

Liqtech Plastics A/S

Sindalsvej 38
DK-8240 Risskov

CVR no. 14 34 71 35

Annual report 2019/20

The annual report was presented and approved at
the Company's annual general meeting on

14 July 2021

Claus Toftegaard
Chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Liqtech Plastics A/S for the financial period 1 July 2019 – 31 December 2020.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations for the financial period 1 July 2019 – 31 December 2020.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Risskov, 14 July 2021
Executive Board:

Peter Dalsgaard Busk
Jensen
CEO

Board of Directors:

Sune Mathiesen
Chairman

Rikke Holgersen Feld

Claus Toftegaard

Independent auditor's report

To the shareholders of Liqtech Plastics A/S

Opinion

We have audited the financial statements of Liqtech Plastics A/S for the financial period 1 July 2019 – 31 December 2020 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations for the financial period 1 July 2019 – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditor's report

- obtain an understanding of internal control relevant to the audit in order to design 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 control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Aalborg, 14 July 2021

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant
mne32737

Liqtech Plastics A/S
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Management's review

Company details

Liqtech Plastics A/S
Sindalsvej 38
8240 Risskov
Denmark

Telephone: 8621 7033
Website: www.liqtech.com
E-mail: info@liqtech.com

CVR no.: 14 34 71 35
Established: 14 June 1990
Registered office: Risskov
Financial period: 1 July 2019 – 31 December 2020

Board of Directors

Sune Mathiesen, Chairman
Rikke Holgersen Feld
Claus Toftegaard

Executive Board

Peter Dalsgaard Busk Jensen, CEO

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Østre Havnegade 22D
DK-9000 Aalborg
Denmark
CVR no. 25 57 81 98

Management's review

Operating review

Principal activities

The principal activities in the company are production of industrial plastic products.

Development in activities and financial position

The company was acquired by LiqTech Holding A/S on 1 September 2019 and has therefore changed its financial year to be compliant with the group's financial year. This financial statement is therefore covering the period 1 July 2019 to 31 December 2020 (18 months).

The Company's income statement for 2019/20 (18 months) shows a loss before tax of DKK 2.2 million compared to a profit of DKK 0.5 million in 2018/19 (12 months). The balance sheet at 31 December 2020 shows a balance sheet total of DKK 13.2 million and total equity of DKK 4.4 million.

Gross profit for 2019/20 came in at DKK 18.0 million compared to DKK 10.7 million in 2018/19 and was highly impacted by the effects of the global COVID-19 virus.

Outlook and future potential continuously support the utilization of a tax asset within the foreseeable future.

During the financial year 2020, additional capital of USD 8 million was raised through its listed US parent company. At 31 December 2020, cash at bank and in hand reached DKK 1.9 million. Accordingly, the Company has sound capital resources.

Since the first quarter of 2020, the company have introduced various precautionary procedures to avoid the potential spread of the virus, and this have had a significant effect on the business environment. The company have not experienced significant disruption or delays in the global supply chain. However, since the start of the COVID-19 pandemic in early 2020, there has been an overall decline in new orders, particularly in the shipping industry, due to reduced investment caused by demand disruption and the volatility of oil prices. The company have succeeded in getting new customers outside the shipping industry and have also made significant investments in additional sales activities.

Outlook

The effects of the global COVID-19 pandemic are still influencing the company's activities but the fallback of the restrictions in many countries have now resulted in new enquiries and offers, and it is expected that the company will be back on the same level of activity as before the pandemic at the end of 2021 with profitable operation.

Events after the balance sheet date

No event have occurred after the financial year end, with an impact on the financial statements for 2020.

Financial statements 1 July – 31 December

Income statement

DKK	Note	1/7 2019- 31/12 2020	1/7 2018- 30/06 2019
Gross profit		17,972,292	10,718,345
Staff costs	2	-18,429,600	-9,146,449
Depreciation, amortisation and impairment losses		-1,713,945	-1,074,300
Profit/loss before financial income and expenses		-2,171,253	497,596
Other financial income		27,631	0
Other financial expenses	3	-27,610	-10,932
Profit/loss before tax		-2,171,232	486,664
Tax on profit/loss for the year		575,371	-109,861
Profit/loss for the year		<u>-1,595,861</u>	<u>376,803</u>
Proposed profit appropriation/distribution of loss			
Proposed dividends for the year		0	376,803
Retained earnings		-1,595,861	0
		<u>-1,595,861</u>	<u>376,803</u>

Financial statements 1 July – 31 December

Balance sheet

DKK	Note	31/12 2020	30/06 2019
ASSETS			
Fixed assets			
Property, plant and equipment	4		
Plant and machinery		1,977,687	3,049,629
Fixtures and fittings, tools and equipment		<u>321,588</u>	<u>727,866</u>
		<u>2,299,275</u>	<u>3,777,495</u>
Investments			
Deposits		<u>365,542</u>	<u>327,320</u>
Total fixed assets		<u>2,664,817</u>	<u>4,104,815</u>
Current assets			
Inventories			
Raw materials and consumables		1,943,650	833,272
Work in progress		211,354	922,490
Finished goods and goods for resale		<u>383,748</u>	<u>874,345</u>
		<u>2,538,752</u>	<u>2,630,107</u>
Receivables			
Trade receivables		5,485,514	4,589,318
Other receivables		0	51,753
Deferred tax asset		250,410	0
Corporation tax		245,738	0
Prepayments		<u>153,982</u>	<u>315,104</u>
		<u>6,135,644</u>	<u>4,956,175</u>
Cash at bank and in hand		<u>1,882,673</u>	<u>522,905</u>
Total current assets		<u>10,557,069</u>	<u>8,109,187</u>
TOTAL ASSETS		<u><u>13,221,886</u></u>	<u><u>12,214,002</u></u>

