation's directors and elected officers and shall have responsibility for approving the compensation of the Corporation's directors, elected officers and any other senior officers determined by the Compensation Committee. The Compensation Committee shall have all of the powers of administration granted to the Compensation Committee under the Corporation's non-qualified employee benefit plans, including any stock incentive plans, long-term incentive plans, bonus plans, retirement plans, deferred compensation plans, stock purchase plans and medical, dental and insurance plans. In connection therewith, the Compensation Committee shall determine, subject to the provisions of such plans, the directors, officers and employees of the Corporation eligible to participate in any of the plans, the extent of such participation and the terms and conditions under which benefits may be vested, received or exercised. The Compensation Committee may delegate any or all of its powers of administration under any or all of the Corporation's non-qualified employee benefit plans to any committee or entity appointed by the Compensation Committee. If required by any Nevada or federal laws, rules or regulations, or by the rules or regulations of any exchange on which the Corporation's shares shall be listed, the Board shall approve a charter for the Compensation Committee and the Compensation Committee shall comply with such charter in the performance of its duties.

Section 4.2 Other Committees.

Subject to the limitations of the Articles, these Bylaws and the laws of the State of Nevada, or duties not delegable by the Board, any or all of the responsibilities and powers of the Board may be exercised, and the business and affairs of this Corporation may be exercised or controlled by or under the authority of such other committee or committees as may be appointed by the Board, including, without limitation, a Nominating Committee, an Ethics, Quality and Compliance Committee and a Corporate Governance Committee. The responsibilities and/or powers to be exercised by any such committee shall be designated by the Board.

Section 4.3 Procedures.

Meetings and actions of committees shall be governed by, and held in accordance with, the following provisions of Article II of these Bylaws: Section 2.9 (Regular Meetings), Section 2.10 (Special Meetings), Section 2.11 (Notice; Waiver of Notice), Section 2.12 (Notice of Adjournment), Section 2.13 (Quorum) and Section 2.14 (Action by Unanimous Written Consent), with such changes in the context of these Bylaws as are necessary to substitute the committee and its members for the Board and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board. The Board may adopt rules for the governance of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V CORPORATE RECORDS AND REPORTS—INSPECTION

Section 5.1 Records.

The Corporation shall maintain adequate and correct accounts, books and records of its business and properties. All of such books, records and accounts shall be kept at its corporate headquarters and/or at other locations within or without the State of Nevada as may be designated by the Board.

Section 5.2 Articles, Bylaws and Stock Ledger.

The Corporation shall maintain and keep the following documents at its registered office in the State of Nevada: (a) a certified copy of the Articles and all amendments thereto; (b) a certified copy of these Bylaws and all amendments thereto; and (c) the Stock Ledger (unless such Stock Ledger is kept by a third party transfer agent).

Section 5.3 Inspection.

Stockholders of the Corporation may inspect books and records of the Corporation in accordance with Sections 78.105 and 78.257 of the Nevada Revised Statutes.

Section 5.4 Checks, Drafts, Etc.

All checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of, or payable to, the Corporation, shall be signed or endorsed only by such person or persons, and only in such manner, as shall be authorized from time to time by the Board, the Chief Executive Officer, the President, the Chief Financial Officer or the Treasurer.

ARTICLE VI OTHER AUTHORIZATIONS

Section 6.1 Execution of Contracts.

Except as otherwise provided in these Bylaws, the Board may authorize any officer or agent of the corporation to enter into and execute any contract, document, agreement or instrument in the name of and on behalf of the Corporation. Such authority may be general or confined to specific instances. Unless so authorized by the Board, no officer, agent or employee shall have any power or authority, except in the ordinary course of business, to bind the Corporation by any contract or engagement, to pledge its credit or to render it liable for any purpose or in any amount.

Section 6.2 Dividends or Other Distributions

From time to time, the Board may declare, and the Corporation may pay, dividends or other distributions on its outstanding shares in the manner and on the terms and conditions provided by the laws of the State of Nevada and the Articles, subject to any contractual restrictions to which the Corporation is then subject.

ARTICLE VII SHARES AND TRANSFER OF SHARES

Section 7.1 Shares.

(a) The shares of the capital stock of the Corporation may be represented by certificates or uncertificated. Each registered holder of shares of capital stock, upon written request to the Secretary of the Corporation, shall be provided with a stock certificate representing the number of shares owned by such holder.

