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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2021

OR

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

For the transition period from to .

Commission file number: 001-37515

Aqua Metals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**47-1169572**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification no.)

2500 Peru Dr.
McCarran, Nevada 89437
(Address of principal executive offices, including zip code)

(775) 446-4418
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class of stock:	Trading symbol	Name of each exchange on which registered:
Common Stock	AQMS	The Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company (as defined in Rule 12b-2 of the Act):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 26, 2021, there were 69,457,518 outstanding shares of the common stock of Aqua Metals, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AQUA METALS, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	June 30, 2021 (unaudited)	December 31, 2020 (Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,704	$ 6,533
Accounts receivable	290	32
Lease receivable, current portion	779	—
Inventory	662	1,091
Assets held for sale	4,339	—
Prepaid expenses and other current assets	381	702
Total current assets	17,155	8,358
Non-current assets		
Property and equipment, net	1,930	24,883
Intellectual property, net	730	819
Investment in LiNiCo	1,500	—
Lease receivable, non-current portion	16,037	—
Other assets	776	1,078
Total non-current assets	20,973	26,780
Total assets	$ 38,128	$ 35,138
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,236	$ 1,552
Accrued expenses	4,634	1,253
Lease liability, current portion	545	620
Notes payable, current portion	—	29
Total current liabilities	6,415	3,454
Lease liability, non-current portion	17	242
Notes payable, non-current portion	—	303
Total liabilities	6,432	3,999
Commitments and contingencies		
Stockholders' equity		
Common stock; $0.001 par value; 100,000,000 shares authorized; 68,607,326 and 64,461,065 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	69	64
Additional paid-in capital	209,382	196,728
Accumulated deficit	(177,755)	(165,653)
Total stockholders' equity	31,696	31,139
Total liabilities and stockholders' equity	$ 38,128	$ 35,138

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

AQUA METALS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Product sales	$ —	$ —	$ —	$ 18
Operating cost and expense				
Cost of product sales	2,138	1,306	3,749	2,760
Research and development cost	176	217	465	459
General and administrative expense	2,129	2,245	4,428	4,630
Total operating expense	4,443	3,768	8,642	7,849
Loss from operations	(4,443)	(3,768)	(8,642)	(7,831)
Other income and (expense)				
Insurance proceeds net of related expenses	460	(52)	448	(255)
PPP loan forgiveness	201	—	332	—
Loss on disposal of property and equipment	(4,254)	—	(4,254)	—
Interest expense	(4)	(164)	(9)	(347)
Interest and other income	24	3	25	25
Total other income (expense), net	(3,573)	(213)	(3,458)	(577)
Loss before income tax expense	(8,016)	(3,981)	(12,100)	(8,408)
Income tax expense	—	(2)	(2)	(2)
Net loss	$ (8,016)	$ (3,983)	$ (12,102)	$ (8,410)
Weighted average shares outstanding, basic and diluted	68,152,296	60,136,374	67,518,650	59,859,493
Basic and diluted net loss per share	$ (0.12)	$ (0.07)	$ (0.18)	$ (0.14)

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

AQUA METALS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Shares	Amount	Capital	Deficit	(Deficit)
Balances, March 31, 2021	67,755,336	$ 68	$ 206,914	$ (169,739)	$ 37,243
Stock-based compensation	—	—	619	—	619
Common stock issued to employees, includes RSUs vesting	300,162	—	—	—	—
Common stock issued upon exercise of employee stock options	2,083	—	3	—	3
Common stock issued upon warrant exercise	—	—	—	—	—
Common stock issued for ATM share sales, net of $67 transaction costs	549,745	1	1,846	—	1,847
Net loss	—	—	—	(8,016)	(8,016)
Balances, June 30, 2021	68,607,326	$ 69	$ 209,382	$ (177,755)	$ 31,696
Balances, December 31, 2020	64,461,065	$ 64	$ 196,728	$ (165,653)	$ 31,139
Stock-based compensation	—	—	1,298	—	1,298
RSUs issued for consulting services	—	—	34	—	34
Common stock issued to employees, includes RSUs vesting	884,411	1	—	—	1
Common stock issued upon exercise of employee stock options	347,901	—	727	—	727
Common stock issued upon warrant exercise	65,590	—	—	—	—
Common stock issued for ATM share sales, net of $311 transaction costs	2,473,359	3	9,328	—	9,331
Common stock issued related to LiNiCo investment	375,000	1	1,267	—	1,268
Net loss	—	—	—	(12,102)	(12,102)
Balances, June 30, 2021	68,607,326	$ 69	$ 209,382	$ (177,755)	$ 31,696
Balances, March 31, 2020	59,836,897	$ 60	$ 190,402	$ (144,318)	$ 46,144
Stock-based compensation	—	—	554	—	554
Common stock issued upon RSU vesting	437,199	—	—	—	—
Net loss	—	—	—	(3,983)	(3,983)
Balances, June 30, 2020	60,274,096	$ 60	$ 190,956	$ (148,301)	$ 42,715
Balances, December 31, 2019	57,997,780	$ 58	$ 189,422	$ (139,891)	$ 49,589
Stock-based compensation	—	—	1,510	—	1,510
Common stock issued upon RSU vesting	2,253,238	2	—	—	2
Common stock issued for consulting services	23,078	—	24	—	24
Net loss	—	—	—	(8,410)	(8,410)
Balances, June 30, 2020	60,274,096	$ 60	$ 190,956	$ (148,301)	$ 42,715

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

AQUA METALS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (12,102)	$ (8,410)
Reconciliation of net loss to net cash used in operating activities		
Depreciation	724	1,236
Amortization of intellectual property	90	90
Accretion of asset retirement obligation	—	24
Fair value of RSUs issued for consulting services	34	24
Stock-based compensation	1,299	1,510
Amortization of deferred financing costs	—	18
Inventory NRV adjustment	146	—
Loss on disposal of property and equipment	4,254	—
Forgiveness of PPP Loan	(332)	—
Changes in operating assets and liabilities		
Accounts receivable	(258)	244
Inventory	283	49
Prepaid expenses and other current assets	320	733
Accounts payable	222	(1,953)
Accrued expenses	680	(1,671)
Other assets and liabilities	(300)	(217)
Net cash used in operating activities	(4,940)	(8,323)
Cash flows from investing activities:		
Purchases of property and equipment	(1,217)	(2,239)
Proceeds from sale of equipment	275	—
Equipment deposits and other assets	43	(36)
Insurance proceeds	—	7,625
Investment in LiNiCo	(232)	—
Net cash (used in) provided by investing activities	(1,131)	5,350
Cash flows from financing activities:		
Proceeds from PPP Loan	—	332
Payments on notes payable	—	(158)
Lease of building	184	—
Proceeds from exercise of stock options	727	—
Proceeds from ATM, net	9,331	—
Net cash provided by financing activities	10,242	174
Net increase (decrease) in cash and cash equivalents	4,171	(2,799)
Cash and cash equivalents at beginning of period	6,533	7,575
Cash and cash equivalents at end of period	$ 10,704	$ 4,776

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Supplemental disclosure of cash flows information		
Cash paid for income taxes	$ 2	$ 2
Cash paid for interest	$ —	$ 308
Supplemental disclosure of non-cash transactions		
Change in accounts receivable resulting from insurance funds held in escrow	$ —	$ 4,875
Change in property and equipment resulting from change in accounts payable	$ 538	$ (994)
Change in property and equipment resulting from change in accrued expenses	$ —	$ (287)
Change in equity resulting from change in accrued expenses	$ —	$ 24
Change in investing activity resulting from issuance of equity	$ (1,268)	$ —

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

AQUA METALS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

Aqua Metals, Inc. (the "Company") was incorporated in Delaware and commenced operations on June 20, 2014 (inception). On January 27, 2015, the Company formed two wholly-owned subsidiaries, Aqua Metals Reno, Inc. ("AMR") and Aqua Metals Operations, Inc. (collectively, the "Subsidiaries"), both incorporated in Delaware. The Company is engaged in the business of equipment supply, technology licensing and related services for recycling lead through a novel, proprietary and patented process the Company developed and named AquaRefining™. Prior to November 29, 2019, the Company was engaged in the business of lead recycling through its patented and patent-pending AquaRefining technology. Following a fire at its lead recycling facility on November 29, 2019, the Company has been engaged in the pursuit of licensing opportunities within the lead battery recycling marketplace without maintaining and operating a capital-intensive lead recycling facility.

Unlike smelting, AquaRefining is a room temperature, water-based process that emits less pollution than smelting, the traditional method of lead recycling. The Company built its first recycling facility in Nevada's Tahoe Reno Industrial Center ("TRIC") in McCarran, Nevada and intended to pursue the development of additional lead acid battery recycling facilities based on the Company's AquaRefining technology, likely through licensing or joint development arrangements. The Company commenced the shipment of products for sale, consisting of lead compounds and plastics in April 2017, and through March 31, 2018 substantially all revenue was derived from the sale of lead compounds and plastics. In April 2018, the Company commenced the limited production of lead bullion, including AquaRefined lead. In July 2018, the Company commenced the sale of pure AquaRefined lead in the form of two tonne blocks and in October 2018, the Company commenced the sale of AquaRefined lead in the form of battery manufacturing ready ingots. In November 2018, the Company received official vendor certification from Clarios for its AquaRefined lead and, in December 2018, the Company commenced shipments directly to Clarios owned and partner battery manufacturing facilities. In 2019, the Company operated its demonstration AquaRefinery at commercial quantity production levels and produced over 35,000 AquaRefined ingots by operating the AquaRefinery 24 hours a day and seven days a week for sustained periods of time. The AquaRefining Aqualyzers produced at or above the target 100 Kg/Hr of production throughput per module of six Aqualyzers or ~16-17 Kg/Hr per Aqualyzer and ran sustained endurance runs for over one month several times.

