

InstarAGF Asset Management

Midstream roundtable: Delivering solutions for a changing industry

How can businesses adapt to address environmental, social and governance opportunities? Investors and operators agree, the future of midstream will rely on flexibility, customer service and enhancing efficiencies.

Jonathan Stone: *Today we are going to discuss midstream energy with two experts who have been operating in the industry for over a decade and providing very different services that help to lower the net environmental impact of oil and gas production. Scott, Chris, what are the biggest trends you see shaping midstream infrastructure development and management?*

Scott Southward: I would say one of the biggest trends in midstream infrastructure — and the oil and gas industry, in general — is the demand from regulators and other stakeholders for companies to become more socially conscious and to reduce our emissions and overall environmental footprint.

Our core focus is the recovery of associated gases currently being flared or vented to the atmosphere as part of the oil extraction process. We continue to develop a strong niche market that's keeping pace with regulatory changes and trends, and solving an environmental challenge for our customers.

Stone: *The World Bank estimates that gas flaring in the United States rose almost 50 percent in 2018, reaching around 500 billion cubic feet. Has the capture rate increased at the same pace in the Western Canadian Sedimentary Basin and Bakken resource play, where your operations are focused?*

Southward: We are capturing more and more gas every day, but there is still a lot to be done. In our focus area, there is almost 300 million cubic feet a day of gas being flared that needs a home. Regulators and companies like Steel Reef are busy trying to catch up to production and meet this demand by supplying reliable infrastructure to address increasing activity.

Stone: *Chris, are you seeing something similar in the produced-water space?*

Chris Cooper: We're definitely seeing regulators, customers and investors approach businesses with a growing focus on environmental, social and governance (ESG) issues. Both gas and water are essentially viewed as waste streams to the oil industry today, so companies offering solutions to improve efficiencies and better manage environmental impact are seeing huge opportunities.

Within midstream infrastructure, you are taking the goal for more sustainable and environmentally friendly energy and applying it to two precious resources — gas and water — that are either being flared into the air or disposed back into the ground. There is no questioning the room in both spaces to do something better and more productive with those precious resources.

Stone: *From an investor perspective, we are seeing the industry move toward setting global standards and encouraging corporate stewardship, with organizations like the United Nations-supported Principles for Responsible Investment growing to include more than 2,000 companies, including InstarAGF. How*

INVESTOR – Essential Infrastructure



Jonathan brings more than 20 years of experience as a financial adviser, equity sponsor and contractor, most recently serving as managing director and co-head, energy, infrastructure & utilities EMEA at Scotiabank.

Jonathan Stone, Partner, InstarAGF Asset Management
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OPERATOR – Flared Gas Capturing



Prior to co-founding Steel Reef, Scott spent 12 years establishing a diverse set of commercial, financial and business development skills for managing capital in the midstream sector, serving in senior development roles at Keyera Corp., BG International LTD. and SemCams.

Scott Southward, President & CEO, Steel Reef Infrastructure Corp.
www.steelreef.ca

OPERATOR – Produced Water Solutions



Prior to founding OWL, Chris served as CEO and founder of Oilfield Water Lines LP, CFO of Charis Partners (Nuverra), and spent a decade in private equity investments and as a consultant with Ernst & Young.

Chris Cooper, CEO, Oilfield Water Logistics
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has this shift toward transparent sustainability impacted expectations or conversations from an operator's standpoint?

Southward: Around 95 percent of what Steel Reef focuses on is the recovery of flared gas — gathering it, processing it and getting it to market in the most efficient way possible. In that way, ESG has always played a large role in our operations. We've inherently been focused on ESG matters, but I see they are increasingly coming to the forefront of almost every conversation.

It's an incredibly positive development for our industry, in general, because it promotes knowledge sharing and highlights the great work companies have been doing in the sector to find efficiencies, manage our environmental footprint, support employees in their individual growth plans and ensure safe, reliable operations.

Cooper: It also creates a great environment for companies like ours, which really focus on solving these problems in the industry.

As an example, energy generation, in particular, is very water intensive. The U.S. Energy Information Administration

projects 20 million barrels of water per day are produced from exploration and production (E&P) activities in major U.S. basins, historically being put right back into the ground. Efficiently managing the staggering volumes of water in an environmentally sensitive, sustainable way plays an important part in our business, as water becomes a scarcity.