(b) Certificates for shares shall be in such form as the Board may designate and shall be numbered and registered as they are issued. Each shall state the name of the record holder of the shares represented thereby; its number and date of issuance; the number of shares for which it is issued; the par value; a statement of the rights, privileges, preferences and restrictions, if any; a statement as to rights of redemption or conversion, if any; and a statement of liens or restrictions upon transfer or voting, if any, or, alternatively, a statement that certificates specifying such matters may be obtained from the Secretary of the Corporation.

(c) Every certificate for shares must be signed by the Chief Executive Officer or the President and the Secretary or an Assistant Secretary, or must be authenticated by facsimiles of the signatures of the Chief Executive Officer or the President and the Secretary or an Assistant Secretary. Before it becomes effective, every certificate for shares authenticated by a facsimile or a signature must be countersigned by a transfer agent or transfer clerk, and must be registered by an incorporated bank or trust company, either domestic or foreign, as registrar of transfers.

(d) Even though an officer who signed, or whose facsimile signature has been written, printed, or stamped on a certificate for shares ceases, by death, resignation, retirement or otherwise, to be an officer of the Corporation before the certificate is delivered by the Corporation, the certificate shall be as valid as though signed by a duly elected, qualified and authorized officer if it is countersigned by the signature or facsimile signature of a transfer clerk or transfer agent and registered by an incorporated bank or trust company, as registrar of transfers.

(e) Even though a person whose facsimile signature as, or on behalf of, the transfer agent or transfer clerk has been written, printed or stamped on a certificate for shares ceases, by death, resignation, or otherwise, to be a person authorized to so sign such certificate before the certificate is delivered by the Corporation, the certificate shall be deemed countersigned by the facsimile signature of a transfer agent or transfer clerk for purposes of meeting the requirements of this section.

(f) The issuance of uncertificated shares shall have no effect on existing certificates for shares unless surrendered to the corporation or on the respective rights and obligations of the stockholders. The rights and obligations of stockholders are identical whether or not their shares of stock are represented by certificates. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send the stockholder a written statement containing the information required on the certificate pursuant to subsection (b) hereof. At least annually thereafter, the Corporation shall provide to its stockholders of record a written statement confirming the information contained in the informational statement previously sent pursuant to this subsection.

Section 7.2 Transfer on the Books.

Upon surrender to the Secretary or transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation or its transfer agent to issue a new certificate, if requested by the transferee, to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 7.3 Lost or Destroyed Certificates.

The Board may direct, or may authorize the Secretary to direct, a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the Secretary's receipt of an affidavit of that fact by the person requesting the replacement certificate for shares so lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board or Secretary may, in its or the Secretary's discretion, and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

Section 7.4 Transfer Agents and Registrars.

The Board, the Chief Executive Officer, the Chief Financial Officer or the Secretary may appoint one or more transfer agents or transfer clerks, and one or more registrars, who may be the same person, and may be the Secretary of the Corporation, an incorporated bank or trust company or any other person or entity, either domestic or foreign.

Section 7.5 Fixing Record Date for Dividends, Etc.

The Board may fix a time, not exceeding fifty (50) days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of shares shall go into effect, as a record date for the determination of the stockholders entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares, and, in such case, only stockholders of record on the date so fixed shall be entitled to receive such dividend, distribution, or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid.

Section 7.6 Record Ownership.

The Corporation shall be entitled to recognize the exclusive right of a person registered as such on the books of the Corporation as the owner of shares of the Corporation's stock to receive dividends or other distributions and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VIII AMENDMENTS TO BYLAWS

Section 8.1 Authority to Amend Bylaws.

The Board may adopt, amend, or repeal any of these Bylaws by the affirmative vote of two-thirds of the directors. This power may not be delegated to any committee appointed in accordance with these Bylaws.

Section 8.3 Record of Amendments.

Whenever an amendment or a new Bylaw is adopted, it shall be copied in the book of minutes with the original Bylaws, in the appropriate place. If any Bylaw is repealed, the fact of repeal, with the date of the meeting at which the repeal was enacted, or written assent was filed, shall be stated in said book.

ARTICLE IX
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 9.1 Indemnification in Actions, Suits or Proceedings other than those by or in the Right of the Corporation.

Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (except an action by or in the right of the Corporation) (a “Proceeding”), by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Nevada law against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding (collectively, “Costs”). The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and that, with respect to any criminal action or proceeding, such person had reasonable cause to believe that such person’s conduct was unlawful.