On the evening of November 29, 2019, a fire occurred in the AquaRefining area of the facility. The fire and related intense heat and smoke caused significant damage to a material amount of equipment in the AquaRefinery area, including all 16 AquaRefining modules, electrical and tank infrastructure, steel superstructure, control wiring and other supporting infrastructure. Following the fire, the Company adopted a capital light strategy designed to optimize shareholder value by focusing on equipment supply and licensing opportunities, which have always been a core part of the Company's business plans. On July 1, 2021, the Company signed a Letter of Intent (LOI) with ACME Metal Enterprise Co., Ltd. (ACME) to deploy and license AquaRefining equipment at its facility in Keelung, Taiwan. The Company believes the path of licensing our technology has the potential to maximize shareholder value in that it could be far less capital intensive than a rebuild and could be funded solely or primarily from a combination of cash on hand, insurance proceeds and asset dispositions.

2. Summary of Significant Accounting Policies

The significant accounting policies and estimates used in preparation of the condensed consolidated financial statements are described in the Company's audited consolidated financial statements as of and for the year ended December 31, 2020, and the notes thereto, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission, or the SEC, on February 25, 2021. There have been no material changes in the Company's significant accounting policies during the three and six months ended June 30, 2021.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB") and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all the information and footnotes required by such accounting principles for complete financial statements. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary to present fairly each of the condensed consolidated balance sheet as of June 30, 2021, the condensed consolidated statements of operations for the three and six months ended June 30, 2021 and June 30, 2020, the condensed consolidated statements of stockholders' equity for the three and six months ended June 30, 2021 and June 30, 2020 and the condensed consolidated statements of cash flows for the six months ended June 30, 2021 and June 30, 2020, as applicable, have been made. The condensed consolidated balance sheet as of December 31, 2020 has been derived from the Company's audited financial statements as of such date, but it does not include all disclosures required by U.S. GAAP. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the period ended December 31, 2020, which are included on Form 10-K filed with the Securities and Exchange Commission on February 25, 2021.

The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of results that may be expected for the year ending December 31, 2021.

Principles of consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its Subsidiaries, both of which are wholly-owned subsidiaries. Significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the condensed consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount and valuation of long-lived assets, valuation allowances for deferred tax assets, the determination of stock option expense and the determination of the fair value of stock warrants issued. Actual results could differ from those estimates.

Net loss per share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method or the if-converted method, as applicable. For purposes of this calculation, stock options, restricted stock units (RSUs) and warrants to purchase common stock are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. The following shares underlying outstanding convertible notes, stock options, RSUs and warrants to purchase common stock were antidilutive due to a net loss in the periods presented and, therefore, were excluded from the dilutive securities computation for the six months ended June 30, as indicated below.

	June 30,	
Excluded potentially dilutive securities (1):	2021	2020
Options to purchase common stock	1,038,439	1,425,004
Unvested restricted stock units	4,840,763	4,244,003
Financing warrants to purchase common stock	6,372	103,500
Total potential dilutive securities	5,885,574	5,772,507

(1) The number of shares is based on the maximum number of shares issuable on exercise or conversion of the related securities as of the period end. Such amounts have not been adjusted for the treasury stock method or weighted average outstanding calculations as required if the securities were dilutive.

Segment and geographic information

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker views its operations and manages its business in one operating segment, and the Company operates in only one geographic segment.

Concentration of credit risk

The Company did not generate revenue during the six months ended June 30, 2021. Revenue from one customer, Clarios (successor of Johnson Controls Battery Group, Inc.), represented 100% of total revenue for the six months ended June 30, 2020, which totaled $18,000 for the sale of inventory during the first quarter of 2020. The Company did not have a trade accounts receivable balance as of June 30, 2021 or December 31, 2020. The accounts receivable balance on the Company's condensed consolidated balance sheets as of June 30, 2021 and December 31, 2020 consisted of amounts due from the return or sale of inventory and proceeds from assets held for sale.

Recent accounting pronouncements

There were no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2021 that are of significance or potential significance to the Company.

Insurance Proceeds

On November 29, 2019, there was a fire in the AquaRefining area of the TRIC facility. As of June 30, 2021, the Company had received $25.0 million in insurance payments as a result of the fire damage. Insurance proceeds of $1.4 million collected during the second quarter of 2021 were recorded as other income and netted against related expenses. Subsequent to quarter end, the Company and the insurance carriers agreed on a payment of an additional $5.25 million. This payment represents the final expected payment from insurance bringing the total collected from insurance to approximately $30.25 million.

3. Revenue Recognition

The Company has historically generated revenues by recycling lead acid batteries (“LABs”) and selling the recovered lead to its customers. Primary components of the recycling process include sales of recycled lead consisting of lead compounds, ingoted hard lead and ingoted AquaRefined lead as well as plastics. The Company commenced the shipment of products for sale, consisting of lead compounds and plastics, in April 2017, and through March 31, 2018, all revenue was derived from the sale of lead compounds and plastics. In April 2018, the Company began shipping lead bullion in addition to lead compounds and plastics. In June 2018, the Company began shipping high purity lead from its AquaRefining process.

The Company was not in commercial production during the three and six months ended June 30, 2021 or during the three and six months ended June 30, 2020. The nominal revenue generated during the six months ended June 30, 2020 resulted from the sale of inventory. Historically, Company products transferred to customers at a single point in time accounted for 100% of its revenue.

4. Lease Receivable

The Company has entered into an Industrial Lease Agreement with LINICO Corporation, a Nevada corporation, or LiNiCo, dated February 15, 2021 pursuant to which the Company has leased to LiNiCo its 136,750 square foot recycling facility at TRIC. The lease commenced April 1, 2021 and expires on March 31, 2023. During the lease term, LiNiCo has the option to purchase the land and facilities at a purchase price of $14.25 million if the option is exercised and the sale is completed by October 1, 2022 and $15.25 million if the option is exercised and the sale is completed after October 1, 2022 and prior to March 31, 2023. The purchase option is subject to LiNiCo’s payment of a nonrefundable deposit of $1.25 million by October 15, 2021 and a second nonrefundable deposit of $2 million by November 22, 2022, both of which will be applied towards the purchase price. The lease agreement is a triple-net lease pursuant to which LiNiCo is responsible for all fixed costs, including maintenance, utilities, insurance, and property taxes. The lease agreement provides for LiNiCo’s monthly lease payments starting at $68,000 per month and increasing to $100,640 in the last six months of the lease. The lease agreement allows the Company to retain the use of a portion of the facility for the Company's ongoing research and development activities, including operation of the lab and the use of office space.

With respect to the portion of the facility that was damaged in the November 2019 fire, consisting of approximately 30,000 square feet, the Company is obligated to complete the clean-up of the damaged area, at the Company's expense, by July 31, 2021 and repair all damage to the damaged area, at the Company's expense, by November 15, 2021. With regard to the equipment on-site at TRIC, the Company has granted LiNiCo the right of first offer to purchase any equipment the Company offers for sale. The lease agreement contains customary representations, warranties and indemnities on the part of both parties.

The Company accounted for the Industrial Lease and Option to Purchase Agreement as a sales-type lease. As a component of the accounting for the agreement, the Company recognized the estimated fair market value of the land and plant of $17.0 million as a lease receivable, which is reflected on the Company's condensed consolidated balance sheets. The implied interest rate of 0.5% was utilized for the amortization of the scheduled building lease/purchase payments outlined in the agreement. The Company applies the monthly payments received as a reduction to lease receivable and interest income. The interest income recognized from the agreement is included in "Interest and other income" on the Company's condensed consolidated statements of operations. For the three months ended June 30, 2021, the Company recognized a reduction in the lease receivable balance of approximately $184,000 and recorded $20,000 of interest income related to this agreement.

5. Inventory

Inventory consisted of the following (in thousands):

	June 30, 2021	December 31, 2020
Finished goods	$ 2	$ 2
Work in process	245	247
Raw materials	415	842
Total inventory	$ 662	$ 1,091

6. Assets Held for Sale

Assets are classified as held for sale when, among other factors, they are identified and marketed for sale in their present condition, management is committed to their disposal, and the sale of the asset is probable within one year. For the three months ended June 30, 2021, the Company classified certain assets with a net book value of $5.2 million to assets held for sale. Management believes these assets are no longer necessary for the Company's future operating plans. Also, during the quarter ended June 30, 2021, the Company sold assets held for sale with a book value of $0.8 million. These assets were comprised of a battery breaker and related equipment.

7. Property and Equipment, net

Property and equipment, net, consisted of the following (in thousands):

Asset Class	Useful Life (Years)	June 30, 2021	December 31, 2020
Operational equipment	3 - 10	$ 1,435	$ 12,126
Lab equipment	5	511	524
Computer equipment	3	178	222
Office furniture and equipment	3	215	221
Land	-	—	1,047
Building	39	—	19,508
Equipment under construction		1,715	3,597
		4,054	37,245
Less: accumulated depreciation		(2,124)	(12,362)
Total property and equipment, net		$ 1,930	$ 24,883

Property and equipment depreciation expense was $0.3 million and $0.5 million for the three and six months ended June 30, 2021, respectively, and $0.5 million and $1.0 million for the three and six months ended June 30, 2020, respectively. Equipment under construction is comprised of various components being manufactured or installed by the Company.

8. Investments

On February 15, 2021, the Company entered into a Series A Preferred Stock Purchase Agreement with LINICO Corporation, a Nevada Corporation, or LiNiCo, that provided for the Company's issuance of 375,000 shares (“Aqua Shares”) of the Company's common stock in consideration of LiNiCo’s issuance of 1,500 shares of its Series A Preferred Stock, at a stated aggregate value of $1,500,000, along with a three-year warrant (“Series A Warrant”) to purchase an additional 500 shares of LiNiCo Series A Preferred Stock at an exercise price of $1,000 per share. The 1,500 shares of the Series A Preferred Stock represents approximately 9% of LiNiCo common stock on a fully diluted basis, before giving effect to the Company's exercise of the Series A Warrant or any other outstanding warrants of LiNiCo.

The Company accounted for the LiNiCo investment under ASC 321, Investments-Equity Securities, using the measurement alternative of recording at cost as the investment in LiNiCo doesn’t have a readily determinable fair value.

