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LIQTECH INTERNATIONAL INC - LIQT

Filed: March 27, 2014 (period: December 31, 2013)

Annual report with a comprehensive overview of the company

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LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

Item 1. Business

Overview

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

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

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

Our Products

We manufacture and sell ceramic membranes for the filtration of liquid and diesel particulate filters for the control of soot exhaust particles from diesel engines.

Ceramic Silicon Carbide Membranes for Liquid Filtration

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

- *Produced water:* Our membranes can be used for the filtration of “produced” water – a byproduct from oil and gas production. The amount of produced water varies between 0.1 to ten times the amount of oil produced. We have performed testing with many of the major international private and public oil and gas companies. We have been awarded a contract by one of the major international oil and gas companies to provide and service produced water filters on one of its offshore platforms. Two additional commercial installations have been commissioned with the LiqTech membranes.
- *Pre-filtration of reverse osmosis drinking water:* Prior to passing through reverse osmosis membranes to produce drinking or industrial water from sea or surface water, the sea or surface water must be pre-filtered. We have performed successful tests for the pre-filtration of sea and surface water for this purpose with numerous clients, including Arteron in Malaysia, a company producing compact drinking water, Hoimyung Corp in South Korea, a supplier of industrial waste water systems and pretreatment for reverse osmosis, Kemic Water Cleaning in Denmark, a supplier of drinking water equipment, and Puretec in Israel, a producer of reverse osmosis systems.
- *Treatment of ballast water:* Our liquid filtration membranes can be applied to limit the spreading of non-native species that may be transported in the ballast water of sea-going vessels. We have partnered with Singapore based companies and R&D centers to develop a solution for the ballast water treatment market. A distributor in Japan is in contact with shipyards seeking ballast water filtration systems.

- *Industrial applications:* Our membranes have performed successful tests in industrial applications for the removal of a variety of substances such as heavy metal (Energy provider, Germany), legionella (HYTEK Italy), manure (Biofuel Technology, Denmark), pool and spa water (Provital, Denmark) and raw sugar (Al Khaleej Sugar, UAE). We have supplied membranes to these applications and additional membranes are currently in the tendering phase.
- *Producing clean drinking water:* The potential for the use of LiqTech SiC membranes in drinking water production is diverse and the benefits are numerous. Some examples include: ground water – removal of precipitated salts such as iron and manganese; surface water – removal of organic suspended solids and humic acid; and sea water – pre-filtration before reverse osmosis.
- *Waste water treatment:* Our membranes can be used to remove suspended solids in waste water treatment. Our membranes have performed successful tests for treating waste water with Imtech (Egypt), RIPE (China) and Asia Pacific Water Technologies in South Korea, and we have sold membranes for several commercial installations.

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

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

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

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

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

On February 14, 2013, we announced that our ultra-filtration Silicon Carbide (SiC) membrane product has been approved for liquid sterilization according to the recognized American Society for Testing and Materials (ASTM) standard F838-05 for liquid filtration. This standard is widely used for pharmaceutical, food & beverage and drinking water applications. We are currently working with the customers in this area, and we believe market demand is increasing.

The independent Danish Technological Institute (DTI) laboratory conducted a sterile membrane certification according to the ASTM standard. Following the test procedure set forth by ASTM, our SiC membranes were evaluated in terms of bacteria rejection. DTI conducted in that certification that the membrane filter has the ability to retain bacteria corresponding to a log 7 reduction. The ability to retain bacteria corresponding to a log 7 reduction (99.99999% removal) is recognized as sterile filtration, i.e. the membrane can be considered as a bacterial barrier.

On February 19, 2013, we announced that our SiC membranes are currently being used in the recovery of protein in a foodstuff application in China. FANRUNSI (Shanghai) Fluid Technology Co. Ltd., a Chinese engineering firm located in Shanghai, has installed 240 square meters of our SiC membranes at a Chinese customer location.

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

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

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

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

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

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

The high clean-water permeability of the SiC material, being around 10 times more permeable than conventional polymeric 0.1um UF membranes and 24 times more permeable than aluminum oxide 0.1um UF membranes (competing ceramic material), allows compact systems to save valuable footprint space for our customers.

The FSM targets the waste water market, which we believe is among the most important applications in membrane technology. The MBR market reached a size of about \$800 million in 2011 and is expected to grow at approximately 20% per year to exceed \$3 billion in 2018 according to Global water market research team at Frost & Sullivan, published in Waterworld Magazine (source: www.waterworld.com/articles/wwi/print/volume-27/issue-2/regulars/creative-finance/membrane-multiplier-mbr.html).

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

We entered into cooperation agreements with two system integrators with specific know-how and market access to develop market-driven products with what we believe to be the best value proposition. We generated \$5,000 in revenue from the sales of FSMs in 2013.

On April 23, 2013, we announced our first commercial pool installation order in North America placed by Provital Solutions. Subsequently, on December 18, 2013, we announced receipt of an additional order placed by Provital Solutions for SiC membranes. We believe that the large number of existing pool market installations and the liquid capacity being treated makes the use of SiC membranes as a sand filter replacement a very promising market opportunity.

On September 13, 2013, we announced that we received an additional purchase order from RIPE (Huzhou), a Chinese membrane system integrator. The purchase order was the third placed by RIPE in 2013 – significant order sizes of 256 sq. meters, 256 sq. meters and the latest for 480 sq. meters of membrane product. The three membrane systems ordered were for the same end-user (one of the largest dairy producers in the world) to treat agricultural wastewater.

On September 18, 2013, we announced that an East-European-based oil company ordered a containerized (mobile) LiqTech SiC membrane test system installation. The order represents a value to LiqTech of \$300,000 and was delivered by the end of the year. The end-user placed the order to confirm the properties of the LiqTech SiC membrane technology for various upstream Produced Water applications.

On September 20, 2013, we announced that a major U.S. oil company ordered a LiqTech SiC membrane test system installation to be delivered by the end of the year. The end-user placed the order to confirm the properties of the LiqTech SiC membrane technology for various upstream Produced Water applications.

On December 18, 2013, we announced that we received an additional order for SiC membranes valued at \$370,000 by Danish company Provital Solutions. The purchase order was placed by Provital Solutions as a consequence of additional system orders for 2014, and thus adding to the \$500,000 order we received earlier in 2013. The SiC membranes will be delivered over the next 12 months.

On Jan. 30, 2014 we announced after extensive testing that we received a production order for flat sheet silicon carbide membranes from the Middle East. The initial flat sheet silicon carbide membranes order is for 250 m² and is scheduled for delivery in March 2014.

On March 3, 2014 we announced that we received a purchase order of approximately \$300,000 for a prototype system based upon the LiqTech SiC membranes. The algae system will be based on a new development in the membrane technology from LiqTech. The prototype system is to be used to concentrate an algae stream as a part of the harvesting process. Preliminary tests have shown that the LiqTech SiC membranes offer a higher throughput, high algae concentration and require less energy compared to other membrane products.

For the years ended December 31, 2013 and 2012, we received grants from governmental entities of \$502,464 and \$549,648, respectively. In 2011, we received a \$2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. If successful, we believe this may be the first inorganic reverse osmosis membrane ever developed. The goal is to produce clean drinking water from sea water.

We believe tightening government regulation and increasing industry awareness about the need for high quality injection water will contribute to the implementation of membrane technology, since conventional technologies will not be able to meet these demands.

For the years ended December 31, 2013 and December 31, 2012, our sales of liquid filters and services were \$5,081,848 and \$4,192,063, respectively, and accounted for 40% and 25% of our total sales, respectively.

Diesel Particulate Filters

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

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

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

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

For the years ended December 31, 2013 and 2012, our sales of diesel particulate filters were \$6,932,558 and \$12,181,744, respectively, and accounted for 54% and 72% of our total sales, respectively.

Kiln Furniture

Kiln furniture refers to all items used in a kiln to support ceramics that create 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.

Although we have produced kiln furniture as a means to maximize the efficiency of our manufacturing process and not as one of our primary products, we intend to phase out this commercial product in 2014.

For the years ended December 31, 2013 and December 31, 2012, our kiln furniture revenues were \$811,762 and \$548,031, respectively, and accounted for 6% and 3% of our total sales, respectively.

Our Competitive Strengths

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

- ***Advantages of Silicon Carbide Membranes***. Our diesel exhaust and liquid filtration products utilize silicon carbide membranes which have certain qualities that we believe make our products more desirable than those of our competitors. Unlike filtration products that use aluminum oxide, silicon carbide membranes are chemically inert and temperature resistant. Furthermore, silicon carbide membranes exhibit a high degree of hydrophilicity (hydrophilicity is the tendency of a surface to become wet or to absorb water) which results in unique flux (low energy consumption). Silicon carbide is also highly durable, with hardness next to diamonds, making it conducive to being used in a variety of industrial settings. As a result, we believe that such superior properties make our products desirable in both exhaust emissions control products and liquid filtration products.
- ***End Markets with Attractive Growth Characteristics***. We provide filtration products for retrofit markets and aftermarkets. We have the opportunity to provide filters to the large end markets with attractive growth prospects. The increase in global regulation of diesel particles is expected to drive growth in the DPF market. According to an industry publication, the global market for new DPF filters manufactured by OEMs is expected to increase from approximately 1.7 million units in 2010 to over 9 million units in 2020. The global market for retrofitting diesel engines with DPFs is expected to grow from approximately 5 million cumulative retrofit units in 2010 to approximately 20 million cumulative retrofits by 2025.

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

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

Our Strategy

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

- ***Enter New Geographic Markets and Expand Existing Markets***. We plan on continuing to manufacture and sell our products out of Denmark and the United States. In October 2011, the Company opened sales offices in France and Germany and in January 2012, we opened a sales office in Singapore. We also intend to expand our production capability to Asia when needed, by investing in a new production facility in South Korea, along with opening new marketing offices on the continent. In addition to utilizing local representatives, we intend to also establish sales outlets with technical support in other European nations such as Italy, while expanding to other markets. In certain other locations such as Japan, China and Australia, we intend to work with agents and partners to access such markets.

- **Continue to Strengthen Position in DPF Market.** We believe that we have a strong position in the retrofit market for diesel particulate filter systems. We intend to continue our efforts to maintain our strength in this area. Furthermore, we intend to leverage our experience in the OEM market and expand our presence in the OEM market with new products relating to diesel particulate filter systems. We intend to leverage our products and experience, as the global DPF market is expected to undergo significant growth.
- **Continue to Develop and Improve Technologies and Open New End Markets.** We intend to continuously develop our ceramic membrane and improve the filtration efficiency for our filtration products. Through continuous development, we intend to find new uses for our products and plan to expand into any new markets that we believe would be appropriate for our Company. One of our key strategies is to develop our membrane applications together with our customers including, for example, the development of the next generation of diesel particulate filters with asymmetric design for the OEM market. We also plan on manufacturing a SiC membrane of 0.01 microns or less, which would position us to enter the ultrafiltration market.
- **Continue Our Focus on Developing an Inorganic Reverse Osmosis Membrane.** There is no inorganic reverse osmosis membrane in the market today. In 2011, we received a \$2 million grant from The Danish National Advanced Technology Foundation to develop a SiC-based membrane that can perform reverse osmosis. We intend to continue our research and development efforts to modify our membrane into one that can perform reverse osmosis over the next several years.

Our Industry

Overview

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

Liquid Filtration Market

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

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

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

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

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

Diesel Particulate Filter Market

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

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

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

Manufacturing

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

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

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

Sales, Marketing and Distribution

Our products are sold primarily to large industrial customers that use our products for gas and liquid filtration. To date, most of our sales have been in the transportation sector, and we are seeking to broaden our sales into other areas such as produced water in the oil and gas sector, desalination sector and other water purification areas.

For the year ended December 31, 2013, our four largest customers accounted for approximately 10%, 6%, 5% and 5%, respectively, of our net sales (approximately 26% in total). For the year ended December 31, 2012, our four largest customers accounted for approximately 13%, 12%, 10% and 7%, respectively, of our net sales (approximately 42% in total). If we are unable to diversify our customer base, our future results will be heavily dependent on these customers. Our dependence on a limited number of customers means that the loss of a major customer or any reduction in orders by a major customer would materially reduce our net sales and adversely affect our results of operations. We expect that sales to relatively few customers will continue to account for a significant percentage of our net sales for the foreseeable future. However, these customers or our other customers may not use our products at current levels in the future, if at all. We have no firm, long-term volume commitments from any of our major customers and we generally enter into individual purchase orders with our customers, in certain cases under master agreements that govern the terms and conditions of the relationship. We have experienced cancellations of orders and fluctuations in order levels from period-to-period and expect that we will continue to experience such cancellations and fluctuations in the future. Customer purchase orders may be cancelled and order volume levels can be changed, cancelled or delayed with limited or no penalties. We may not be able to replace cancelled, delayed or reduced purchase orders with new orders. If any one of these customers reduces their demand for our products, it will have a material adverse effect on our operations. Furthermore, a significant portion of our account receivables is concentrated with these major customers, some of whom have limited working capital resources who may not be able to meet their financial obligations to us.

We plan to actively market our existing products to new customers as we increase our production capacity. We currently have 20 full time salesmen or distribution agents. We promote our products through direct contact to potential customers and by meeting potential customers in trade fairs and exhibitions.

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

Intellectual Property

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

As of March 18, 2014, we had one issued United States patent that we co-own with a third party, one pending United States patent application, three issued foreign patents (in Germany, China and South Korea) that we co-own with a third party and one pending European patent application which we co-own with a third party. The United States patent that we co-own is generally effective for 20 years from the filing date of the earliest U.S. or international application to which it claims priority. The scope and duration of each of our foreign patents varies in accordance with local law. On August 8, 2013 we filed a new patent application related to the silicon carbide membrane technology in Denmark. This will be the basis for another filing in the United States in the future. Our patent strategy is generally uncertain and involves complex legal and factual questions. Our ability to maintain and solidify our proprietary technology may depend in part upon our success in obtaining patent rights and enforcing those rights once granted or licensed. We do not know whether any of our pending patent applications will result in the issuance of any patents. Our issued patents and those that may be issued in the future may be challenged, invalidated, rendered unenforceable or circumvented, which could limit our ability to prevent competitors from marketing similar or related products, or shorten the term of patent protection that we may have for our products, processes and enabling technologies. In addition, the rights granted under any issued patents may not provide us with competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies, duplicate technology developed by us or otherwise possess intellectual property rights that could limit our ability to manufacture our products and operate our business.

