

LiqTech Holding A/S

Industriparken 22C
DK-2750 Ballerup

CVR no. 25 12 10 31

Annual report 2022

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

21 June 2023

DocuSigned by:

Simon Seidelin Stadil

Simon Seidelin Stadil

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Chairman of the annual general meeting

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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 Holding A/S for the financial year 1 January – 31 December 2022.

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 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022.

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.

Hobro, 21 June 2023
Executive Board:


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Fei Chen


Board of Directors:

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Hans Christian Wenzelsen
Chairman

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Simon Seidelin Stadil

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Alexander Jon Buehler

DocuSigned by:

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Mark Edward Vernon

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Fei Chen



Independent auditor's report

To the shareholder of LiqTech Holding A/S

Opinion

We have audited the financial statements of LiqTech Holding A/S for the financial year 1 January – 31 December 2022 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 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 financial statement 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



Independent auditor's report

- 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.
- 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, 21 June 2023

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant
mne32737

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Management's review

Company details

LiqTech Holding A/S
Industriparken 22C
2750 Ballerup
Denmark

Telephone: 3131 5941
Website: www.liqtech.com
E-mail: info@liqtech.com

CVR no.: 25 12 10 31
Established: 5 January 2000
Registered office: Hobro
Financial year: 1 January – 31 December

Board of Directors

Hans Christian Wenzelsen, Chairman
Simon Seidelin Stadil
Alexander Jon Buehler
Mark Edward Vernon
Fei Chen

Executive Board

Fei Chen

Auditor

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

Annual general meeting

The annual general meeting will be held on 21 June 2023.

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Management's review

Operating review

Principal activities

The principal activities of the Company are therefore group activities such as management, marketing, sales, finance, administration, IT, etc.

Development in activities and financial position

The Company's income statement for 2022 shows a profit of DKK -70,556,155 as against DKK -76,811,971 in 2021. Equity in the Company's balance sheet at 31 December 2022 stood at DKK -109,441,186 as against DKK -38,885,035 at 31 December 2021.

The groups activities have been negatively affected by impact of the uncertain macroeconomic environment and prolonged inflationary pressure, but also increased supply chain restrictions and general market volatility, which has resulted in a substantial decline in the demand and delivery of the company offerings. However, proactive measures such as significant cost reductions have been implemented to defend profitability, and as a result, the financial performance has improved, effectively mitigating the loss incurred in comparison to the preceding fiscal year.

Capital resources

During the financial year 2022, additional capital of USD 26 million was raised through the group parent company LiqTech International Inc. and further supported by a full refinancing of the convertible bond, partially financed by a new interest free USD 6 million bullet loan

Equity will be reestablished through a conversion of intercompany debt to equity.

Outlook

After a restructuring in 2022 it is expected that the group will become profitable towards the end of 2023 once relevant reorganization, capital structure optimization, and cost restructuring initiatives are fully implemented.

Events after the balance sheet date

No events have occurred after the balance sheet date of material importance to the annual report for 2022.

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Income statement

DKK	Note	2022	2021
Gross profit		13,367,572	11,891,799
Staff costs	2	-19,251,803	-18,507,245
Depreciation, amortisation and impairment losses		<u>-4,918,891</u>	<u>-4,395,697</u>
Loss before financial income and expenses		-10,803,122	-11,011,143
Income from equity investments in group entities		-51,227,463	-51,595,945
Other financial expenses		<u>-8,525,570</u>	<u>-9,204,883</u>
Loss before tax		-70,556,155	-71,811,971
Tax on profit/loss for the year	3	<u>0</u>	<u>-5,000,000</u>
Loss for the year		<u><u>-70,556,155</u></u>	<u><u>-76,811,971</u></u>
Proposed distribution of loss			
Retained earnings		<u><u>-70,556,155</u></u>	<u><u>-76,811,971</u></u>