The LiNiCo Series A Preferred Stock is senior to all other capital stock of LiNiCo with regard to dividends and distributions upon liquidation, dissolution and sale of the company. Each share of LiNiCo Series A Preferred Stock is entitled to one vote per share and votes with the common stock on all matters, subject to certain protective provisions that require the approval of the holders of the Series A Preferred Stock voting as a class. The Series A Preferred Stock accrues a cumulative dividend of 8% per annum on the original stated value of $1,000 per share, and all accrued and unpaid dividends on the Series A Preferred Stock must be paid in full prior to the payment of any dividends on any other shares of LiNiCo capital stock. In the event of any liquidation or dissolution of LiNiCo, which would include a sale of LiNiCo, the holders of the Series A Preferred Stock shall receive the return of their stated value of $1,000 per share plus all accrued and unpaid dividends prior to any distribution to the holders of any other capital stock of LiNiCo, following which the holders of the Series A Preferred Stock shall participate in the distribution of any remaining assets with the holders of the junior stock on an as-converted basis. The Series A Preferred Stock is convertible into shares of LiNiCo common stock at the Company's option and is automatically converted into LiNiCo common stock upon the election of the holders of a majority of the LiNiCo Series A Preferred Stock or upon a qualifying IPO of LiNiCo common stock. The Series A Preferred Stockholders are also provided with preemptive rights allowing them the right to purchase their proportional share of certain future LiNiCo equity issuances.

The Series A Preferred Stock Purchase Agreement includes customary representations, warranties, and covenants by LiNiCo and the Company.

As LiNiCo’s sale of the 375,000 of Aqua Shares resulted in net proceeds to LiNiCo that were less than $1,500,000, the Company was required to pay LiNiCo the difference of $232,000 in cash.

In connection with the investment transactions, the Company also entered into an Investors Rights Agreement and a Voting Agreement, each dated February 15, 2021, pursuant to which LiNiCo granted the Company customary demand and piggyback registration rights, information rights and the right to nominate one person to the LiNiCo board of directors as long as the Company is the owner of at least 10% of the LiNiCo common stock on a fully-diluted basis.

Comstock Mining Inc., a Nevada corporation (NYSE-MKT: LODE), is the beneficial owner of approximately 50% of the common shares of LiNiCo. The Company's Chief Financial Officer, Judd Merrill, is a member of the board of directors of Comstock Mining.

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2021	December 31, 2020
Building repair	$ 2,547	$ —
Property and equipment related	1,321	715
Payroll related	727	479
Use tax accrual	10	1
Other	29	58
	$ 4,634	$ 1,253

10. Leases

The Company currently maintains one finance lease for equipment and two operating leases for real estate. The finance lease is immaterial to the Company's condensed consolidated financial statements. The operating leases have terms of 76 and 42 months and include one or more options to extend the duration of the agreements. These operating leases are included in "Other assets" on the Company's condensed consolidated balance sheets and represent the Company's right to use the underlying assets for the term of the leases. The Company's obligation to make lease payments are included in "Lease liability, current portion" and "Lease liability, non-current portion" on the Company's condensed consolidated balance sheets. The Company recognized sublease income of approximately $127,000 and $255,000 for the three and six months ended June 30, 2021. The Company recognized sublease income of approximately $108,000 and $216,000 for the three and six months ended June 30, 2020.

Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, as of June 30, 2021, total right-of-use assets were approximately $0.46 million and operating lease liabilities were approximately $0.54 million. As of June 30, 2020, the Company's total right-of-use assets were approximately $0.96 million and operating lease liabilities were approximately $1.12 million.

Information related to the Company's right-of-use assets and related lease liabilities were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cash paid for operating lease liabilities	$ 164	$ 160	$ 327	$ 318
Operating lease cost	$ 144	$ 144	$ 289	$ 289

	June 30, 2021
Weighted-average remaining lease term (in years)	0.7
Weighted-average discount rate	9.66%

Future maturities of lease liabilities as of June 30, 2021 are as follows (in thousands):

Due in 12-month period ended June 30, 2022	$ 561
Less imputed interest	$ (22)
Total lease liabilities	$ 539
Current operating lease liabilities	$ 539
Non-current operating lease liabilities	$ —
	$ 539

Note: Excludes a finance lease with a current liability of $6 and a non-current liability of $17.

11. Notes Payable

On May 7, 2020, the Company received loan proceeds in the amount of approximately $332,000 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provided for loans to qualifying businesses. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Company used the loan proceeds for purposes consistent with the PPP requirements and applied for loan forgiveness. During the six months ended June 30, 2021, both of the Company's two PPP loans totaling $332,000 were forgiven.

Notes payable were comprised of the following (in thousands):

	June 30, 2021	December 31, 2020
Notes payable, current portion		
Paycheck Protection Program	$ —	$ 29
Total notes payable, current portion	$ —	$ 29
Notes payable, non-current portion		
Paycheck Protection Program	$ —	$ 303
Total notes payable, non-current portion	$ —	$ 303

12. Stockholders' Equity

Shares issued

During the six months ended June 30, 2021, the Company issued 825,540 shares of common stock upon vesting of Restricted Stock Units ("RSUs") granted by the Company to management and employees.

During the six months ended June 30, 2021, the Company issued, when the five-day average of closing prices for the Company's common stock was $3.95 per share, 5,371 shares of the Company's common stock pursuant to a cashless exercise of a warrant for 10,350 shares of the Company's common stock with an exercise price of $1.90 per share.

During the six months ended June 30, 2021, the Company issued, when the five-day average of closing prices for the Company's common stock was $6.20 per share, 60,219 shares of the Company's common stock pursuant to a cashless exercise of a warrant for 86,778 shares of the Company's common stock with an exercise price of $1.90 per share.

During the six months ended June 30, 2021, the Company issued 58,871 shares of common stock upon vesting of RSUs granted to Board members.

During the six months ended June 30, 2021, the Company issued 375,000 shares of common stock pursuant to the Series A Preferred Stock Purchase Agreement, with LiNiCo, dated February 15, 2021.

During the six months ended June 30, 2021, the Company issued 347,901 shares of common stock upon stock option exercises.

During the six months ended June 30, 2021, the Company issued 2,473,359 shares of common stock pursuant to the At The Market Issuance Sales Agreement for net proceeds of $9.3 million.

Stock-based compensation

The stock-based compensation expense was allocated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of product sales	$ 16	$ 22	$ 47	$ 44
Research and development cost	11	15	53	120
General and administrative expense	592	517	1,198	1,346
Total	$ 619	$ 554	$ 1,298	$ 1,510

There were no options issued during the three and six months ended June 30, 2021 or the three and six months ended June 30, 2020.

Restricted stock units

In February 2021, the Company granted 25,000 RSUs, all of which were subject to vesting, with a grant fair value of $151,500 to a contractor. The shares vest in three tranches 1) upon the signing of a licensing agreement 2) delivery of a final engineering package, and 3) full handover of project to site owner. No shares vested during the six months ended June 30, 2021.

In May 2021, the Company granted 81,883 RSUs, all of which were subject to vesting, with a grant fair value of $235,000 to Board members. The shares vest in twelve equal installments over a one-year period. 13,648 shares vested during the six months ended June 30, 2021.

13. Commitments and Contingencies

Legal proceedings

See Item 1. Legal Proceedings

14. Subsequent Events

The Company has evaluated subsequent events through the date which the condensed consolidated financial statements were available to be issued.

License and Equipment Supply Agreement

On July 1, 2021, the Company signed a Letter of Intent with ACME Metal Enterprise Co., Ltd. (ACME) to deploy and license AquaRefining equipment at its facility in Keelung, Taiwan. On July 28, 2021, the Company signed a definitive agreement with ACME to deploy and license AquaRefining equipment at its facility in Keelung, Taiwan.

Insurance Payment

Subsequent to quarter end, the Company and the insurance carriers agreed on a payment of an additional $5.25 million. This payment represents the final expected payment from insurance bringing the total collected from insurance to approximately $30.25 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained elsewhere in this report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other filings with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 25, 2021, or our Annual Report.

In this report we make, and from time to time we otherwise make written and oral statements regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" or similar expressions identify forward-looking statements, which may appear in our documents, reports, filings with the SEC, and news releases, and in written or oral presentations made by officers or other representatives to analysts, stockholders, investors, news organizations and others, and in discussions with management and other of our representatives.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties, including those risks included below in Part II, Item 1 "Risk Factors". No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

General

Aqua Metals (NASDAQ: AQMS) is engaged in the business of equipment supply, technology licensing and related services for recycling lead through a novel, proprietary and patented process we developed and named AquaRefining™. AquaRefining is a room temperature, water and organic acid-based process that greatly reduces environmental emissions. Lead is a globally traded commodity with a worldwide market value in excess of $20 billion. We believe our suite of patented and patent pending AquaRefining technologies will allow the lead-acid battery industry to simultaneously improve the environmental impact of lead recycling and scale recycling production to meet demand. Furthermore, our AquaRefining technologies result in high purity lead. We were formed as a Delaware corporation on June 20, 2014 and since our formation, we have focused our efforts on the development and testing of our AquaRefining process, the construction of our initial lead acid battery, or LAB, recycling facility at the Tahoe Reno Industrial Center, or TRIC, located in McCarran, Nevada and commercializing the AquaRefining process.

We completed the development of our first LAB recycling facility at Nevada's Tahoe Reno Industrial Center, or TRIC, in McCarran, Nevada and commenced production of battery breaking and limited operations during the first quarter of 2017. In April 2017, we commenced the shipment of products for sale, consisting of lead compounds as well as plastics. In April 2018, we commenced the limited production of lead bullion, including AquaRefined lead. In July 2018, we commenced the sale of pure AquaRefined lead in the form of two tonne blocks and, in October 2018, we commenced the sale of AquaRefined lead in the form of battery manufacturing ready ingots. In November 2018, we received official vendor certification from Clarios for our AquaRefined lead and in December 2018, we commenced shipments directly to Clarios owned and partner battery manufacturing facilities. In 2019, we operated our demonstration AquaRefinery at commercial quantity production levels and produced over 35,000 AquaRefined ingots by operating the AquaRefinery 24 hours a day and 7 days a week for sustained periods of time. The AquaRefining Aqualyzers produced at or above the target 100 Kg/Hr of production throughput per module of six Aqualyzers or ~16-17 Kg/Hr per Aqualyzer and ran sustained endurance runs for over one month several times.