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

We also believe that having distinctive names may be an important factor in marketing our products, and therefore use trademarks to brand some of our products. As of March 18, 2014, we had one trademark registration in the United States (LiqTech NA) and four trademark registrations in the European Union (AQUA SOLUTION, CoMem, CDPX and FUTURE FILTRATION).

Government Regulation

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

Environmental Matters

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

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

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

Research and Development

We currently have five full-time employees spending a majority of their working hours on research and development. For the years ended December 31, 2013 and 2012, we spent \$499,972 and \$742,009, respectively, on Company-sponsored research and development.

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

Competition

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

Employees

As of March 18, 2014, we had 84 employees, 80 of whom were full-time employees. We had 57 employees at our operations in Denmark, including five in Research and Development, ten in sales and engineering and two in executive management. We also had 22 employees in the United States, one of whom was in executive management; the others were employed in sales and production. We also had four employees in Singapore, one of whom was in executive management; the others were employed in sales and engineering and administration and one employee in Germany.

Certain labor employees in Denmark are represented by workers' councils that have collective bargaining agreements. With the exception of said Denmark employees, no other employees are members of a labor union or are represented by workers' councils that have collective bargaining agreements. We believe that our relations with our employees are good.

Corporate Information

We filed our Articles of Incorporation on July 1, 2004 and are incorporated under the laws of the State of Nevada. Our principal executive offices are located at Industriparken 22C, 2750 Ballerup, Denmark, and our telephone number is +4544986000. We maintain an Internet website at www.liqtech.com. The information contained in, or accessible from, our website is not a part of this report.

Item 1A. Risk Factors

RISKS RELATED TO OUR BUSINESS

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

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

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

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

Where we consider it appropriate, we seek patent protection in the United States and other countries on technologies used in, or relating to, our re-crystallized silicon carbide product forms, applications and manufacturing processes. As of March 18, 2014, we had one issued United States patent and three issued foreign patents, all of which we co-own with a third party. The issuance of a patent is not conclusive as to its scope, validity and enforceability. Thus, any patent or patent application which may issue into a patent held by us could be challenged, invalidated or held unenforceable in litigation or proceedings before the U.S. Patent and Trademark Office and/or other patent tribunals, or circumvented by others. No consistent policy regarding the breadth of patent claims has emerged to date in the United States and the landscape could become more uncertain in view of future rule changes by the United States Patent and Trademark Office, the introduction of patent reform legislation and decisions in patent law cases by United States federal courts. The patent landscape outside the United States is even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. In addition, we may fail to apply for patents on important technologies or product candidates in a timely fashion, if at all, and our existing and future patents may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products or technologies, especially given the long history of silicon carbide development.

As of March 18, 2014, we had one pending United States patent application and one pending foreign patent applications. The issuance of patents from these applications involves complex legal and factual questions and, thus, we cannot assure that any of our pending patent applications will result in the issuance of patents to us. The United States Patent and Trademark Office and relevant foreign patent tribunals may deny or require significant narrowing of claims in our pending patent applications. Patents issued as a result of any of our pending patent applications may not cover our enabling technology and/or the products or processes that support our current or future business or afford us with significant commercial protection against others with similar technology. Proceedings before the United States Patent and Trademark Office could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. In addition, our pending patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus foreign patent applications may not be granted even if counterpart United States patents are issued.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on sub-contractors to meet current demand for our products and we may need to obtain additional manufacturing capacity in order to increase production of our existing products or to produce our proposed new products, the failure to do so could have a materially adverse effect on our operations.

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

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

During the year ended December 31, 2013, we had four customers who accounted for approximately 26% of our total revenues. During the year ended December 31, 2012, we had four (4) customers who accounted for approximately 42% of our total revenues. If we are unable to diversify our customer base, our future results will be heavily dependent on these customers. Our dependence on a limited number of customers means that the loss of a major customer or any reduction in orders by a major customer would materially reduce our net sales and adversely affect our results of operations. We expect that sales to relatively few customers will continue to account for a significant percentage of our net sales for the foreseeable future. However, these customers or our other customers may not use our products at current levels in the future, if at all. We have no firm, long-term volume commitments from any of our major customers and we generally enter into individual purchase orders with our customers, in certain cases under master agreements that govern the terms and conditions of the relationship. We have experienced cancellations of orders and fluctuations in order levels from period-to-period and expect that we will continue to experience such cancellations and fluctuations in the future. Customer purchase orders may be cancelled and order volume levels can be changed, cancelled or delayed with limited or no penalties. We may not be able to replace cancelled, delayed or reduced purchase orders with new orders. If any one of these customers reduces their demand for our products, it will have a material adverse effect on our operations.

Furthermore, a significant portion of our account receivables is concentrated with these major customers, some of whom have limited working capital resources who may not be able to meet their financial obligations to us. For example, on January 21, 2013, we received notice that a customer who accounted for 12.4% of total sales for the year ended December 31, 2012 had the courts appoint a receiver. The Company has established an allowance of \$700,000 against the receivables due from this customer. The failure of any such customers to pay amounts owed to us in a timely fashion or at all could have an adverse effect on our results of operations. The Company is also exposed to credit risk on its accounts receivable, and this risk is heightened during periods when economic conditions worsen. A part of the Company's outstanding receivables are not covered by collateral or credit insurance. The Company's exposure to credit and collectability risk on its receivables may also be higher in certain international markets and its ability to mitigate such risks may be limited. While the Company has procedures to monitor and limit exposure to credit risk on its receivables as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

Foreign currency fluctuations could adversely impact financial performance.

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

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

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

We face constant changes in governmental standards by which our products are evaluated, and if we cannot meet any such changes, some of our products could become obsolete, which could have a materially adverse effect on our business.

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

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

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

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

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

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

We could become liable for damages resulting from our manufacturing activities, which could have a materially adverse effect on our business or cause us to cease operations.

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

We will continue to incur significant costs as a result of operating as a public company, and our management may be required to devote substantial time to compliance initiatives which ultimately could have a materially adverse effect on our financial condition and results of operations.

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

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

We will need to add qualified additional personnel as we expand our business, and we may not be able to employ such persons, which could affect our ability to expand and have a materially adverse effect on our business.

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

Our success will depend, to a large degree, on the expertise and experience of the members of our management team, the loss of whom could have a materially adverse effect on our business.

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

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

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

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

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

On October 9, 2013 we announced that the warrant and option exchange offer raised \$4,051,000 which included the exercise of 100,000 warrants by Aldo Petersen, Chairman of LiqTech, 25,000 stock options by Lasse Andreassen, founder and board member of LiqTech and 50,000 stock options by Soren Degn, CFO of LiqTech, \$450,000 was received on September 30, 2013 and \$3,601,000 was received in October, 2013. The board noted that the additional capital was an orderly solution to improving the Company's capital structure as well as enhancing the ability of LiqTech to list on an exchange. In addition, the new capital gives the Company additional flexibility to generate new orders and sustain future growth.

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

RISKS RELATED TO OUR COMMON STOCK

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

Since December 2, 2013, our common stock has been traded on NYSE MKT under the symbol LIQT. Because there is limited volume of our common stock, investors may not be able to liquidate their investments when they want.

In addition, if we fail to meet the criteria set forth in SEC and NYSE MKT rules and regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity.

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

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

Approximately 26.0% of our common stock is beneficially owned by our officers and directors, who have the ability to substantially influence the election of directors and other matters submitted to stockholders.

As of March 18, 2014, 7,451,585 shares, or 26.0%, of our common stock, including stock options and warrants, were beneficially owned by our officers and directors, including 3,263,541 shares, or 11.9%, of our common stock beneficially owned by Aldo Petersen, our Chairman of the Board and 2,774,332 shares, or 10.0%, of our common stock beneficially owned by Lasse Andreassen, our previous director (resigned from the board on March 3, 2014). As a result, our officers and directors and Aldo Petersen and Lasse Andreassen, in particular, are expected to continue to have the ability to significantly influence the election of our Board of Directors and the outcome of all other issues submitted to our stockholders. The interests of these principal stockholders may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their

best interests and not necessarily those of other stockholders. One consequence to this substantial influence or control is that it may be difficult for investors to remove our management. This could also deter unsolicited takeovers, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Industriparken 22C, 2750 Ballerup, Denmark. We lease approximately 55,000 square feet at our Ballerup location, of which approximately 10,000 square feet is used for office space and 45,000 square feet is used for production. The lease will expire on August 31, 2018. Our U.S. operations are located at 1800 - 1810 Buerkle Road White Bear Lake, Minnesota 55110 where we lease approximately an aggregate of 30,000 square feet, of which 6,000 square feet is used for office space and 24,000 square feet is used for production. The lease will expire on February 28, 2017.

Item 3. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of December 31, 2013, we were not a party to any legal proceeding that we believe would have a material adverse effect on our business, financial condition or operating results.

Item 4. Mine Safety Disclosures.

Not applicable.

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

Our common stock is currently quoted on NYSE MKT under the symbol LIQT. Prior to the Merger, there was not an active market and no trading volume during fiscal year 2010. The following table sets forth the high and low bid prices for the common stock for the periods indicated:

	High	Low
2014		
1st Quarter (through March 17, 2014)	\$ 2.71	\$ 1.82
2013		
4th Quarter	\$ 2.98	\$ 2.07
3rd Quarter	3.13	2.44
2nd Quarter	3.44	2.35
1st Quarter	2.42	1.33
2012		
4th Quarter	\$ 1.70	\$ 1.23
3rd Quarter	2.20	1.36
2nd Quarter	3.31	2.21
1st Quarter	4.50	3.13
2011		
4th Quarter	\$ 3.23	\$ 3.15
3rd Quarter	3.40	3.01
2nd Quarter	—	—
1st Quarter	—	—

The above table is based on a report provided by the OTC Markets Group, Inc. until December 2 and NYSE MKT for the rest of the period. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not necessarily represent actual transactions.

Based upon information supplied to us by our transfer agent as of March 10, 2014, we had approximately 64 stockholders of record.

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

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

Item 6. Selected Financial Data

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

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

Forward Looking Statements

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

Overview

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

Reverse Acquisition

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

LiqTech USA owns all of the outstanding equity interests in LiqTech Denmark (On August 23, 2012, LiqTech A/S, a Danish limited company ("LiqTech Denmark") and former subsidiary of the Company was merged with and into LiqTech Denmark International.), LiqTech Int. DK (formerly known as Cometax) and LiqTech Delaware. In June and July 2011, LiqTech USA entered into agreements to acquire (i) all of the outstanding equity interests in LiqTech Denmark and (ii) all of the outstanding equity interests in LiqTech Int. DK and LiqTech Delaware not owned by LiqTech Denmark, directly from the holders of such equity interests (the "LiqTech Acquisition Agreements"). In exchange for such equity interests, LiqTech USA agreed to pay to such holders in the aggregate (i) \$4,637,315 in cash, (ii) promissory notes in the principal amounts of DKK 19,500,000 (which was equal to \$3,765,351 based upon the currency exchange rate of \$1.00 = DKK 5.1788 as of August 22, 2011) and (iii) 9,308,333 shares of LiqTech USA's common stock.

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

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

2013 Developments

OEM Supply Agreement

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

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

Special Offer to Warrant and Option Holders

On October 9, 2013 we completed the special offer to warrant and option holders. We raised \$4,051,000 which included the exercise of 100,000 warrants by Aldo Petersen, Chairman of LiqTech, 25,000 stock options by Lasse Andreassen, founder and former board member of LiqTech and 50,000 stock options by Soren Degn, CFO of LiqTech. The additional capital was an orderly solution to improving our capital structure as well as enhancing the ability of our listing on an exchange. In addition, the new capital gives us additional flexibility to generate new orders and sustain future growth.

Additional 2013 Developments

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

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

On February 19, 2013, we announced that our SiC membranes are currently being used in the recovery of protein in a foodstuff application in China. FANRUNSI (Shanghai) Fluid Technology Co. Ltd., a Chinese engineering firm located in Shanghai, has installed 240 square meters of our SiC membranes at a Chinese customer location.

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

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

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

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

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

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

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

The FSM targets the waste water market, which we believe is among the most important applications in membrane technology. The MBR market reached a size of about \$800 million in 2011 and is expected to grow at approximately 20% per year to exceed \$3 billion in 2018 according to Global water market research team at Frost & Sullivan, published in Waterworld Magazine (source: www.waterworld.com/articles/wwi/print/volume-27/issue-2/regulars/creative-finance/membrane-multiplier-mbr.html).

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

We entered into cooperation agreements with two system integrators with specific know-how and market access to develop market-driven products with what we believe to be the best value proposition. We generated \$5,000 in revenue from the sales of FSMs in 2013.

On April 23, 2013, we announced our first commercial pool installation order in North America placed by Provital Solutions. Subsequently, on December 18, 2013, we announced receipt of an additional order placed by Provital Solutions for SiC membranes. We believe that the large number of existing pool market installations and the liquid capacity being treated makes the use of SiC membranes as a sand filter replacement a very promising market opportunity.

On September 13, 2013, we announced that we received an additional purchase order from RIPE (Huzhou), a Chinese membrane system integrator. The purchase order was the third placed by RIPE in 2013 – significant order sizes of 256 sq. meters, 256 sq. meters and the latest for 480 sq. meters of membrane product. The three membrane systems ordered were for the same end-user (one of the largest dairy producers in the world) to treat agricultural wastewater.

On September 18, 2013, we announced that an East-European-based oil company ordered a containerized (mobile) LiqTech SiC membrane test system installation. The order represents a value to LiqTech of \$300,000 and was delivered by the end of the year. The end-user placed the order to confirm the properties of the LiqTech SiC membrane technology for various upstream Produced Water applications.

On September 20, 2013, we announced that a major U.S. oil company ordered a LiqTech SiC membrane test system installation to be delivered by the end of the year. The end-user placed the order to confirm the properties of the LiqTech SiC membrane technology for various upstream Produced Water applications.

On December 18, 2013, we announced that we received an additional order for SiC membranes valued at \$370,000 by Danish company Provital Solutions. The purchase order was placed by Provital Solutions as a consequence of additional system orders for 2014, and thus adding to the \$500,000 order we received earlier this year. The SiC membranes will be delivered over the next 12 months.

On Jan. 30, 2014 we announced after extensive testing that we received a production order for flat sheet silicon carbide membranes from the Middle East. The initial flat sheet silicon carbide membranes order is for 250 m² and is scheduled for delivery in March 2014.

On March 3, 2014 we announced that we received a purchase order of approximately \$300,000 for a prototype system based upon the LiqTech SiC membranes. The algae system will be based on a new development in the membrane technology from LiqTech. The prototype system is to be used to concentrate an algae stream as a part of the harvesting process. Preliminary tests have shown that the LiqTech SiC membranes offer a higher throughput, high algae concentration and require less energy compared to other membrane products.