Section 9.2 Indemnification in Actions, Suits or Proceedings by or in the Right of the Corporation.

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed Proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise against Costs incurred by such person in connection with the defense or settlement of such action or suit. Indemnification may not be made for any claim, issue or matter as to which such person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the Corporation or for amounts paid in settlement to the Corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 9.3 Indemnification by a Court.

If a claim under Sections 9.1 or 9.2 is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for Costs incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has failed to meet a standard of conduct which makes it permissible under Nevada law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including the Board, independent legal counsel, or the stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because such claimant has met such standard of conduct, nor an actual determination by the Corporation (including the Board, independent legal counsel, or the stockholders) that the claimant has not met such standard of conduct, shall be a defense to the action or create a presumption that the claimant has failed to meet such standard of conduct.

Section 9.4 Expenses Payable in Advance.

The Corporation shall pay the Costs incurred by any person entitled to indemnification in defending a Proceeding as such Costs are incurred and in advance of the final disposition of a Proceeding; provided, however, that the Corporation shall pay the Costs of such person only upon receipt of an undertaking by or on behalf of such person to repay the amount if it is ultimately determined by a court of competent jurisdiction that such person is not entitled to be indemnified by the Corporation.

Section 9.5 Nonexclusivity of Indemnification and Advancement of Expenses.

The right to indemnification and advancement of Costs authorized in this Article IX or ordered by a court: (a) does not exclude any other rights to which a person seeking indemnification or advancement of expenses may be entitled under the Articles of the Corporation or any agreement, vote of stockholders or disinterested directors or otherwise, for either an action in such person's official capacity or an action in another capacity while holding such person's office, except that indemnification, unless ordered by a court pursuant to Nevada law or the advancement of expenses made pursuant to Section 9.4, may not be made to or on behalf of any director or officer if a final adjudication establishes that such person's acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to the cause of action; and (b) continues for a person who has ceased to be a director, officer, employee, or agent and inures to the benefit of the heirs, executors and administrators of such a person.

Section 9.6 Insurance.

The Corporation may purchase and maintain insurance or make other financial arrangements on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise in accordance with Section 78.752 of the Nevada Revised Statutes.

Section 9.7 Certain Definitions.

(a) For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents so that any person who is or was a director, officer, employee or agent of such constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article IX with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Article IX, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan.

(c) For purposes of this Article IX, references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries;

(d) For purposes of this Article IX, a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article IX.

(e) For purposes of this Article IX, the term "Board" shall mean the Board of the Corporation or, to the extent permitted by the laws of Nevada, as the same exist or may hereafter be amended, its Executive Committee. On vote of the Board, the Corporation may assent to the adoption of Article IX by any subsidiary, whether or not wholly owned.

Section 9.8 Indemnification of Witnesses.

To the extent that any director, officer, employee, or agent of the Corporation is by reason of such position, or a position held with another entity at the request of the Corporation, a witness in any action, suit or proceeding, such person shall be indemnified against all Costs actually and reasonably incurred by such person or on such person's behalf in connection therewith.

Section 9.9 Indemnification Agreements.

The Corporation may enter into agreements with any director, officer, employee, or agent of the Corporation providing for indemnification to the full extent permitted by Nevada law.

Section 9.10 Actions Prior to Adoption of Article IX.

The rights provided by this Article IX shall be available whether or not the claim asserted against the director, officer, employee, or agent is based on matters which antedate the adoption of this Article IX.

Section 9.11 Severability.

If any provision of Article IX shall for any reason be determined to be invalid, the remaining provisions hereof shall not be affected thereby but shall remain in full force and effect.

ARTICLE X
CORPORATE SEAL

The corporate seal shall be circular in form and shall have inscribed thereon the name of the Corporation, the date of its incorporation and the word "Nevada".

ARTICLE XI

ELECTION NOT TO BE GOVERNED BY CERTAIN PROVISIONS OF THE NEVADA REVISED STATUTES

The Corporation will NOT be governed by the provisions of Nev. Rev. Stat. §§ 78.378 through and including 78.3793, as amended (Acquisition of Controlling Interest). None of the aforementioned provisions in any way whatsoever will affect the management or operation of the Corporation or be applied to the Corporation.

