



Aqua Metals, Inc.

Second Quarter 2020 Earnings Conference Call

August 4, 2020

C O R P O R A T E P A R T I C I P A N T S

Glen Akselrod, *President, Bristol Capital Ltd.*

Steve Cotton, *Chief Executive Officer, President, and Director*

Judd Merrill, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Steve Emerson, *Emerson Investment Group*

Steve Krueger, *Foresight Investing*

P R E S E N T A T I O N

Operator

Thank you for standing by. This is the conference Operator.

Welcome to the Aqua Metals, Inc. Second Quarter 2020 Corporate update call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

I would now like to turn the conference over to Mr. Glen Akselrod, President of Bristol Capital Ltd. Please go ahead, sir.

Glen Akselrod

Thank you, Operator. Welcome to Aqua Metals Second Quarter 2020 conference call.

Earlier today, Aqua Metals released financial results for the quarter ended June 30, 2020. This release is available on the Investor section of the Company's website at www.aquametals.com. Joining us for today's call from Management is Steve Cotton, President and CEO, as well as Judd Merrill, the Company Chief Financial Officer.

During today's call, Management will be making forward-looking statements. Please refer to the Company's Quarterly Report on Form 10-Q filed today, August 4, for summary of the forward-looking statements and the risks, uncertainties, and other factors that could cause actual results to differ materially from those forward-looking statements. Aqua Metals cautions investors not to place undue reliance on any forward-looking statements. The Company does not undertake, and specifically disclaims,

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any obligation to update or revise such statements to reflect new circumstances for unanticipated events as they occur, except as required by law.

With that, I would like to turn over the call to Steve Cotton, CEO of Aqua Metals. Steve, please go ahead.

Steve Cotton

Thanks, Glen. Good afternoon and welcome, everyone.

Since our last corporate update call, I am happy to report on behalf of our entire team, key areas where we have advanced in our mission to help the \$65 billion lead acid battery industry capacitate, compete, innovate, and thrive in an increasingly environmentally-focused world by utilizing our proven AquaRefining equipment and technologies.

First and foremost, despite the challenges of COVID-19, we are pleased to announce that we are ahead of schedule on our V1.25 electrolyzer program. We are seeing better than expected results in efficiencies and throughput, enabling us to offer lower cost equipment that runs more efficiently with lower operating costs to potential licensees we continue to engage with. A key goal in the initial phase of the electrolyzers three-phase program V1.25a with b and L to follow was to automate the operation of the electrolyzer.

Through regular runs over period of weeks, we have already reached the point with the electrolyzer achieving consistent results once the on and off buttons are pushed in the control system and the electrolyzer handling the rest. This key improvement that positively impacts our value proposition would not have been achieved without all the operational experience in data that we gained from producing 35,000 commercial AquaRefining ingots in 2018 and 2019, which we sold for a significant price premium to Clarios, the world's largest battery maker. Learnings from our heritage appears to have paid off in meeting this key automation goal.

I am also pleased to announce that we are ahead of schedule on our second iteration, Version 1.25b. This iteration includes several additional improvements, inclusive of a new tank design with an integrated frame. That reduces complexity, fabrication cost, and maintenance labor costs, improved endurance performance of the electrolyzers also expected to take place during this iteration. We have made substantial progress preparing for the Version L as well, which will be highlighted by new tightly integrated data logging capabilities in near real-time to our secure web-based portal. Our future licensees will utilize this portal, but just as important, we plan to utilize this infrastructure as well to remotely support and improve the V1.25L units and future iterations; though the V1.25 program is ahead of schedule and we are pleased with results thus far.

Present and future planned advancements continue to be fueled not only by our team's knowledge, skills, and outright passion, but our cash on hand as a result of already received and planned ongoing insurance collections. In addition, we expect to receive additional cash infusions from the expected sale of unnecessary assets as part of our go-forward model. We have now collected \$15 million in insurance proceeds, and we expect to continue collecting our insurance claims as we work through the layers of coverage we have already disclosed while simultaneously selling the assets we no longer need to supplement our cash position.