Results of Operations

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

The following table sets forth our revenues, expenses and net income for the year ended December 31, 2013 and 2012.

	2013	As a % of Sales	2012	As a % of Sales	Period to period change	
					\$	Percent %
Net Sales	12,826,168	100%	16,921,838	100%	(4,095,670)	(24.2)
Cost of Goods Sold	11,514,463	89.8	14,217,713	84.0	(2,703,250)	(19.0)
Gross Profit	1,311,705	10.2	2,704,125	16.0	(1,392,420)	(51.5)
Operating Expenses						
Selling and Marketing	2,650,000	20.7	2,434,541	14.4	215,459	8.9
General and Administrative	3,064,610	23.9	3,301,164	19.5	(236,554)	(7.2)
Non-Cash Compensation	1,316,826	10.3	120,494	0.7	1,196,332	992.9
Research and Development	499,972	3.9	742,009	4.4	(242,037)	(32.6)
Total Operating Expenses	7,531,408	58.7	6,598,208	39.0	933,200	14.1
Income (Loss) from Operating	(6,219,703)	(48.5)	(3,894,083)	(23.0)	(2,325,620)	59.7
Interest and Other Income	6,806	0.1	158,632	0.9	(151,826)	(95.7)
Interest (Expense)	(50,945)	(0.4)	(148,611)	(0.9)	97,666	(65.7)
(Loss) on Investments	(199,811)	(1.6)	(102,612)	(0.6)	(97,199)	94.7
Gain (Loss) on Currency Transactions	7,638	0.1	48,145	0.3	(40,507)	(84.1)
Gain (Loss) on Sale of Fixed Assets	(2,135)	(0.0)	(889)	0.0	(1,246)	140.2
Total Other Income (Expense)	(238,447)	(1.9)	(45,335)	(0.3)	(193,112)	426.0
Income Before Income Taxes	(6,458,150)	(50.4)	(3,939,418)	(23.3)	(2,518,732)	63.9
Income Taxes Expense (Benefit)	(1,611,561)	(12.6)	(1,165,528)	(6.9)	(446,033)	38.3
Net Income	(4,846,589)	(37.8)	(2,773,890)	(16.4)	(2,072,699)	74.7
Less net income attributable to the non-controlled interest in subsidiaries	(19,112)	(0.1)	-	0.0	(19,112)	-
Net Income attributable to LiqTech	(4,827,477)	(37.6)	(2,773,890)	(16.4)	(2,053,587)	74.0

Revenues

Net sales for the year ended December 31, 2013 were \$12,826,168 compared to \$16,921,838 for the same period in 2012, representing a decrease of \$4,095,670, or 24.2%. The decrease in sales consist of a decrease in sales of DPFs of \$5,249,186 and an increase in sales of liquid filters and kiln furniture of \$889,785 and \$263,731, respectively. The decrease in demand for our DPFs is mainly due to a postponement in use of mandates in the U.S. market and the lack of new low emissions zone activity in Europe. The increase in demand for our liquid filters and kiln furniture is due to an increase in worldwide sales of those products.

Gross Profit

Gross profit for the year ended December 31, 2013 was \$1,311,705 compared to \$2,704,125 for same period in 2012, representing a decrease of \$1,392,420, or 51.5%. The decrease in gross profit was due to a decrease in sales for the year ended December 31, 2013 compared to the same period in 2012 and an increase in the level of fixed production costs compared to the lower 2013 sales. Included in the gross profit is depreciation of \$1,689,523 and \$1,515,863 for the years ended December 31, 2013 and 2012, respectively.

Expenses

Total operating expenses for the year ended December 31, 2013 were \$7,531,408, representing an increase of \$933,200, or 14.1%, compared to \$6,598,208 for the same period in 2012. This increase in operating expenses is attributable to an increase in selling and marketing expenses of \$215,459 or 8.9%, a decrease in general and administrative expenses of \$236,554 or 7.2%, an increase in non-cash compensation expenses of \$1,196,332 or 992.9% and an decrease in research and development expenses of \$242,037 or 32.6% compared to the same period in 2012.

Selling expenses for the year ended December 31, 2013 were \$2,650,000 compared to \$2,434,541 for the same period in 2012, representing an increase of \$215,459 or 8.9%. This increase is attributable to an increase in costs in general, the increase in investment in our sales resources and investment in new market opportunities. While we believe that increased investment in sales may produce attractive returns for the Company, profitability from such investments will likely take several fiscal quarters to be realized.

General and administrative expenses for the year ended December 31, 2013 were \$3,064,610 compared to \$3,301,164 for the same period in 2012, representing a decrease of \$236,554, or 7.2%. This decrease is mainly attributable to the fact that during the year ended December 31, 2013, the Company only added an additional \$72,548 to its bad debt reserve compared to \$1,078,365 for the same period in 2012, a decrease of \$1,005,817. This decrease was partly offset against an increase in expenses related to being a U.S. public company. Approx. \$675,000 of those expenses were one-time expense.

Non-cash compensation expenses for the year ended December 31, 2013 were \$1,316,826 compared to \$120,494 for the same period in 2012, representing an increase of \$1,196,332 or 992.9%. This increase is attributable to increased non-cash compensation expense for options, share and warrants for services performed granted to directors, employees and management.

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

	2013	2012
Compensation upon vesting of stock options granted to employees and the board of directors	\$ 391,960	\$ 120,494
Compensation for vesting of restricted stock awards issued to the board of directors	426,666	-
Value of stock granted for services	320,000	-
Value of warrants issued for services	178,200	-
Total	\$ 1,316,826	\$ 120,494

Research and development expenses for the year ended December 31, 2013 were \$499,972 compared to \$742,009 for the same period in 2012, representing a decrease of \$242,037, or 32.6%. This decrease is attributable to decreased research and development expenditures for the year ending December 31, 2013 compared to the same period in 2012.

Net Income

Net income attributable to the Company for the year ended December 31, 2013 was a loss of \$4,827,477 compared to a loss of \$2,773,890 for the comparable period in 2012, representing a decrease of \$2,053,587. This decrease was primarily attributable to a decrease of \$1,392,420 in our gross profit, a decrease in total other income of \$193,112 and an increase in operating expenses of \$933,200. This was partly offset by an increase of \$446,033 in income tax benefit. The largest contributor to the increase in operating expenses was an increase in non-cash compensation of \$1,196,332 or 992.9% primarily due to increasing use of non-cash compensation for service provided and issuing stock options.

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

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

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

Revenues

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

Gross Profit

Gross profit for the year ended December 31, 2012 was \$2,704,125 compared to \$5,027,811 for same period in 2011, representing a decrease of \$2,323,686, or 46.2%. The decrease in gross profit was due to a decrease in sales and lower gross margin for the year ended December 31, 2012 compared to the same period in 2011. Included in the gross profit is depreciation of \$1,515,863 and \$1,379,667 for the years ended December 31, 2012 and 2011, respectively.

Expenses

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

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

General and administrative expenses for the year ended December 31, 2012 were \$3,421,658 compared to \$1,943,333 for the same period in 2011, representing an increase of \$1,478,325, or 76.1%. This increase is mainly attributable to an increase in expenses related to being a U.S. public company and during the year ended December 31, 2012, the Company also added an additional \$1,078,365 to its bad debt reserve compared to \$205,275 for the same period in 2011. Included in the year ending December 31, 2012 is \$120,494 of non-cash compensation expense for options granted to employees and management compared to \$123,984 for year ended December 31, 2011.

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

Net Income

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

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through offerings of equity instruments, internally generated cash from operations and our available lines of credit. At December 31, 2013, we had cash of \$4,884,275 and working capital of \$7,692,669 and at December 31, 2012, we had cash of \$3,873,338 and working capital of \$8,069,595. At December 31, 2013, our working capital decreased by \$376,926. Total current assets were \$12,239,110 and \$11,826,816 at December 31, 2013 and 2012, respectively, and total current liabilities were \$4,546,441 and \$3,757,221 at December 31, 2013 and 2012, respectively.

On March 2, 2012, we completed a registered public offering of our common stock. As part of the initial closing, we issued 2,511,500 shares of our common stock in a registered direct placement of our shares at a per share price of \$3.25. The net proceeds to us from the initial closing were approximately \$7.1 million. We have and intend to continue 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 have and intend to continue to invest the proceeds in short-term, interest-bearing, investment-grade marketable securities or money market obligations.

On October 9, 2013, we announced that the warrant and option exchange offer raised \$4,051,000 which included the exercise of 100,000 warrants by Aldo Petersen, Chairman of LiqTech, 25,000 stock options by Lasse Andreassen, founder and former board member of LiqTech and 50,000 stock options by Soren Degn, CFO of LiqTech, \$450,000 was received on September 30, 2013 and \$3,601,000 was received during October, 2013. The board noted that the additional capital was an orderly solution to improving the Company's capital structure as well as enhancing the ability of LiqTech to list on an exchange. In addition, the new capital gives the Company additional flexibility to generate new orders and sustain future growth.

In general, lines of credit in Denmark are due on demand. Our lines of credit with the bank were called in July 2013. Since our public offering in March 2012 we have not drawn any amount on our lines of credit.

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

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

Cash Flows

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Cash provided (used) by operating activities is net income (losses) adjusted for certain non-cash items and changes in assets and liabilities. Cash used by operating activities for the year ended December 31, 2013 was \$2,141,354, representing an increase of \$1,663,277 compared to cash used by operating activities of \$478,077 for the year ended December 31, 2012. The \$1,663,277 increase in cash used by operating activities for the year ended December 31, 2013 was mainly due to the net loss of \$4,846,589, the increases of \$434,838 in inventory and a decrease of \$702,269 in accounts payable, partially offset by a decrease of \$698,827 in accounts receivable and an increase in accrued expenses of \$1,626,532.

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

Cash used in investing activities was \$648,495 for the year ended December 31, 2013, as compared to cash used in investing activities of \$1,743,151 for the year ended December 31, 2012. Cash used in investing activities decreased for the year ended December 31, 2013, compared to the year ended December 31, 2012 and this decrease was primarily due to a decrease of \$861,770 in the purchase of equipment and a decrease of \$231,180 in purchase of long-term investments.

Cash provided by financing activities was \$3,675,180 for the year ended December 31, 2013, as compared to cash provided by financing activities of \$5,001,650 for the year ended December 31, 2012. This change of \$1,326,470 in cash provided by financing activities in 2012, compared to 2013, was primarily due to cash received in connection with the stock offering during the first quarter 2012, when the Company issued 2,511,500 new shares of common stock at \$3.25 per share, partly offset against a special offer to warrant and option holders at October 9, 2013 where the Company raised \$4,051,500, net of offering cost of \$206,030.

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

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

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

Cash used in investing activities was \$1,743,151 for the year ended December 31, 2012, as compared to cash used in investing activities of \$946,640 for the year ended December 31, 2011. Cash used in investing activities increased in 2012, compared to 2011, primarily due to proceeds of \$689,827 received in 2011 on insurance claims as a result of fire of the Company's building in 2011. We anticipate that we will continue to invest in additional production equipment in order to meet the demand for our products.

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

Off Balance Sheet Arrangements

As of December 31, 2013, we had no off-balance sheet arrangements other than normal operating leases. We are not aware of any material transactions which are not disclosed in our consolidated financial statements.

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

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013 are as follows:

Year ending December 31,	Lease Payments
2014	\$ 635,655
2015	652,321
2016	669,442
2017	497,270
2018	314,696
Thereafter	-
Total Minimum Lease Payments	\$ 2,769,384

Significant Accounting Policies and Critical Accounting Estimates

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

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

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

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

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

The roll forward of the allowance for doubtful accounts for the year ended December 31, 2013 and December 31, 2012 was as follows:

	2013	2012
Allowance for doubtful accounts at the beginning of the period	\$ 1,243,500	\$ 389,032
Bad debt expense	72,548	1,078,365
Amount of receivables written off	(770,738)	(248,895)
Effect of currency translation	63,046	24,998
Allowance for doubtful accounts at the end of the period	\$ 608,356	\$ 1,243,500

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

Long-Lived Assets

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

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our ceramic filter manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific filter manufacturing tools and building improvements. If we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful lives. During the years ended December 31, 2013 and 2012, no impairment charge of long-lived assets has been recorded.

Revenue Recognition and Sales Incentives

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

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

Project costs of the grants include all direct material and labor costs and those indirect costs related to the project. Project costs are capitalized and accreted into cost of sales based on the percentage of the project completed. Should a loss be estimated on an incomplete project it would be recorded in the period in which such a loss is determined. Changes in estimated profitability of a project are recognized in the period in which the revisions are determined. The aggregate of costs incurred and income recognized on incomplete projects are recorded as costs in excess of billings and are shown as a current asset. The aggregate of billings in excess of related costs incurred and income recognized on projects is shown as a current liability.

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

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 not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. If uncertainties arise we re-evaluate the tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory. As of December 31, 2013, we had total furnace parts and supplies of \$1,025,225, raw material of \$631,524, work-in-process inventory of \$1,799,888, total finished goods inventory of \$1,062,865 and reserve for obsolescence of \$260,896. The estimated future demand is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, acceptance of the product by the customer and the various environmental authorities, competitor's products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand, and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

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

Loss Contingencies

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

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

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

Item 8. Financial Statements and Supplementary Data.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

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

We have audited the accompanying consolidated balance sheets of LiqTech International, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, other comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, and audit of its internal controls over financial reporting for the year ended December 31, 2013 and 2012. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting for the year ended December 31, 2013 and 2012. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of LiqTech International, Inc. and subsidiaries as of December 31, 2013 and 2012 and the results of their operations and their cash flows for the years ended December 31, 2013, and 2012, in conformity with generally accepted accounting principles in the United States.

