



LAGOON

WATER MIDSTREAM

ESG REPORT

20
22

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LETTER FROM OUR CEO

Much has changed at Lagoon Water Midstream since issuing our ESG report for the 2021 calendar year. Although we remain one of the fastest-growing water midstream companies in the country, we have executed a critical step in our long-term strategic vision by focusing our efforts on the Midland Basin in Texas.

While our roots and headquarters remain in Oklahoma City, we have successfully repositioned our capital to focus on one of the most active basins in North America. **Divesting all our Oklahoma assets was the right move to capitalize on the tremendous growth potential in Texas to benefit our company, clients and stakeholders.**

We have boldly entered a new phase while remaining true to our dedication to doing what is right, even when it is not easy. We remember that safe, responsible operations are part of being a great company.

This report highlights our dedication to keeping environmental, safety and governance (ESG) excellence at the center of all our operations.

You'll find more details in this report, but here are some highlights:

- We intend to be among the first water midstream companies in the region to purchase renewable energy credits for 100% of our Scope 2 emissions by January 2024. Purchasing credits from our Texas power provider does more than offset our emissions – it also increases the amount of renewable energy available in Texas. We remain on track to reach **carbon neutrality by 2030 and net-zero emissions by 2040.**

- **Our streak of days without a recordable injury reached 1,303 by the end of 2022**, and we have never had a reportable employee injury, despite exceptional growth and a demanding pace of operations as we deployed and expanded our infrastructure. Many companies would deem it practically impossible to reach nearly four years without an injury. However, we've demonstrated that it can be done, and we look forward to continuing our record of zero employee injuries.
- We have additionally gone **3.5 years without a lost time incident**, another impressive feat.
- Our ESG journey and progress is verified by independent third parties. In fact, GRESB – an internationally recognized validator of ESG performance and peer benchmarking – assesses our ESG programs annually, and **in 2022, our GRESB score climbed from 87 to 96**, placing us as the highest-rated U.S. natural resources transportation company!

None of these achievements came easily. It required every employee and contractor to focus on excellence in every activity, every day. From our Board to our team in the field, we are all committed to the same goal and proud to see concrete evidence of our progress.

We look forward to sharing our successes with you.

KEVIN LAFFERTY

*President & CEO
Lagoon Water Midstream*



ABOUT LAGOON WATER MIDSTREAM

Founded in 2017, Lagoon is a premier water midstream company providing exceptional service to customers in Martin and Midland counties, Texas.

We provide full-cycle water management solutions to our customers, from initial water sourcing for stimulation jobs to gathering, disposal and reuse.

Lagoon operates expansive midstream water infrastructure, including developing Oklahoma's first commercial recycling facility before shifting our focus exclusively to the Midland Basin. We are one of the fastest-growing companies in the region, with disposal volumes increasing five-fold in 2022.

Lagoon is committed to best-in-class service for our customers, continual growth for our investors and reducing point-source emissions by replacing truck traffic with underground pipelines.

OUR CULTURE OF EXCELLENCE CHAMPIONS:



SAFETY



FAMILY



COST
CONSCIOUSNESS



INNOVATION



PRUDENT
ENVIRONMENTAL
STEWARDSHIP



COMPANY VISION

Build a best-in-class company with dedicated people focused on safety and service to our employees and customers.

We are focused on helping our customers solve their water management needs while providing best-in-class environmental stewardship and safety. Our leadership team has both exploration and production and midstream experience, allowing us to anticipate the market's needs, react quickly and provide services with the operator in mind.



Most assets are located in Martin and Midland counties, Texas, the heart of the Midland Basin.

100+ miles of active pipeline in the Midland Basin, roughly 80% of which was built in 2022

99% SWD uptime (above industry average)

144 Mbb/d operated SWD capacity, with planned expansion to ~300,000 Mbb/d in 2023

Multiple interconnected and strategically located pits and third-party saltwater disposal facilities



FINANCIAL STABILITY

Through a 10-year, \$5 billion fund, Macquarie Infrastructure Partners has committed up to \$500 million to Lagoon. We are in Year 5 of the partnership.

The company's financial backing helps us provide stability and ongoing support for our customers and the neighbors who live in our operating areas. Backing from Macquarie means our company can focus on building long-term value.

\$500M

COMMITMENT

From Macquarie
Infrastructure Partners



OUR CORE VALUES



SAFETY

Staying safe is at the forefront of everything we do



SERVANT MINDSET

Serving our customers, our community and our employees



STEWARDSHIP

Being good stewards of our environment and corporate resources



INTEGRITY

Doing the right thing, even when no one is looking and even when it's difficult



FOCUS ON PEOPLE

Treating others with dignity and respect

HEALTH, SAFETY & ENVIRONMENT

At Lagoon, safety isn't just about regulations and procedures. It's a core part of our culture. Our health, safety and environment (HSE) stewardship starts with our leadership team. HSE influences our hiring decisions and is emphasized consistently in our work.

We are committed ethically, financially and personally to achieving a work environment where employees and contractors return home safely to their families every day.



19,200

METRIC TONS OF CARBON DIOXIDE AVOIDED AS OF DECEMBER 2022

Metrics increase daily

Lagoon transports over 100 million barrels of water through ~100 miles of pipeline. In 2023, we are projected to reuse ~70% of the total water we receive and dispose of the remaining 30%. Essentially, rather than injecting water into our SWDs, we are returning water back to operators for reuse in oil and gas operations. All of this is possible due to the tremendous effort put into building out our water system in 2022.