In order to expand the demonstration AquaRefinery to its full capacity, we chose to idle the AquaRefinery beginning in September 2019 to facilitate contracting work required to increase the plant capacity planned for late 2019 or early 2020. On the evening of November 29, 2019, a fire occurred in the AquaRefining area of the recycling facility at TRIC. The cause of the fire was not due to the technology or process of AquaRefining but rather to contracting activities. The fire and related intense heat and smoke caused significant damage to a material amount of equipment in the AquaRefinery area, including all 16 AquaRefining modules, electrical and tank infrastructure, steel superstructure, control wiring and other supporting infrastructure. The floor to ceiling firewall between the AquaRefining area and the rest of the plant isolated the worst of the damage to the AquaRefining area. The firewall also spared material damage to much of the key front-end process equipment, such as the battery breaker/separation system, concentrate production area, kettles and ingot casting, water treatment and recovery and other important areas of the plant. The administrative office area also remained intact.

As of June 30, 2021, we have received approximately $25.0 million of insurance proceeds from our insurance carriers related to the November 2019 fire event. Subsequent to quarter end, the Company and the insurance carriers agreed on a payment of an additional $5.25 million. This payment represents the final expected payment from insurance bringing the total collected from insurance to approximately $30.25 million.

During the first half of 2020, we successfully performed test runs on the first and second iterations of our Aqualyzer as part of our V1.25L program. The program consists of three iterations that are classified as V1.25a, V1.25b and the final iteration, V1.25L, the latter of which will be used to create the AquaRefining Aqualyzer package for our equipment supply and licensing offerings. During the fourth quarter of 2020, we completed our V1.25L Aqualyzer program on time and under budget, achieving lead production that is 100% greater compared to the V1.0 Aqualyzer deployed at the AquaRefinery during commercial production in 2018 and 2019. The Company previously guided a 20% increase of throughput, yet the V.125L Aqualyzer surpassed that guidance by 500%. The V1.25L program concluded with a multi-day 24/7 endurance run that ended on December 24, 2020. These results should positively impact capital and operating expenses for our future equipment supply and licensee customers. The doubling of throughput results in a 50% reduction in the number of Aqualyzers needed for equivalent lead production. V1.25L also has a lower build cost and reduced assembly time compared to the V1.0 Aqualyzer, which correlates to a 50% decrease in capital expenditures for Aqua Metals equipment installations. In addition, Aqualyzer operating expenses have been reduced by greater than 60% compared to the V1.0 Aqualyzer, with the combined impact of improvements in automation and increased throughput. The current design has a single button start and stop functionality with no manual interaction required during operation, along with automated maintenance capability. The 60% reduction in operating expenses and 50% reduction in capital expenditures greatly exceeds the targets that were set in early 2020.

Our business model focus is on global licensing opportunities to incorporate AquaRefining in the recycling industry.

We have been engaged in the pursuit of a capital light strategy that is based on the pursuit of licensing opportunities within the lead battery recycling marketplace without maintaining and operating a capital-intensive lead recycling facility. Our capital light business strategy is designed to optimize shareholder value by focusing on equipment supply and licensing opportunities, which have always been a core part of our business plans. On July 1, 2021, the Company signed a Letter of Intent (LOI) with ACME Metal Enterprise Co., Ltd. (ACME) to deploy and license AquaRefining equipment at its facility in Keelung, Taiwan. The Company believes the path of licensing our technology has the potential to maximize shareholder value in that it could be far less capital intensive than a rebuild and could be funded solely or primarily from a combination of cash on hand, insurance proceeds and asset dispositions.

During the three months ended June 30, 2021, we issued 549,745 shares of common stock pursuant to an At the Market Issuance Sales Agreement ("ATM") for net proceeds of $1.8 million.

Plan of Operations

We have been engaged in the pursuit of a capital light strategy that is based on the pursuit of licensing opportunities within the lead battery recycling marketplace without maintaining and operating a capital-intensive lead recycling facility. We believe our capital light business strategy will require less space and less equipment and focus on the needs of our future licensees. We have accelerated our capital light business strategy, designed to optimize shareholder value by focusing on equipment supply and licensing opportunities, which have always been a core part of our business plans. We believe this path has the potential to maximize shareholder value as we focus on the shift to an equipment plus services supplier and licensor of our technology.

Our capital light strategy is consistent with our long-held business strategy and objectives. When we designed and developed TRIC in 2016, we did so at a time when our business model assumed that TRIC would be the first of many LAB recycling facilities owned and operated by us. Commencing in 2017, we began to shift our focus away from the development of additional Company-owned LAB recycling facilities and towards the licensing of our AquaRefining technology to partners engaged in LAB recycling. During 2020, we completed the V1.25L Aqualyzer program and achieved a 100% improvement in lead production throughput, in addition to improved equipment and operating costs. We believe that our results of operations and improvements to our Aqualyzers, to date, can demonstrate to potential licensees the value proposition of our AquaRefining technologies. We believe that our AquaRefining technology would be a commercially attractive valuable proposition in the hands of battery recyclers, who typically have access to lower cost feedstock and ability to process all materials on site through a furnace.

Our capital light strategy also includes an expansion into lithium-ion battery recycling by investing in LINICO Corporation (“LiNiCo”). The Company and LiNiCo reached a lease-to-buy agreement for the Aqua Metals' AquaRefining facility. Aqua Metals has committed a $1.5 million investment, paid in Aqua Metals shares and $232,000 in cash, for an ownership share in LiNiCo of approximately 9%, as part of our strategy to strengthen growth by potentially applying AquaRefining intellectual property to lithium-ion battery recycling while meeting its lead recycling commercial guidance. We believe that expanding our patented AquaRefining hydrometallurgical approach to recycling the high-value metals of lithium-ion batteries is a smart, long-term strategy for Aqua Metals and the creation of shareholder value.

Results of Operations

We have not engaged in commercial operations since the 2019 fire at our TRIC facility other than the sale of inventory, and since that time our operations have been devoted to improvements to our AquaRefining processes and equipment in furtherance of our capital light strategy. We did not incur revenue during the three and six months ended June 30, 2021 and 2020, other than nominal revenue generated during the first quarter of 2020 from the sale of inventory. The following table summarizes our results of operations with respect to the items set forth below for the three and six months ended June 30, 2021 and 2020 together with the dollar and percentage changes in those items (in thousands).

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Favorable (Unfavorable)	% Change	2021	2020	Favorable (Unfavorable)	% Change
Product sales	$ —	$ —	$ —	n/a	$ —	$ 18	$ (18)	(100.0)%
Cost of product sales	2,138	1,306	(832)	63.7%	3,749	2,760	(989)	35.8%
Research and development cost	176	217	41	(18.9)%	465	459	(6)	1.3%
General and administrative expense	2,129	2,245	116	(5.2)%	4,428	4,630	202	(4.4)%
Total operating expense	$ 4,443	$ 3,768	$ (675)	17.9%	$ 8,642	$ 7,849	$ (793)	10.1%

As mentioned previously, historical product sales prior to the reported periods have consisted of high-purity lead from our AquaRefining process as well as lead bullion, lead compounds and plastics. Other than sales from inventory, we do not expect to generate revenue from operations until such time as we enter into a commercial license for our AquaRefining technology and equipment.

Cost of product sales includes raw materials, supplies and related costs, salaries and benefits, consulting and outside services costs, inventory adjustments, depreciation and amortization costs and insurance, travel and overhead costs. Cost of product sales increased approximately 64% and 36% for the three and six months ended June 30, 2021, respectively, as compared to the three and six months ended June 30, 2020. The increase in cost of product sales was a result of plant clean-up costs, in preparation for the lease and eventual sale of the facility.

Research and development cost included expenditures related to the improvement of the AquaRefining technology related to our lead recycling process and initial development of our lithium recycling process. During the three months ended June 30, 2021, research and development cost decreased $41,000 or 19% over the comparable period in 2020. This modest decrease was driven by the Company's efforts to control costs while continuing to maintain and advance our proprietary AquaRefining technology. For the six months ended June 30, 2021, research and developments costs remained essentially even with a 1% increase compared to the six months ended June 30, 2020.

General and administrative expense was fairly consistent with a decrease of approximately 5% and 4% for the three and six months ended June 30, 2021, respectively, compared to the three and six months ended June 30, 2020.

The following table summarizes our other income and interest expense for the three and six months ended June 30, 2021 and 2020 together with the dollar and percentage changes in those items (in thousands).

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Favorable (Unfavorable)	% Change	2021	2020	Favorable (Unfavorable)	% Change
Other income and (expense)								
Insurance proceeds net of related expenses	$ 460	$ (52)	$ 512	(984.6)%	$ 448	$ (255)	$ 703	(275.7)%
PPP loan forgiveness	201	—	201	n/a	332	—	332	n/a
Loss on disposal of property and equipment	(4,254)	—	(4,254)	n/a	(4,254)	—	(4,254)	n/a
Interest expense	(4)	(164)	160	(97.6)%	(9)	(347)	338	(97.4)%
Interest and other income	24	3	21	700.0%	25	25	—	0.0%
Total other income (expense), net	$ (3,573)	$ (213)	$ 3,360	(1,577)%	$ (3,458)	$ (577)	$ 2,881	(499.3)%

Insurance proceeds net of related expenses resulted from collection and payment activity that began in 2020 following the November 2019 fire. The change from period to period is due to the timing of insurance payments and associated fire clean-up expenses. Both of the Company's two PPP loans totaling $332,000 received in May of 2020 have been forgiven. One of the PPP loans for $131,000 was forgiven in January of 2021 and the second PPP loan for $201,000 was forgiven in May of 2021. Aqua Metals recognized a loss on the sale of assets held for sale of approximately $4.3 million during the three months ended June 30, 2021. This amount was comprised of a $3.5 million loss recognized in conjunction with the accounting for the lease to purchase arrangement for the Company's McCarran, Nevada facility. The loss on sale of assets held for sale also included $0.7 million resulting from the sale of a battery breaker and related equipment. Aqua Metals recognized interest expense of $4,000 and $9,000 for the three and six months ended June 30, 2021, respectively. The decrease in interest expense from the comparable prior year periods is due to the Company retiring the Veritex loan during the fourth quarter of 2020 and being essentially debt free since that time. Aqua Metals recognized approximately $24,000 and $25,000 in interest and other income during the three and six months ended June 30, 2021, respectively. This compares to interest and other income of $3,000 and $25,000 for the three and six months ended June 30, 2020, respectively. The increase in interest and other income for the three months ended June 30, 2021 compared to the three months ended June 30, 2020 is primarily due to the payments received for the lease of the McCarran, Nevada plant pursuant to the lease to purchase agreement that commenced on April 1, 2021.