We have thoughtfully added organizational human capability in the quarter, including a Commercial Leader that we were happy to have rejoin our team. Dave Regan hit the ground running in June and is keenly focused on our licensing and partnered development efforts. In addition, we have added a strong chemical engineer and other technical resources to ensure the V1.25 program moves through its development and ultimately ends the support phase.

Our continuing conversations and engagements with potential licensees, our improving value proposition from our V1.25 program, and interesting new partnership opportunities in the areas of market development and technology improvements continue to show promise. Subject to the completion of our V1.25L development program and finalizing the costs in performance and benchmarks for improvements, which is expected by the end of the year, we believe that we will be in a position to finalize pricing, configuration, and the overall value proposition to negotiate and secure the first equipment supply and licensing installation outside of our facility for our V1.25L product.

I will now hand it over to Judd to review our Q2 Financials. Go ahead, Judd.

Judd Merrill

Thank you, Steve.

As of June 30, 2020, cash and working capital balances were \$4.8 million and \$6.1 million respectively, which includes a \$4.9 million insurance proceeds receivable. Actual expected insurance collections are anticipated to be higher. As of June 30, 2020, the Company had received a total of \$15 million in insurance payment as a result of the fire damage; \$2.5 million was received in December, 2019; \$7.5 million was received in Q1, and additional \$5 million was received in Q2 2020. We have recorded an insurance receivable of \$4.9 million in line with GAAP account regulations which limits the amount of insurance receivable we can recognize on our books. We are still very much involved with providing information to the insurance carriers. We expect to receive additional payments in the future as they review our claims which is over \$30 million for property, plant, and equipment losses. In addition, we may receive additional insurance payments for business interruption losses.

Assets on our balance sheet as of June 30, 2020 that were not affected by the fire totaled approximately \$38 million in book value, including the battery breaker, melting kettles, kilns, filter presses, mixing and storage tanks, water recovery storage system, and the building infrastructure plus land. These assets are still in good shape, and some of them are brand new and will be either used in future licensing deals or sold.

As mentioned last quarter on March 25, 2020, we entered into a memorandum of agreement with Veritex regarding our loan. We have agreed on the allocation and insurance proceeds, with proceeds allocated to Veritex to pay off the remaining balance of the loan, which is approximately \$8.6 million as of the date of this report, inclusive of approximately \$500,000 prepayment penalty netted (phon) against a \$1 million CD collateral.

As of June 30, 2020, Veritex has received \$4.875 million of insurance proceeds from our insurance carriers, which has been set aside in an escrow account to be used to pay off the note. This \$4.875 million is recognized as other assets on our balance sheet. On receiving approximately \$10 million of additional insurance proceeds, the loan will be paid off. We anticipate that this will be completed by the end of the year.

Our lead recycling facility was not in production during the second quarter due to the fire and the acceleration of our licensing strategy. As a result, the Company did not generate revenue during the quarter. The plant will not be in production during 2020 except for the operation and testing of our improved electrolyzers as part of the V1.25 program. Product sales during the second quarter of 2019, were \$1.5 million and consisted of high purity lead from our AquaRefining process as well as lead volume, lead compounds, and plastics. Cost of product sales includes raw materials supplies, and related costs, salaries, and benefits, consulting and outside services cost, depreciation and amortization cost, and insurance, travel and overhead cost. Cost of the product sales decreased approximately 82% for the three months ended June 30, 2020 as compared to the three months ended June 30, 2019. Cost of product sales decreased during 2020 due to the suspension of production resulting from the fire.

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General and administrative expenses decreased approximately 48% for the three months ended June 30, 2020 compared to the three months ended June 30, 2019. The suspension of activities under our Operations, Maintenance and Management Agreement with Veolia reduced Company payroll and improvements in nearly all other expense categories throughout the decrease. We expect to further decrease general and administrative expenses during the year as a result of our move to a capital light strategy.

For the three months ended June 30, 2020, the Company had a net loss of \$3.98 million or negative \$0.07 per diluted share, compared to a net loss of \$7.5 million or a negative \$0.21 per basic and diluted share in the three months ended June 30, 2019.