ARTICLE XII
INTERPRETATION

Reference in these Bylaws to any provision of Nevada law or the Nevada Revised Statutes shall be deemed to include all amendments thereto and the effect of the construction and determination of validity thereof by the Nevada Supreme Court.

LIQTECH INTERNATIONAL, INC.
CODE OF CONDUCT AND ETHICS
Adopted January 01, 2012

INTRODUCTION

The following Code of Conduct and Ethics (this Code) has been adopted by management and approved by the Board of Directors of LiqTech International, Inc., a Nevada corporation (the Company), with the purpose of assuring that all employees and officers of the Company and its subsidiaries understand and adhere to high ethical standards of conduct.

This Code is based on the following general principles:

- 1. Responsible Business Citizenship** - The Company and its employees will act as responsible citizens in the communities where the Company does business.
- 2. Compliance with the Law** - The Company and its employees will abide by the letter and the spirit of all applicable laws and regulations.
- 3. Adherence to High Ethical Standards** - The Company and its employees will adhere to high ethical standards of conduct in all business activities, and will act in a manner that will enhance the Company's standing as a vigorous and ethical competitor within the business community.
- 4. Duty of Loyalty** - The Company expects its employees to adhere to high standards of business ethics and undivided loyalty to the Company. Activities and personal interests that conflict with the best interests of the Company are inconsistent with employees' duty and loyalty to the Company.

The Company's management shall be responsible for the implementation and administration of this Code of Conduct and Ethics. Each officer and manager shall be responsible for ensuring that each employee under his or her supervision is familiar with this Code. Each officer and manager shall also be responsible for ensuring that this Code is fairly and consistently applied to all business dealings within his or her area or performed by the employees under his or her supervision. It is prohibited for any employee to violate any of the terms of this Code or to direct or authorize other employees to do so.

This Code applies to all employees and officers of the Company, and all subsidiary companies, divisions, units and business entities, either domestic or foreign, over which the Company has effective control or with which the Company is affiliated. Also, the Company has many detailed policies that address certain of the topics in this document. The specific issues discussed in this Code do not cover all situations where a law or policy may apply. However, this Code should help clarify the general principles stated above. It is the responsibility of each officer and manager to understand and follow all Company policies.

COMPLIANCE WITH APPLICABLE LAWS

It is the Company's policy to comply with all laws and regulations that apply to the business conducted by the Company in the United States and other countries. If those laws or regulations are ambiguous, management may obtain legal advice or an advisory legal opinion from the Company's legal counsel in order to clarify the meaning or application of the subject law or regulations. All business practices should be designed to comply with the local laws, as well as local economic and social conditions.

CONFLICTS OF INTEREST

Every employee of the Company should avoid any situation in which his or her personal interests conflict, or even appear to conflict, with the interests of the Company.

It would be impossible to detail every situation in which a conflict of interest may arise. However, listed below are the types of conflicts all employees should avoid:

1. Acquiring a material interest in any supplier, competitor or customer of the Company;
 2. Accepting any personal consulting or employment relationship that is or may be competitive with the Company;
 3. Engaging in any outside business activity that is or may be competitive with any of the Company's businesses or interests;
 4. Accepting any outside employment which might affect the employee's ability to devote the appropriate amount of time and attention to his or her duties and responsibilities with the Company;
 5. Receiving entertainment or anything of more than nominal value, whether as a gift or otherwise, from any individual or company with which the Company has a business relationship (normal and customary business meals, gifts of nominal value and customary business entertainment being excepted);
 6. Serving as an officer, director or in any other capacity for any customer, supplier or competitor of the Company unless approved by the Chief Executive Officer;
 7. Accepting loans from another business or individual if your position is one that interacts with, or influences, the Company's transactions with that business or individual;
 8. Supervising, influencing, reviewing or having influence with respect to job evaluations, compensation or benefits for any "family member" who is an employee of the Company; and
 9. Taking personal advantage or obtaining personal gain from an opportunity learned of or discovered during the course and scope of employment with the Company when that opportunity or discovery could be of benefit or interest to the Company (this includes the invention or discovery of methods, formulas, flavors or techniques that are related to the employee's duties or the business of the Company or outside opportunities in which the Company might be interested).
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Such conflicts of interest may not only present themselves to an employee but could also present themselves to members of the employee's family. For example, a conflict would arise if the employee's spouse were to receive a valuable gift from a supplier of the Company. For the purpose of this Code, "family member" shall mean the employee's spouse, children, parents, grandparents, parents-in-law, brothers, sisters, brothers-in-law, sisters-in-law and the children of his or her brothers, sisters, brothers-in-law or sisters-in-law.