Liquidity and Capital Resources

As of June 30, 2021, we had total assets of $38.1 million and working capital of $10.7 million.

The following table summarizes our cash provided by (used in) operating, investing and financing activities (in thousands):

	Six Months Ended June 30,	
	2021	2020
Net cash used in operating activities	$ (4,940)	$ (8,323)
Net cash (used in) provided by investing activities	$ (1,131)	$ 5,350
Net cash provided by financing activities	$ 10,242	$ 174

Net cash used in operating activities

Net cash used in operating activities for the six months ended June 30, 2021 and 2020 was $4.9 million and $8.3 million, respectively. Net cash used in operating activities during each of these periods consisted primarily of our net loss adjusted for non-cash items such as depreciation, amortization and stock-based compensation charges, loss on the sale of property and equipment, as well as net changes in working capital. Net cash used in operating activities for the six months ended June 30, 2021 reflected a non-cash adjustment of $4.3 million for the disposal of property and equipment. No loss on disposal of property and equipment adjustment was recognized during the six months ended June 30, 2020.

Net cash used in and provided by investing activities

Net cash used in investing activities for the six months ended June 30, 2021 was $1.1 million and consisted mainly of $1.2 million for the purchase of property and equipment and $0.2 million utilized toward the investment in LiNiCo. Net cash provided by investing activities for the six months ended June 30, 2020 was $5.4 million and consisted primarily of $7.6 million in insurance proceeds partially offset by $2.2 million for purchases of property and equipment accrued in the prior quarter.

Net cash provided by and used in financing activities

Net cash provided by financing activities of $10.2 million for the six months ended June 30, 2021 consisted of $9.3 million in net proceeds from the sale of Aqua Metals shares pursuant to the ATM and $0.7 million of proceeds from stock options exercises. Net cash provided by financing activities for the six months ended June 30, 2020 was approximately $0.2 million, consisting of $0.3 million from PPP loan proceeds partially offset by $0.2 million for payments on debt.

As of June 30, 2021, we had total cash of $10.7 million and working capital of $10.7 million. As of the date of this report, we believe that we may require additional capital in order to fund our current level of ongoing costs and our proposed business plan over the next 12 months as we execute on our capital light licensing strategy. We intend to acquire the necessary capital though the recovery of remaining insurance proceeds on our fire related claims, the possible sale of certain equipment and assets at TRIC, and the collection of funds from the lease and sale of our plant. However, there can be no assurance that such funds will be available. If needed, we may seek funding through the sale of equity or debt financing, including the sale of our common shares through our current at-the-market offering. Funding that includes the sale of our equity may be dilutive. If such financing is not available on satisfactory terms, we may be unable to further pursue our business plan and we may be unable to continue operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on that evaluation, management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the six month period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Beginning on December 15, 2017, three purported class action lawsuits were filed in the United Stated District Court for the Northern District California against us and certain of our former executive officers. On March 23, 2018, the cases were consolidated under the caption *In Re: Aqua Metals, Inc. Securities Litigation* Case No 3:17-cv-07142. The complaint, as amended, alleged the defendants made false and misleading statements concerning our lead recycling operations and conducted deceptive site visits in violation of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated thereunder and seeks to hold the individual defendants as control persons pursuant to Section 20(a) of the Exchange Act. The Amended Complaint also alleges a violation of Section 11 of the Securities Act of 1933 ("Securities Act") based on alleged false and misleading statements concerning our lead recycling operations contained in, or incorporated by reference in, our Registration Statement on Form S-3 filed in connection with our November 2016 public offering. In July 2021, the parties entered into a stipulation for settlement of all claims based on the payment of a cash amount to the plaintiffs to be funded by Aqua Metals' insurance carriers, plus $500,000 to be paid to the plaintiffs by Aqua Metals in cash or common shares, at Aqua Metals' option. The stipulation for settlement is subject to the approval of the Court.

Beginning on February 2, 2018, five purported shareholder derivative actions were filed in the United States District Court for the District of Delaware against us and certain of our current and former executive officers and directors. On May 3, 2018, the cases were consolidated under the caption *In re Aqua Metals, Inc. Stockholder Derivative Litigation*, Case No. 1:18-cv-00201-LPS (D. Del.). The complaints were filed by persons claiming to be stockholders of Aqua Metals and generally alleged that certain of our officers and directors breached their fiduciary duties to us by violating the federal securities laws and exposing us to possible financial liability. In July 2021, the parties entered into a stipulation for settlement of all claims based on our adoption of certain corporate governance reforms. The stipulation for settlement is subject to the approval of the Court.

We are not party to any other legal proceedings. We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect our future financial position, results of operations or cash flows.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Before purchasing our common stock, you should read and consider carefully the following risk factors as well as all other information contained in this report, including our consolidated financial statements and the related notes. Each of these risk factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. There may be additional risks that we do not presently know of or that we currently believe are immaterial, which could also impair our business and financial position. If any of the events described below were to occur, our financial condition, our ability to access capital resources, our results of operations and/or our future growth prospects could be materially and adversely affected and the market price of our common stock could decline. As a result, you could lose some or all of any investment you may make in our common stock.

Risks Relating to Our Business

We have experienced a fire at our TRIC facility which has caused significant damage and, as a result of the fire, we revised our plans for the commercialization of our AquaRefining technologies. However, there can be no assurance that such plans will be successful. On the evening of November 29, 2019, a fire occurred at our LAB recycling facility at TRIC. The cause of ignition is likely related to on-site contractor work that was being performed on the day of the fire. The fire was substantially contained to the AquaRefining area of the plant, however the fire destroyed or impaired beyond recovery substantially all of the AquaRefining equipment, including all 16 AquaRefining modules, control wiring and other supporting infrastructure.

When we designed and developed TRIC, we did so at a time when our business model assumed that TRIC would be the first of many LAB recycling facilities owned and operated by us. Commencing in 2017, we began to shift our focus away from the development of additional Company-owned LAB recycling facilities and towards the licensing of our AquaRefining technology to partners engaged in LAB recycling. We continued to develop TRIC as a LAB recycling facility for purposes of demonstrating AquaRefining on a commercial scale. However, as a result of the fire and our high costs of capital, we decided that the cost of restoring TRIC to its pre-fire state would not be the best use of our available cash and that we may be able to achieve the benefits of operating 16 AquaRefining modules, namely the demonstration of the scalability of our AquaRefining technologies, through a less costly commercialization program. Commencing in early 2020, we began to focus on licensing opportunities within the $20+ billion lead battery recycling marketplace and in February 2021 we entered into a triple-net lease-to-buy agreement with respect to TRIC. We believe this path is far less capital intensive than a rebuild of TRIC to its pre-fire state and we believe this plan could be funded solely or primarily from cash on hand plus any further insurance proceeds and asset disposition of the AquaRefinery. However, there can be no assurance that our revised business model will be successful or that we will acquire the additional capital sufficient to fund our revised business plan.

Our business strategy includes licensing arrangements and entering into joint ventures and strategic alliances, however as of the date of this report we have no such agreements in place and there can be no assurance we will be able to do so. Failure to successfully integrate such licensing arrangements, joint ventures, or strategic alliances into our operations could adversely affect our business. We propose to commercially exploit our AquaRefining process primarily by licensing our technology to third parties and entering into joint ventures and strategic relationships with parties involved in the manufacture and recycling of LABs, including ACME Metal Enterprise Co., Ltd. and Clarios, among others. In July 2021, we entered into a nonbinding letter of intent with ACME Metal Enterprise Co., Ltd to deploy and license our AquaRefining equipment at ACME's facility in Keelung, Taiwan. The letter of intent provides 60 days to finalize the definitive agreement and includes terms for licensing and a phased deployment of our AquaRefining technology, and the joint development of processing AquaRefined briquettes into battery ready oxide material, however there can be no assurance that we will be able to conclude a definitive agreement with ACME or do so on terms that benefit us, if at all. Although we are currently seeking to negotiate agreements with Clarios and others, as of the date of this report, we have not entered into any such licensing, joint venture or strategic alliance agreements, apart from our equipment supply agreement with Clarios, and there can be no assurance that we will be able to do so on terms that benefit us, if at all. Our ability to enter into licensing, joint ventures and strategic relationships with third parties will depend on our ability to demonstrate the technological and commercial advantages of our AquaRefining process, of which there can be no assurance. Also, even if we are able to enter into licensing, joint venture or strategic alliance agreements, there can be no assurance that we will be able to obtain the expected benefits of any such arrangements. In addition, licensing programs, joint ventures and strategic alliances may involve significant other risks and uncertainties, insufficient revenue generation to offset liabilities assumed and expenses associated with the transaction, potential additional challenges in protecting our intellectual property, and unidentified issues not discovered in our due diligence process, such as product quality, technology issues and legal contingencies. In addition, we may be unable to effectively integrate any such programs and ventures into our operations. Our operating results could be adversely affected by any problems arising during or from any licenses, joint ventures or strategic alliances.