/s/ Gregory & Associates, LLC
Salt Lake City, Utah
March 25, 2014

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>As of</u> <u>December 31,</u> <u>2013</u>	<u>As of</u> <u>December 31,</u> <u>2012</u>
Current Assets:		
Cash	\$ 4,884,275	\$ 3,873,338
Accounts receivable, net	2,341,070	2,855,184
Other receivables	231,998	371,001
Cost in excess of billing	406,997	217,586
Inventories	4,258,606	4,111,815
Prepaid expenses	12,021	130,560
Current deferred tax asset	104,143	267,332
	<u>12,239,110</u>	<u>11,826,816</u>
Property and Equipment, net accumulated depreciation	<u>5,829,404</u>	<u>6,649,817</u>
Other Assets:		
Long term receivable	-	118,258
Other investments	6,882	158,141
Long term tax asset	1,863,349	75,947
Other intangible assets	24,687	29,150
Deposits	271,916	182,020
	<u>2,166,834</u>	<u>563,516</u>
Total Assets	<u>\$ 20,235,348</u>	<u>\$ 19,040,149</u>

(Continued)

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>As of</u> <u>December 31,</u> <u>2013</u>	<u>As of</u> <u>December 31,</u> <u>2012</u>
Current Liabilities:		
Current portion of capital lease obligations	208,419	203,503
Accounts payable	1,586,962	2,289,231
Accrued expenses	1,440,522	760,881
Billing in excess of cost	96,104	237,063
Accrued income taxes payable	2,000	1,000
Deferred revenue / customers deposit	1,212,434	265,543
Total Current Liabilities	<u>4,546,441</u>	<u>3,757,221</u>
Long-term capital lease obligations, less current portion	554,360	729,567
Total Long-Term Liabilities	<u>554,360</u>	<u>729,567</u>
Total Liabilities	<u>5,100,801</u>	<u>4,486,788</u>
Stockholders' Equity:		
Common stock; par value \$0.001, 100,000,000 shares authorized, 27,212,500 and 24,111,500 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively	27,213	24,112
Additional paid-in capital	18,700,574	12,658,405
Retained earnings (accumulated deficit)	(2,316,784)	2,510,693
Deferred compensation	(1,008,450)	(125,477)
Other comprehensive income, net	(292,565)	(542,806)
Non-controlled interest in subsidiaries	24,559	28,434
Total Stockholders' Equity	<u>15,134,547</u>	<u>14,553,361</u>
Total Liabilities and Stockholders' Equity	<u>\$ 20,235,348</u>	<u>\$ 19,040,149</u>

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31	
	2013	2012
Net Sales	\$ 12,826,168	\$ 16,921,838
Cost of Goods Sold	11,514,463	14,217,713
Gross Profit	1,311,705	2,704,125
Operating Expenses:		
Selling expenses	2,650,000	2,434,541
General and administrative expenses	3,064,610	3,301,164
Non-cash compensation expenses	1,316,826	120,494
Research and development expenses	499,972	742,009
Total Operating Expense	7,531,408	6,598,208
Loss from Operations	(6,219,703)	(3,894,083)
Other Income (Expense)		
Interest and other income	6,806	158,632
Interest expense	(50,945)	(148,611)
Loss on investments	(199,811)	(102,612)
Gain on currency transactions	7,638	48,145
Loss on sale of fixed assets	(2,135)	(889)
Total Other Expense	(238,447)	(45,335)
Loss Before Income Taxes	(6,458,150)	(3,939,418)
Income Tax Benefit	(1,611,561)	(1,165,528)
Net Loss	(4,846,589)	(2,773,890)
Less Net Loss Attributable To Non-Controlled Interests in Subsidiaries	(19,112)	-
Net Loss Attributable To LiqTech	\$ (4,827,477)	\$ (2,773,890)
Basic Loss Per Share	\$ (0.19)	\$ (0.12)
Weighted Average Common Shares Outstanding	24,989,262	23,644,883
Diluted Loss Per Share	\$ (0.19)	\$ (0.12)
Weighted Average Common Shares Outstanding Assuming Dilution	24,989,262	23,644,883

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

	For the Year Ended	
	December 31	
	2013	2012
Net Loss	(4,846,589)	(2,773,890)
Currency Translation, Net of Taxes	250,241	53,205
Other Comprehensive Loss	\$ (4,596,348)	\$ (2,720,685)
Comprehensive Income Attributable To Non-controlling Interest in Subsidiaries	1,294	2,239
Comprehensive Loss Attributable To LiqTech International Inc.	\$ (4,597,642)	\$ (2,722,924)

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

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2013 and 2012

	Common Stock		Additional Paid-in Capital	Retained Earnings/ accumulated (deficit)	Other Compre- hensive Income	Deferred Compen- sation	Share- holder Recei- vable	Non- controlled Interest in Subsidiaries
	Shares	Amount						
BALANCE, December 31, 2011	21,600,000	\$ 21,600	\$ 5,603,517	\$ 5,284,583	\$ (596,011)	\$ (268,282)	\$(3,328,183)	\$ 26,195
Common shares issued for cash at \$3.25 per share, net of offering cost of \$927,428, March 2012	2,511,500	2,512	7,077,195					
Payment received on shareholder receivables	-	-	-	-	-	-	3,434,891	-
Amortization of discount on Shareholder receivable							(65,718)	
Stock based compensation expense recognized for the year ended December 31, 2012	-	-	-	-	-	120,498	-	-
Forfeiture of Stock Based Compensation			(22,307)			22,307		
Currency translation, net	-	-	-	-	53,205	-	(40,990)	2,239
Net Loss for the year ended December 31, 2012	-	-	-	(2,773,890)	-	-	-	-
BALANCE, December 31, 2012	<u>24,111,500</u>	<u>\$ 24,112</u>	<u>\$12,658,405</u>	<u>\$ 2,510,693</u>	<u>\$ (542,806)</u>	<u>\$ (125,477)</u>	<u>\$ -</u>	<u>\$ 28,434</u>
Common shares issued at \$3.20 each for services provided and to be provided by the board of directors	300,000	300	959,700	-	-	(960,000)	-	-
Common shares issued at \$3.20 per share for services rendered	100,000	100	319,900	-	-	(320,000)	-	-
Exercised of warrants and stock options at \$1.50 with issuance of replacement warrant and options October 2013, net of offering cost of \$206,030	2,701,000	2,701	3,842,769	-	-	-	-	-
Deferred compensation on shares issued to the board of directors, employees and services	-	-	919,800	-	-	(919,800)	-	-
Stock based compensation expenses recognized for the year ended December 31, 2013	-	-	-	-	-	1,316,827	-	-

Currency translation, net	-	-	-	-	250,241	-	-	(3,875)
Net Loss for the year ended								
December 31, 2013	-	-	-	(4,827,477)	-	-	-	-
BALANCE, December 31, 2013	<u>27,212,500</u>	<u>\$ 27,213</u>	<u>\$ 18,700,574</u>	<u>\$ (2,316,784)</u>	<u>\$ (292,565)</u>	<u>\$ (1,008,450)</u>	<u>\$ -</u>	<u>\$ 24,559</u>

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

	For the Years Ended	
	December 31	
	2013	2012
Cash Flows from Operating Activities:		
Net (Loss)	\$ (4,846,589)	\$ (2,773,890)
Adjustments to reconcile net (loss) to net cash provided by operations:		
Depreciation and amortization	1,689,523	1,515,863
Non-cash compensation	1,316,826	120,494
Bad debt expense	72,548	1,078,365
Reserve for obsolete inventory	186,542	-
Change in deferred tax asset / liability	(1,623,213)	(993,977)
(Gain) Loss on sale of equipment	2,135	889
Loss on long-term investments	174,349	102,612
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	698,827	2,405,123
(Increase) decrease in inventory	(434,838)	(1,161,098)
(Increase) decrease in prepaid expenses/deposits	28,643	134,980
Increase (decrease) in accounts payable	(702,269)	(737,729)
Increase (decrease) in accrued expenses	1,626,532	(352,000)
Increase (decrease) long term contracts	(330,370)	182,291
Total Adjustments	2,705,235	2,295,813
Net Cash Provided (Used) by Operating Activities	(2,141,354)	(478,077)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(628,905)	(1,491,374)
Proceeds from sale/recovery of property and equipment	3,500	2,493
Purchase of long-term investments	(23,090)	(254,270)
Net Cash Used by Investing Activities	(648,495)	(1,743,151)
Cash Flows from Financing Activities:		
Payments on notes payable	-	(609,396)
Net payments on lines of credit	-	(1,259,936)
Payments on notes payable - related party	-	(3,055,150)
Net payments proceeds on capital lease obligation	(170,290)	(208,725)
Net proceeds from issuance of common stock and warrants	3,845,470	7,079,707
Payments on related party notes receivable	-	3,055,150
Net Cash Provided by Financing Activities	3,675,180	5,001,650
Gain on Currency Translation	125,606	59,859
Net Increase in Cash and Cash Equivalents	1,010,937	2,840,281
Cash and Cash Equivalents at Beginning of Period	3,873,338	1,033,057
Cash and Cash Equivalents at End of Period	\$ 4,884,275	\$ 3,873,338

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

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

	For the Years Ended December 31	
	2013	2012
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 50,945	\$ 18,796
Income Taxes	\$ 1,000	\$ -
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Compensation upon vesting of stock options granted to employees and the board of directors	\$ 391,960	\$ 120,494
Compensation for vesting of restricted stock awards issued to the board of directors	426,666	-
Value of stock granted for services	320,000	-
Value of warrants issued for services	178,200	-
Total	\$ 1,316,826	\$ 120,494

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation

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

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

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

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

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

LiqTech NA, Inc. ("LiqTech NA"), incorporated in Delaware on July 1, 2005, a 100% owned subsidiary of LiqTech USA as of December 31, 2013, prior to December 31, 2013 LiqTech NA, Inc. was owned 90% by LiqTech International AS and 10% by LiqTech USA, LiqTech NA, Inc. engages in the production, marketing and sale of ceramic diesel particulate and liquid filters and kiln furniture in United States and Canada.

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

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

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

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

Functional Currency / Foreign currency translation -- The functional currency of LiqTech International, Inc., LiqTech USA, Inc. and LiqTech NA is the U.S. Dollar. The Functional Currency of LiqTech Int DK and LiqTech AS is the Danish Krone ("DKK"), the functional currency of LiqTech Germany is the Euro and the functional currency of LiqTech Singapore is the Singapore Dollar, the functional Currency of LiqTech Asia is South Korean Won. The Company's reporting currency is U.S. Dollar for the purpose of these financial statements. The foreign subsidiaries balance sheet accounts are translated into U.S. Dollars at the period-end exchange rates and all revenue and expenses are translated into U.S. Dollars at the average exchange rates prevailing during the years 2013 and 2012. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders' equity. Transaction gains and losses that arose from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no balances held in financial institution in the United States in excess of federally insured amounts at December 31, 2013 and December 31, 2012.

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

The roll forward of the allowance for doubtful accounts for the year ended December 31, 2013 and December 31, 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Allowance for doubtful accounts at the beginning of the period	\$ 1,243,500	\$ 389,032
Bad debt expense	72,548	1,078,365
Amount of receivables written off	(770,738)	(248,895)
Effect of currency translation	63,046	24,998
Allowance for doubtful accounts at the end of the period	<u>\$ 608,356</u>	<u>\$ 1,243,500</u>

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

Inventory consists of the following at December 31, 2013 and December 31, 2012:

	<u>2013</u>	<u>2012</u>
Furnace parts and supplies	\$ 1,025,225	\$ 986,278
Raw materials	631,524	705,025
Work in process	1,799,888	1,502,144
Finished goods	1,062,865	990,935
Reserve for obsolescence	(260,896)	(72,567)
Net Inventory	<u>\$ 4,258,606</u>	<u>\$ 4,111,815</u>

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

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

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

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

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

Project costs of the grants include all direct material and labor costs and those indirect costs related to the project. Project costs are capitalized and accreted into cost of sales based on the percentage of the project completed. Should a loss be estimated on an incomplete project it would be recorded in the period in which such a loss is determined. Changes in estimated profitability of a project are recognized in the period in which the revisions are determined. The aggregate of costs incurred and income recognized on incomplete projects are recorded as costs in excess of billings and are shown as a current asset. The aggregate of billings in excess of related costs incurred and income recognized on projects is shown as a current liability.

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

Advertising Cost -- Cost incurred in connection with advertising of the Company's products is expensed as incurred. Such costs amounted to \$36,175 and \$78,030, for the year ended December 31, 2013 and 2012, respectively.

Research and Development Cost -- The Company expenses research and development costs for the development of new products as incurred. Included in operating expense for the years ended December 31, 2013 and 2012 were \$499,972, and \$742,009, respectively, of research and development costs.

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

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

Stock Options -- The Companies have granted stock options to certain key employees. See Note 13. During the years presented in the accompanying consolidated financial statements, the Company has granted options. The Company accounts for options in accordance with the provisions of FASB ASC Topic 718, Compensation -- Stock Compensation. Non-cash compensation costs of \$1,316,826 and \$120,494 have been recognized for the vesting of options granted to employees with an associated recognized tax benefit of \$0 for the years ended December 31, 2013 and 2012, respectively.

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

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

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

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

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

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

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

Reclassification -- The financial statements for the period ended December 31, 2012 have been reclassified to conform to the headings and classifications used in the December 31, 2013 financial statements.

NOTE 2 - RELATED PARTY TRANSACTIONS

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

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

Consulting Agreements -- During October 2013, the Company entered into a consulting agreement with McKinley Enterprises, Inc. and entity owned by a shareholder, wherein the Company paid \$75,000 on October 2, 2013 and agreed to pay an additional \$75,000 on January 3, 2014 for advice to, undertake for and consult with the Company on certain matters pertaining to the Company's business expansion into the People's Republic of China.

On November 2013, the Company entered in a consulting agreement with John Nemelka a former board member and brother of a shareholder, wherein the Company agreed to pay John Nemelka \$60,000 a year for a two year minimum for advice to, undertake for and consult with the Company on certain matters pertaining to the Company's business as shall be specified from time to time by the Company's Chief Executive Officer, other officers or the Board of Directors.

Payments to Related Parties -- On January 14, 2014, the Compensation Committee approved a special 2013 bonus payment in the amount of \$175,000 to Aldo Petersen for his assistance in the successful 2013 capital raise.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	Useful Life	2013	2012
Production equipment	3 - 10	\$ 11,542,740	\$ 11,098,980
Lab equipment	3 - 10	181,432	355,096
Computer equipment	3 - 5	276,013	282,612
Vehicles	3	38,221	47,283
Furniture and fixture	5	68,169	64,038
Leasehold improvements	10	1,059,605	1,009,035
		13,166,180	12,857,044
Less Accumulated Depreciation		(7,336,776)	(6,207,227)
Net Property and Equipment		\$ 5,829,404	\$ 6,649,817

Depreciation expense amounted to \$1,685,060 and \$1,505,435, for the year ended December 31, 2013 and 2012, respectively.