Net cash using operating activities for the three months ended June 30, 2020, was approximately \$4.1 million. Included in cash outflows from operations for the quarter was approximately \$1.2 million through outstanding payables and for general working capital purposes.

Our monthly cash burn rate during the quarter which includes monthly plant (phon) expenses and corporate overhead was approximately \$725,000 per month, as compared to approximately \$830,000 per month in Q1, and approximately \$2 million per month in the prior year. This decrease was the result of significant action taken after the November 2019 fire event. We may see a slight reduction in cash burn in the second half of the year. We anticipate after selling the plant and paying off our note with Veritex that we will experience other meaningful reduction in cash burn.

As of June 30, 2020, we had collected a total of \$15 million in insurance proceeds. Our process with insurance carriers includes submitting details, including invoices, quotes, assessments, drawings, and pictures which represents a significant portion of our insurance claims for equipment and building damages. Recently we have had several meetings, both virtually and in person, with insurance carriers. We are currently preparing additional assessments such as a third-party assessment of damaged equipment and ongoing expert analysis. We continue work with our public adjuster who represents the Company in our claim and is very active with their team of experts. As I mentioned, we expect to see additional payments in the coming months and will update you as proceeds are received.

In closing, we continue to feel confident about our financial position and runway in supporting the Company's go-forward goals. Over the coming months we intend to seek funds primarily from insurance proceeds and the sale of assets that is not required for our accelerated capital-light strategy.

With that, I will turn it back to Steve for closing comments.

Steve Cotton

Thanks, Judd.

As I have stated before, we believe Aqua Metals has demonstrated that our technology is proven and can produce the worlds purest recycled lead that will be sold at a premium by our future licensing partners, and there is opportunity for battery manufacturers to make premium products. We are working very hard on achieving our first licensing deal. I am more confident every day that our solid team's execution is a harbinger of our future success, and our morale and teamwork as an organization is at an all-time high. We will probably run into a hurdle or two, but this team has proven it can clear hurdles.

We look forward to continue providing incremental and meaningful updates as we continue to make progress. Please watch the Aqua Metals Twitter and YouTube channels as we continue to provide supplemental information through those venues.

I will now turn it back over to the Operator to facilitate the Q&A portion of our call today.

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Operator

Thank you.

We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Steve Emerson from Emerson Investment Group. Please go ahead.

Steve Emerson

Yes, thank you. Excellent progress. You referred to three versions of (inaudible). Does that mean you're working on the third version now, or there are two more versions after both? One you completed to go in the second half of the year.

Steve Cotton

Yes, Steve, thanks. The first iteration V1.25a has been running, and that is what we have been reporting on, and it has been running—improvements over even our expectations and schedule. The b version we anticipate to remain ahead of schedule as well, and that second electrolyzer will be deploying soon, and that has primarily, as I was mentioning, the tank/frame improvements.

Now, while that unit is running, we are finalizing the work on L and that will be the L version, and that will include all the data logging and remote monitoring portal and some other improvements that we are making with that iteration. So, we are kind of working on all of them at the same time, but really will be running one at a time serially. Once we start running b, we will run b, and then once we start running L, we will run L.

Steve Emerson

Okay, and are you at this point ready to comment on, with your new version, latest version, what your efficiency or any metric that the possible licensees are looking for, and one metric perhaps that is your goal that really becomes sort of a metric you need to achieve for these customers to license in?

Steve Cotton

Sure, so the metrics that we are going for are to reduce the capital cost as well as the operational cost to run the machines and improve the uptime, so the overall value proposition is improved. We do feel that the value proposition as it stands now is great, and we are trying to make it even better, and so in other words, the metrics around where we are today, we believe fits the model for licensing anyway, but for the program to allow us to improve that value proposition even further, we find this very important to do that, and we need to finalize the actuals as we then begin the negotiations.

So, as I mentioned earlier, we will finalize those metrics, and that is direct input into pricing and all the factors associated with the negotiation phase with the various licensees. So, it is like you are working on a car, and you don't have the final horsepower and miles per gallon yet, and that is what we are finalizing now with these electrolyzers and with this program. Hopefully that answers your question, Steve.