Since we have a limited operating history and have only recently commenced revenue producing operations, it is difficult for potential investors to evaluate our business. We formed our corporation in June 2014. From inception through June 30, 2021, we generated a total of $11.5 million of revenue, all of which was derived primarily from the sale of lead compounds and plastics and, to a lesser extent, the sale of lead bullion and AquaRefined lead. To date, our operations have primarily consisted of the development and testing and limited operations of our AquaRefining process, the construction of our initial LAB recycling facility at TRIC, the continuing development of our LAB recycling operations at TRIC and limited revenue producing operations as we brought those LAB recycling operations online. As a result of the November 2019 fire at TRIC, we have suspended all plant-based revenue producing operations, entered into a lease-to-buy agreement with respect to TRIC and have shifted our business model to focus exclusively on the licensing of our AquaRefining technology to partners engaged in LAB recycling. As of the date of this report, we are unable to estimate when we expect to commence any meaningful commercial or revenue producing operations from our licensing model. Our limited operating history makes it difficult for potential investors to evaluate our technology or prospective operations. As an early-stage company, we are subject to all the risks inherent in the initial organization, financing, expenditures, complications and delays in a new business, including, without limitation:

- the timing and success of our plan of commercialization and the fact that we have suspended operations at TRIC;
- our ability to demonstrate that our AquaRefining technology can be operated on a commercial scale;
- our ability to license our AquaRefining process and sell our AquaRefining equipment to ACME Metal Enterprise Co., Ltd and other recyclers of LABs; and
- our ability to realize the expected benefits of our strategic partnerships with Clarios and BASF.

Investors should evaluate an investment in us in light of the uncertainties encountered by developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

Our business is dependent upon our successful implementation of novel technologies and processes and there can be no assurance that we will be able to implement such technologies and processes in a manner that supports the successful commercial roll-out of our business model. While much of the technology and processes involved in lead recycling operations are widely used and proven, our AquaRefining process is largely novel and, to date, has been demonstrated on a modest scale of operations. While we have shown that our proprietary technology can produce AquaRefined lead on a small scale, we had just begun to demonstrate that we can produce AquaRefined lead on a commercial scale prior to the November 2019 fire at TRIC. Further, as we endeavored to complete our AquaRefining production line, we continuously encountered unforeseen complications that delayed the ramping up of our AquaRefining modules and the integration of our AquaRefining process with the traditional lead recycling operations. There can be no assurance that we will not encounter similar unforeseen complications as we pursue our revised business model.

We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all. As of June 30, 2021, we had total cash of $10.7 million and working capital of $10.7 million. As of the date of this report, we believe that we may require additional capital in order to fund our current level of ongoing costs and our proposed business plan over the next 12 months as we move forward with our capital light licensing strategy. We intend to acquire the necessary capital though the recovery of remaining insurance proceeds on our fire related claims, the possible sale of certain equipment and assets at TRIC, and the collection of funds from the sale of our plant. However, there can be no assurance that we will be able to acquire proceeds from these sources in amounts sufficient to fund the capital requirements or, if we are successful, that we will not require additional capital. If needed, we may seek funding through the sale of equity or debt financing, including the sale of our common shares through our current at-the-market offering. Funding that includes the sale of our equity may be dilutive. If such funding is not available on satisfactory terms, we may be unable to further pursue our business plan and we may be unable to continue operations, in which case you may lose your entire investment.

Our business may be adversely affected by the recent coronavirus outbreak. In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. In January 2020, this coronavirus spread to other countries, including the United States, and efforts to contain the spread of this coronavirus intensified. At this time, we and most of our partners and suppliers are subject to travel restrictions, shelter in place requirements and limited, if any, operations. The outbreak and any preventative or protective actions that we or our partners and suppliers may take in respect of this coronavirus may result in a period of disruption to work in progress. Our partners' and suppliers' businesses could be disrupted, and our ongoing V1.25L operations and license negotiations could be negatively affected. Any resulting financial impact cannot be reasonably estimated at this time but may materially affect our business and financial condition. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

We have elected not to renew our current agreement with Veolia and it is unlikely that we will continue to partner with Veolia. In February 2019, we entered into an Operations, Management and Maintenance Agreement with Veolia North America Regeneration Services, LLC, or Veolia. Pursuant to the Agreement, Veolia agreed to provide development of operations programs, start-up of new equipment and operations, maintenance and management services at our AquaRefining facility at TRIC. As a result of the November 2019 fire at TRIC, we have suspended all operations at TRIC pending our clean-up of the fire damage and development of our plan for resuming operations. In January 2020, we declared a force majeure under the Veolia Operations, Management and Maintenance Agreement and suspended payments to Veolia thereunder. The Veolia Operations, Management and Maintenance Agreement included an initial term expiring March 6, 2021 and an automatic renewal provision unless either party elects not to renew. We elected not to renew the Veolia Operations, Management and Maintenance Agreement and the agreement terminated on March 6, 2021.

Our business model is new and has not been proven by us or anyone else. We are engaged in the business of producing recycled lead through a novel, and proven on a modest scale, technology. While the production of recycled lead is an established business, to date all recycled lead has been produced by way of traditional smelting processes. To our knowledge, no one has successfully produced recycled lead in commercial quantities other than by way of smelting. In addition, neither we nor anyone else has ever successfully built a production line that commercially recycles LABs without smelting. Further, there can be no assurance that either we or our licensees will be able to produce AquaRefined lead in commercial quantities at a cost of production that will provide us and our proposed licensees with an adequate profit margin. The uniqueness of our AquaRefining process presents potential risks associated with the development of a business model that is untried and unproven.

Even if our licensees are successful in recycling lead using our processes, there can be no assurance that the AquaRefined lead will meet the certification and purity requirements of our potential customers. A key component of our business plan is the production of recycled lead through our AquaRefining process of the highest purity (at least 99.99% pure lead), which we refer to as AquaRefined lead. We believe that our AquaRefined lead will provide our licensees with a revenue premium over the market price of lead on the London Metal Exchange, or LME, and, more importantly, the ability to produce AquaRefined lead will be vital to confirming the efficacy and relevancy of our proprietary technology. Our licensees and their customers will require that our AquaRefined lead meet certain minimum purity standards and, in all likelihood, require independent assays to confirm the lead's purity. As of the date of this report, we have produced limited quantities of AquaRefined lead and in November 2018, Clarios confirmed its approval of the purity of our AquaRefined lead by providing to us official vendor approval to receive finished lead at its manufacturing facilities. However, we have not produced AquaRefined lead in significant commercial quantities and there can be no assurance that our licensees will be able to do so or, if our licensees are able to produce AquaRefined lead in significant commercial quantities, that such lead will continue to meet the required purity standards of their customers.

While we have been successful in producing AquaRefined lead in small volumes, there can be no assurance that either we or our licensees will be able to replicate the process, along with all of the expected economic advantages, on a large commercial scale either for us or our prospective licensees. Our commercial operations have primarily involved the production of lead compounds and plastics from recycled LABs, and more recently, the sale of lead bullion and AquaRefined lead. In April 2018, we commenced the limited production of cast lead bullion (mixture of lead purchased to prime the kettles and AquaRefined lead from our AquaRefining process), and in June 2018, we commenced the sale of pure AquaRefined lead in the form of two tonne blocks. While we believe that our development, testing and limited production to date has validated the concept of our AquaRefining process, the limited nature of our operations to date are not sufficient to confirm the economic returns on our production of recycled lead. There can be no assurance that our licensees will be able to produce AquaRefined lead in commercial quantities at a cost of production that will provide us and our proposed licensees with an adequate profit margin.

Our business may be negatively affected by labor issues and higher labor costs. Our ability to maintain our workforce depends on our ability to attract and retain new and existing employees. As of the date of this report, none of our employees are covered by collective bargaining agreements and we consider our labor relations to be acceptable. However, we could experience workforce dissatisfaction which could trigger bargaining issues, employment discrimination liability issues as well as wage and benefit consequences, especially during critical operation periods. We could also experience a work stoppage or other disputes which could disrupt our operations and could harm our operating results. In addition, legislation or changes in regulations could result in labor shortages and higher labor costs. There can be no assurance that we may not experience labor issues that negatively impact our operations or results of operations.

Our intellectual property rights may not be adequate to protect our business.

As of the date of this report, we have secured granted/allowed patents in the following countries/regions: U.S. (9837689, 10665907, 10793957, 10689769, 10340561, 10316420, 11028460, and allowed 20190301031), Canada (2930945, 2968064), China (201480071929.1, 107849634, 201680041600.X, 201680041571.7, 201580062811.7, and allowed 108603242), Europe (3072180, 3294916, 3221918, 3483305, 3294929), Eurasia (32371, 35532, 36722), South Africa (2016/04083, 2017/08454, 2017/08455, 2017/04123, 2018/04384), South Korea (101739414, 101882932, 101926033, 102096976, 102274210, and 102242697), Honduras (80-2019), India (318321, 369304, and 364173), Indonesia (IDP000061176, IDP000066550, allowed 2018/12329), Japan (6173595, 6805240, 6775006, 6592088, and 6861773), Malaysia (MY-181071-A), Mexico (357027), OAPI (17808, 19078, 18736), Ukraine (118037, 119580, and allowed a 2017-12366, and a 2018-07365), Vietnam (22588) Australia (2014353227, 2015350562, 2016260407, 2017213449, and 2016260408), ARIPO (4995 and 5559), and Chile (62.308 and 61.519).

We also have further patent applications pending in the United States and numerous corresponding patent applications pending in 18 additional jurisdictions relating to certain elements of the technology underlying our AquaRefining process and related apparatus and chemical formulations. However, no assurances can be given that any patent issued, or any patents issued on our current and any future patent applications, will be sufficiently broad to adequately protect our technology. In addition, we cannot assure you that any patents issued now or in the future will not be challenged, invalidated, or circumvented.

Even patents issued to us may not stop a competitor from illegally using our patented processes and materials. In such event, we would incur substantial costs and expenses, including lost time of management in addressing and litigating, if necessary, such matters. Additionally, we rely upon a combination of trade secret laws and nondisclosure agreements with third parties and employees having access to confidential information or receiving unpatented proprietary know-how, trade secrets and technology to protect our proprietary rights and technology. These laws and agreements provide only limited protection. We can give no assurance that these measures will adequately protect us from misappropriation of proprietary information.

