FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the Quarterly Period Ended September 30, 2016

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.)

1010 Atlantic Avenue
Alameda, California 94501
(Address of principal executive offices, including zip code)

(510) 479-7635
(Registrant's telephone number, including area code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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 November 7, 2016, there were 15,578,725 outstanding shares of the common stock of Aqua Metals, Inc.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016 (unaudited)	December 31, 2015 (Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,408	$ 20,141
Restricted cash	760	11,667
Prepaid expenses and other current assets	140	147
Total current assets	16,308	31,955
Non-current assets		
Property and equipment, net	36,056	12,603
Intellectual property, net	1,137	1,065
Other assets	1,770	1,653
Total non-current assets	38,963	15,321
Total assets	$ 55,271	$ 47,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,596	$ 3,192
Accrued expenses	734	81
Deferred rent, current portion	174	-
Notes payable, current portion	222	45
Total current liabilities	4,726	3,318
Deferred rent, non-current portion	1,008	1,071
Notes payable, non-current portion	9,193	9,222
Convertible notes payable, non-current portion	123	-
Total liabilities	15,050	13,611
Commitments and contingencies	-	-
Stockholders' equity		
Common stock; $0.001 par; 50,000,000 shares authorized; 15,578,725 and 14,137,442 shares issued and outstanding September 30, 2016 and December 31, 2015, respectively	16	14
Additional paid-in capital	63,532	48,356
Accumulated deficit	(23,327)	(14,705)
Total stockholders' equity	40,221	33,665
Total liabilities and stockholders' equity	$ 55,271	$ 47,276

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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Operating expenses				
Operations and development costs	$ 1,887	$ 546	$ 4,080	$ 1,181
Business development and management costs	1,434	777	4,245	1,889
Total operating expenses	3,321	1,323	8,325	3,070
Loss from operations	(3,321)	(1,323)	(8,325)	(3,070)
Other expense (income)				
Increase in fair value of derivative liabilities	-	277	-	5,776
Interest expense	203	492	318	1,126
Interest income	(7)	(8)	(22)	(10)
Total other expense, net	196	761	296	6,892
Loss before income tax expense	(3,517)	(2,084)	(8,621)	(9,962)
Income tax expense	-	-	1	3
Net loss	$ (3,517)	$ (2,084)	$ (8,622)	$ (9,965)
Weighted average shares outstanding, basic and diluted	15,574,620	10,759,187	14,818,484	6,495,490
Basic and diluted net loss per share	$ (0.23)	$ (0.19)	$ (0.58)	$ (1.53)

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balances, December 31, 2015	14,137,442	$ 14	$ 48,356	$ (14,705)	$ 33,665
Stock based compensation - stock options	-	-	898	-	898
Warrants issued for consulting services	-	-	138	-	138
Cashless exercise of warrant	15,203	-	-	-	-
Exercise of options to purchase common stock	4,500	-	19	-	19
Common stock issued in May 2016 Private Placement, net of $345 offering costs	719,333	1	4,777	-	4,778
Common stock issued for cash from Interstate Battery, net of $629 allocated transaction cost	702,247	1	4,369	-	4,370
Proceeds allocated to warrants issued and beneficial conversion feature in connection with Interstate Batteries Agreement	-	-	4,975	-	4,975
Net loss	-	-	-	(8,622)	(8,622)
Balances, September 30, 2016	15,578,725	$ 16	$ 63,532	$ (23,327)	$ 40,221

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)

	Nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	(8,622)	$ (9,965)
Reconciliation of net loss to net cash used in operating activities		
Depreciation	403	54
Amortization of intellectual property	93	81
Fair value of warrants issued for consulting services	138	-
Stock option compensation	898	175
Increase in fair value of derivative liabilities	-	5,776
Amortization of debt discount	26	909
Amortization of deferred financing costs	44	-
Non-cash convertible note interest expense	197	214
Changes in operating assets and liabilities		
Inventory	-	(342)
Prepaid expenses and other current assets	(80)	(354)
Accounts payable	500	648
Accrued expenses	530	57
Deferred rent	71	75
Net cash used in operating activities	(5,802)	(2,672)
Cash flows from investing activities:		
Decrease in restricted cash	8,263	-
Purchases of property and equipment	(20,940)	(1,794)
Deposits and other assets	(93)	(3,646)
Intellectual property related expenditures	(165)	(6)
Net cash used in investing activities	(12,935)	(5,446)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	9,167	32,862
Payments on capital leases	(21)	-
Proceeds from issuance of convertible notes payable, net of issuance costs	4,858	-
Net cash provided by financing activities	14,004	32,862
Net increase (decrease) in cash and cash equivalents	(4,733)	24,744
Cash and cash equivalents at beginning of period	20,141	4,537
Cash and cash equivalents at end of period	$ 15,408	$ 29,281
Non-cash investing activities		
Tenant improvement allowances	$ 78	$ -
Non-cash financing activities		
Capital lease	$ 143	$ -
Fair value of common stock issued upon conversion of convertible notes and accrued interest	$ -	$ 6,280
Fair value of common stock issued upon extinguishment of beneficial conversion feature derivative liability	$ -	$ 6,280
Supplemental disclosure of non-cash transactions		
Increase in property and equipment resulting from increase in accounts payable	$ 2,548	$ -
Increase in property and equipment resulting from increase in accrued expenses	$ 123	$ -
Decrease in restricted cash resulting from a decrease in accounts payable	$ 2,644	$ -
Recognition of convertible debt discount	$ 4,975	$ -

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

1. Organization

Aqua Metals, Inc. (the "Company") was incorporated in Delaware on June 20, 2014 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 has developed an innovative process for recycling lead acid batteries. The Company intends to manufacture the equipment it has developed, and will also operate lead acid battery recycling facilities. Construction of the first recycling facility is substantially complete in McCarran, Nevada, with equipment within the facility being commissioned on an on-going basis.

2. Summary of Significant Accounting Policies

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") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of 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 balance sheet as of September 30, 2016, the statements of operations for the three and nine months ended September 30, 2016 and September 30, 2015, the statement of stockholders' equity for the nine months ended September 30, 2016 and the statements of cash flows for the nine months ended September 30, 2016 and September 30, 2015, as applicable have been made. The condensed consolidated balance sheet as of December 31, 2015 has been derived from our audited financial statements as of such date, but does not include all disclosures required by U.S. GAAP. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the period ended December 31, 2015, which are included on Form 10-K filed with the Securities and Exchange Commission on March 28, 2016. Certain reclassifications have been made to the December 31, 2015 balance sheet to conform to current period presentation. Specifically, equipment deposits at December 31, 2015 of $3.8 million have been reclassified to property and equipment with the remaining balance reclassified to other assets.

The results of operations for the three months and nine months ended September 30, 2016 are not necessarily indicative of results that may be expected for the year ended December 31, 2016.

Principles of consolidation

The 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, the valuation of conversion features of convertible debt, 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.