The Company's policy in this area is not intended to restrict employees from participating in normal and customary business-related functions or events, or from engaging in the exchange of corporate gifts of nominal value. Any questions regarding conflicts of interest or specific situations should be directed to the Company's Chief Executive Officer.

HEALTH AND OCCUPATIONAL SAFETY

It is the policy of the Company to provide its employees with a place to work which is free from hazards and to comply with all applicable health and safety laws and regulations. Each employee is responsible for conducting the business of the Company in a way that does not endanger the health and safety of other employees and customers. Employees should, at all times, act in a manner that ensures the Company's compliance with all applicable governmental health and safety laws and requirements.

ENVIRONMENTAL MATTERS

It is the policy of the Company to comply with all applicable laws and regulations for the protection of the environment and the conservation of natural resources. The Company believes that observing all such requirements is critical to the goal of acting as a responsible business citizen while also reducing the exposure to liability associated with even unintentional violation of environmental laws. It is the responsibility of every employee to conduct the business of the Company in a manner consistent with the goal of compliance with all applicable environmental laws and requirements.

DISCRIMINATION AND HARRASSMENT

The Company observes a policy of equal employment opportunity for all matters. The Company will not discriminate against any employee or prospective employee on the basis of race, color, religion, sex, age, national origin, handicap or veteran status. The Company will provide a workplace free from harassment on the basis of any of the above. The Company will also expect all of its employees, suppliers and representatives to observe and further the goals of this policy.

SPECIAL ETHICAL OBLIGATIONS FOR EMPLOYEES WITH PUBLIC REPORTING RESPONSIBILITIES

As a public company in the United States, we are committed to carrying out all continuing disclosure obligations in a full, fair, accurate, timely and understandable manner. Depending on their position with the Company, employees, officers or directors may be called upon to provide information to the Company's accounting department, the Company's Audit Committee or the Company's outside auditor in order to assure that the Company's public reports are complete, fair and understandable. The Company expects all of its personnel to take this responsibility very seriously and to provide prompt and accurate answers to inquiries related to the Company's public disclosure requirements.

The accounting department and the Audit Committee bear special responsibility for promoting integrity throughout the organization, with responsibilities to shareholders both inside and outside of the Company. The Audit Committee, the Chief Executive Officer, the Chief Financial Officer and other accounting department personnel have a special role both to adhere to these principles themselves and also to ensure that a culture exists throughout the Company as a whole that ensures the fair and timely reporting of the Company's financial results and condition.

Employees, officers and directors should promptly report to the Chairman of the Audit Committee any conduct that the individual believes may impair the Company's full, fair, accurate, timely and understandable disclosure in reports and documents that it files with the Securities and Exchange Commission and in other public communications.

ELECTRONIC MEDIA & SOFTWARE

All electronic media and communications systems such as voice mail, e-mail, commercial software and access to the Internet through any Internet service provider are the property of the Company. Communications on these systems are not private communications, but are business records that may be monitored by the Company or subpoenaed by a court of law, and you should have no privacy expectations with respect to communications sent over these systems.

These systems should not be used to knowingly, recklessly or maliciously post, store, transmit, download or distribute any threatening, abusive, libelous, defamatory or obscene materials of any kind constituting a criminal offense, giving rise to civil liability or otherwise violating any laws. The Company's policy against sexual harassment and discrimination applies fully to the use of e-mail and other electronic media by you.

SHAREHOLDER & MEDIA RELATIONS

We will provide accurate, appropriate and timely material information to the public, including our shareholders and the media to keep them informed of matters which affect our organization. To assure consistency and accuracy in these communications and to prevent the inadvertent disclosure of confidential information, you should not give statements to shareholders, the media or any other non-employee of the Company. If you are contacted by a shareholder, the request should be immediately forwarded to the Company's Chief Financial Officer. If you are contacted by the media, or anyone requesting information regarding the Company, the Company's plans or performance or any other potentially sensitive competitive information, the request should be forwarded to the Chief Financial Officer of the Company or, if regarding a legal matter, to the Company's Chief Executive Officer.

SUBSTANCE ABUSE

The possession, distribution or use of an illegal controlled substance or alcohol, while on Company property, or while conducting the Company's business is strictly prohibited. This does not prohibit moderate consumption of alcohol after work hours or during dinner meetings or events of a similar nature. The employee should do everything possible to make the workplace free from drugs and alcohol. Violation of this policy puts the employee and the employee's co-workers at risk.