Our processes may infringe on the intellectual property rights of others, which could lead to costly disputes or disruptions. The applied science industry is characterized by frequent allegations of intellectual property infringement. Though we do not expect to be subject to any of these allegations, any allegation of infringement could be time consuming and expensive to defend or resolve, result in substantial diversion of management resources, cause suspension of operations or force us to enter into royalty, license, or other agreements rather than dispute the merits of such allegation. If patent holders or other holders of intellectual property initiate legal proceedings, we may be forced into protracted and costly litigation. We may not be successful in defending such litigation and may not be able to procure any required royalty or license agreements on acceptable terms or at all.

There can be no assurance that we will be able to negotiate our key agreement with Clarios on commercially reasonable terms, or at all. In February 2017, we entered into a series of agreements with Clarios, including an equipment supply agreement pursuant to which, among other things, we agreed to work with Clarios on the development of a program for the conversion of Clarios and certain strategic partners of Clarios' existing lead smelters throughout North and South America, China and Europe to a lead recycling process utilizing our AquaRefining technology and equipment, know-how and services. The equipment supply agreement discusses the development of the conversion program in general terms and contemplates that the parties will enter into a definitive development program agreement that is based on the general terms set forth in the equipment supply agreement and provides more detailed terms and conditions, including the economic obligations and rights of each party. We have agreed not to license our AquaRefining technology and equipment to third parties in the aforementioned regions until such time as we and Clarios have agreed on certain matters relating to the initial conversion of a Clarios facility. Pursuant to amendments to the equipment supply agreement entered into in June 2019 and June 2021, the parties have agreed to use good faith, commercial best-efforts to conclude the discussion and negotiation of, and enter into, a development program agreement no later than the 90th day following our satisfaction of certain performance criteria agreed upon by Clarios and us, however those performance conditions were based on the operation of 16 AquaRefining modules at TRIC, which is unlikely. However, pursuant to the June 2021 amendment, Clarios agreed to remove the restriction on our ability to sell AquaRefining equipment or license our AquaRefining technology to third-parties pending the conclusion of a development program agreement with Clarios. There can be no assurance that we will be able to negotiate and conclude a definitive development program agreement with Clarios on commercially reasonable terms, or at all.

There can be no assurance that Clarios will maintain the same level of interest in and commitment to the proposed joint development of our AquaRefining technologies. On May 1, 2019, Johnson Controls International plc announced that it had completed the sale of its battery group assets, formerly held by Johnson Controls Battery Group, Inc., to Brookfield Business Partners L.P. The acquired battery group assets now operates under the name Clarios. The agreements and proposed business projects between us and Johnson Controls Battery Group, Inc. (collectively, the "Aqua Metals Collaboration") are now under the control of Clarios, and that certain members of the former management of Johnson Controls Battery Group, Inc. are now employed in similar capacities by Clarios. We have also been advised that Clarios and Brookfield Business Partners L.P. have expressed their interest in continuing the Aqua Metals Collaboration initiated by us and Johnson Controls Battery Group, Inc. Although there can be no assurance that Clarios currently has, and/or will maintain, the same level of interest in our joint collaboration as its predecessor, as Clarios could, for example, no longer have an interest in our technologies or have competing priorities, we currently have no reason to believe that Clarios and Brookfield Business Partners L.P. have lost interest. In addition, the change of control of the battery group may cause disruptions and distractions that adversely affect its ability to further the Aqua Metals Collaboration. For these and other reasons, Johnson Controls' sale of its battery group assets to Brookfield Business Partners L.P. could possibly have a material adverse effect on the Aqua Metals Collaboration.

Global economic conditions could negatively affect our prospects for growth and operating results. Our prospects for growth and operating results will be directly affected by the general global economic conditions of the industries in which our suppliers, partners and customer groups operate. We believe that the market price of our principal product, recycled lead, is relatively volatile and reacts to general global economic conditions. Lead prices decreased from $2,139 per tonne on May 5, 2015 to a low of $1,554 per tonne on November 23, 2015 because of fluctuations in the market. Lead price per tonne was approximately $1,775 at the end of March 2021. Our business will be highly dependent on the economic and market conditions in each of the geographic areas in which we operate. These conditions affect our business by reducing the demand for LABs and decreasing the price of lead in times of economic downturn and increasing the price of used LABs in times of increasing demand of LABs and recycled lead. There can be no assurance that global economic conditions will not negatively impact our liquidity, growth prospects and results of operations.

We are subject to the risks of conducting business outside the United States. A part of our strategy involves our pursuit of growth opportunities in certain international market locations. We intend to pursue licensing or joint venture arrangements with local partners who will be primarily responsible for the day-to-day operations. Any expansion outside of the US will require significant management attention and financial resources to successfully develop and operate any such facilities, including the sales, supply and support channels, and we cannot assure you that we will be successful or that our expenditures in this effort will not exceed the amount of any resulting revenues. Our international operations expose us to risks and challenges that we would otherwise not face if we conducted our business only in the United States, such as:

- increased cost of enforcing our intellectual property rights;
- diminished ability to protect our intellectual property rights;
- heightened price sensitivities from customers in emerging markets;
- our ability to establish or contract for local manufacturing, support and service functions;
- localization of our LABs and components, including translation into foreign languages and the associated expenses;
- compliance with multiple, conflicting and changing governmental laws and regulations;
- compliance with the Federal Corrupt Practices Act and other anti-corruption laws;
- foreign currency fluctuations;
- laws favoring local competitors;
- weaker legal protections of contract terms, enforcement on collection of receivables and intellectual property rights and mechanisms for enforcing those rights;
- market disruptions created by public health crises in regions outside the United States;
- difficulties in staffing and managing foreign operations, including challenges presented by relationships with workers' councils and labor unions;
- issues related to differences in cultures and practices; and
- changing regional economic, political and regulatory conditions.

U.S. government regulation and environmental, health and safety concerns may adversely affect our business. Our operations and the operations of our licensees in the United States will be subject to the federal, state and local environmental, health and safety laws applicable to the reclamation of lead acid batteries including the Occupational Safety and Health Act ("OSHA") of 1970 and comparable state statutes. Our facilities and the facilities of our licensees will have to obtain environmental permits or approvals to expand, including those associated with air emissions, water discharges, and waste management and storage. We and our licensees may face opposition from local residents or public interest groups to the installation and operation of our respective facilities. In addition to permitting requirements, our operations and the operations of our licensees are subject to environmental health, safety and transportation laws and regulations that govern the management of and exposure to hazardous materials such as the lead and acids involved in battery reclamation. These include hazard communication and other occupational safety requirements for employees, which may mandate industrial hygiene monitoring of employees for potential exposure to lead.

We and our licensees are also subject to inspection from time to time by various federal, state and local environmental, health and safety regulatory agencies and, as a result of these inspections, we and our licensees may be cited for certain items of non-compliance. For example, in August 2018, the Nevada Occupational Safety and Health Administration, or Nevada OSHA, delivered to us a citation and notification of penalty. The citation listed a number of items related to our compliance with Nevada OSHA's Lead Standard. We reached a settlement agreement with Nevada OSHA on the amount of penalties associated with the citation. We also agreed to engage a lead compliance expert to audit our facility at TRIC for compliance with all provision of the Lead Standard and to generate a written report with findings of any noncompliance, recommended corrective actions, and a time frame to correct the findings of noncompliance. We agreed with Nevada OSHA to correct all findings of noncompliance within the time frame proposed by the lead compliance expert in their report. The lead compliance expert has been engaged, has visited the facility at TRIC and has completed the written report. We have corrected all findings of noncompliance in a timely manner.

Failure to comply with the requirements of federal, state and local environmental, health and safety laws could subject our business and the businesses of our licensees to significant penalties (civil or criminal) and other sanctions that could adversely affect our business. In addition, in the event we are unable to operate and expand our AquaRefining process and operations as safe and environmentally responsible, we and our licensees may face opposition from local governments, residents or public interest groups to the installation and operation of our facilities.

The development of new AquaRefining technology by us or our partners or licensees, and the dissemination of our AquaRefining process will depend on our ability to acquire necessary permits and approvals, of which there can be no assurance. As noted above, our AquaRefining processes will have to obtain environmental permits or approvals to operate, including those associated with air emissions, water discharges, and waste management and storage. In addition, we expect that any use of AquaRefining operations at our partner's facilities will require additional permitting and approvals. Failure to secure (or significant delays in securing) the necessary permits and approvals could prevent us and our partners and licensees from pursuing additional AquaRefining expansion, and otherwise adversely affect our business, financial results and growth prospects. Further, the loss of any necessary permit or approval could result in the closure of an AquaRefining facility and the loss of our investment associated with such facility.

Our business involves the handling of hazardous materials and we may become subject to significant fines and other liabilities in the event we mishandle those materials. The nature of our operations involves risks, including the potential for exposure to hazardous materials such as lead, that could result in personal injury and property damage claims from third parties, including employees and neighbors, which claims could result in significant costs or other environmental liability. Our operations also pose a risk of releases of hazardous substances, such as lead or acids, into the environment, which can result in liabilities for the removal or remediation of such hazardous substances from the properties at which they have been released, liabilities which can be imposed regardless of fault, and our business could be held liable for the entire cost of cleanup even if we were only partially responsible. We are also subject to the possibility that we may receive notices of potential liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or CERCLA, and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination, and for damages to natural resources. Liability under CERCLA is retroactive, and, under certain circumstances, liability for the entire cost of a cleanup can be imposed on any responsible party. Any such liability could result in judgments or settlements that restrict our operations in a manner that materially adversely effects our operations and could result in fines, penalties or awards that could materially impair our financial condition and even threaten our continued operation as a going concern.