NOTE 4 - INVESTMENTS

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

As of December 31, 2013	Level 1	Level 2	Level 3
Investments	-	-	6,882
Total	-	-	6,882

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

At December 31, 2013 our total investment of \$6,882 consisted of an investment of \$6,882 in LEA Technology in France to strengthen our sales channels in the French market. Our investment in Bio Filtration Technology, a Danish company developing a biofuel and manure concentration technology, has been written off in 2013 due to uncertainties about the future free cash flow that can be generated from the investment.

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

NOTE 5 - DEFINITE-LIFE INTANGIBLE ASSETS

At December 31, 2013 and December 31, 2012, definite-life intangible assets, net of accumulated amortization, consisted of patents on the Company's products of \$24,687 and \$29,150, respectively. The patents are recorded at cost and amortized over two to ten years. Amortization expense for the years ended December 31, 2013 and 2012 was \$4,463 and \$5,017, respectively. Expected future amortization expense for the years ended are as follows:

Year ending December 31,	Amortization Expenses
2014	\$ 5,791
2015	5,791
2016	5,791
2017	3,516
2018	2,958
Thereafter	840
	<u>\$ 24,687</u>

NOTE 6 - LEASES

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

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013 are as follows:

Year ending December 31,	Lease Payments
2014	\$ 635,655
2015	652,321
2016	669,442
2017	497,270
2018	314,696
Thereafter	-
Total Minimum Lease Payments	<u>\$ 2,769,384</u>

Lease expense charged to operations was \$776,659 and \$761,831, for the year ended December 31, 2013, and 2012.

Capital Leases -- The Company leases equipment on various variable rate capital leases currently calling for monthly payments of approximately \$12,143, \$4,706, \$3,047 and \$2,170 expiring through April 2017. At December 31, 2013 and 2012, the Company had recorded equipment on capital lease at \$1,600,254 and \$1,570,337, respectively, with related accumulated depreciation of \$907,728 and \$653,529, respectively.

During the years ended December 31, 2013 and 2012, depreciation expense for equipment on capital lease amounted to \$216,323, and \$211,879, respectively, and has been included in depreciation expense. During the years ended December 31, 2013 and 2012, interest expense on a capital lease obligation amounted to \$50,146 and \$64,211, respectively.

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

<u>Year ending December 31,</u>	<u>Lease Payments</u>
2014	\$ 259,941
2015	226,756
2016	219,509
2017	140,948
2018	-
Thereafter	-
Total minimum lease payments	847,154
Less amount representing interest	(84,375)
Present value of minimum lease payments	762,779
Less Current Portion	(208,419)
	\$ 554,360

NOTE 7 - AGREEMENTS AND COMMITMENTS

401(K) Profit Sharing Plan -- LiqTech NA has a 401(k) profit sharing plan and trust covering certain eligible employees. The amount LiqTech NA contributes is discretionary. For the year ending December 31, 2013 and 2012, matching contributions were expensed and totaled \$16,720 and \$21,531, respectively.

NOTE 8 - INCOME TAXES

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

The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset (liabilities) at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Vacation Accrual	\$ 4,161	\$ 4,093
Allowance for doubtful accounts	13,955	243,314
Reserve for obsolete inventory	86,027	19,925
Net current tax assets	<u>\$ 104,143</u>	<u>\$ 267,332</u>
Business tax credit carryover	20,184	25,379
Deferred compensation	202,309	-
Net operating loss carryover	2,367,568	856,517
Excess of book over tax depreciation	(726,712)	(805,949)
Net deferred tax assets (liability)	<u>\$ 1,863,349</u>	<u>\$ 75,947</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 meets the more-likely-than-not condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%.

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

As of December 31, 2013, the Company had net operating loss carryovers of approximately \$4,465,000 for U.S. Federal purposes expiring through 2032; \$2,800,000 for Danish tax purposes which do not expire; \$320,000 for German tax purposes which do not expire and \$410,000 for Singapore tax purposes which do not expire.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows at December 31, 2013 and 2012:

	2013	2012
Computed tax at expected statutory rate	\$ (2,965,783)	\$ (1,470,216)
State and local income taxes, net of federal benefits	(24,703)	(13,925)
Non-deductible expenses	818,965	64,645
Non-US income taxed at different rates	438,808	202,029
Danish Tax Credit	(23,905)	-
Effect of change in tax rates	80,638	-
Valuation Allowance	70,490	-
Other items	(6,071)	51,939
Income tax expense (benefit)	<u>\$ (1,611,561)</u>	<u>\$ (1,165,528)</u>

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

	2013	2012
Current income tax expense (benefit)		
Danish	\$ (12,682)	\$ -
Federal	-	(160,920)
State	(5,743)	(25,983)
Current tax expense (benefit)	<u>\$ (18,425)</u>	<u>\$ (186,903)</u>
Deferred tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	\$ (65,157)	\$ 5,906
Deferred rent	-	-
Business tax credit carryover	5,195	(25,379)
Net operating loss carryover	(1,494,826)	(709,603)
Allowance for doubtful accounts	229,359	(243,314)
Deferred compensation	(202,309)	-
Accrued Vacation	(67)	9,141
Reserve for obsolete inventory	(65,331)	(15,373)
Deferred tax expense (benefit)	<u>\$ (1,593,136)</u>	<u>\$ (978,622)</u>
Total tax expense (benefit)	<u>\$ (1,611,561)</u>	<u>\$ (1,165,525)</u>

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

The Company files Danish and U.S. federal, Minnesota state income tax returns, and LiqTech AS and LiqTech International AS are generally no longer subject to tax examinations for years prior to 2008 for their Danish tax returns. LiqTech NA is generally no longer subject to tax examinations for years prior to 2009 for U.S. federal and U.S. states tax returns.

NOTE 9 - EARNINGS PER SHARE

The following data shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of potential dilutive common stock for the year ended December 31, 2013 and 2012:

	For the Year Ended December 31	
	2013	2012
Net Income (Loss) attributable to LiqTech International Inc.	\$ (4,827,477)	\$ (2,773,890)
Weighted average number of common shares used in basic earnings per share	24,989,262	23,644,883
Effect of dilutive securities, stock options and warrants	-	-
Weighted average number of common shares and potential dilutive common shares outstanding used in dilutive earnings per share	24,989,262	23,644,883

For the year ended December 31, 2013, Parent had 2,564,130 options outstanding to purchase common stock of Parent at \$1.50 to \$3.60 per share and Parent had 7,025,575 warrants outstanding to purchase common stock of Parent at \$1.50 to \$4.06 per share, which were not included in the loss per share computation because their effect would be anti-dilutive.

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

NOTE 10 - STOCKHOLDERS' EQUITY

Common Stock -- Parent has 100,000,000 authorized shares of common stock, \$0.001 par value. As of December 31, 2013 and 2012, respectively, there were 27,212,500 and 24,111,500 common shares issued and outstanding.

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

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

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

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

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

Common Stock Issuance

During the year 2013, the Company issued 100,000 shares of common stock valued at \$320,000 for services rendered.

The Company issued an additional 300,000 shares of restricted stock valued at \$960,000 for services provided and to be provided by the board of directors. The Company will recognize the non-cash compensation of the award over the requisite service period, of which 133,333 shares will vest on December 31, 2013, 133,333 shares will vest on December 31, 2014 and 33,334 shares will vest on December 31, 2015. As of December 31, 2013, the Company has recorded deferred compensation of \$533,334 and non-cash compensation expense of \$426,666 relating to the awards.

On October 9, 2013 we announced that the warrant and option exchange offer raised \$4,051,000 by exercising 2,701,000 warrants and stock options which included the exercise of 100,000 warrants by Aldo Petersen, Chairman of LiqTech, 25,000 stock options by Lasse Andreassen, founder and former board member of LiqTech and 50,000 stock options by Soren Degn, CFO of LiqTech, \$450,000 was received on September 30, 2013 and \$3,601,000 was received subsequent to September 30, 2013. The board noted that the additional capital was an orderly solution to improving the Company's capital structure as well as enhancing the ability of LiqTech to list on an exchange. In addition, the new capital gives the Company additional

flexibility to generate new orders and sustain future growth.

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

Common Stock Purchase Warrants

A summary of the status of the Warrants outstanding at December 31, 2013 is presented below:

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$ 1.50	3,874,000	3.00	\$ 1.50	3,874,000	\$ 1.50	
\$ 2.35	400,000	0.25	\$ 2.35	300,000	\$ 2.35	
\$ 2.70	2,626,000	3.00	\$ 2.70	2,626,000	\$ 3.00	
\$ 4.0625	125,575	3.18	\$ 4.0625	125,575	\$ 4.0625	
Total	7,025,575	2.85	\$ 2.04	6,925,575	\$ 2.04	

At December 31, 2013 the Company had 100,000 non-vested warrants with a weighted average exercise price of \$2.35, resulting in unrecognized compensation expense of \$59,400, which is expected to be expensed over a weighted-average period of 0.25 years. We have recorded a non-cash compensation expense of \$178,200 for the year ended December 31, 2013 related to the warrants issued.

The exercise price of the warrants and the number of shares underlying the warrants are subject to adjustment for stock dividends, subdivisions of the outstanding shares of common stock and combinations of the outstanding shares of common stock. For so long as the warrants remain outstanding, we are required to keep reserved from our authorized and unissued shares of common stock a sufficient number of shares to provide for the issuance of the shares underlying the warrants.

On October 9, 2013, the Company issued 2,626,000 new warrants equal to the number of warrants exercised by the warrant holder having the same terms and conditions as the warrants exercised by the warrant holder, respectively, except each warrant issued has a strike price of \$2.70 per share, the closing bid price of Parent's common stock as quoted on the OTCBB on September 23, 2013. The net proceeds from the offering were allocated to the stock and warrants based on their relative fair values. The Company recorded the relative fair value of the warrants of \$1,124,928 as stock offering costs.

Stock Options

In August 2011, Parent's Board of Directors adopted a Stock Option Plan (the "Plan"). Under the terms and conditions of the Plan, the board is empowered to grant stock options to employees, officers, and directors of the Companies. At December 31, 2013, 2,564,130 options were granted and outstanding under the Plan.

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

	LiqTech International, Inc.
Expected term (in years)	4
Volatility	40,74
Risk free interest rate	0.67%
Dividend yield	0%

The Company recognized stock based compensation expense related to the options of \$391,960 and \$120,498 for the year end December 31, 2013 and 2012, respectively. At December 31, 2013 the Company had approximately \$415,716 of unrecognized compensation cost related to non-vested options expected to be recognized through March 31, 2017.

A summary of the status of the options outstanding under the Company's stock option plans at December 31, 2013 is presented below:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$1.50	377,500	1.15	\$ 1.50	377,500	\$ 1.50	
\$2.35	600,000	3.25	\$ 2.35	150,000	\$ 2.35	
\$2.70	75,000	1.15	\$ 2.70	75,000	\$ 2.70	
\$3.00 - \$3.60	1,511,630	1.16	\$ 3.06	1,511,630	\$ 3.04	
Total	2,564,130	1.64	\$ 2.65	2,114,130	\$ 2.72	

A summary of the status of the options at December 31, 2013, and changes during the period is presented below:

	December 31, 2013			
	Shares	Weighted Average Exercise Price	Average Remaining Life	Weighted Average Intrinsic Value
Outstanding at beginning of period	1,964,130	\$ 2.70	2.15	\$ 0
Granted	675,000	2.39	3.02	-
Exercised	(75,000)	1.50	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	2,564,130	\$ 2.65	1.64	\$ 283,125
Vested and expected to vest	2,564,130	\$ 2.65	1.64	\$ 283,125
Exercisable end of period	2,114,130	\$ 2.72	1.33	\$ 283,125

At December 31, 2013 the Company had 450,000 non-vested options with a weighted average exercise price of \$2.35 and with a weighted average grant date fair value of \$1.14, resulting in unrecognized compensation expense of \$415,716, which is expected to be expensed over a weighted-average period of 3.25 years.

The total intrinsic value of options at December 31, 2013 was \$283,125. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at December 31, 2013 (for outstanding options), less the applicable exercise price.

NOTE 11 - SIGNIFICANT CUSTOMERS / CONCENTRATION

For the year ended December 31, 2013, our four largest customers accounted for approximately 10%, 6%, 5% and 5%, respectively, of our net sales (approximately 26% in total). For the year ended December 31, 2012, our four largest customers accounted for approximately 13%, 12%, 10% and 7%, respectively, of our net sales (approximately 42% in total).

The Company sells products throughout the world; sales by geographical region are as follows for the year ended December 31, 2013 and 2012:

	For the Year Ended December 31	
	2013	2012
United States and Canada	\$ 3,635,917	\$ 5,993,355
Australian	306,015	193,993
South America	46,187	442,996
Asia	1,859,163	1,490,017
Europe	6,978,886	8,801,477
	\$ 12,826,168	\$ 16,921,838

The Company's sales by product line are as follows for the year ended December 31, 2013 and 2012:

For the Year Ended December 31

	2013	2012
Ceramic diesel particulate	\$ 6,932,558	\$ 12,181,744
Liquid filters	5,081,848	4,192,063
Kiln furniture	811,762	548,031
	<u>\$ 12,826,168</u>	<u>\$ 16,921,838</u>

NOTE 12 - SUBSEQUENT EVENT

The Company's management reviewed material events through March 25, 2014.

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Management’s Report on International Control Over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on its assessment and those criteria, our principal executive officer and principal financial officer concluded that the Company’s internal control over financial reporting as of December 31, 2013 was effective.

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

Item 9B. Other Information

On November 1, 2013 Mr. Johnny Marcher was appointed to serve as Chief Operating Officer of LiqTech International, Inc. and LiqTech International A/S. Mr. Marcher was also engaged to serve as a Director of LiqTech Denmark International and as a Director of LiqTech Delaware pursuant to an amendment to his previous contract, by and between Mr. Marcher and LiqTech Denmark International. In consideration for such services to the Company, Mr. Marcher shall receive an annual base salary initially set at DKK 720,000. In addition, Mr. Marcher shall be entitled to five weeks' vacation, a Company mobile phone, a Company laptop and reimbursement of Company-related travel expenses. The Company may terminate Mr. Marcher upon not less than 12 months' notice and Mr. Marcher may terminate the Director Contract with 12 months' notice to the end of the month.

Effective December 2, 2013, our common stock has been traded on NYSE MKT under the symbol LIQT.