ACCOUNTING AND INTERNAL CONTROLS

Internal accounting controls have been established to manage the Company's financial transactions. The Company adopted these controls to satisfy internal needs and to assure compliance with generally accepted accounting principles and the requirements of applicable laws and regulations. The Company is required to keep books, records and accounts that accurately and fairly reflect transactions and maintain an effective system of internal controls.

Proper accounting for all transactions is essential to the Company's control of its affairs and the accuracy of its financial reporting. To maintain the integrity of the accounting records, all cash funds, bank accounts and other accounts must be disclosed in the Company's books of account and all entries in the Company's books must be prepared carefully, timely and honestly and must be supported by adequate documentation to provide a complete, accurate and auditable record of the transactions they describe.

No false or misleading entries may be made for any reason and no employee may assist any other person in making such entries.

Full and certain disclosure reinforces responsibility and acts as a powerful deterrent to wrongdoing. Therefore, it is vital that no fund, asset, liability, revenue or expense of the Company be concealed or incompletely recorded in any situation for any purpose. Any employee having information or knowledge of any unrecorded fund, asset, liability, revenue or expense or any prohibited act should promptly report it to the Company's Chief Executive Officer.

The Company's audit functions play a significant role in providing management with evaluations of the effectiveness of internal controls over accounting, operations and administrative functions. The Company's internal and external auditors are charged with the responsibility of conducting objective and independent examinations, taking into account the high standards of business ethics, integrity and honesty required of all employees. All employees must cooperate fully with the Company's auditors. Making intentionally false or misleading statements to auditors, whether internal or external, is considered a falsification of records.

IMPROPER PAYMENTS AND POLITICAL ACTIVITY

No payment will be made by or on behalf of the Company either directly or indirectly to government officials, political candidates, political parties or officers or employees of customers, suppliers or competitors if (a) the payment is designed to secure favored treatment for the Company or (b) the payment would violate applicable laws.

Improper payments include unearned commissions or refunds, the donation or loan of the Company's property or services of the Company's personnel, the incurring or paying of expenses on behalf of another and the reimbursing of officers, employees or agents of the Company for payments made by them on the Company's behalf.

This policy does not include lawful political contributions authorized by the Chief Executive Officer or the Board of Directors, reasonable entertainment of customers or suppliers, potential customers or suppliers or others involved with the Company's business in a manner appropriate to the business relationship and the discussion of business matters, gifts of sales promotion items, or, where the local custom requires, payment of small gratuities to minor governmental functionaries to secure the routine processing of paper work (for example, gratuities to minor customs officials for processing import documents) provided that such payments (a) are not either individually or in the aggregate significant in amount, (b) are fully disclosed in the Company's records and (c) are approved by the manager of the local operation. While these transactions are not prohibited by this policy, they must be accurately disclosed in the Company's books of account.

This policy does not affect the right of employees, acting in an individual capacity and not as representatives of the Company, to support political parties or candidates of the employee's choice. Since violation of this policy can create public reporting and tax problems for the Company as well as expose the Company and its officers, directors and the employee involved to civil and criminal sanctions, strict adherence is required. It is the responsibility of management at all levels to enforce this policy and of all employees to report violations to, or, in doubtful cases, to seek advice from their managers or from the Company's Chief Executive Officer.

FOREIGN CORRUPT PRACTICES ACT

The Foreign Corrupt Practices Act (the FCPA) became U.S. federal law in 1977. It applies to U.S. individuals, companies and businesses, including their controlled international subsidiaries.

The FCPA makes it unlawful for U.S. companies operating in the United States or abroad and their employees to make direct or indirect payments to foreign government officials or political parties or candidates for the purpose of obtaining or retaining business.

Employees of the Company or others acting on its behalf may not offer, pay, promise or authorize the payment of money or anything of value to: (a) foreign government officials, (b) foreign political parties, party officials or political candidates, or (c) any person if it is known, or firmly believed that the money or thing of value will be given or promised to a person described in (a) or (b) above, in order to obtain or retain business.

In addition, no payments may be made to these individuals for the purpose of influencing the action or decision of the recipient, inducing the recipient to do or refrain from doing any act in violation of his or her lawful duty or inducing the recipient to exert influence on any foreign government, or any department, agency or instrumentality of a foreign government.