Cash and cash equivalents

The Company considers all highly liquid instruments with original or remaining maturities of 90 days or less at the date of purchase to be cash equivalents. The Company maintains its cash balances in large financial institutions. Periodically, such balances may be in excess of federally insured limits.

Restricted cash

Restricted cash is comprised of funds held in escrow at Green Bank for the purpose of paying for the construction of the lead recycling plant building in McCarran, NV. As of September 30, 2016, the building is substantially complete. At September 30, 2016, $0.7 million of the outstanding accounts payable balance is to be paid out of the escrowed funds.

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation on property and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the life of the asset or the remaining term of the lease.

Intangible and other long-lived assets

The intangible asset consists of a patent application contributed to the Company by five founding stockholders, patent applications for technology developed by the Company and trademark applications. The useful life of the intangible assets has been determined to be ten years and the assets are being amortized. The Company periodically evaluates its intangible and other long-lived assets for indications that the carrying amount of an asset may not be recoverable. In reviewing for impairment, the Company compares the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying value. In addition to the recoverability assessment, the Company routinely reviews the remaining estimated lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the period when such determination is made, as well as in subsequent periods. The Company evaluates the need to record impairment during each reporting period. No impairment has been recorded. The Company determined that the estimated life of the intellectual property properly reflected the current remaining economic life of the asset.

Research and development

Research and development expenditures are expensed as incurred and consist of product development, regulatory support for technology, laboratory materials and supply costs and other technical support costs, including salaries and consultant fees.

Income taxes

The Company accounts for income taxes in accordance with the liability method of accounting for income taxes. Under the liability method, deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The provision for income taxes is comprised of the current tax liability and the changes in deferred tax assets and liabilities. The Company establishes a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be recoverable against future taxable income.

The Company recognizes the effect of uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Stock-based compensation

The Company recognizes compensation expense for stock-based compensation in accordance with ASC 718 "Compensation – Stock Compensation." For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes-Merton method for stock options; the expense is recognized over the service period for awards to vest.

The estimation of stock-based awards that will ultimately vest requires judgment and to the extent actual results or updated estimates differ from the original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience.

Net loss per share

Basic net loss per share is computed by dividing net loss by the weighted average number of vested shares outstanding during the period. Diluted net loss per share is computed by giving effect to all potential dilutive common securities, including convertible notes, options and warrants. Potential dilutive common shares include the dilutive effect of the common stock underlying in-the-money stock options as is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an option and the average amount of compensation cost, if any, for future services that the Company has not yet recognized when the option is exercised, are assumed to be used to repurchase shares in the current period.

For all periods presented in this report, convertible notes, stock options, and warrants were not included in the computation of diluted net loss per share because such inclusion would have had an antidilutive effect.

	Nine months ended September 30,	
Excluded potentially dilutive securities (1):	2016	2015
Convertible Notes - principal	702,247	-
Consulting warrants to purchase common stock	473,864	436,364
Options to purchase common stock	870,528	654,780
Financing and IPO warrants to purchase common stock	3,295,258	975,380
Total potential dilutive securities	5,341,897	2,066,524

(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 Company views its operations and manages its business in one operating segment, and the Company operates in only one geographic segment.

Recent accounting pronouncements

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for the Company beginning on June 1, 2018. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 - Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

There were no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2016 that are of significance or potential significance to the Company.

3. Property and equipment, net

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

Asset Class	Useful Life (Years)	September 30, 2016	December 31, 2015
Operational equipment	3-10	$ 13,487	$ 356
Lab equipment	5	340	52
Computer equipment	3	126	72
Office furniture and equipment	5	284	9
Leasehold improvements	5-7	1,408	1,086
Land	-	1,047	1,047
Building under construction	39	18,305	5,681
Equipment under construction	10	1,552	4,390
		36,549	12,693
Less: accumulated depreciation		(493)	(90)
		$ 36,056	$ 12,603

Depreciation expense was $205,000 and $403,000 for the three and nine months ended September 30, 2016, respectively, and $31,000 and $54,000 for the three and nine months ended September 30, 2015, respectively. Building under construction is the 136,750 square foot lead acid battery recycling plant being built in McCarran, Nevada. Equipment under construction is AquaRefining modules manufactured by the Company to be used in the McCarran, Nevada recycling plant.

Certain costs necessary to make the recycling facility ready for its intended use have been capitalized, including interest expense on notes payable. Capitalized interest totaled $153,000 and $456,000 for the three and nine months ended September 30, 2016, respectively, and is included in Building under construction above. There was no capitalized interest during the same periods in 2015.

4. Intellectual Property

On July 3, 2014, five of the founding stockholders contributed the rights to certain intellectual property to the Company in exchange for the issuance of 4,101,822 shares with a fair value of $1,059,000. This contribution was recorded as an intangible asset with an offset to additional paid-in capital for $637,000 and deferred taxes for $422,000.

Intellectual property, net, is comprised of the following as of the dates indicated (in thousands):

	September 30, 2016	December 31, 2015
Intellectual property	$ 1,384	$ 1,219
Accumulated amortization	(247)	(154)
Intellectual property, net	$ 1,137	$ 1,065

Amortization expense was $34,000 and $27,000 for the three months ended September 30, 2016 and 2015, respectively and $93,000 and $81,000 for the nine months ended September 30, 2016 and 2015, respectively.

5. Other Assets

The Company's other asset balance is made up of a $596,000 security deposit for the Alameda headquarters lease, a $1,000,000 certificate of deposit, held by Green Bank as collateral for the AMR construction note payable balance, a $49,000 Nevada sales and use tax security deposit and $125,000 of various prepaid deposits on equipment and other assets.

The lease deposit related to the Alameda headquarters will be released in three installments: $275,000 at June 17, 2017, followed by $275,000 in June 2018; and the remainder will be released at the end of the lease term. The deposit with Green Bank will be released after AMR has three consecutive months of positive cash flow from operations. The various prepaid deposits on equipment will be reclassified to equipment once the equipment has been delivered and installed.

6. Convertible Notes

As described more completely under the caption "Interstate Battery Agreements" below in Note 9, the Company issued to Interstate Battery System International, Inc. and its wholly-owned subsidiary (collectively "Interstate Battery") an 11% convertible note with a face amount of $5.0 million due May 25, 2019. The Company allocated the proceeds from the Interstate Battery agreements to the convertible note, common stock and warrants comprising the financing agreements based on the relative fair value of the individual securities on the May 24, 2016 closing date of the agreements. Additionally, the convertible notes contained an embedded conversion feature having intrinsic value at the issuance date, which value the Company treated as an additional discount attributed to the convertible note, subject to limitations on the absolute amount of discount attributable to the convertible notes and its allocated value. The Company recorded a corresponding credit to additional paid-in capital attributable to the beneficial conversion feature. The discounts attributable to the convertible note, an aggregate of $4,975,000, are being amortized using the effective interest method over the three-year term of the note, maturing on May 24, 2019. Because the discount on the convertible note exceeds 99% of its initial face value, and because the discount is amortized over the period from issuance to maturity, the calculated effective interest rate is 184.75%.