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Balance sheet

DKK	Note	31/12 2022	31/12 2021
ASSETS			
Fixed assets			
Intangible assets	4		
Acquired patents		384,611	436,311
Software		<u>1,751,871</u>	<u>2,578,587</u>
		<u>2,136,482</u>	<u>3,014,898</u>
Property, plant and equipment	5		
Fixtures and fittings, tools and equipment		45,679	518,403
Leasehold improvements		<u>7,149,374</u>	<u>10,166,452</u>
		<u>7,195,053</u>	<u>10,684,855</u>
Investments	6		
Equity investments in group entities		18,709,807	55,937,270
Participating interests		37,250	37,250
Deposits		<u>1,334,359</u>	<u>1,664,368</u>
		<u>20,081,416</u>	<u>57,638,888</u>
Total fixed assets		<u>29,412,951</u>	<u>71,338,641</u>
Current assets			
Receivables			
Receivables from group entities		78,077,995	28,796,710
Deferred tax asset		646,212	1,931,185
Prepayments		<u>3,467,472</u>	<u>1,346,071</u>
		<u>82,191,679</u>	<u>32,073,966</u>
Cash at bank and in hand		<u>38,114</u>	<u>1,287,932</u>
Total current assets		<u>82,229,793</u>	<u>33,361,898</u>
TOTAL ASSETS		<u><u>111,642,744</u></u>	<u><u>104,700,539</u></u>

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Balance sheet

DKK	Note	31/12 2022	31/12 2021
EQUITY AND LIABILITIES			
Equity			
Contributed capital	8	5,000,000	5,000,000
Retained earnings		<u>-114,441,186</u>	<u>-43,885,035</u>
Total equity		<u>-109,441,186</u>	<u>-38,885,035</u>
Liabilities			
Current liabilities			
Trade payables		1,277,072	991,838
Payables to group entities		215,052,517	138,830,242
Other payables		<u>4,754,341</u>	<u>3,763,494</u>
		<u>221,083,930</u>	<u>143,585,574</u>
Total liabilities		<u>221,083,930</u>	<u>143,585,574</u>
TOTAL EQUITY AND LIABILITIES		<u>111,642,744</u>	<u>104,700,539</u>
Contractual obligations, contingencies, etc.	9		
Mortgages and collateral	10		
Related party disclosures	11		

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Statement of changes in equity

DKK	<u>Contributed capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2022	5,000,000	-43,885,031	-38,885,031
Transferred over the distribution of loss	<u>0</u>	<u>-70,556,155</u>	<u>-70,556,155</u>
Equity at 31 December 2022	<u>5,000,000</u>	<u>-114,441,186</u>	<u>-109,441,186</u>

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1 Accounting policies

The annual report of LiqTech Holding A/S for 2022 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.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of LiqTech Holding A/S and group entities are included in the consolidated financial statements of Liqtech International Inc., 1804 Buerkle Road, White Bear Lake, MN 55110, United States of America, SEC 0001307579

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Gross profit

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

Revenue

Income from sale of goods and finished 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. Income is recognised with reference to stage of completion.

Revenue is measured at fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Cost of sales

Cost of sales comprises costs incurred to generate revenue for the year. This item also comprises direct costs for goods for resale and changes to inventory of goods for resale.

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1 Accounting policies (continued)

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.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Dividends from equity investments in group entities measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

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.

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.

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1 Accounting policies (continued)

Balance sheet

Intangible assets

Development projects, patents and licences

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining life of the patent, and licences are amortised over the contract period, however, not exceeding 10 years.

Property, plant and equipment

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:

Fixtures and fittings, tools and equipment	2-10 years
Leasehold improvements	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.

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1 Accounting policies (continued)

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in subsidiaries and participating interests (including 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.

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.

Deposits

Deposits are measured at amortised cost.

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 costs incurred concerning subsequent financial years.

Cash at bank and in hand

Cash at bank and in hand comprises cash..

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1 Accounting policies (continued)

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.

Liabilities

Liabilities are measured at net realisable value, which usually is equivalent to nominal value.

Deferred income

Deferred income comprises advance invoicing regarding income in the subsequent year.

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2 Staff costs

DKK	2022	2021
Wages and salaries	17,549,490	16,513,546
Pensions	1,177,750	1,566,738
Other social security costs	211,460	143,724
Other staff costs	313,103	283,237
	<u>19,251,803</u>	<u>18,507,245</u>
Average number of full-time employees	<u>18</u>	<u>22</u>

3 Tax on profit/loss for the year

DKK	2022	2021
Adjustment of deferred tax concerning previous years	0	5,000,000
	<u>0</u>	<u>5,000,000</u>

Deferred tax asset is recognised based on anticipated earnings within the coming five years. The assessment included expected earnings from subsidiaries within the joint taxation.