Stone: *It sounds like you are both working to do things better in the oil and gas industry. While there may be room to further enhance these efforts, what is the biggest misperception your businesses currently face?*

Southward: Although the gas we capture is generally considered a waste product, we are actually increasing our clients' net backs by recovering this gas and getting it to the market. Not only are we doing the right thing, but it is also making these organizations more profitable, so they can continue their development. It's a win-win situation.

Cooper: It is a similar case in water. By recycling much of the produced water across the Permian Basin instead of disposing of it, we are providing that resource and reducing the reliance of E&P companies on fresh water and acquisition costs surrounding it.

Midstream infrastructure plays a key role in helping traditional oil and gas companies improve environmental footprints, increase cost efficiency and create new revenue streams.

Stone: *And increased safety — because that is a lot of produced water moving by pipeline rather than truck trips.*

Cooper: That's right, we're taking an industry that used to be entirely trucked, risking daily fatalities, and, at least in OWL's footprint, making it entirely piped. We've taken 4,000 truck trips per day off the roads, creating a yearly CO² reduction equivalent to more than 200,000 tons. So we're not only removing the inefficiencies and expenses around trucking water, but our pipeline system is also taking a huge carbon footprint off the map.

Stone: *What I have always liked about your businesses is that you are both very customer focused. How are you seeing these trends play out at the customer level?*

Cooper: Customers today are looking for a longer term perspective. One of the largest oil companies in the world is very active in the Permian Basin, and they need a partner to work with them over the course of a 30-year business plan. To build the kind of infrastructure that can handle a multi-decade program like that requires a lot of capital and strong relationships.

With the right alignment of interest, our customers can focus on what they do best and trust us to take care of their water in sustainable and responsible ways.

Stone: *Scott, are you seeing similar trends in your space?*

Southward: Absolutely. We have always been customer focused, and I truly believe this has been a real strength over

our peers. There are fewer profitable basins within North America than there used to be. That has led to a good amount of competition within these basins.

Echoing what Chris mentioned, this fluctuating price environment has really caused everyone to sharpen their pencils and get back to what they're best at. For producers, that is drilling wells; for Steel Reef, that is recovering gas and processing it and getting it to market. Every aspect of the midstream space is looking to be as efficient as possible. Our clients want to do business over the long term with people they trust and feel familiar with.

Stone: *As new technology and changes in regulations and the environment continue to reshape the marketplace, what does a viable sustainable midstream business model look like?*

Southward: Energy will always need investment to get to market. Whether that will be in oil and gas or not will depend largely on how rapidly the world develops realistic, reliable and economic alternative energy sources to start reducing the market share.

At this stage, the world is using more and more energy. Hydrocarbons play a major role on this. I don't see the industry tailing off but rather strengthening and becoming more efficient.

Stone: *One of the trends we have been observing is the development of midstream to blend traditional hydrocarbons with renewable hydrocarbons, at least until we can find that alternative energy source to change over a century of using hydrocarbons the way we have. My observation is that the future of midstream is about continually doing it better, whether it is across new efficiencies, gas capture, finding better ways to manage the water, committing to better reporting or bringing more focus to ESG.*

Southward: And let's not forget that hydrocarbons provide far more than just a source of energy.

Stone: *Chris, do you have a slightly different take on it because you are providing a midstream water solution to exploration and production players? It would be great to hear your perspective on the future of water management.*

Cooper: Like Scott said, the midstream water industry is about efficiency and reliably serving our customers. I think these projects are also becoming bigger and longer term. From an ESG perspective, as the scale of these projects increases, so does the impact on communities and the environment.

The shift in focus is already very apparent: Produced water has moved from what used to be an old truck-service business to midstream gathering, and now to recycling and reuse. In New Mexico, for example, we are looking at not only recycling the water for the oil industry, but also recycling and recharging aquifers for future water supplies for communities. There is a lot to be done, and it is an exciting time to be in this space.

CORPORATE OVERVIEW

InstarAGF is building a North American investment platform focused on infrastructure, real assets and private equity investments in the middle market. Our team's significant depth of sector and investment expertise, relationships, and global reach empower InstarAGF to help investors meet their investment goals.

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