Amortization of the note discount for the three and nine month periods ended September 30, 2016 totaled $18,000 and $26,000, respectively. Amortization of the deferred financing costs, more fully described in Note 9, totaled $12,000 and $17,000 for the three and nine month periods ended September 30, 2016, respectively.

The September 30, 2016 convertible note payable is comprised of the following (in thousands):

	September 30, 2016
Convertible note payable	$ 5,000
Accrued interest	197
Deferred financing costs, net	(125)
Note discount	(4,949)
Convertible note payable, net	$ 123

On October 31, 2014, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with accredited investors (the "Investors"), pursuant to which the Company issued an aggregate of $6,000,000 principal amount of senior secured convertible notes (the "Convertible Notes"). In connection with the sale of the Convertible Notes (the "Bridge Financing"), the Company entered into a registration rights agreement (the "Registration Rights Agreement") and a security agreement (the "Security Agreement") with the Investors. The closing of the Bridge Financing was completed October 31, 2014. Upon issuance, the Convertible Notes bore simple interest at 6% per annum and upon the occurrence of any specified event of default, the Convertible Notes would bear interest at 12% per annum and were scheduled to mature on December 31, 2015.

The principal, $6,000,000, and interest, $279,678, of the Convertible Notes were converted into 2,511,871 shares of the Company's common stock at a conversion price of $2.50 per share on August 5, 2015 as part of the Company's Initial Public Offering ("IPO").

7. Deferred Rent

On August 7, 2015, the Company signed a lease for 21,697 square feet of mixed office and manufacturing space in Alameda, CA. The term of the lease is 76 months plus six months pre commencement date for tenant improvement construction. The total cost of the lease is $3,071,000 which is being amortized over 82 months. As of September 30, 2016 and December 31, 2015, the landlord had incurred $947,000 and $869,000, respectively, in tenant improvements. The tenant improvements cost has been included in owned assets and deferred rent and is being amortized over the life of the lease. Net deferred rent expense for the three months and nine months ending September 30, 2016 was $42,000 and negative $71,000, respectively. The September 30, 2016 short term deferred rent balance of $174,000 is included in current liabilities whereas the December 31, 2015 balance of negative $38,000 was included in prepaid expenses and other current assets. The remaining liability of $1,008,000 and $1,071,000 at September 30, 2016 and December 31, 2015, respectively, is classified as long term deferred rent.

8 Notes Payable

AMR entered into a $10,000,000 loan with Green Bank on November 3, 2015. The term of the loan is twenty-one years. During the first twelve months, only interest is payable and thereafter monthly payments of interest and principal are due. The interest rate will adjust on the first day of each calendar quarter to the greater of six percent (6%) or two percent (2%) per annum above the minimum prime lending rate charged by large U.S. money center commercial banks as published in the Wall Street Journal. The terms of the Loan Agreement contain various affirmative and negative covenants. Among them, AMR must maintain a minimum debt service coverage ratio of 1.25 to 1.0 (beginning with the twelve-month period ending March 31, 2017), a maximum debt-to-net worth ratio of 1.0 to 1.0 and a minimum current ratio of 1.5 to 1.0. AMR was in compliance with all covenants as of and for the three and nine months ended September 30, 2016.

The net proceeds of the loan were deposited into an escrow account at Green Bank. The funds are being released as payment for the building being constructed in McCarran, NV to house AMR's lead acid recycling operation. Collateral for this loan is AMR's accounts receivable, goods, equipment, fixtures, inventory, accessions and a certificate of deposit in the amount of $1,000,000.

The loan is guaranteed by the United States Department of Agriculture Rural Development ("USDA"), in the amount of 90% of the principal amount of the loan. The Company paid a guarantee fee to the USDA in the amount of $270,000 at the time of closing and will be required to pay to the USDA an annual fee in the amount of 0.50% of the guaranteed portion of the outstanding principal balance of the loan as of December 31 of each year.

Notes payable is comprised of the following as of the dates indicated (in thousands):

	September 30, 2016	December 31, 2015
Notes payable, current portion		
Thermo Fisher Financial Service	$ 59	$ 16
Green Bank, net of issuance costs	163	29
	$ 222	$ 45
Notes payable, non-current portion		
Thermo Fisher Financial Service	$ 80	$ 1
Green Bank, net of issuance costs	9,113	9,221
	$ 9,193	$ 9,222

The Thermo Fisher Financial Service obligations relate to capital leases. The costs associated with obtaining the Green Bank loan were recorded as a reduction to the carrying amount of the note and are being amortized as interest expense within the condensed consolidated statements of operations over the twenty-one year life of the loan.

9. Stockholders' Equity

Interstate Battery Agreements

Investment Agreement

The Company entered into a Credit Agreement dated May 18, 2016 with Interstate Battery pursuant to which Interstate Battery loaned the Company $5,000,000 in consideration of the Company's issuance of a secured convertible promissory note in the original principal amount of $5,000,000. The note bears interest at the rate of eleven percent (11%) per annum, compounding monthly, and all interest is payable upon the earlier of maturity or conversion of the principal amount. The loan matures on May 24, 2019. The outstanding principal is convertible into shares of the Company's common stock at a conversion price of $7.12 per share. The Company obligations under the note and Credit Agreement are secured by a second priority lien on the real estate, fixtures and equipment at the Company's recycling facility at McCarran, Nevada. The Credit Agreement includes representations, warranties, and affirmative and negative covenants that are customary of institutional credit agreements.

Pursuant to the Credit Agreement, the Company also issued to Interstate Battery two common stock purchase warrants, including:

- a warrant to purchase 702,247 shares of the Company's common stock, at an exercise price of $7.12 per share, that is exercisable upon grant and expires on May 24, 2018; and

- a warrant to purchase 1,605,131 shares of the Company's common stock, at an exercise price of $9.00 per share, that is exercisable commencing November 24, 2016 and expires on May 24, 2019.

The warrants contain cashless exercise and standard anti-dilution adjustment provisions. If Interstate converts its convertible note and exercises both warrants in their entirety, it will own slightly less than 20% of the Company's common stock at an average price per share of approximately $7.93.

The Company also entered into a Stock Purchase Agreement dated May 18, 2016 with Interstate Battery pursuant to which the Company issued and sold to Interstate Battery 702,247 shares of the Company's common stock at $7.12 per share for the gross proceeds of approximately $5,000,000. The Stock Purchase Agreement includes customary representations, warranties, and covenants by Interstate Battery and us, and an indemnity from us in favor of Interstate Battery.

In connection with the investment transactions, the Company also entered into an Investors Rights Agreement dated May 18, 2016 with Interstate Battery pursuant to which the Company granted Interstate Battery customary demand and piggyback registration rights, limited board observation rights over the next three years and limited preemptive rights allowing Interstate Battery the right to purchase its proportional share of certain future equity issuances by the Company over the next three years. The Company included all of the Interstate Battery shares in its S-3 Registration Statement filed with the Securities and Exchange Commission on August 1, 2016.

