# LiqTech Ceramics A/S

Industriparken 22 C
DK-2750 Ballerup

CVR no. 41 03 80 71

## Annual report 2020

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

14 July 2021

Claus Toftegaard
Chairman

# Contents

| | |
|---|---|
| Statement by the Board of Directors and the Executive Board | 2 |
| Independent auditor's report | 3 |
| Management's review | 5 |
| Company details | 5 |
| Operating review | 6 |
| Financial statements 1 January – 31 December | 8 |
| Income statement | 8 |
| Balance sheet | 9 |
| Statement of changes in equity | 11 |
| Notes | 12 |

# 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 Ceramics A/S for the financial year 1 January – 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 year 1 January – 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.

Ballerup 14 July 2021
Executive Board:

Claus Toftegaard
CEO

Board of Directors:

| | | |
|---|---|---|
| Sune Mathiesen<br>Chairman | Rikke Holgersen Feld | Claus Toftegaard |

# Independent auditor's report

## To the shareholders of LiqTech Ceramics A/S

## Opinion

We have audited the financial statements of LiqTech Ceramics A/S for the financial year 1 January – 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 year 1 January – 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

# Management's review

## Company details

LiqTech Ceramics A/S
Industriparken 22 C
2750 Ballerup
Denmark

| | |
|---|---|
| Telephone: | 4498 6000 |
| Website: | www.liqtech.com |
| E-mail: | info@liqtech.com |
| | |
| CVR no.: | 41 03 80 71 |
| Established: | 20 December 2019 |
| Registered office: | Ballerup |
| Financial year: | 1 January – 31 December |

### Board of Directors

Sune Mathiesen, Chairman
Rikke Holgersen Feld
Claus Toftegaard

### Executive Board

Claus Toftegaard, 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

In 2020 the Company decided to divide the activities in LiqTech Holding A/S (previously known as LiqTech International A/S). The former activities of LiqTech International A/S were therefore transferred to LiqTech Ceramics A/S with effect from January 1, 2020. The principal activities in the company are therefore:

Development, marketing, and production of ceramic (re-SIC) membranes for the filtering of liquids.

Development, marketing and production of catalysts and filters for diesel emissions as well as catalysts for passenger cars.

### Development in activities and financial position

The Company's income statement for 2020 shows a loss before tax of DKK 15.4 million and the balance sheet at 31 December 2020 shows a balance sheet total of DKK 100.3 million and total equity of DKK 31.1 million.

Gross profit for the year came in at DKK 9.7 million and was highly impacted by the effects of the global COVID-19 virus. 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.

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

In recent years, the Company has primarily focused on the completion of products for water purification within the maritime industry where the Company supplies membranes for the sister company, LiqTech Water A/S’ water purification systems.

In 2019, the Company bought four new high-temperature furnaces for the production of diesel particulate filters and membranes. The first furnace was delivered in December 2019, while the three other furnaces was delivered in 2020. The furnaces are bought to replace the Company’s former furnaces, which have been in use for more than 10 years.

### *Capital resources*

During the financial year 2020, additional capital of USD 15 million was raised through its listed US parent company. At 31 December 2020, cash at bank and in hand reached DKK 27.3 million. Accordingly, the Company has sound capital resources.

### Intellectual capital

The company's knowledge resources are an essential factor for the continuous development of innovative solutions.

### Environmental matters

The company is environmentally conscious and works continuously to limit the environmental impact of the company's operations.

# Management's review

## Operating review

### 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 January – 31 December

## Income statement

| DKK | Note | 1/1-31/12 2020 | 20/12 2019-31/12 2019 |
|---|---|---|---|
| **Gross profit/loss** | | 9,702,971 | -670 |
| Staff costs | 2 | -19,536,871 | 0 |
| Depreciation, amortisation and impairment losses | | -2,474,599 | 0 |
| **Loss before financial income and expenses** | | -12,308,499 | -670 |
| Other financial expenses | 3 | -2,873,927 | 0 |
| **Loss before tax** | | -15,182,426 | -670 |
| Tax on loss for the year | 4 | 1,729,590 | 0 |
| **Loss for the year** | | -13,452,836 | -670 |

### Proposed distribution of loss

| | | | |
|---|---|---|---|
| Retained earnings | | -13,452,836 | -670 |

# Financial statements 1 January – 31 December

## Balance sheet

| DKK | Note | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| **Property, plant and equipment** | 5 | | |
| Plant and machinery | | 40,252,562 | 0 |
| Fixtures and fittings, tools and equipment | | 207,138 | 0 |
| | | 40,459,700 | 0 |
| **Total fixed assets** | | 40,459,700 | 0 |
| **Current assets** | | | |
| **Inventories** | | | |
| Raw materials and consumables | | 3,090,015 | 0 |
| Work in progress | | 9,284,628 | 0 |
| Finished goods and goods for resale | | 9,885,442 | 0 |
| | | 22,260,085 | 0 |
| **Receivables** | | | |
| Trade receivables | | 4,960,487 | 0 |
| Receivables from group entities | | 4,780,824 | 0 |
| Other receivables | | 1,656,243 | 0 |
| Deferred tax asset | | 54,386 | 0 |
| Corporation tax | | 1,675,204 | 0 |
| Prepayments | | 707,756 | 0 |
| | | 13,834,900 | 0 |
| **Cash at bank and in hand** | | 23,722,725 | 499,330 |
| **Total current assets** | | 59,817,710 | 499,330 |
| **TOTAL ASSETS** | | 100,277,410 | 499,330 |