We will be subject to foreign government regulation and environmental, health and safety concerns that may adversely affect our business. As our business expands outside of the United States, our operations will be subject to the environmental, health and safety laws of the countries where we do business, including permitting and compliance requirements that address the similar risks as do the laws in the United States, as well as international legal requirements such as those applicable to the transportation of hazardous materials. Depending on the country or region, these laws could be as stringent as those in the U.S., or they could be less stringent or not as strictly enforced. In some countries in which we are interested in expanding our business, such as Mexico and China, the relevant environmental regulatory and enforcement frameworks are in flux and subject to change. Compliance with these requirements will cause our business to incur costs, and failure to comply with these requirements could adversely affect our business.

In the event we are unable to present and operate our AquaRefining process and operations as safe and environmentally responsible, we may face opposition from local governments, residents or public interest groups to the installation and operation of our facilities.

Risks Related to Owning Our Common Stock

The market price of our shares may be subject to fluctuation and volatility. You could lose all or part of your investment. The market price of our common stock is subject to wide fluctuations in response to various factors, some of which are beyond our control. Since April 1, 2020, the reported high and low sales prices of our common stock have ranged from $0.35 to $8.06 through July 29, 2021. The market price of our shares on the NASDAQ Capital Market may fluctuate as a result of a number of factors, some of which are beyond our control, including, but not limited to:

- actual or anticipated variations in our and our competitors' results of operations and financial condition;
- changes in earnings estimates or recommendations by securities analysts, if our shares are covered by analysts;
- development of technological innovations or new competitive products by others;
- regulatory developments and the decisions of regulatory authorities as to the approval or rejection of new or modified products;
- our sale or proposed sale, or the sale by our significant stockholders, of our shares or other securities in the future;
- changes in key personnel;
- success or failure of our research and development projects or those of our competitors;
- the trading volume of our shares; and
- general economic and market conditions and other factors, including factors unrelated to our operating performance.

These factors and any corresponding price fluctuations may materially and adversely affect the market price of our shares and result in substantial losses being incurred by our investors. In the past, following periods of market volatility, public company stockholders have often instituted securities class action litigation. If we were involved in securities litigation, it could impose a substantial cost upon us and divert the resources and attention of our management from our business.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline. The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline. In addition, independent industry analysts may provide reviews of our AquaRefining technology, as well as competitive technologies, and perception of our offerings in the marketplace may be significantly influenced by these reviews. We have no control over what these industry analysts report, and because industry analysts may influence current and potential customers, our brand could be harmed if they do not provide a positive review of our products and platform capabilities or view us as a market leader.

Future sales of substantial amounts of our common stock, or the possibility that such sales could occur, could adversely affect the market price of our common stock. We cannot predict the effect, if any, that future issuances or sales of our securities or the availability of our securities for future issuance or sale, will have on the market price of our common stock. Issuances or sales of substantial amounts of our securities, or the perception that such issuances or sales might occur, could negatively impact the market price of our common stock and the terms upon which we may obtain additional equity financing in the future.

We have not paid dividends in the past and have no plans to pay dividends. We plan to reinvest all of our earnings, to the extent we have earnings, in order to pursue our business plan and cover operating costs and to otherwise become and remain competitive. We do not plan to pay any cash dividends with respect to our securities in the foreseeable future. We cannot assure you that we would, at any time, generate sufficient surplus cash that would be available for distribution to the holders of our common stock as a dividend. Therefore, you should not expect to receive cash dividends on our common stock.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable. Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. The provisions in our certificate of incorporation and bylaws:

- limit who may call stockholder meetings;
- do not permit stockholders to act by written consent;
- do not provide for cumulative voting rights;
- establish an advance notice procedure for stockholders' proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors, and
- provide that all vacancies may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum.

In addition, Section 203 of the Delaware General Corporation Law may limit our ability to engage in any business combination with a person who beneficially owns 15% or more of our outstanding voting stock unless certain conditions are satisfied. This restriction lasts for a period of three years following the share acquisition. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with the Company. Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any our directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws, or (iv) any action asserting a claim against us or any our directors, officers or other employees governed by the internal affairs doctrine. This forum selection provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or any of our directors, officers or other employees.

Item 6. Exhibits

Exhibit No.	Description	Method of Filing
3.1	First Amended and Restated Certificate of Incorporation of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on July 22, 2015.
3.2	Second Amended and Restated Bylaws of the Registrant	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on September 27. 2018.
3.3	Certificate of Amendment to First Amended and Restated Certificate of Incorporation of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on June 9, 2015.
3.4	Certificate of Amendment to the First Amended and Restated Certificate of Incorporation	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q filed on May 9, 2019
10.1	Third Amendment to Equipment Supply Agreement dated June 30, 2021 between the Registrant and Clarios, LLC	Filed electronically herewith
31.1	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
31.2	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).	Filed electronically herewith
101.INS	Inline XBRL Instance Document	Filed electronically herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed electronically herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed electronically herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed electronically herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed electronically herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed electronically herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	

SIGNATURES

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

		AQUA METALS, INC.
Date: July 29, 2021	By:	/s/ *Stephen Cotton* Stephen Cotton, President, Chief Executive Officer and Director (Principal Executive Officer)
Date: July 29, 2021	By:	/s/ Judd Merrill Judd Merrill, Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

THIRD AMENDMENT TO EQUIPMENT SUPPLY AGREEMENT

THIS THIRD AMENDMENT TO EQUIPMENT SUPPLY AGREEMENT (this "Amendment"), dated as of June 30, 2021, is made by and between Clarios, LLC, a Wisconsin limited liability company formerly known as Johnson Controls Battery Group, Inc. ("Customer"), and Aqua Metals, Inc., a Delaware corporation ("Supplier"). Capitalized terms used and not otherwise defined in this Amendment shall have the meanings given to them in the Agreement (as defined below).

RECITALS:

WHEREAS, Supplier and Customer entered into that certain Equipment Supply Agreement dated as of February 7, 2017, as amended on April 16, 2018 and June 27, 2019 (the "Agreement"), pursuant to which the Parties agreed to collaborate with respect to the development of new Customer facilities, or the retrofitting or conversion of existing Customer facilities, so that they can use AquaRefining and/or constructing additional recycling facilities capable of using AquaRefining in the production of lead; and

WHEREAS, the Parties desire to further amend the Agreement on the terms and subject to the conditions set forth herein.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. Amendments to Agreement.

1.1 Section 2.2 of the Agreement is hereby amended by deleting therefrom the following sentence, "Until the earlier of the expiration of the Term or the execution by the Parties of the Development Program Agreement, Supplier agrees that it will not supply AquaRefining Equipment or license AquaRefining to third parties."

1.2 Section 6.1 of the Agreement is hereby deleted in its entirety and replaced with the following:

"Subject to early termination pursuant to this Agreement, this Agreement may be terminated (i) by written agreement of the Parties or (ii) by either Supplier or Customer upon sixty (60) days' prior written notice to the other Party if a term sheet for the initial phase of the Development Program **("Term Sheet")** has not been entered into by August 31, 2021 **("Outside Termination Date");** provided, that the right to terminate this Agreement under Section 6.1(ii) shall not be available to any Party whose failure to comply with its obligations under this Agreement has been the primary cause of or primarily resulted in the failure of the Parties to enter into the Term Sheet by the Outside Termination Date. In the event either Party delivers its notice of termination under Section 6.l(ii), each Party shall remain obligated to use its good faith, commercial best-efforts to negotiate and enter into the Term Sheet during the sixty (60) day notice period."

1.3 A new Section 8.15 is hereby inserted into the Agreement as follows:

"8.15 **Publicity and Announcements.** No announcements, press releases or publicity (including statements made via Internet/Social Media Platforms) about the existence or any terms of this Agreement or the relationship of the parties hereto

will be made by or on behalf of a Party without the prior written approval of the other Party m each instance."

2. Effect of this Amendment. This Amendment constitutes the entire agreement of the Parties with respect to the subject matter hereof, and supersedes all prior oral or written communications, memoranda, proposals, negotiations, discussions, term sheets and commitments with respect to the subject matter hereof. Except as expressly provided herein, no other changes or modifications to the Agreement are intended or implied by this Amendment, and in all other respects the Agreement is hereby ratified, restated and confirmed by all Parties hereto and shall remain in full force and effect. To the extent that any provision of the Agreement conflicts with any provision of this Amendment, the provision of this Amendment shall control.

3. Binding Effect. This Amendment shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

4. Notwithstanding any statement to the contrary, the Parties hereto agree that the following terms in this Amendment are incorporated into the Agreement and control and take precedence over any conflicting terms and conditions in the Agreement. Except as expressly modified by this Amendment, any terms not herein modified shall remain in full force and effect as set forth in the Agreement. Capitalized terms used but not otherwise defined in this Amendment have the meaning ascribed to them in the Agreement.

5. In the event of a conflict between the terms of the Agreement and this Amendment, the terms of this Amendment shall control.

[Continued on next page]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date first written above.

CUSTOMER:

CLARIOS, LLC

By: /s/ *Claudio Morfe*
Claudio Morfe,
Vice President, General Counsel and Secretary

SUPPLIER:

AQUA METALS, INC.

By: /s/ *Stephen Cotton*
Stephen Cotton,
President and Chief Executive Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Section 302 Certification

I, Stephen Cotton, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Aqua Metals, Inc.;

2) Based on my knowledge, this quarterly 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) The registrant's other certifying officer and I are 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 fiscal quarter presented in this 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 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 data 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: July 29, 2021

By: /s/ *Stephen Cotton*
Stephen Cotton, President and CEO
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Section 302 Certification

I, Judd Merrill, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Aqua Metals, Inc.;

2) Based on my knowledge, this quarterly 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) The registrant's other certifying officer and I are 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 fiscal quarter presented in this 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 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 data 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: July 29, 2021

By: /s/ Judd Merrill
Judd Merrill, CFO (Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aqua Metals, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Stephen Cotton, President and CEO, and Judd Merrill, CFO, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By:	/s/ *Stephen Cotton*	Dated:	July 29, 2021
	Stephen Cotton		
Title:	President and CEO (Principal Executive Officer)		
By:	/s/ Judd Merrill	Dated:	July 29, 2021
	Judd Merrill		
Title:	CFO (Principal Financial Officer)		

This certification is made solely for the purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.