Under the FCPA, the Company is required to keep books, records and accounts that accurately and fairly reflect the transactions and dispositions of its assets, and to maintain a system of internal accounting controls sufficient to provide reasonable assurances that assets are safeguarded from unauthorized use, that corporate transactions conform to managerial authorizations and that records are accurate.

TRADE SECRETS AND CONFIDENTIALITY

During the course of employment with the Company, employees may come into contact with or acquire information that would be deemed confidential or a “trade secret.” Trade secrets and confidential information could be any non-public information that is of value to the Company, or information that, if made public, would be a detriment to the Company. While not an exhaustive list, typical trade secrets include information such as the development of new products, new flavors, the formula or recipe for products, new business initiatives, customer lists, price lists, pricing strategies, sales and promotions and any other non-public information that might be of value to the Company or the Company’s competitors. It is critical that the secrecy of all such confidential information and trade secrets be maintained and that employees take no action to either directly or indirectly allow such information to be released to individuals or businesses outside of the Company, or to be made public, except to the Company’s authorized advisers.

INSIDER TRADING

During the course of employment with the Company, employees may acquire information that is not generally known to the public. This may include financial information, forecasts, business plans and strategies, information on sales programs, product development, and other material information that is not known to individuals outside of the Company. Employees must not disclose this information to anyone without a need to know the information, and in no event should such information be disclosed to individuals outside of the Company, except the Company’s authorized advisers. In addition, it is illegal and therefore a violation of this Code for employees to trade in any securities, including stock in the Company or any of its suppliers, customers or competitors, if the employee possesses any material non-public information regarding either the Company or any of the suppliers, customers or competitors of the Company. A violation of this policy, or the laws upon which this policy is based, could result not only in the termination of employment with the Company, but also civil and criminal proceedings.

ANTITRUST COMPLIANCE

It is the policy of the Company to comply with the applicable antitrust laws of each nation in which the Company manufactures or sells products and services. These laws generally limit business practices that restrict competition. Agreements with competitors or other market participants that fix prices, divide markets or limit outputs or business activity are generally prohibited by the antitrust laws and criminal sanctions in the form of fines and imprisonment are frequently imposed.

NO RETALIATION

The Company prohibits retaliation against anyone for the good faith reporting of a perceived Code violation or cooperation with an internal or external investigation of such a violation. Such retaliation by any associate or third party acting on behalf of an associate is itself a violation of the Code. This "no retaliation" provision of the Code does not limit the Company's recourse if the associate reporting the violation is ultimately found to have been a participant in the violation, or if the report is found to be a deliberate attempt to cause harm or harass another associate.

IMPLEMENTATION OF THIS CODE OF CONDUCT AND ETHICS

Each manager shall distribute a copy of this Code to the employees for whom the manager is responsible. Each manager should also work to ensure that all of the employees under his or her supervision read, understand and comply with this Code and the policies addressed under this Code.

Any employee who becomes aware of a violation of this Code or any of the policies addressed herein, or believes a violation has taken place, should report that violation to the employee's manager. The manager shall then report the violation to the Company's Chief Executive Officer.

If the manager to whom the violation was reported takes no further action, or the employee feels that it would be appropriate to report the matter to a person of higher authority, the employee should bring the matter to the attention of the Chief Executive Officer of the Company or the Chairman of the Audit Committee of the Board of Directors.

To assure that a reporting employee is protected from reprisal, requests for anonymity will be respected to the extent they do not result in the violation of the rights of another employee. Any attempt at reprisals against the reporting employee will not be tolerated.

WHISTLEBLOWER POLICY

If any employee or officer of the Company becomes aware of the violation or potential violation of this Code, such employee or officer should report such activity via e-mail to the Company's whistleblower e-mail address at whistleblower@liqtech.com. Any such email shall be held in confidence and reported directly to the Audit Committee.

The Company's Chief Executive Officer shall be responsible for the interpretation of this Code and the policies addressed within. Any questions should be addressed to the Company's Chief Executive Officer.

EXHIBIT 31.1

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

I, Lasse Andreassen, certify that:

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

Date: May 15, 2012

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

EXHIBIT 31.2

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

I, Soren Degn, certify that:

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

Date: May 15, 2012

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 three months ended March 31, 2012 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: May 15, 2012

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

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

EXHIBIT 32.2

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

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

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

Date: May 15, 2012

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.