# Financial statements 1 January – 31 December

## Balance sheet

| DKK | Note | 2020 | 2019 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Contributed capital | 6 | 5,000,000 | 500,000 |
| Retained earnings | | 26,134,174 | -670 |
| **Total equity** | | 31,134,174 | 499,330 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Debt to credit institutions | | 20,850,000 | 0 |
| **Current liabilities** | | | |
| Current portion of non-current liabilities | | 2,900,000 | 0 |
| Trade payables | | 7,493,413 | 0 |
| Payables to group entities | | 32,897,138 | 0 |
| Other payables | | 3,390,706 | 0 |
| Prepayments received regarding work in progress | | 1,611,979 | 0 |
| | | 48,293,236 | 0 |
| **Total liabilities** | | 69,143,236 | 0 |
| **TOTAL EQUITY AND LIABILITIES** | | 100,277,410 | 499,330 |
| | | | |
| **Contractual obligations, contingencies, etc.** | 7 | | |
| **Mortgages and collateral** | 8 | | |
| **Principal activitites** | 2 | | |

# Financial statements 1 January – 31 December

## Statement of changes in equity

| DKK | Contributed capital | Retained earnings | Total |
|---|---|---|---|
| Equity at 1 January 2020 | 500,000 | -670 | 499,330 |
| Cash capital increase | 4,500,000 | 39,587,680 | 44,087,680 |
| Transferred over the distribution of loss | 0 | -13,452,836 | -13,452,836 |
| **Equity at 31 December 2020** | 5,000,000 | 26,134,174 | 31,134,174 |

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies

The annual report of LiqTech Ceramics A/S for 2020 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.

### 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.

### Transfer of activities and assets

As part of group restructuring, Liqtech Ceramics has taken over the activities of Liqtech Holding A/S (formerly operating under the name of Liqtech International). The transaction took effect as of 1 January 2020, and the bookd value method has been applied. Accordingly, the comparative figures have not been restated.

### 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 and finished, 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.

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.

### 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.

### Other external costs

Other external costs comprise distribution costs and costs related to administration, etc.

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies (continued)

#### 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.

#### 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.

#### Property, plant and equipment

Land and buildings, plant and 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 | 2-10 years |
| Fixtures and fittings, tools and equipment | 2-10 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.

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies (continued)

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 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.

### 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.

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies (continued)

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 and deferred income

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

#### Equity

Equity comprise contributed capital and retained earnings.

#### Liabilities

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.

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

Other liabilities are measured at net realisable value.

#### Prepayments and deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

#### Cash at bank and in hand

Cash and cash equivalents comprise cash.

#### 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.

# Financial statements 1 January – 31 December

## Notes

### 1 Accounting policies (continued)

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.

| | DKK | 01.01.20-<br>31.12.2020 | 20.12.19-<br>31.12.2019 |
|---|---|---|---|
| **2** | **Staff costs** | | |
| | Wages and salaries | 17,882,854 | 0 |
| | Pensions | 1,467,312 | 0 |
| | Other social security costs | 186,705 | 0 |
| | | 19,536,871 | 0 |
| | Average number of full-time employees | 45 | 0 |
| **3** | **Other financial expenses** | | |
| | Other financial expenses | 700,803 | 0 |
| | Exchange adjustments costs | 2,173,124 | 0 |
| | | 2,873,927 | 0 |
| **4** | **Tax on profit/loss for the year** | | |
| | Current tax for the year | -1,729,590 | 0 |

# Financial statements 1 January – 31 December

## Notes

### 5 Property, plant and equipment

| DKK | Plant and machinery | Fixtures and fittings, tools and equipment | Total |
|---|---|---|---|
| Cost at 1 January 2020 | 0 | 0 | 0 |
| Additions for the year | 35,527,886 | 152,152 | 35,680,038 |
| Disposals for the year | -483,670 | 0 | -483,670 |
| Transfers for the year | 23,636,067 | 966,339 | 24,602,406 |
| Cost at 31 December 2020 | 58,680,283 | 1,118,491 | 59,798,774 |
| Depreciation and impairment losses at 1 January 2020 | 0 | 0 | 0 |
| Depreciation for the year | -2,430,355 | -57,163 | -2,487,518 |
| Depreciation and impairment losses for the year on assets sold | 483,670 | 0 | 483,670 |
| Accumulated depreciations (transfer) | -16,481,036 | -854,190 | -17,335,226 |
| Depreciation and impairment losses at 31 December 2020 | -18,427,721 | -911,353 | -19,339,074 |
| **Carrying amount at 31 December 2020** | 40,252,562 | 207,138 | 40,459,700 |
| Assets held under finance leases | 25,115,893 | 0 | 0 |

# Financial statements 1 January – 31 December

## Notes

### 6 Equity

The contributed capital consists of:

2019: DKK 500,000

2020: DKK 5,000,000

During the year, a capital increase of DKK 4,500,000 was conducted.

All shares rank equally.

Contributed capital consists of 500 shares of a nominal value of DKK 1,000 each.

All shares rank equally.

### 7 Contractual obligations, contingencies, etc.

#### Contingent liabilities

Liqtech Ceramic 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 lease agreements with a residual commitment in the amount of DKK 362 thousand, of which 99 thousand falls due within a year.

### 8 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 2020.

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 2020.

A company charge of DKK 9.5 million secured on the Company's assets has been provided as collateral for bank debt. Apart from the guarantees, the Company had no bank debt at 31 December 2020.