

ENERGY RECOVERY, INC.
2020 Annual General Meeting
Script

Intro / Water

As we begin our fifth month of the Coronavirus pandemic in the US, I remain confident in Energy Recovery. I proactively positioned the company to be able to operate in our new normal, and we continue to operate safely and effectively at full manufacturing capacity as of today. We are taking care of our customers, fulfilling sales orders and protecting the lives, and livelihoods, of our employees. We remain financially strong, with a solid balance sheet and plenty of cash reserves.

To date, the desalination industry has remained strong and long-term trends remain intact. We are in the midst of a secular shift in desalination demand as water needs grow globally due to climate change, increased population growth and industrialization. This demand comes down to the basic difference between wants and needs – people need water even during an economic crisis.

Desalination is a key answer to these acute water needs in countries around the world, and we are proud to play an important part in providing clean, fresh water to millions of people.

In addition, the ongoing technology shift from thermal to reverse osmosis desalination continues, providing a strong fundamental catalyst for growth in the

R/O industry with a potential market of roughly half a billion dollars for Energy Recovery.

In short, desalination is not going away, and despite some uncertainty as we look at the next 12-18 months, we still believe that the long-term growth we have communicated in past quarters will remain in place. The desalination industry is in a fundamentally strong position, and we are ready to help serve this market as it continues to grow and meet the demand of people all over the world.

Oil & Gas

And now I will turn to Oil and Gas.

Let me be clear, the VorTeq is in a fundamentally stronger position than it was when I became interim CEO eight months ago. We have solved every major technical challenge we have faced. At our field test in June, Liberty witnessed firsthand that the technology works and that we can successfully integrate the VorTeq with Liberty's software, equipment and frac crews. Liberty also saw that the VorTeq will not impede frac operations nor cause a failure to a job – satisfying customer safety and quality concerns is a critical milestone to getting to a live well frac.

This opinion was echoed by Liberty's President, Ron Gusek, when he stated, "We are excited about the results we've seen in Texas and we are working with Energy Recovery and our customers to move the VorTeq to a live well. During the most recent field tests we have been able to better appreciate the potential of the VorTeq and its ability to be integrated into the existing frac spreads."

We all recognize that the VorTeq path has been a tough one, and it has taken longer and cost more than originally planned. One thing that has not changed, however, is the need for frac operators to protect their valuable high-pressure pumps. Incremental improvements have been made in pumping technology since 2015, but the real solution is to allow pumps to do what pumps do best – pressurize and pump water, not sand. We continue to believe the VorTeq is this solution.

With this belief firmly in mind, we approached our former licensing partner to establish strategic and logistical alignment as we looked towards commercialization. However, as reported in a recent press release and discussed during our last investor call, ERI and Schlumberger agreed to an amicable termination of the exclusive licensing agreement due to different strategic imperatives. To be frank, this termination was the best possible result for ERI given the recent upheavals in the oil market and the changing landscape in North American frac, including our former partners' reduced presence in that market. We now have the freedom to approach the entire pressure pumping market, and to work with enthusiastic partners like Liberty, and others, to realize the potential benefits of the VorTeq for the shale frac market. While exiting this contract may seem to add some uncertainty as to how the VorTeq's potential will be monetized, there were obvious limitations in remaining within an agreement that provided little potential for ERI. We are comfortable with the path chosen, and confident in our ability to execute provided the final hurdles to commercialization are resolved.

On the call on June 30th, I discussed two critical advancements we have made in the VorTeq. First, we processed sand concentrations more than double that originally envisioned by the system. I cannot overstate the importance of this accomplishment. The higher the sand concentration, the fewer pressure exchangers that are needed on a frac site, and the lower the cost to ERI and our customers.

Second, the VorTeq skid model we tested with Liberty and have since posted to our website will be our production model 1.0. It is an elegant, simple single PX skid solution which takes advantage of these higher sand concentrations. This more compact solution is less costly to produce with reduced lead times and has a smaller footprint and is therefore less intrusive to frac operations. In addition, this model allows operators the freedom to scale the VorTeq up or down to configure their jobs depending on their needed flow rates, pressures, and overall job configuration.

In short, the technology is advancing, and we are confident where we stand today. That is not to say that risks do not remain. Before we can commercialize, we must pass three key hurdles. First, we must successfully frac 2-3 live wells to ensure the VorTeq is operating as needed repeatedly. Second, we must reconfirm, with live well data, the value proposition for our customers. And finally, we must increase the life of the PX cartridges themselves to ensure that the product is creating value for Energy Recovery. At the end of the day, if we cannot clear each of these three hurdles, we will not proceed with commercialization and will stop investing in this effort.

At our earnings call in two weeks, we will discuss these remaining challenges in more detail. Our goal is to provide shareholders the ability to understand our progress, and the logic of future decisions on the VorTeq we will make in the coming months.

Incubation

The lessons we have learned from VorTeq in working with such high pressures and harsh fluids will serve us well going forward. We have challenged the limits of the PX and established the sandbox in which we will focus future development and applications. This versatile technology has proven it can operate under pressures from 1,000 PSI to 10,000 or more, and can handle liquids as mild as sea water to those as harsh as the fluids in hydraulic fracturing. We have identified potential industrial applications in a variety of industries, including but not limited to water or oil & gas, simply by modestly increasing the lower end of our operating pressures on the PX. We are not a water company nor are we an oil & gas company – we are a PX company. We are *the* pressure exchanger experts and that expertise will drive the future growth of our company.

As I have said before, we will approach growth in a disciplined way. This includes taking a rigorous approach to new product introduction that promotes efficient spend and close alignment between functional business areas. Our focus is to deliver commercial results quickly or, alternatively, stop investing if market or technological conditions adversely change.

ESG

Growth also includes discipline around our operations. To this end, I am pleased to share that we will release Energy Recovery's first environmental, social, and governance report later this year. As we grow along with the install base of our pressure exchangers, we felt now was an appropriate time to launch our first ESG report. While our business has always been aligned with sustainability issues such as addressing global water scarcity, our ESG report reflects our commitment to continuous improvement in this area. We are early in our ESG journey and look forward to your input once our report is public.

Thank you.