Financial statements 1 July – 31 December

Balance sheet

DKK	Note	31/12 2020	30/06 2019
EQUITY AND LIABILITIES			
Equity			
Contributed capital		500,000	500,000
Retained earnings		3,904,139	5,500,000
Proposed dividends for the financial year		0	376,803
Total equity		4,404,139	6,376,803
Provisions			
Provisions for deferred tax		0	168,934
Total provisions		0	168,934
Liabilities other than provisions			
Current liabilities other than provisions			
Trade payables		2,114,235	1,025,479
Payables to group entities		1,507,621	2,373,510
Corporation tax		0	116,152
Other payables		5,195,891	2,153,124
		8,817,747	5,668,265
Total liabilities other than provisions		8,817,747	5,668,265
TOTAL EQUITY AND LIABILITIES		13,221,886	12,214,002
Contractual obligations, contingencies, etc.	5		

Financial statements 1 July – 31 December

Statement of changes in equity

DKK	Contributed capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 July 2019	500,000	5,500,000	376,803	6,376,803
Ordinary dividends paid	0	0	-376,803	-376,803
Transferred over the distribution of loss	0	-1,595,861	0	-1,595,861
Equity at 31 December 2020	500,000	3,904,139	0	4,404,139

Financial statements 1 July – 31 December

Notes

1 Accounting policies

The annual report of Liqtech Plastics A/S for 2019/20 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in from higher reporting classes.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Change of financial year

The Company has entered into the Group, Liqtech Holding A/S, and therefore changed its financial year to align with that of the Group. The financial year is from 1. July 2019 - 31 December 2020. Therefore, the current year includes 18 months compared to the comparative figures of 12 months. Comparative figures are not restated pursuant to section 15 part of the Danish Financial Statements Act.

Gross profit

Pursuant to section 32 of the Danish Financial Statements Act, the Company has decided only to disclose gross profit.

Revenue

Income from the sale of goods, comprising the sale of goods, is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received. The date of transfer of the most significant benefits and risks is determined using standard Incoterms ® 2020.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense.

Tax on profit/loss for the year

The Parent Company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. The subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

The Parent Company is the administrative company for the joint taxation and accordingly settles all payments of corporation tax to the tax authorities.

Financial statements 1 July – 31 December

Notes

1 Accounting policies (continued)

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Property, plant and equipment

Plant, machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Plant and machinery	5-25 years
Fixtures and fittings, tools and equipment	3-5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 July – 31 December

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1 Accounting policies (continued)

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Financial statements 1 July – 31 December

Notes

1 Accounting policies (continued)

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Other operating income

Other operating income comprises items secondary to the activities of the entity, including gains on the disposal of intangible assets and property, plant and equipment.

2 Staff costs

DKK	1/7 2019- 31/12 2020	1/7 2018- 30/06 2019
Wages and salaries	16,368,382	8,267,543
Pensions	1,772,999	666,868
Other social security costs	288,219	212,038
	<u>18,429,600</u>	<u>9,146,449</u>
Average number of full-time employees	<u>24</u>	<u>21</u>

3 Other financial expenses

Interest expense to group entities	0	4,303
Other financial expenses	27,593	6,629
Exchange losses	17	0
	<u>27,610</u>	<u>10,932</u>

Financial statements 1 July – 31 December

Notes

4 Property, plant and equipment

DKK	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 July 2019	17,163,736	1,832,350	18,996,086
Additions for the year	572,596	70,302	642,898
Disposals for the year	0	-788,328	-788,328
Cost at 31 December 2020	17,736,332	1,114,324	18,850,656
Depreciation and impairment losses at 1 July 2019	-14,318,398	-900,193	-15,218,591
Depreciation for the year	-1,440,247	-273,700	-1,713,947
Reversed depreciation and impairment losses on assets sold	0	381,157	381,157
Depreciation and impairment losses at 31 December 2020	-15,758,645	-792,736	-16,551,381
Carrying amount at 31 December 2020	1,977,687	321,588	2,299,275

5 Contractual obligations, contingencies, etc.

Contingent liabilities

Liqtech Plastic A/S is taxed jointly with other Danish companies in the Liqtech Holding Group. As a 100% owned subsidiary, the Company has joint and unlimited liability with the other companies in the joint taxation for Danish corporation taxes within the joint taxation group.

Operating lease obligations

The Company has entered into operating leases with a residual commitment in the amount of DKK 586 thousand, of which DKK 340 thousand falls due within a year.

furthermore, the Company has entered into a commercial tenancy agreement with a remaining term of 44 months and a residual commitment in the amount of DKK 2,350 thousand, of which DKK 741 thousand falls due within a year.