The investment transactions with Interstate Battery closed on May 24, 2016. There were no sales commissions paid by the Company in connection with its sale of securities to Interstate Battery.

The Company allocated the $10.0 million proceeds from the Credit Agreement and Stock Purchase Agreement, to the various securities based on their relative fair values on the closing date of May 24, 2016.

- The fair value of the note was calculated using an average of the Merrill Lynch US High Yield CCC rate of 16.21% on May 24, 2016 and the Merrill Lynch US High Yield B effective yield of 7.44% on May 24, 2016.

- The fair value of the common stock was based on the closing market price of the Company's common stock on the NASDAQ stock market on May 24, 2016.

The fair value of the warrants using the Black-Scholes-Merton Option Pricing Model and the assumptions are listed in the table below.

	Warrant #1	Warrant #2
Warrant shares issued	702,247	1,605,131
Market price	$ 11.39	$ 11.39
Exercise price	$ 7.12	$ 9.00
Term (years)	2	3
Risk-free interest rate	0.91%	1.05%
Volatility	65.70%	67.80%
Dividend rate	0%	0%
Per share FV of warrant	$ 5.89	$ 5.89
FV of warrant	$ 4,136,074	$ 9,449,754

Both warrants were issued on May 24, 2016, when the closing market price of our stock was $11.39.

The table below presents the allocation of the proceeds based on the relative fair values of the stock, warrants and note.

	Fair value	Allocated value
Allocation of Proceeds		
Convertible note	$ 4,878,974	$ 1,843,669
Warrants	13,585,828	5,133,819
Common stock	7,998,593	3,022,512
	$ 26,463,396	$ 10,000,000

The difference between the face value of the convertible note and the allocated amount (which considers both the allocated fair value of the issued stock and allocated fair value of the warrants) was recorded as an initial discount to the convertible note; common stock was recorded at its allocated fair value as a credit to par value and additional paid-in capital as appropriate, based on the number of shares issued, and the allocated fair value of the warrant was credited to additional paid-in capital. After taking into consideration the amortization of the note discount, the effective interest rate is 184.75%.

The convertible note includes an embedded beneficial conversion feature. The intrinsic value of the beneficial conversion feature was treated as an additional component of the discount attributable to the convertible note. The initial discount (attributable to the stock and warrants as noted above) and the discount attributable to the beneficial conversion feature exceeds the face amount of the convertible note. To avoid reducing the initial net carrying value of the convertible note to or below zero, the discount attributable to the beneficial conversion feature was limited such that the aggregate of all discounts does not exceed 99.5% of the face amount of the convertible note. The discount is being accreted to interest expense using the effective interest method over the three-year life of the loan. If the loan is converted prior to its maturity, any remaining discount will be expensed immediately.

Costs incurred in connection with the deal of $771,000 were allocated between additional paid-in capital and prepaid financing/ debt discount ("debt issuance costs") in the same manner as the above allocation of proceeds. The allocated debt issuance costs of $142,000 were recorded as a reduction to the carrying amount of the convertible note and are being amortized as interest expense within the condensed consolidated statements of operations over the three-year life of the loan. The remaining $629,000 was recorded as a reduction to additional paid-in capital.

National Securities Placement

On May 18, 2016, the Company entered into a Stock Purchase Agreement and a Registration Rights Agreement with certain accredited investors pursuant to which the Company issued and sold to the investors 719,333 shares of its common stock at a price of $7.12 per share for the gross proceeds of $5,121,651. The Stock Purchase Agreement includes customary representations, warranties, and covenants by the investors and the Company, and an indemnity from the Company in favor of the investors. The private placement closed on May 24, 2016. The Company included all of these shares in its S-3 Registration Statement filed with the Securities and Exchange Commission on August 1, 2016.

National Securities Corporation acted as placement agent for the private placement and received sales commission in the amount of six percent (6%) of the gross proceeds, or a total of $307,000 in commissions from us. In addition, we reimbursed National Securities for its out-of-pocket expenses and legal fees in the aggregate amount of $38,000. The total costs of $345,000 have been recorded as a reduction to additional paid-in capital.

Warrant issued

A warrant to purchase 12,500 of the Company's common stock was issued on January 31, 2016 at an exercise price of $6.00 per share. The warrant was fully vested upon issuance and has a term of 1.25 years.

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the warrant.

Expected stock volatility	80%
Risk free interest rate	0.97%
Expected years until exercise	1.25
Dividend yield	0.00%

The fair value was $15,476 and was recorded as increase to consulting expense and increase in additional paid in-capital.

A warrant to purchase 12,500 of the Company's common stock was issued on April 30, 2016, at an exercise price of $6.00 per share. The warrant was fully vested upon issuance and expires, if not exercised, on July 31, 2018.

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the warrant.

Expected stock volatility	80%
Risk free interest rate	0.77%
Expected years until exercise	2.25
Dividend yield	0.00%

The fair value was $57,204 and was recorded as increase to consulting expense and increase in additional paid in-capital.

A warrant to purchase 12,500 of the Company's common stock was issued on July 31, 2016, at an exercise price of $6.00 per share. The warrant was fully vested upon issuance and expires, if not exercised, on July 31, 2018.

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the warrant.

Expected stock volatility	80%
Risk free interest rate	0.72%
Expected years until exercise	2.00
Dividend yield	0.00%

The fair value was $65,000 and was recorded as increase to consulting expense and increase in additional paid in-capital.

Warrants exercised

On June 7, 2016, when the five-day average of closing prices for the Company's common stock was $12.16 per share, 15,203 shares of the Company's common stock were issued pursuant to a cashless exercise of a warrant for 30,000 shares of the Company's common stock with an exercise price of $6.00 per share.

Stock based compensation

The 2014 Stock Incentive Plan (the "2014 Plan") authorizes a total of 1,363,637 shares for option grants. The 2014 Plan provides for the following types of stock-based awards: incentive stock options; non-statutory stock options; restricted stock; and performance-based stock. The 2014 Plan, under which equity incentives may be granted to employees and directors under incentive and non-statutory stock option agreements requires that the option price may not be less than the fair value of the stock at the date the option is granted. Option awards may not have a term exceeding 10 years from the grant date. As of September 30, 2016, the Company had 488,609 shares available for future grants under the 2014 Stock Incentive Plan.

Options granted generally have a five-year term and vest over a three-year period; one third the first year, one third the second year and the remaining third vest on a monthly basis in the third year.

The stock-based compensation expense attributable to option grants recorded was allocated as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Operations and development costs	$ 120	$ 38	$ 226	$ 71
Business development and management costs	40	55	672	104
Total	$ 160	$ 93	$ 898	$ 175

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the options.