Effective January 1, 2014, LiqTech International, Inc. and Mr. Petersen entered into a Services Agreement whereby Mr. Petersen shall provide on-going services to us which shall include, without limitation, participation at road shows, general investor relations services, general work as Chairman of the Board and other services which are mutually agreeable by both parties on an ad hoc basis (collectively, the "Services") in consideration for annual payments equal to DKK1,235,000, payable as follows: (a) DKK205,833.34 representing payment for the Services for the months of January and February, 2014; and (b) DKK102,916.67 on the final business day of each month beginning on March 31, 2014 through the end of the term of this Agreement (i.e. December 31, 2014). Except for the above-mentioned amounts, no amounts, bonus amounts or otherwise, shall be due and payable by us to Mr. Petersen in connection with the Services. We shall, at our sole cost and expense, provide Mr. Peterson with a laptop computer and a mobile telephone, including communication costs. Such items shall be utilized by Mr. Peterson in furtherance of Mr. Peterson's duties and obligations under the Services Agreement. The Services Agreement shall continue for an initial period of one (1) year and thereafter, shall be renewed automatically for subsequent one (1) year terms unless otherwise agreed to in writing by both parties or unless otherwise terminated in accordance with the terms of the Services Agreement. We may terminate the Services Agreement at any time by providing twelve (12) months prior written notice of termination to Mr. Petersen, effective as of the date of delivery of said notice.

On January 14, 2014, the Compensation Committee approved a special 2013 bonus payment in the amount of \$175,000 to Aldo Petersen for his assistance in the successful capital raise.

Effective March 03, 2014, Lasse Andreassen resigned from the Company's Board of Directors due to retirement.

Item 10. Directors, Executive Officers and Corporate Governance

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

Name	Age	Titles
Aldo Petersen	52	Chairman of the Board
Finn Helmer	64	Chief Executive Officer (Principal Executive Officer)
Soren Degn	44	Chief Financial Officer (Principal Financial and Accounting Officer)
Johnny Marcher	42	Chief Operating Officer
Paul Burgon	43	Director
Mark Vernon	61	Director

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

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

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

Aldo Petersen. Aldo Petersen has been Chairman of the Board of LiqTech International, Inc. since August 2011. He has also since April 2013 been the Chairman of the Board of the Football Club Brøndby IF (listed on the Copenhagen Stock Exchange). He has been the Chief Executive Officer of APE Invest A/S, a private Danish investment company, since 1996. Until 2006, Mr. Petersen was also the chief executive officer of EuroTrust (formerly known as Telearpartner), a formerly NASDAQ-listed company that he founded in 1986. Prior to EuroTrust, he started and sold one of Denmark's first hedge funds, Dansk Formue Invest. Mr. Petersen was a major investor in Greentech, a renewable energy company that builds wind farms in Denmark, Germany, Poland and Italy. He is a private investor in wind farms in Germany and France, and was also a major investor in Football Club Copenhagen (listed on the Copenhagen Stock Exchange). Mr. Petersen has a B.A. degree in Economics from Copenhagen Business School.

Finn Helmer. Mr. Helmer has served as CEO of LiqTech International, Inc. since April 1, 2013. Over the course of more than 40 years Mr. Helmer has in many different situations successfully demonstrated his talent for leading and growing companies into meaningfully larger and more profitable companies, including his role as CEO of GIGA A/S, a company in the NKT Group. When he joined GIGA as its seventh employee, it had

limited capital, was not profitable and had revenue of less than \$1 million. In less than 5 years, GIGA employed 100 people, and was generating revenues and pre-tax profit of \$135 million and \$73 million, respectfully. In 2000 Intel (USA) acquired GIGA for \$1.25 billion. Mr. Helmer previously served as Chief Executive Officer of ComX, a Danish privately held company engaged in the business of fiber-optic broadband from November 2006 through November 2010. From December 2010 through March 2013, Mr. Helmer served as consultant for various smaller businesses within different business areas.

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

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

Mark Vernon. Mr. Vernon has served as a Director of LiqTech International, Inc. since February 26, 2013. In January 2014, Mr. Vernon retired as Chief Executive Officer and Director of Spirax-Sarco Engineering plc (London Stock Exchange: SPX), the world leader in the design and supply of industrial steam systems and peristaltic pumping, after serving on the Spirax Board since 2006. Mr. Vernon currently serves as a Director of Senior plc, a \$1.3 billion UK-based aerospace and industrial engineering business, following his appointment in May 2011. Mr. Vernon has had a distinguished career in the industrial engineering industry, with wide international business experience. He served previously as Chief Operating Officer and Director of Spirax Sarco, Group Vice-president of Flowserve's Flow Control Business Unit, Group Vice-president of Durco International and President of Valtek International. Mr. Vernon earned a BSc degree (magna cum laude) from Weber State University.

Johnny Marcher. Mr. Marcher has served as CTO of LiqTech International A/S since 2011 and COO of LiqTech International, Inc. and LiqTech International A/S since November 1, 2013. Before that he served as Technical Director of LiqTech A/S since 2002. Mr. Marcher also served as CEO of NoTox, a subsidiary entity of Corning Incorporated from 2000 to 2002. Mr. Marcher has a solid background in the industry from injection molding over processing polymeric parts to the manufacturing of ceramic products, with more than 20 years of experience in developing new technologies and products, the past 15 years entirely within clean-tech. He has started Diesel Particulate Filter production lines in U.S. and Italy and three different places in Denmark. He developed several patents related to design of diesel particulate filters, Ceramic Membranes and manufacturing of special tools.

Director Expertise

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

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

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

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

Family Relationships

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

Director Independence

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

Committees of our Board of Directors

Committee Composition

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

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Governance Committee</u>
Paul Burgon*	Mark Vernon *	Mark Vernon *
Mark Vernon	Paul Burgon	Paul Burgon

* Chairman of the committee

Audit Committee

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

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

During the fiscal year ended December 31, 2013, the Audit Committee met four times.

Compensation Committee

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

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

During the fiscal year ended December 31, 2013, the Compensation Committee met five times.

Governance Committee

Our governance committee consists of Mark Vernon (Chair) and Paul Burgon. Mr. Vernon is an independent director as defined in the NYSE Amex rules. We have implemented a written charter for our governance committee that provides that our governance committee is responsible for:

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

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

During the fiscal year ended December 31, 2013, the Governance Committee met 4 times.

Legal Proceedings Involving Officers and Directors

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

Code of Ethics

We adopted a code of conduct and ethics on January 1, 2012. The code of ethics has been posted on the Company's website at: http://www.liqtech.com/img/user/file/Code_of_Conduct_and_Ethics.pdf.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To our knowledge, based solely on a review of the copies of such reports furnished to us, we believe that all reports under Section 16(a) required to be filed by its officers and directors and greater than ten percent (10%) beneficial owners were timely filed except that Mr. Marcher failed to file a Form 3 upon being appointed to serve as COO and Mr. Helmer filed a late Form 3.

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth certain information with respect to compensation for the years ended December 31, 2013 and 2012 earned by or paid to our chief executive officer and our most highly compensated executive officer in 2013 whose total compensation exceeded \$100,000 (the "named executive officers"). Although Soren Degn, our Chief Financial Officer, is included in the disclosure below, he was not a named executive officer in fiscal year 2011 because he received less than \$100,000 in total compensation during 2011.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(2)	Non-equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	Other	Total
Finn Helmer, Chief Executive Officer (3)	2013	\$ 104,000	-	-	\$ 682,200	-	-	\$ 9,615 (5)	\$ 795,815
	2012	-	-	-	-	-	-	-	-
Lasse Andreassen, Former Chief Executive Officer and Board Member (4)	2013	217,332	-	-	-	-	-	21,367 (5)	217,332
	2012	212,048	-	-	118,167	-	-	21,205	351,420
	2011	104,428	-	-	3,139	-	-	7,832	115,399
Soren Degn, Chief Financial Officer (6)	2013	219,739	-	-	-	-	-	18,162 (5)	237,902
	2012	180,241	-	-	70,900	-	-	18,024	269,165
	2011	64,397	-	-	2,616	-	-	-	67,013
Johnny Marcher, Chief Operating Officer (7)	2013	147,067	-	-	-	-	-	5,912 (5)	152,978
	2012	106,574	-	-	-	-	-	1,424 (5)	107,998
	2011	99,211	-	-	4,578	-	-	-	103,789
Donald S. Debelak, Former Head of U.S. Operations (8)	2013	14,925	-	-	-	-	-	-	14,925
	2012	163,505	-	-	70,900	-	-	-	234,405
	2011	162,000	-	-	2,485	-	-	-	164,485

- Total salaries for Messrs. Andreassen, Marcher and Degn for 2011 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.7456, as of December 31, 2011. Total salaries for Messrs. Andreassen, Marcher and Degn for 2012 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.6591, as of December 31, 2012. Total salaries for Messrs. Helmer, Andreassen, Marcher and Degn for 2013 are reported on an as-converted basis from Danish Krone (DKK) to U.S. dollars (\$) based on the currency exchange rate of \$1.00 = DKK 5.6160, as of December 31, 2013. We do not make any representation that the Danish Krone amounts could have been, or could be, converted into U.S. dollars at such rate on December 31, 2011, December 31, 2012 or December 31, 2013, or at any other rate.
- These amounts represent the aggregate grant date fair value for stock awards granted in fiscal year 2013 and 2012, computed in accordance with FASB ASC Topic 718. See notes to consolidated financial statements contained elsewhere in this report for further information on the assumptions used to value stock options. On April 1, 2013, Mr. Helmer was granted stock options to purchase 600,000 shares of common stock, respectively, at \$2.35 per share. The vesting schedule of such options is as follows: 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$3.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$4.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$5.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$6.00. All of these options will expire on March 31, 2017. On March, 2012, Messrs. Andreassen, Debelak and Degn were granted stock options to purchase 97,332, 58,399 and 58,399 shares of common stock,

respectively, at \$3.28 per share. The vesting schedule of such options is as follows: one-third of the options vested immediately, one third of such options vest on March 23, 2013 and one third of such options vest on March 23, 2014. All of these options will expire on March 22, 2015.

- (3) Mr. Helmer became our Chief Executive Officer in April 2013. Pursuant to his employment agreement, Mr. Helmer is entitled to an annual base salary and company car of approximately \$143,162. As part of this employment contract Mr. Helmer was on April 1, 2013, granted stock options to purchase 600,000 shares of common stock, respectively, at \$2.35 per share. The vesting schedule of such options is as follows: 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$3.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$4.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$5.00, 150,000 options vest as soon as the stock price in 10 following trading days exceeds a closing price at \$6.00. All of these options will expire on March 31, 2017.
- (4) For the year ended December 31, 2011, Mr. Andreassen was entitled to an annual base salary of approximately \$182,749. From January 2011 until October 2011, Mr. Andreassen was entitled to an annual base salary of DKK 1,000,000. From October 2011 until December 2011, Mr. Andreassen was entitled to an annual base salary of DKK 1,200,000.
- (5) Pursuant to Mr. Andreassen's employment agreement, Mr. Andreassen received \$21,367, \$21,205 and \$7,832 of contributions from the Company to his individual retirement account in 2013, 2012 and 2011, respectively. Pursuant to Mr. Degn's employment agreement, Mr. Degn received \$18,162 and \$18,024 of contributions from the Company to his individual retirement account in 2013 and 2012. Pursuant to Mr. Helmer's employment agreement, Mr. Helmer received \$9,615 of contributions from the Company to his individual retirement account in 2013. Pursuant to Mr. Marcher's employment agreement, Mr. Marcher received \$5,912 and \$1,424 of contributions from the Company to his individual retirement account in 2013 and 2012, respectively.
- (6) Mr. Degn became our Chief Financial Officer in August 2011. Pursuant to his employment agreement, Mr. Degn is entitled to an annual base salary of approximately \$180,241.
- (7) Mr. Marcher became Chief Operating Officer of LiqTech International, Inc. and LiqTech International A/S in November 2013. Pursuant to his employment agreement, Mr. Marcher is entitled to an annual base salary of approximately \$128,205.
- (8) Mr. Debelak resigned from his position in July 2012.

Employment Arrangements

During the year ended December 31, 2013, we had employment agreements with Messrs. Helmer, Andreassen, Marcher and Degn.

On April 1, 2013 the Company's Board of Directors appointed Mr. Finn Helmer to serve as Chief Executive Officer. Mr. Helmer was also engaged to serve as a Director of LiqTech Denmark International and as a Director of LiqTech Delaware pursuant to a Director Contract, dated March 27, 2013, by and between Mr. Helmer and LiqTech Denmark International. In consideration for such services to the Company, Mr. Helmer shall receive an annual base salary initially set at DKK 720,000 and an annual bonus of up to DKK 250,000 if the Company's yearly growth of both revenue and EBITDA exceeds 35% measured by comparing the financial performance of the Company reflected in the Company's annual reports on Form 10-K year to year, payable pro rata whereby if, for example, growth in revenue is 23.33% and growth in EBITDA is 11.67%, a bonus of DKK 125,000 would be payable. In addition, Mr. Helmer shall be entitled to 600,000 stock options of Company common stock at a price of \$2.35 per share, which vest or have vested as follows: (a) 150,000 stock options vested April 24, 2013, (b) 150,000 additional stock options vest as soon as the stock price in 10 preceding trading days exceeds a closing price of \$4.00, (c) 150,000 additional stock options vest as soon as the stock price in 10 preceding trading days exceeds a closing price of \$5.00 and (d) 150,000 additional stock options vest as soon as the stock price in 10 preceding trading days exceeds a closing price of \$6.00. In the event Mr. Helmer is no longer employed with the Company after December 31, 2013 and the milestones set forth in (b), (c) and (d) above have not been satisfied, then such 450,000 stock options shall be deemed forfeited at December 31, 2013. All stock options forfeit automatically on March 27, 2017. In addition, Mr. Helmer shall be entitled to a company car (with a monthly lease stipend not to exceed DKK 7,000), five weeks' vacation, home internet service, a Company mobile phone, a Company laptop and reimbursement of Company-related travel expenses. The Company may terminate Mr. Helmer upon not less than six months' notice and Mr. Helmer may terminate the Director Contract with six months' notice to the end of the month. The full details of Mr. Helmer's employment are set forth in the Director Contract referenced hereto as Exhibit 10.21.

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

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

On March 25, 2013, we entered into an amendment Agreement to Mr. Andreassen's employment agreement pursuant to which, effective March 31, 2013, Mr. Andreassen no longer served as chief executive officer of LiqTech International, Inc., however he instead served as chief operating officer of LiqTech Denmark International. Mr. Andreassen's compensation remained the same however we may terminate Mr. Andreassen by giving him 30 days prior written notice, and in such case we shall pay him 12 months' salary (including pension and vacation) in a lump sum at the termination date. Mr. Andreassen may terminate upon not less than 3 months prior written notice to us, and in such case we would pay him salary (including pension and vacation) for one year. The amendment is provided herewith this annual report as Exhibit 10.20. The employment contract was terminated by Mr. Andreassen April 17, 2013 with a 3 months' notice and we will pay him 12 months' salary from July 17, 2013.