4 Intangible assets

DKK	Acquired patents	Software	Total
Cost at 1 January 2022	1,240,178	4,480,050	5,720,228
Additions for the year	0	829,716	829,716
Cost at 31 December 2022	<u>1,240,178</u>	<u>5,309,766</u>	<u>6,549,944</u>
Amortisation and impairment losses at 1 January 2022	-803,867	-1,901,463	-2,705,330
Amortisation for the year	-51,700	-1,656,432	-1,708,132
Amortisation and impairment losses at 31 December 2022	<u>-855,567</u>	<u>-3,557,895</u>	<u>-4,413,462</u>
Carrying amount at 31 December 2022	<u>384,611</u>	<u>1,751,871</u>	<u>2,136,482</u>

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5 Property, plant and equipment

DKK	Fixtures and fittings, tools and equipment	Leasehold improvements	Total
Cost at 1 January 2022	1,784,600	19,003,346	20,787,946
Additions for the year	18,200	0	18,200
Disposals for the year	<u>-445,400</u>	<u>0</u>	<u>-445,400</u>
Cost at 31 December 2022	<u>1,357,400</u>	<u>19,003,346</u>	<u>20,360,746</u>
Depreciation and impairment losses at 1 January 2022	-1,266,197	-8,836,894	-10,103,091
Depreciation for the year	-193,681	-3,017,078	-3,210,759
Reversed depreciation and impairment losses on assets sold	<u>148,157</u>	<u>0</u>	<u>148,157</u>
Depreciation and impairment losses at 31 December 2022	<u>-1,311,721</u>	<u>-11,853,972</u>	<u>-13,165,693</u>
Carrying amount at 31 December 2022	<u><u>45,679</u></u>	<u><u>7,149,374</u></u>	<u><u>7,195,053</u></u>

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6 Investments

DKK	Equity investments in group entities	Equity investments in participating interests	Deposits
Cost at 1 January 2022	204,374,712	905,679	1,664,368
Additions for the year	14,000,000	0	0
Disposals for the year	0	0	-330,009
Cost at 31 December 2022	218,374,712	905,679	1,334,359
Revaluations at 1 January 2022	-148,437,442	-868,429	0
Net profit/loss for the year	-49,240,824	0	0
Amortisation of goodwill	-1,986,639	0	0
Revaluations 31 December 2022	-199,664,905	-868,429	0
Carrying amount at 31 December 2022	18,709,807	37,250	1,334,359

Name	Registered office	Voting rights and ownership interest
LiqTech Ceramics A/S	Ballerup	100%
LiqTech Plastics A/S	Risskov	100%
LiqTech Water A/S	Hobro	100%
LiqTech Water Projects A/S	Hobro	100%
LiqTech Emission Control A/S	Hobro	100%

7 Deferred tax assets

Company has tax asset due to tax losses. Management expects to utilize tax assets from profitable operations going forward but due to uncertainty and expected losses in 2022 management has found it fair not to recognize tax assets except tax losses related to R&D costs for which tax refund will be claimed.

8 Equity

Contributed capital consists of 5,000 shares of a nominal value of DKK 1,000 each.

All shares rank equally.

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9 Contractual obligations, contingencies, etc.

Contingent liabilities

Liqtech Holding A/S is taxed jointly with other Danish companies in the Liqtech Holding Group. As Parent Company, the Company has jointy and unlimited liability with the other companies in the joint taxaion for Danish corporation taxes within the joint taxation group.

Operating lease obligations

The Company has entered into lease agreements with a residual commitment in the amount of DKK 261 thousand, of which DKK 117 thousand falls due within a year.

Furthermore, the Company has entered into a commecial tenancy agreement with a remaining contract period of 20 months and a residual commitment in the amount of DKK 3,647 thousand, of which DKK 2,188 thousand falls due within a year.

10 Mortgages and collateral

Together with its subsidiary, the Company has issued performance guarantees of up to DKK 10,0 million for customer projects provided by the Company's bankers. Current guarantees made up DKK 3.7 million at 31 December 2022.

Out of cash at bank and in hand, DKK 18,0 million has been provided as collateral for bank debt. Apart from the guarantees, the Company had no bank debt at 31 December 2021.

A company charge of DKK 9,5 million secured on the Company's assets has been provided as collateral for bank debt. Apart from guarantees, the Company had no bank debt at 31 December 2022.

The Company has guaranteed for the subsidiary's bank debt. The subsidiary had no bank debt at 31 December 2022.

11 Related party disclosures

Ownership

The following shareholders are registered in the Company's register of shareholders as holding 100% of the contributed capital.

Liqtech International inc., 1804 Buerkle Road, White Bear Lake, MN 55110, United States of America.

LiqTech Holding A/S is part of the consolidated financial statements of LiqTech International Inc., 1804 Buerkle Road, White Bear Lake, MN 55110, United States of America. The consolidated financial statment of LiqTech International Inc. can be obtained at the Company's website: <https://www.liqtech.com/>