Expected stock volatility	72% -80%
Risk free interest rate	0.92% - 1.77%
Expected years until exercise	2.50 - 3.50
Dividend yield	0.00%

The Company issued 4,500 shares of common stock for the three months and nine months ended September 30, 2016 upon stock option exercises.

Option modification

During the three months ended June 30, 2016, the Compensation Committee of the Board of Directors approved the modification of the terms of a stock option previously granted to a member of its Board of Directors to accelerate vesting and the waiver of the early termination of the option based upon the director's end of service to the Company. The modification resulted in additional compensation expense of $175,000.

10. Commitments and Contingencies

Purchase commitment

The Company issued a purchase order on September 18, 2015 to purchase equipment to be installed in the recycling plant being built in Nevada. An initial payment of $3,053,000 was made in September 2015 and was initially recorded as equipment deposits on the condensed consolidated balance sheet. These deposits were reclassified into Property and equipment, net in June 2016. The remaining balance due on this equipment at September 30, 2016 is $611,000.

Interstate Battery Agreement commitment

Pursuant to the Interstate Battery Investor Rights Agreement, the Company has agreed to compensate Interstate Battery should either Stephen Clarke, the Company's current chief executive officer, or Selwyn Mould, the Company's current chief operating officer, no longer hold such positions or no longer devote substantially all of their business time and attention to the Company, whether as a result of resignation, death, disability or otherwise (such an event referred to as a "key-man event"). The Company has agreed to pay Interstate Battery $2,000,000, per occurrence, if either officer is subject to a key-man event during the two years following May 18, 2016. The Company also agreed to pay Interstate Battery $2,000,000 if either or both officers are subject to a key-man event during the third year following May18, 2016

11. Subsequent Events

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

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, 2015 filed with the SEC on March 28, 2016, 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 documents, reports, filings with the SEC, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and 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 in the section "Risk Factors" set forth in Part II, Item 1A of this report. 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

We were formed as a Delaware corporation on June 20, 2014 for the purpose of engaging in the business of recycling lead through a novel, proprietary and patent-pending process that we developed and named "AquaRefining". Since our formation, we have focused our efforts on the development and testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial lead acid battery, or LAB, recycling facility in the Tahoe Regional Industrial Center, McCarran, Nevada ("TRIC"). On October 28, 2016, we commenced limited lead-producing operations at our TRIC facility through the processing of recycled lead through a single AquaRefining module. Through our own on-site assay, the Company has verified that the lead produced in the AquaRefining module is over 99.99 percent pure. We expect to commence earning revenue through the commercial-scale recycling of LABs at our TRIC facility during the fourth quarter of 2016. Additionally, we have implemented process and other improvements which have increased the capacity of the TRIC facility to 120 tonnes per day. We expect to achieve a production rate of 120 tonnes per day early in 2017.

Since our organization in 2014, we have engaged in the following financing transactions:

Convertible Note Placement. Prior to our initial public offering, we capitalized our operations with equity contributions and advances from our founders, our receipt of a $500,000 investment from Wirtz Manufacturing Co. Inc. and our receipt of $5.5 million of capital from our private placement sale of senior secured convertible promissory notes, which we refer to as our "convertible notes", in October 2014. Pursuant to the terms of our investment agreement with Wirtz Manufacturing Co. Inc., Wirtz exchanged its investment in our company for a convertible note sold in the October 2014 private placement. As a result, we had issued and outstanding convertible notes in the aggregate principal amount of $6.0 million, with accrued and unpaid interest as of August 5, 2015 in the amount of $279,678. All principal and accrued interest under the convertible notes converted into shares of our common stock at the close of our initial public offering on August 5, 2015.

Initial Public Offering. On July 31, 2015, we conducted an initial public offering of 6.6 million shares of our common stock, at the public offering price of $5.00 per share. After the payment of underwriter discounts and offering expenses, and after giving effect to the underwriters' exercise of its overallotment option on August 13, 2015 to purchase an additional 641,930 shares of our common stock at the offering price of $5.00 per share, we received net proceeds of approximately $32,862,172.

Pursuant to the terms of the above convertible notes, all principal and interest under the convertible notes automatically converted into shares of our common stock upon the completion of the initial public offering at the conversion price of $2.50 per share. As of the close of our initial public offering, all principal and interest, including $6 million of principal and $279,678 of accrued interest, under the convertible notes automatically converted into 2,511,871 shares of our common stock.

Green Bank Loan. On November 3, 2015, Aqua Metals Reno, Inc., our wholly-owned subsidiary, entered into a Loan Agreement with Green Bank, N.A. pursuant to which Green Bank provided us with a loan in the amount of $10 million. The loan proceeds will be applied towards the development of our TRIC, facility. The loan accrues interest at an annual rate of the Wall Street Journal Prime Rate Index plus a margin of 2.00% per year, adjusted quarterly, with a floor rate of 6.00% per year. Interest-only payments are due monthly for the first twelve months. Thereafter, principal and interest are due monthly and are fully amortized over 20 years. The loan is collateralized by the real estate, plant and fixtures at the TRIC facility and a certificate of deposit of $1.0 million at Green Bank. Additionally, the terms of the Loan Agreement contain various affirmative and negative covenants. Among them, Aqua Metals Reno, Inc. must maintain a minimum debt service coverage ratio of 1.25 to 1.0, a maximum debt-to-net worth ratio of 1.0 to 1.0 and a minimum current ratio of 1.5 to 1.0.

The loan is guaranteed by the United States Department of Agriculture Rural Development, or USDA, in the amount of 90% of the principal amount of the loan. We paid a guarantee fee to USDA in the amount of $270,000 at the time of closing of the Loan Agreement and we will be required to pay to USDA an annual renewal fee in the amount of 0.50% of the guaranteed portion of the outstanding principal balance of the loan as of December 31 of each year.

Interstate Battery Partnership. On May 18, 2016, we entered into definitive agreements with Interstate Battery System International, Inc. ("Interstate Battery") and other investors for the sale of approximately $15.1 million of our equity and debt securities, including a $10 million investment by Interstate Battery, the largest independent battery distributor in North America. We also entered into a supply agreement with Interstate Battery pursuant to which Interstate Battery will supply us with used LABs as feedstock for our AquaRefineries. The investment transactions closed on May 24, 2016.

At the closing of the investment transactions, we entered into a supply agreement with Interstate Battery pursuant to which Interstate Battery agreed to sell to us, and we agreed to buy from Interstate Battery, used LABs. Interstate Battery will sell us used LABs on a cost-plus basis and the agreement subjects us and Interstate Battery to certain minimum purchase and sale requirements. We have granted Interstate Battery limited rights of first refusal to supply our future AquaRefineries. Our agreement with Interstate Battery is for an initial term of 18 months and will be subject to automatic renewals thereafter unless either party elects to terminate the agreement. The agreement allows each party the right to seek early termination based on certain commercial contingencies. The supply agreement contains representations, warranties and indemnities that are customary to commercial agreements of this nature.