Steve Emerson

Okay, thank you very much. Excellent progress and when finally, after you have now collected \$15 million you are expecting to collect or you're applying to collect \$30 million more, as far as I understand it, and how much in asset sales if you could give us a range?

Judd Merrill

Steve, this is Judd. I can probably answer that question. We have collected the \$15 million we discussed and have over \$30 million in claims that we have made on the property and equipment and cleanup. So, we expect to collect more on that over the next few months. We also have a business interruption claim that is above and beyond that amount, and so that is in play and so there should be some additional dollars coming from that as well. So, our total of (multiple speakers).

Steve Emerson

Okay, wait. Okay so the business interruption is part of the \$30 million, or would be in addition to the \$30 million replacement?

Judd Merrill

The \$30 million is property plant equipment only. So, it would be in addition to that.

Steve Emerson

And how big is that possible claim?

Judd Merrill

We haven't really disclosed that. There is a lot of negotiation going on with insurance carriers right now. It is a little less easy to identify, but it could be a few million to several millions of dollars. (Inaudible).

Steve Emerson

Excellent, that gives us a ballpark. Thank you again.

Operator

Thank you. Once again, if you have a question, please press star, then one on your telephone keypad now.

The next question comes from Steve Krueger of Foresight Investing. Please go ahead.

Steve Krueger

Good afternoon, guys. Thanks for taking my question. Are you far enough along in your discussions with any perspective licensees that are talking about building a greenfield facility, a new facility? If so, can you give us any kind of color on what the design of that would look like in general terms? I know you and I have discussed the idea that the AquaRefining process is best suited to only about 50% of the lead compounds coming out of recycled battery and just wondering if anybody's actually working on a design that would include a smaller, less expensive, less polluting smelter to process 50% of the lead stream and then AquaRefining modules to process the rest.

Steve Cotton

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Yes, Steve, that's a good question. So, in terms of designing AquaRefining in from a ground up, greenfield type of a build, we are talking to a couple of players. In fact, in different continents even about that kind of design in type of a function with a new facility. So just as, if you remodel your house, you have some limitations in terms of how you would exactly put in an addition in those types of things. The benefit, obviously, when you are building a greenfield is you can design in everything together. So, that keeps it interesting, but effectively it's the same outcome in terms of process flow. So, you still have the battery breaker, and separation system, taking the metallic lead and sending it off and to cleanly process through the furnaces, and taking the paste and sending it through the AquaRefining process.

But with the greenfield build, you do have an opportunity to think things in terms of the physical process flow and layout of the plant to make it a little bit more efficient to do so when you design it in, which is great. So, we find those opportunities just as interesting as the Bolton (phon) and upgrade opportunities. And fortunately, as you look across the various markets in the world, there are greenfield design opportunities, there are plenty of Bolton opportunities, as we discussed in the past. And so, it provides us different applications to apply the AquaRefining technology.

Steve Krueger

I guess I am still a little unclear on whether or not there are any prospective licensees that you are actually in discussions with that have a design that incorporates both smelting and AquaRefining.

Steve Cotton

We are in discussions with potential licensees both for greenfield and for Bolton and are (multiple speakers).

Steve Krueger

Do the greenfield opportunities have a design that would include both smelting and AquaRefining?

Steve Cotton

The ones that we are talking to do, yes.

Steve Krueger

Okay, great. That is the answer. Thanks very much, Steve.

Steve Cotton

Yes, great. Thanks.

Operator

Thank you. Once again, if you have a question, please press star, then one on your telephone keypad now. This concludes the question-and-answer session.

I would now like to turn the conference back over to Mr. Steve Cotton for any closing remarks.

Steve Cotton

Thank you, Operator. Thanks, everyone, for your time today, and we really do appreciate the continued support from our shareholders as well as our partners as we continue our V1.25 program etc. As always,

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we will continue to update everybody in the coming weeks and months as we make progress on the V1.25 program, and we will continue to manage our cash position with insurance collections and asset disposition. We will report on continued commercial progress with our existing partners as well as potential developing partners in the future. Thanks again, everybody, and hope everybody has a great and safe day.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.