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

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

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

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

On November 1, 2013 Mr. Johnny Marcher was appointed to serve as Chief Operating Officer of LiqTech International, Inc. and LiqTech International A/S. Mr. Marcher was also engaged to serve as a Director of LiqTech Denmark International and as a Director of LiqTech Delaware pursuant to an amendment to his previous contract, by and between Mr. Marcher and LiqTech Denmark International. In consideration for such services to the Company, Mr. Marcher shall receive an annual base salary initially set at DKK 720,000. In addition, Mr. Marcher shall be entitled to five weeks' vacation, a Company mobile phone, a Company laptop and reimbursement of Company-related travel expenses. The Company may terminate Mr. Marcher upon not less than 12 months' notice and Mr. Marcher may terminate the Director Contract with 12 months' notice to the end of the month.

Effective January 1, 2014, LiqTech International, Inc. and Mr. Petersen entered into a Services Agreement whereby Mr. Petersen shall provide on-going services to us which shall include, without limitation, participation at road shows, general investor relations services, general work as Chairman of the Board and other services which are mutually agreeable by both parties on an ad hoc basis (collectively, the "Services") in consideration for annual payments equal to DKK1,235,000, payable as follows: (a) DKK205,833.34 representing payment for the Services for the months of January and

February, 2014; and (b) DKK102,916.67 on the final business day of each month beginning on March 31, 2014 through the end of the term of this Agreement (i.e. December 31, 2014). Except for the above-mentioned amounts, no amounts, bonus amounts or otherwise, shall be due and payable by us to Mr. Petersen in connection with the Services. We shall, at our sole cost and expense, provide Mr. Peterson with a laptop computer and a mobile telephone, including communication costs. Such items shall be utilized by Mr. Peterson in furtherance of Mr. Peterson's duties and obligations under the Services Agreement. The Services Agreement shall continue for an initial period of one (1) year and thereafter, shall be renewed automatically for subsequent one (1) year terms unless otherwise agreed to in writing by both parties or unless otherwise terminated in accordance with the terms of the Services Agreement. We may terminate the Services Agreement at any time by providing twelve (12) months prior written notice of termination to Mr. Petersen, effective as of the date of delivery of said notice.

Outstanding Equity Awards at Last Fiscal Year End

The following table sets forth all outstanding equity awards held by our named executive officers as of December 31, 2013.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Awards (1)	Number of Securities Underlying Unexercised Awards (1)	Equity Incentive Plan Awards: No. of Securities Underlying Unearned Options (1)	Option Exercise Price	Option Expiration Date	Number of Shares or Units That Have Not Vested	Market Value of Stock or Units That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested
Finn Helmer, CEO	600,000	—	450,000	\$ 2.35	03/31/17	—	—	—	—
Soren Degn, CFO	150,000	—	-	\$ 3.00	02/28/15	—	—	—	—
	50,000	—	-	\$ 2.70	02/28/15	—	—	—	—
	58,399	—	-	\$ 3.28	02/22/15	—	—	—	—
Johnny Marcher, COO	87,500	—	-	\$ 1.50	02/28/15	—	—	—	—
	262,500	—	-	\$ 3.00	02/28/15	—	—	—	—

Compensation of Directors

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

Pursuant to a Board of Directors meeting held on April 18 and April 19 of 2013, each independent director shall receive \$20,000, and the chairman of the audit committee shall receive \$30,000, as annual compensation for their services. Furthermore, effective as of April 19, 2013, each independent director received 100,000 restricted shares as replacement of an option grant for 2012, 2013 or 2014. For two of the independent directors, one-half of their respective restricted shares vested on December 31, 2013 and one-half of their respective restricted shares vest on December 31, 2014. With respect to the remaining independent director's restricted shares, one-third vested on December 31, 2013, one-third vest on December 31, 2014, and one-third vest on December 31, 2015.

The following table provides information regarding compensation that was earned or paid to the individuals who served as non-employee directors during the year ended December 31, 2013. Except as set forth in the table, during 2013, directors did not earn nor receive cash compensation or compensation in the form of stock awards, option awards or any other form.

Name	Fees earned or paid in cash (1)	Stock awards	Option awards (2)	Non-equity incentive plan compensation	Non-qualified deferred compensation earnings	All other compensation (3)	Total
Paul Burgon	30,000	—	—	—	—	320,000	\$ 350,000
Mark Vernon	20,000	—	—	—	—	320,000	\$ 340,000

- (1) Our independent directors are entitled to cash compensation of \$20,000 per year and the chairman of our audit committee is entitled to \$30,000 per year.
- (2) These amounts represent the aggregate grant date fair value for stock awards granted in fiscal year 2012, computed in accordance with FASB ASC Topic 718. As such, these amounts do not correspond to the compensation actually realized by each director for the period. See notes to consolidated financial statements contained elsewhere in this report for further information on the assumptions used to value stock options.
- (3) The Company issued 100,000 shares of restricted stock valued at \$320,000 for services provided and to be provided by each director.

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

The following table sets forth, as of March 19, 2014, certain information regarding the beneficial ownership of our common stock, the only class of capital stock we have currently outstanding, of (i) each director and “named executive officers” (as defined in the section titled “Executive Compensation — Summary Compensation Table”) individually, (ii) our chief financial officer, (iii) all directors and executive officers as a group, and (iv) each person known to us who is known to be the beneficial owner of more than 5% of our common stock. In accordance with the rules of the SEC, “beneficial ownership” includes voting or investment power with respect to securities. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

Name of Beneficial Owner(1)	Shares of Common Stock Beneficially Owned (2)	Percentage of Common Stock Beneficially Owned (3)
Lasse Andreassen(4)	2,774,332	10.1%
Donald S. Debelak(5)	248,643	*
Finn Helmer(6)	150,000	*
Soren Degn(7)	426,399	1.6%
Aldo Petersen(8)	3,263,541	12.0%
Johnny Marcher(9)	349,500	1.3%
Paul Burgon(10)	139,170	*
Mark Vernon	100,000	*
All executive officers and directors as a group (7 persons)(11)	7,451,585	26.0%
<i>5% Shareholders:</i>		
Laksya Ventures, Inc.(12)	3,199,792	11.0%
Lazarus Management Company LLP	1,731,557	6.4%
Eliot Rose Asset Management, LLC	1,622,900	6.0%
SmallCap Danmark A/S (13)	1,975,000	7.2%
David Nemelka(14)	2,017,200	7.2%

* Less than one percent.

- (1) Unless otherwise indicated, the address for each person listed above is: c/o LiqTech International A/S, Industriparken 22C 12, DK-2750 Ballerup, Denmark.
- (2) Under the rules and regulations of the SEC, beneficial ownership includes (i) shares actually owned, (ii) shares underlying options and warrants that are currently exercisable and (iii) shares underlying options and warrants that are exercisable within 60 days of March 19, 2014. All shares beneficially owned by a particular person under clauses (ii) and (iii) of the previous sentence are deemed to be outstanding for the purpose of computing the percentage ownership of that person but are not deemed outstanding for the purpose of computing the percentage ownership of any

other person.

- (3) Based on 27,212,500 shares issued and outstanding as of March 19, 2014.
- (4) Shares are owned by El Salto ApS, a Danish entity. The voting and disposition of the shares owned by El Salto is controlled by Mr. Andreassen. Includes the vested portion of 337,332 stock options, of which 35,000 stock options have an exercise price of \$1.50 per share and vested in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, 180,000 stock options have an exercise price of \$3.00 and vested in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, 97,332 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014 and 25,000 stock options have an exercise price of \$2.70 per share and vested immediately on October 9, 2013.

- (5) Includes the vested portion of 190,000 stock options, of which 47,500 stock options have an exercise price of \$1.50 per share and vested in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, and 142,500 stock options have an exercise price of \$3.00 and vested in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013 and 58,399 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014. Mr. Debelak resigned from his position on July 19, 2012, but has worked as a part-time consultant for the Company late in 2013.
- (6) Includes 150,000 stock options immediately exercisable for at an exercise price of \$2.35 per share.
- (7) Includes 118,000 shares and 50,000 shares owned by LD Consulting ApS (former SHD Invest ApS) and LHD Invest ApS, respectively, each of which is a Danish entity. The voting and disposition of the shares owned by LD Consulting ApS and LHD Invest ApS are controlled by Mr. Degn. Also includes the vested portion of 258,399 stock options. 150,000 stock options have an exercise price of \$3.00 and vested in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013, 58,399 stock options have an exercise price of \$3.28 and vest in three equal annual installments on March 23, 2012, March 23, 2013 and March 23, 2014 and 50,000 stock options have an exercise price of \$2.70 per share and vested immediately on October 9, 2013.
- (8) Includes (i) 3,263,541 shares owned by APE Invest A/S, a Danish entity controlled by Mr. Petersen, of which 100,000 shares underlie a 5-year warrant immediately exercisable at an exercise price of \$2.70 per share.
- (9) Includes the vested portion of 349,500 stock options. 87,500 stock options have an exercise price of \$1.50 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013 and 262,500 stock options have an exercise price of \$1.50 and vest in three equal annual installments on August 24, 2011, September 1, 2012 and September 1, 2013.
- (10) Includes the vested portion of 20,000 stock options at an exercise price of \$3.60. The options vest in three equal annual installments on December 16, 2011, September 1, 2012 and September 1, 2013.
- (11) Includes five-year warrants immediately exercisable for an aggregate of 100,000 shares at an exercise price of \$2.70 per share.
- (12) Includes five-year warrants immediately exercisable for an aggregate of 1,900,000 shares at an exercise price of \$1.50 per share. The voting and disposition of the shares owned by Laksya Ventures is controlled by Neil Persh.
- (13) Includes 375,000 warrants immediately exercisable for at an exercise price of \$2.70 per share.
- (14) Includes five-year warrants immediately exercisable for an aggregate of 293,000 shares at an exercise price of \$1.50 per share and 479,500 shares at an exercise price of \$2.70 per share.

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

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

Transactions with Related Persons

Effective January 1, 2014, LiqTech International, Inc. and Mr. Petersen entered into a Services Agreement whereby Mr. Petersen shall provide on-going services to us which shall include, without limitation, participation at road shows, general investor relations services, general work as Chairman of the Board and other services which are mutually agreeable by both parties on an ad hoc basis (collectively, the "Services") in consideration for annual payments equal to DKK1,235,000, payable as follows: (a) DKK205,833.34 representing payment for the Services for the months of January and February, 2014; and (b) DKK102,916.67 on the final business day of each month beginning on March 31, 2014 through the end of the term of this Agreement (i.e. December 31, 2014). Except for the above-mentioned amounts, no amounts, bonus amounts or otherwise, shall be due and payable by us to Mr. Petersen in connection with the Services. We shall, at our sole cost and expense, provide Mr. Peterson with a laptop computer and a mobile telephone, including communication costs. Such items shall be utilized by Mr. Peterson in furtherance of Mr. Peterson's duties and obligations under the Services Agreement. The Services Agreement shall continue for an initial period of one (1) year and thereafter, shall be renewed automatically for subsequent one (1) year terms unless otherwise agreed to in writing by both parties or unless otherwise terminated in accordance with the terms of the Services Agreement. We may terminate the Services Agreement at any time by providing twelve (12) months prior written notice of termination to Mr. Petersen, effective as of the date of delivery of said notice.

On January 14, 2014, the Compensation Committee approved a special 2013 bonus payment in the amount of \$175,000 to Aldo Petersen in connection with the special warrant and stock option capital raise in October 2013.

During October 2013, the Company entered into a consulting agreement with McKinley Enterprises, Inc. and entity owned by a shareholder, wherein the Company paid \$75,000 on October 2, 2013 and agreed to pay an additional \$75,000 on January 3, 2014 for advice to, undertake for and consult with the Company on certain matters pertaining to the Company's business expansion into the People's Republic of China.

On November 2013, the Company entered in a consulting agreement with John Nemelka a former board member and brother of a shareholder, wherein the Company agreed to pay John Nemelka \$60,000 a year for a two year minimum for advice to, undertake for and consult with the Company on certain matters pertaining to the Company's business as shall be specified from time to time by the Company's Chief Executive Officer, other officers or the Board of Directors.

Policies and Procedures for Related Party Transactions

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

Item 14. Principal Accountant Fees and Services

Audit and Audit-Related Fees

The aggregate fees billed or expected to be billed by our independent auditors for the audit of our annual consolidated financial statements for the year ended December 31, 2013 and for the review of our quarterly financial statements during 2013 was \$132,684. Our auditors did not provide any tax compliance or planning services or any services other than those described above. The aggregate fees billed by our principal auditors for the audit of our annual consolidated financial statements for the year ended December 31, 2012 was \$129,411. Our auditors did not provide any tax compliance or planning services or any services other than those described above.

Audit Committee Pre-approval

The policy of the Audit Committee is to pre-approve all audit and non-audit services provided by the independent accountants. These services may include audit services, audit-related services, tax fees, and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services. The Audit Committee has delegated pre-approval authority to certain committee members when expedition of services is necessary. The independent accountants and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent accountants in accordance with this pre-approval delegation, and the fees for the services performed to date. All of the services described above in this Item 14 were approved in advance by the Audit Committee during the fiscal year ended December 31, 2013.

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules

The financial statements are set forth under Item 8 of this Annual Report. The following financial statement schedule for the years ended December 31, 2013 and December 31, 2012 is included in this Annual Report on Form 10-K:

- a. Valuation and Qualifying Accounts for the years ended December 31, 2013 and December 31, 2012.