Pursuant to the investment agreements with Interstate Battery, Interstate Battery:

- Purchased 702,247 shares of our common stock at $7.12 per share for the gross proceeds of approximately $5,000,000; and
- Loaned us $5,000,000 pursuant to a secured convertible promissory in the original principal amount of $5,000,000. The note will bear interest at the rate of eleven percent (11%) per annum, compounding monthly, and all interest shall be payable upon the earlier of maturity or conversion of the principal amount. The outstanding principal is convertible into our common shares at a conversion price of $7.12 per share. Our obligations under the loan are secured by a second priority lien interest on our assets, other than our intellectual property. The loan will mature on May 18, 2019.

In connection with the agreements, we granted Interstate Battery warrants to purchase our common stock, including:

- a fully vested warrant to purchase 702,247 shares of our common stock, at an exercise price of $7.12 per share, expiring on May 24, 2018; and
- a warrant to purchase 1,605,131 shares of our common stock, at an exercise price of $9.00 per share, vesting on November 16, 2016 and expiring on May 24, 2019.

We granted Interstate Battery customary demand and piggyback registration rights, limited board observation rights over the next three years and limited preemptive rights allowing it to purchase its proportional share of certain future equity issuances by us over the next three years. We included all of the Interstate Battery shares in our S-3 Registration Statement filed with the Securities and Exchange Commission on August 1, 2016.

If Interstate Battery converts its convertible note and exercises both warrants in their entirety, it will own slightly less than 20% of the common stock of Aqua Metals at an average price per share of approximately $7.93.

We also entered into a definitive agreement with certain accredited investors to sell approximately $5.1 million of our common stock through National Securities Corporation as placement agent. Pursuant to this agreement, we sold 719,333 of shares of our common stock, at the price of $7.12 per share, for the gross proceeds of approximately $5,121,650. We paid National Securities a commission of six percent (6%) on the sale of our common shares to the accredited investors. There are no commissions payable by us on the sale of our securities to Interstate Battery. The National Securities private placement closed on May 24, 2016.

Plan of Operations

Our plan of operations for the 12-month period following the date of this report is to expand operations at our first recycling facility at TRIC to 120 tonnes of lead production per day and begin to expand our business with additional recycling facilities and licensing of our recycling technology and equipment to third parties.

As of the date of this report, we have commenced limited lead production at our TRIC facility. To achieve this, we completed the construction of a 136,750 square foot lead acid battery, or LAB, recycling facility at our TRIC property, substantially completed the installation of related battery breaking and component separations equipment, and commissioned the first AquaRefining module.

We have also completed the permitting process for commencement of full-scale LAB recycling at our TRIC facility. In connection with the permitting of our TRIC facility, the Nevada state environmental regulators determined that our AquaRefining process is not subject to the National Emissions Standards for Hazardous Air Pollutants, or NESHAP. NESHAP is the federal emissions standards set by the United States Environmental Protection Agency, or EPA, which apply to conventional smelter-based recycling facilities. We believe this is an important precedent which could substantially reduce both the time required to obtain permits and increase the options for locating additional facilities for both us and our potential licensees.

Our TRIC facility is designed to accommodate additional AquaRefining modules and has battery breaking and component separations equipment sufficient to support expansion to 160 tonnes of recycled lead per day.

On October 28, 2016, we commissioned our first AquaRefining module and commenced limited lead-producing operations at our TRIC facility. Through our own on-site assay, we have verified that the lead produced in the AquaRefining module is over 99.99 percent pure.

As of the date of this report, we believe that our working capital is sufficient to achieve a production rate of 120 tonnes per day. Our goal is to increase our production of lead at our TRIC facility to 160 tonnes per day by 2018.

Separately, we are engaged in detailed discussions with providers of non-dilutive capital to finance up to an additional four facilities, each of would have a production capacity of approximately 160 tonnes per day. On the strength of these discussions we have started to evaluate locations for facilities two and three, however, as of the date of this report, we have no agreements or understandings with regard to the financing and there can be no assurance that we will be able to consummate an agreement on terms acceptable to us, or at all.

In the longer term, we intend to expand our business in the United States and internationally, through the provision of AquaRefining equipment to third parties using a "serviced licensing" business model. We now have exploratory discussions with third parties interested in this option in the United States and various foreign jurisdictions.. These discussions have now progressed to the point that we have started to evaluate materials supplied to us by third parties for compatibility with our technology. As of the date of this report, these trials have been successful and we intend to commence the formal pursuit of licensing arrangements during 2017.

Results of Operations

We were formed on June 20, 2014 and have commenced limited lead producing operations on October 28, 2016. To date, our operations have consisted of the development and limited testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial lead acid battery, or LAB, recycling facility near Reno, Nevada. The following table summarizes results of operations with respect to the items set forth below for the three and nine months ended September 30, 2016 and 2015 together with the percentage change in those items (in thousands).

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	Favorable (Unfavorable)	% Change	2016	2015	Favorable (Unfavorable)	% Change
Operations and development costs	$ 1,887	$ 546	$ (1,341)	-245.60%	$ 4,080	$ 1,181	$ (2,899)	-245.47%
Business development and management costs	1,434	777	(657)	-84.56%	4,245	1,889	(2,356)	-124.72%

Operations and development costs have more than tripled for both the comparative periods. The increase is due to the increased level of operations following the completion of our initial public offering in August 2015. Salary related expenses have tripled for both the three and nine month periods in 2016 compared to 2015, commensurate with a three-fold increase in head-count for the three and nine months ended September 30, 2016. Our research and development expenses have also experienced a three-fold increase for the three and nine months ended September 30, 2016 corresponding to an increase in developmental activities over the prior year periods. Other increases include professional services, depreciation, insurance, travel and general overhead costs due to our increased activities.

Business development and management costs have also increased significantly. Salary related expenses increased by 76% and 80% for the three and nine month periods ended September 30, 2016, respectively, while average headcount increased by 36% and 39% for the three and nine month periods ended September 30, 2016, respectively, compared to the same periods in the previous year. The largest contributor to the difference between headcount and overall expense is an increase in stock based compensation expense. Professional services have increased by approximately $0.2 million and $0.9 million for the three and nine month periods ending September 30, 2016, respectively, which include both third-party consulting and legal fees and primarily relates to being a publicly traded company during 2016 versus a private company during the related periods in 2015. Professional fees during the nine-month period ended September 30, 2016 include a one-time $0.2 million charge due to the modification of a previously issued stock option to a former member of our Board of Directors that accelerated the vesting and waived the early termination of the option based upon the termination of his service to the Company due to his death. The remaining increase is due to increased travel, insurance and general overhead costs due to our increased activities compared to the prior year.

	Three months ended September 30,				Nine months ended September 30,			
	2016	2015	Favorable (Unfavorable)	% Change	2016	2015	Favorable (Unfavorable)	% Change
Other expense (income)								
Increase in fair value of derivative liabilities	$ -	$ 277	$ 277	-	$ -	$ 5,776	$ 5,776	-
Interest expense	203	492	289	58.74%	318	1,126	808	71.76%
Interest income	(7)	(8)	(1)	12.50%	(22)	(10)	12	-120.00%

We incurred approximately $0.3 million and $5.8 million of expense in the three and nine months ending September 30, 2015, respectively, relating to an increase in the fair value of derivative liabilities related to our then-outstanding convertible notes and related financing warrants. The convertible notes were converted at the time of our IPO in August 2015 and, at the same time the derivative liability associated with the financing warrant was reclassified to additional paid-in capital. Therefore, there is no expense related to the derivative liabilities during the three and nine months ending September 30, 2016. We incurred interest expense of approximately $0.5 million and $1.1 million during the three and nine months ending September 30, 2015, respectively, related to our convertible notes, which, as noted above, converted at the time of our IPO. Interest during the three and nine months ended September 30, 2016 relates primarily to amortization of debt issuance costs incurred in connection with both the $10.0 million notes payable and the $5.0 million Interstate Battery convertible note as well as an accrual for the USDA guarantee fee on the $10.0 million note. Interest relating to the $10.0 million notes payable is currently being capitalized as part of the building cost of the TRIC facility.

The note discount associated with the Interstate Battery convertible note is being amortized using the effective interest method over the three-year term of the note, maturing on May 24, 2019. Using the effective interest method results in higher expense in later periods. Thus, non-cash interest expense associated with the note discount amortization will be $54,000 in 2016, $360,000 in 2017, $2.0 million in 2018 and $2.6 million in 2019.

Liquidity and Capital Resources

As of September 30, 2016, we had total assets of $55.3 million and working capital of $11.6 million.

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

	Nine months ended September 30,	
	2016	2015
Net cash used in operating activities	(5,802)	(2,672)
Net cash used in investing activities	(12,935)	(5,446)
Net cash provided by financing activities	14,004	32,862

Net cash used in operating activities

Net cash used in operating activities for the nine months ended September 30, 2016 and 2015 was $5.8 million and $2.7 million, respectively. Net cash used in operating activities during each of these periods consisted primarily of our net loss adjusted for noncash items such as depreciation, amortization, stock-based compensation charges, and noncash charges related to the mark-to-market valuation of our derivative liabilities (2015), as well as net changes in working capital.

Net cash used in investing activities

Net cash used in investing activities for the nine months ended September 30, 2016 and 2015 was $12.9 million and $5.4 million, respectively. Net cash used in investing activities during each of these periods consists primarily of purchases of fixed assets related to the build out of our TRIC recycling facility in Nevada and, to a lesser extent, our corporate headquarters.

Net cash provided by financing activities

Net cash provided by financing activities for the nine months ended September 30, 2016 primarily consists of $9.1 million net proceeds from the issuance of common stock to Interstate Battery and other investors through our placement agent, National Securities Corporation; and $4.9 million net proceeds from the Interstate Battery convertible note.

As of the date of this report, we believe that our working capital is sufficient to fund our current business plan over the next 12 months, including the attainment of production at the rate of 120 tonnes of recycled lead per day. However, we may require additional capital over the next 12 months to fund our current business plan, the receipt of which there can be no assurance. In addition, we will require additional capital in order to fund our proposed development of additional AquaRefining recycling facilities. We intend to seek additional funds through various financing sources, including the sale of our equity and debt securities, licensing fees for our technology, joint ventures with capital partners and/or project financing of our recycling facilities. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. 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 Risks

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, has 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 this evaluation, management concluded that our disclosure controls and procedures were effective as of September 30, 2016.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three-month period ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

Investing in our common stock involves a very high degree of risk. You should carefully consider the risks described below and all of the other information in our filings with the SEC before making any investment decisions regarding our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not know of or that we currently deem immaterial may also negatively affect our business, financial condition, operating results, and prospects. In that case, the market price of our common stock could decline, and you could lose all or part of your investment.

Risks Relating to Our Business

Since we have a limited operating history and have only recently commenced lead-producing operations, it is difficult for potential investors to evaluate our business. We formed our corporation in June 2014 and on October 28, 2016, we commenced limited production of recycled lead at our TRIC facility. To date, our operations have consisted of the development and limited testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial LAB recycling facility in Tahoe Regional Industrial Center, McCarran, Nevada ("TRIC"). 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. 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.

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 September 30, 2016, we had total assets of $55.3 million and working capital of $11.6 million. As of the date of this report, we believe that we have working capital sufficient to fund our current business plan over the next 12 months, including the attainment of production at the rate of 120 tonnes of recycled lead per day. However, we may require additional capital over the next 12 months to fund our current business plan, the receipt of which there can be no assurance. In addition, we will require additional capital in order to fund our proposed development of additional AquaRefining recycling facilities. We intend to seek additional funds through various financing sources, including the private sale of our equity and debt securities, licensing fees for our technology, joint ventures with capital partners and project financing of our recycling facilities. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. 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, in which case you may lose your entire investment.

Our business model is new and has not been proven by us or anyone else. We intend to engage in the business of producing recycled lead through a proprietary, patent-pending electro-chemical 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. We have tested our AquaRefining process on a small scale and to a limited degree, and on October 28th, 2016, we commenced limited production of recycled lead at our TRIC facility. However, there can be no assurance that we will be able to produce lead in commercial quantities at a cost of production that will provide us 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.

While the testing of our AquaRefining process has been successful to date, there can be no assurance that we will be able to replicate the process, along with all of the expected economic advantages, on a large commercial scale. As of the date of this report, we have built and operated both a small-scale unit of our AquaRefining process and a full-size production prototype. In addition, on October 28, 2016, we commenced limited operations at our TRIC facility through the processing of recycled lead through a single AquaRefining module. While we believe that our development, testing and limited production to date has proven the concept of our AquaRefining process, we have not undertaken the processing of used LABs nor have we commenced the production of lead in large commercial quantities. We expect to commence the commercial recycling of used LABs during the fourth quarter of 2016 and increase our production of lead to 120 tonnes per day early in 2017. However, there can be no assurance that as we commence large scale operations at our TRIC facility that we will not incur unexpected costs or hurdles that might restrict the desired scale of our intended operations or negatively impact our projected gross profit margin.

Our intellectual property rights may not be adequate to protect our business. We currently do not hold any patents for our products. To date, we have filed five international applications, two U.S. patent applications, and have twenty foreign applications pending, relating to certain elements of the technology underlying our AquaRefining process and related apparatus and chemical formulations. Although we expect to continue filing, where applicable, patent applications related to our technology, no assurances can be given that any patent will be issued on our patent applications or any other application that we may file in the future or that, if such patents are issued, they will be sufficiently broad to adequately protect our technology. In addition, we cannot assure you that any patents that may be issued to us will not be challenged, invalidated, or circumvented.

Even if we are issued patents, they 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.