	Balance Beginning of Year	Charges to Costs and Expenses	Deductions (1)	Balance End of Year
Year Ended December 31, 2013				
Allowance for inventory obsolescence	\$ 72,566	\$ 186,542	\$ 1,789	\$ 260,897
Allowance for doubtful accounts	1,243,500	72,548	(707,692)	608,356
Totals	<u>\$ 1,316,066</u>	<u>\$ 259,090</u>	<u>\$ (705,903)</u>	<u>\$ 635,253</u>

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

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

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

(b) Exhibits

Exhibit No.	Description	Location
1.1	Placement Agency Agreement, dated March 2, 2012, by and between LiqTech International, Inc. and Sunrise Securities Corp.	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
2.1	Agreement and Plan of Merger dated as of August 23, 2011 by and among Blue Moose Media, Inc., LiqTech USA, Inc. and BMD Sub	Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3(i) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
3.2	Certificate of Amendment to the Articles of Incorporation	Incorporated by reference to Exhibit A to the Company's Information Statement on Schedule 14C as filed with the SEC on September 20, 2011
3.3	Bylaws	Incorporated by reference to Exhibit 3(ii) to the Company's Registration Statement on Form 10 (SEC Accession No. 0001078782-09-001287) as filed with the SEC on August 19, 2009
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 4.1 to the Company's Form 10-K as filed with the SEC on March 29, 2012
4.2	Form of Warrant issued to Investors in the Private Placement	Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011
4.3	Form of Warrant issued to Sunrise Securities Corp.	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the SEC on March 8, 2012
10.1	Form of Securities Purchase Agreement by and between LiqTech USA, Inc. and each of the investors in the Private Placement	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the SEC on August 25, 2011

10.2	Employment Agreement dated July 29, 2011 between LiqTech A/S and Lasse Andreasson	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011 (translated in English)
10.3	Employment Agreement dated November 16, 2005 between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K/A as filed with the SEC on October 11, 2011
10.4	Addendum to Employment Agreement, dated December 15, 2011, between LiqTech NA, Inc. and Donald S. Debelak	Incorporated by reference to Exhibit 10.4 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.5	Employment Agreement, dated July 29, 2011, between LiqTech International Inc. and Soren Degn (translated in English)	Incorporated by reference to Exhibit 10.5 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.6	Lease Agreements for 1800 - 1810 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011
10.7	Lease Agreement for 1800 - 1816 Buerkle Road, White Bear Lake, Minnesota 55110	Incorporated by reference to Exhibit 10.7 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.8	Lease Agreement for Grusbakken 12, DK-2820 Gentofte Denmark	Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.9	Lease Agreement for Industriparken 22C, 2750 Ballerup, Denmark	Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.10	DKK 6,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.11	DKK 3,000,000 Line of Credit Agreement, between LiqTech A/S and Sydbank A/S	Incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K/A as filed with the SEC on November 15, 2011 (translated in English)
10.12	Note Payable Agreement between LiqTech A/S and Sydbank A/S, for the principal amount of \$475,000 USD	Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 15, 2011 (translated in English)
10.13	Form of Guarantee in respect of obligations of LiqTech A/S (translated in English)	Incorporated by reference to Exhibit 10.13 to the Company's Form 10-K as filed with the SEC on March 29, 2012

10.14	Form of Guarantee in respect of obligations of LiqTech International A/S (translated in English)	Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.15	Form of Guarantee in respect of obligations of LiqTech NA, Inc. (translated in English)	Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.16	Form of Promissory Note payable to certain related parties	Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.17	Business Mortgage of LiqTech A/S (translated in English)	Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.18	Business Mortgage of LiqTech International A/S (translated in English)	Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K as filed with the SEC on March 29, 2012
10.19	Bonus and Services Agreement, dated October 31, 2012, by and between the Company and Aldo Petersen	Incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on November 14, 2012
10.20	Agreement, dated March 25, 2013, by and among LiqTech International, Inc., LiqTech Denmark International and Mr. Lasse Andreassen.	Incorporated by reference to Exhibit 10.20 to the Company's Form 10-K as filed with the SEC on March 27, 2013
10.21	Director Contract, dated March 27, 2013, by and between Mr. Finn Helmer and LiqTech Denmark International	Incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2013
10.22	Director Agreement, dated November 1, 2013, by and between LiqTech International A/S and Mr. Marcher	Provided herewith
10.23	Services Agreement, dated effective January 1, 2014, by and between LiqTech International, Inc. and Aldo Petersen	Provided herewith
21	List of Subsidiaries	Incorporated by reference to Exhibit 21 to the Company's Form 10-K as filed with the SEC on March 29, 2012
31.1	Certifications of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
31.2	Certifications of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Provided herewith
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act Of 2002	Furnished, not filed herewith

101. INS	XBRL Instance Document	Provided herewith
101. CAL	XBRL Taxonomy Extension Calculation Link base Document	Provided herewith
101. DEF	XBRL Taxonomy Extension Definition Link base Document	Provided herewith
101. LAB	XBRL Taxonomy Label Link base Document	Provided herewith
101. PRE	XBRL Extension Presentation Link base Document	Provided herewith
101. SCH	XBRL Taxonomy Extension Scheme Document	Provided herewith

SIGNATURES

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

LIQTECH INTERNATIONAL, INC.

Date: March 27, 2014

By: /s/ Finn Helmer
Finn Helmer
Chief Executive Officer, Principal Executive Officer and Director

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Finn Helmer</u> Finn Helmer	Chief Executive Officer, Principal Executive Officer and Director	March 27, 2014
<u>/s/ Aldo Petersen</u> Aldo Petersen	Chairman of the Board of Directors	March 27, 2014
<u>/s/ Soren Degn</u> Soren Degn	Chief Financial Officer, Principal Financial and Accounting Officer	March 27, 2014
<u>/s/ Paul Burgon</u> Paul Burgon	Director	March 27, 2014
<u>/s/ Mark Vernon</u> Mark Vernon	Director	March 27, 2014

DIRECTOR CONTRACT

Between the undersigned

Johnny Marcher
Birkegårdsvej 16
3200Helsinge
CPR no.: 010171-3971

(Hereinafter called the Director)

and

LiqTech International A / S
Industriparken 22C
2750 Ballerup
CVR no.: 2512 1031

(Hereinafter called the Company)

has today signed the following Executive Contract:

1. RECRUITMENT

1.1 The Director has been appointed Chief Operating Officer (COO) as of November 1, 2013. The Director has been employed by the Company since 2002.

2. EMPLOYMENT AND RESPONSIBILITIES

2.1. The Director is under subject to statutory rules and the liability to the Company's CEO to perform his job as a COO.

3. SALARY, BONUS, PENSION AND Wages Regulatory

3.1 The Director's annual salary is by accession DKK 720,000 per year, paid monthly on the last business day of the month with 1/12.

3.3 The Company shall pay 4% of monthly salary, see § 3.1 as pension for director. The amount must be paid to the pension fund chosen by the company.

3.4 Director's fees negotiated each year in November, beginning November 2014.

4. OTHER BENEFITS

4.1 The Company provides a broadband connection available in the Director's residence and pays at the same time all installation and operating costs for this.

4.2 The Company provides a mobile telephone available to the Director and pay phone charges connected thereto.

4.3 The Company provides a laptop available to the Director.

4.4 The tax consequences for the Director of the private disposal facilities listed above are treated by the Company according to applicable law.

5. TRAVEL AND ENTERTAINMENT

5.1 Director's travel expenses for travel and representation in the Company's interest will be refunded by the Company after the bill or according to agreement.

6. CONTINUING EDUCATION

6.1 The Director is entitled to one, compared to its position, proper training, paid by the Company. The director is planning its own continuing education and shall notify the chairman thereof.

7. HOLIDAY

7.1 Holidays are earned and held in accordance with the rules of the Holidays Act equivalent to 5 weeks annually.

The special holiday allowance under the Holidays Act is paid and includes with the same percentage in the calculation of holiday pay on resignation.

7.2 The Director will plan the holiday himself but is obligated to take the Company's best interests into account. The director must notify the CEO of the planned holiday.

7.3 Upon resignation is the Director obligated to a 12.5% holiday allowance. The holiday allowance is paid in cash upon resignation along with the last salary payment.

8. TERMINATION

8.1 This current COO contract may be terminated by the Company with 12 months' notice and by the director with 12 months' notice to the end of a month.

8.2 If the Director within a period of 12 consecutive months has collected salary for a total of 120 days while the Director has been sick (including Sundays and holidays) this contract may be terminated within 1 month no-tice. Notice shall be given immediately on the expiry of the 120 sick days, and while the Director still is reported sick.

8.3 On resignation the Director is required to return all materials, including copies as well as effects belonging to the Company, and is in possession of the Director. This also applies to credit cards, keys, etc. The Director can not exercise the lien in any of this material.

8.4 Termination is otherwise subject to the Employers' and Salaried Employees' Act.

9. CONFIDENTIALITY

9.1 The Director has duty of confidentiality regarding everything that he discover in connection with his employment as Director, unless they are facts that within the nature of things must be brought forward to a third party. This duty of confidentiality is also valid after the Directors resignation.

9.2 Where the Director resigns his position - regardless the reason whatsoever - any substances belonging to the Company, which is in the Directors possession, shall be returned immediately.

10. COPIES OF CONTRACT, VENUE ETC

10.1 Any dispute between the Company and the Director on the occasion of this contract of employment must, if agreement between the parties cannot be reached by negotiations, be decided by the ordinary courts in Denmark.

10.2 This contract is drawn up into 2 equal sounding signed copies, one of which remains with the Company, while the other handed to the Director.

Signature

Copenhagen, 01 November 2013

Copenhagen, 01 November 2013

/s/ Johnny Marcher
Johnny Marcher

/s/ Authorized Person
LiqTech International A/S

SERVICES AGREEMENT

This Services Agreement (this "Agreement") is entered into effective as of January 1, 2014 (the "Effective Date"), by and between LiqTech International, Inc., a Nevada corporation (the "Company") and Aldo Petersen, an individual and Chairman of the Board of the Company (" Mr. Petersen").

WHEREAS, as of December 31, 2013, Mr. Petersen has provided services as Chairman of the Board of the Company, investor relations services to the Company and other services in connection with the Company's capital raise (the "Past Services"); and

WHEREAS, the Company has compensated Mr. Petersen for the Past Services and desires to continue to engage Mr. Petersen to perform on-going services to the Company, and Mr. Petersen desires to be engaged to perform such services, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the Services (as defined below) and the mutual promises, covenants and agreements contained herein, and intending to be legally bound hereby, the Company and Mr. Petersen do hereby agree as follows:

1. **Recitals.** The foregoing recitals are true and correct and are incorporated herein as if repeated at length.
2. **Services.** Mr. Petersen hereby agrees to provide on-going services to the Company which shall include, without limitation, participation at Company road shows, general investor relations services, general work as Chairman of the Board of the Company and other services which are mutually agreeable by both parties on an ad hoc basis (collectively, the "Services") in consideration for annual payments equal to DKK1,235,000, payable by the Company to Mr. Petersen as follows:
 - a.) DKK205,833.34 on February 28, 2014, representing payment for the Services for the months of January and February, 2014; and
 - b.) DKK102,916.67 on the final business day of each month beginning on March 31, 2014 through the end of the term of this Agreement (i.e. December 31, 2014).

The parties further agree and acknowledge that except for the above-mentioned amounts in this Section 2, no amounts, bonus amounts or otherwise, shall be due and payable by the Company to Mr. Petersen in connection with the Services.

3. **Other Items.** The Company, at its sole cost and expense, shall provide Mr. Peterson with a laptop computer and a mobile telephone, including communication costs (the "Items"). The Items shall be utilized by Mr. Peterson in furtherance of Mr. Peterson's duties and obligations under this Agreement. Notwithstanding the foregoing, the Company shall have full discretion in selecting the Items and determining the most cost and tax efficient manner in which to provide the Items.

4. **Term.** This Agreement will commence on the Effective Date and shall continue for an initial period of one (1) year. Thereafter, this Agreement shall be renewed automatically for subsequent one (1) year terms unless otherwise agreed to in writing by both parties or unless otherwise terminated in accordance with this Agreement. The Company may terminate this Agreement at any time by providing twelve (12) months prior written notice of termination to Mr. Petersen, effective as of the date of delivery of said notice.

5. **Amendments; Entire Agreement.** This Agreement may not be amended or modified except by a writing executed by the parties hereto. This Agreement contains the entire understanding of the parties hereto and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party, which are not set forth expressly in this Agreement. This Agreement supersedes all negotiations, preliminary agreements, and all prior and contemporaneous discussions and understandings of the parties hereto and/or their affiliates.

6. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

7. **Notices.** All notices and other communications required or permitted by this Agreement to be delivered by the Company or Mr. Petersen to the other party shall be delivered in writing, either personally or by registered, certified or express mail, return receipt requested, postage prepaid, respectively, to the headquarters of the Company, or to the address of record of the Mr. Petersen on file at the Company.

8. **Successors and Assigns.** This Agreement is personal to Mr. Petersen and shall not be assignable by Mr. Petersen. The Company may assign its rights hereunder to: (a) any corporation resulting from any merger, consolidation or other reorganization to which the Company is a party, or (b) any corporation, partnership, association or other person to which the Company may transfer all or substantially all of the assets and business of the Company existing at such time.

9. **Severability: Provisions Subject to Applicable Law.** All provisions of this Agreement shall be applicable only to the extent that they do not violate any applicable law, and are intended to be limited to the extent necessary so that they will not render this Agreement invalid, illegal or unenforceable under any applicable law. If any provision of this Agreement or any application thereof shall be held to be invalid, illegal or unenforceable, then such provision shall be enforced to the maximum extent permissible and lawful so as to effect the intent of this Agreement, and the validity, legality and enforceability of the other provisions of this Agreement or of any other application of such provision shall in no way be affected thereby.

10. **Definitions, Headings, and Number.** A term defined in any part of this Agreement shall have the defined meaning wherever such term is used herein. The headings contained in this Agreement are for reference purposes only and shall not affect in any manner the meaning or interpretation of this Agreement.

11. **Governing Law.** This Agreement and the parties' performance hereunder shall be governed by and interpreted under the laws of the State of Nevada without reference to conflict of law principals thereof.

12. **Construction and Interpretation.** This Agreement has been discussed and negotiated by, all parties hereto and their counsel and shall be given a fair and reasonable interpretation in accordance with the terms hereof, without consideration or weight being given to it having been drafted by any party hereto or its counsel.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

LIQTECH INTERNATIONAL, INC.

MR. PETERSEN

By: /s/ Mark Vernon

Name: Mark Vernon

Title: Director

By: /s/ Aldo Petersen

ALDO PETERSEN

EXHIBIT 31.1

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Finn Helmer, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 of Liqtech International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2014

By: /s/ Finn Helmer
Name: Finn Helmer
Title: Chief Executive Officer and Principal Executive Officer

31.2-1

EXHIBIT 31.2

OFFICER'S CERTIFICATE
PURSUANT TO SECTION 302

I, Soren Degn, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 of Liqtech International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer (s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2014

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

31.2--2

EXHIBIT 32.1

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

In connection with the Annual Report of Liqtech International, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2013 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: March 27, 2014

By: /s/ Finn Helmer

Name: Finn Helmer

Title: Chief Executive Officer and Principal Executive Officer

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

32.1-1

EXHIBIT 32.2

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

In connection with the Annual Report of Liqtech International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2013 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: March 27, 2014

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