Our business strategy includes licensing arrangements and entering into joint ventures and strategic alliances. 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, in part, 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. Licensing programs, joint ventures and strategic alliances may involve significant other risks and uncertainties, including distraction of management's attention away from normal business operations, insufficient revenue generation to offset liabilities assumed and expenses associated with the transaction, 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.

If we are unable to manage future expansion effectively, our business, operations and financial condition may suffer significantly, resulting in decreased productivity. If our AquaRefining process proves to be commercially valuable, it is likely that we will experience a rapid growth phase that could place a significant strain on our managerial, administrative, technical, operational and financial resources. Our organization, procedures and management may not be adequate to fully support the expansion of our operations or the efficient execution of our business strategy. If we are unable to manage future expansion effectively, our business, operations and financial condition may suffer significantly, resulting in decreased productivity.

Certain industry participants may have the ability to restrict our access to used LABs and otherwise focus significant competitive pressure on us. We believe that our primary competition will come from operators of existing smelters and other parties invested in the existing supply chain for smelting, both of which may resist the change presented by our AquaRefining process. Competition from such incumbents may come in the form of restricted access to used LABs. We believe that LAB manufacturers who also maintain their own smelting operations control approximately 50% of the market for used LABs. We will require access to used LABs at market prices in order to carry out our business plan. If those LAB manufacturers and others involved in the reverse supply chain for used LABs attempt to restrict our access to used LABs that may adversely affect our prospects and future growth. There can be no assurance that we will be able to effectively withstand the pressures applied by our competition.

We may experience significant fluctuations in raw material prices and the price of our principal product, either of which could have a material adverse effect on our liquidity, growth prospects and results of operations. Spent LAB's are our primary raw material and we believe that in recent years the cost of used LABS has been volatile at times. Our principal product, recycled lead, has also experienced price volatility from time to time as well. For example, the market price of lead on the London Metal Exchange, or LME, rose from a trading range of $1,000 to $1,200 per metric ton during 2005 to $2,200 per metric ton during 2014. In 2015, the LME market price for lead ranged from $1,554 to $2,139 per ton. The price per ton of lead on January 1, 2015 was $1,844 while the price on December 31, 2015 was $1,801 per ton. The price per ton of lead on September 30, 2016 was $2,106. While we intend to pursue supply and tolling arrangements and hedge transactions as appropriate to offset any price volatility, the volatile nature of prices for used LABs and recycled lead could have an adverse impact on our liquidity, growth prospects and results of operations.

The 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 ton on May 5, 2015 to a low of $1,554 per ton on November 23, 2015 because of fluctuations in the market. A month later, the price per ton increased back up to $1,801 per ton and, as noted above, the price per ton was $2,106 on September 30, 2016. 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 down turn 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, at times, 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 the development and ownership of recycling facilities in certain foreign jurisdictions, including Mexico, China and India, among others countries, however it is more likely that we will enter into 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;
- 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;
- 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.

Government regulation and environmental, health and safety concerns may adversely affect our business. Our operations 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. Depending on how any particular operation is structured, our facilities will probably have to obtain environmental permits or approvals to operate, including those associated with air emissions, water discharges, and waste management and storage. We may face opposition from local residents or public interest groups to the installation and operation of our facilities. Failure to secure (or significant delays in securing) the necessary approvals could prevent us from pursuing some of our planned operations and adversely affect our business, financial results and growth prospects. In addition to permitting requirements, our operations 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. Failure to comply with these requirements could subject our business to significant penalties (civil or criminal) and other sanctions that could adversely affect our business.

The nature of our operations involve 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. Like any manufacturer, 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 ("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.

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 US, 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

Prior to the completion of our initial public offering in July 2015, there was no public trading market for our common stock. Our common stock has traded on the Nasdaq Capital Market, under the symbol "AQMS", since July 31, 2015. Since that date, our common stock has been relatively thinly traded. There can be no assurance that we will be able to successfully develop a liquid market for our common shares. The stock market in general, and early stage public companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. If we are unable to develop a market for our common shares, you may not be able to sell your common shares at prices you consider to be fair or at times that are convenient for you, or at all.

Control by management may limit your ability to influence the outcome of director elections and other transactions requiring stockholder approval. As of September 30, 2016, our directors and executive officers beneficially own approximately 22.6% of our outstanding common stock. In addition, one other stockholder, Interstate Battery Systems International, Inc., beneficially owns an additional 19.97%. As a result, in addition to their board seats and offices, such persons acting together will have significant influence over corporate actions requiring stockholder approval, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our certificate of incorporation or bylaws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

Such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

We are an "emerging growth company" under the JOBS Act of 2012 and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors. We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to:

- not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act;

- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments; and
- extended transition periods available for complying with new or revised accounting standards.

We have chosen to "opt out" of the extended transition periods available for complying with new or revised accounting standards, but we intend to take advantage of all of the other benefits available under the JOBS Act, including the exemptions discussed above. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an "emerging growth company" for up to 2020, although we will lose that status sooner if our revenues exceed $1 billion, if we issue more than $1 billion in non-convertible debt in a three-year period, or if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30.

Our status as an "emerging growth company" under the JOBS Act may make it more difficult to raise capital as and when we need it. Because of the exemptions from various reporting requirements provided to us as an "emerging growth company," we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our reporting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

We have not paid dividends in the past and have no immediate plans to pay dividends. We plan to reinvest all of our earnings, to the extent we have earnings, in order to develop our recycling centers 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.

Shares eligible for future sale may adversely affect the market for our common stock. Of the 15,578,725 shares of our common stock outstanding as of the date of this report, approximately 11,439,250 shares are held by "non-affiliates" and are freely tradable without restriction pursuant to Rule 144. In addition, we have filed with the SEC a Registration Statement on Form S-3 for purposes of registering the resale of 4,431,205 share of restricted common stock sold in our May 2016 financing, including 3,009,625 shares of common stock issuable to Interstate Battery upon exercise of its warrants and conversion of its convertible note. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of 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; 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 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	Amended and Restated Bylaws of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on June 9, 2015.
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.
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	XBRL Instance Document	Filed electronically herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed electronically herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed electronically herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed electronically herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed electronically herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed electronically herewith

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:	November 7, 2016	By:	*/s/ Stephen R. Clarke* Stephen R. Clarke, President and Chief Executive Officer
Date:	November 7, 2016	By:	*/s/ Thomas Murphy* Thomas Murphy, Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Section 302 Certification

I, Stephen R. Clarke, 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: November 7, 2016

By: /s/ Stephen R. Clarke
Stephen R. Clarke, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Section 302 Certification

I, Thomas Murphy, 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: November 7, 2016

By: /s/ Thomas Murphy
Thomas Murphy, Chief 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 September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Stephen R. Clarke, President and Chief Executive Officer, and Thomas Murphy, Chief Financial Officer, 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 R. Clarke	Dated: November 7, 2016
	Stephen R. Clarke	
Title:	President and Chief Executive Officer	

By:	/s/ Thomas Murphy	Dated: November 7, 2016
	Thomas Murphy	
Title:	Chief 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.