LAGOON
WATER RECYCLING



OUR COMMITMENTS



Health & Safety

Keeping safety at the forefront of everything we do is a core value and is foundational to Lagoon's culture. HSE success is an unambiguous measurement; it is achieved when each of our employees and contractors returns home to their families in the same condition as they arrived to work. We strive to achieve this goal through our HSE management system, which comprises four key elements: leadership, process, monitoring and reinforcement. Our plan lays out the road map for how Lagoon can achieve best-in-class performance.



Competency

To promote our HSE culture, we strive to attract, develop and retain individuals who share our core values. A vital aspect of this is ensuring our employees are equipped with the proper tools and training to guarantee they each have the required skills to perform their work safely and competently. All employees and contractors attend a robust HSE orientation and are required to participate in annual safety compliance training.



Compliance

Compliance is rooted in our corporate values, and we are committed to conducting our business in accordance with all applicable HSE laws, rules and regulations. Often, Lagoon goes beyond regulatory requirements to adopt industry best practices because we believe protecting people and the environment is about more than just meeting regulatory requirements.



Contractor Management

Everyone working with Lagoon, including contractors, is responsible for achieving HSE excellence. Thus, we implement a robust contractor selection process through ISNetwork, a global leader in contractor and supplier information management. ISNetwork, among other criteria, vets contractor HSE performance to ensure top-quartile results. Once hired by Lagoon, contractors must participate in our thorough hiring and onboarding process, which includes management expectations meetings, HSE orientation and subsequent vendor performance meetings.



Environmental Stewardship

We embrace our responsibilities as stewards of the environment and embed climate-related risk analysis into our business planning. Utilizing well-established engineering controls, our facilities are fully automated and designed with oversized containment to minimize discharges, including discharges to navigable waters, and are continuously monitored and regularly inspected to reduce fugitive emissions. We are leading the industry with a strategic plan, approved by our board of directors, to achieve carbon neutrality by 2030 and net-zero by 2040.

FOCUS ON SAFETY

1,303 DAYS

At the end of 2022, Lagoon achieved a significant milestone: 1,303 days without an OSHA Recordable Injury for employees or contractors.

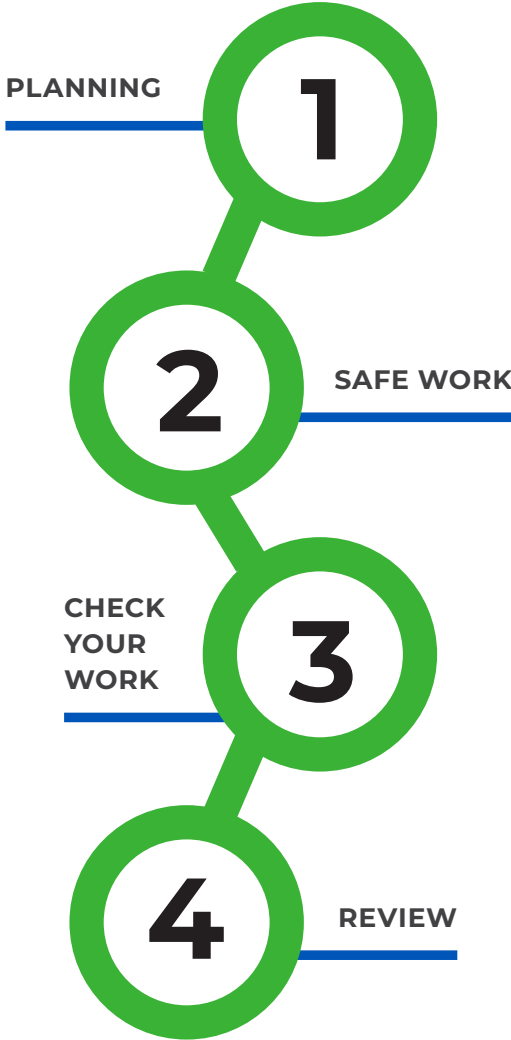
This accomplishment would not be possible without the dedication of each employee and contractor to Lagoon’s core values and always keeping safety at the forefront of everything we do.

Every Lagoon employee and contractor is empowered and obligated to stop work any time they feel it is unsafe – without fear of retribution.

All incidents, near misses and good catches are reported immediately so we can improve our operations and mindset. This is also why we went 3.5 years without a lost time incident.

As part of our safety-first culture, Lagoon places special emphasis on several critical areas, known as “**Lagoon Life-Saving Rules.**”

SAFETY STEPS



LIFE-SAVING RULES

Every employee and contractor working on these tasks follows specific rules and procedures, in addition to basic safety precautions. We believe all accidents are preventable, and we do everything in our power to make sure they don't happen. We will never compromise safety in the execution of our business.

Before work, all Lagoon safety-sensitive employees receive OSHA 10 or similar training, drug and alcohol screening and information on first-day expectations.

Our safety culture is paramount, with discussion and training ongoing. Our high standards in these areas extend to all contractors and anyone working with Lagoon.

We expect everyone on our team to build their on-the-job knowledge to make each day safer than the one before.

With this commitment, we achieved 1,303 days without an OSHA recordable incident in 2022.



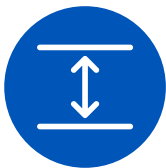
SAFE DRIVING

Follow safe driving practices, avoid distractions and stay aware of road conditions



LOCK-OUT, TAG-OUT

We will isolate, de-energize, lock out and tag out all energy sources as required when performing work



WORK AT HEIGHTS

Protect ourselves and others by taking effective precautions when working on any surface above 4 feet



PRE-JOB PLANNING

Proper job planning, hazard assessments and communication leads to a safe work environment



LIFTING OPERATIONS

Follow OSHA crane specifications, follow general lifting plan and inspect rigging



TRENCHING/EXCAVATIONS

Prior to digging, Lagoon requires the use of State One-Call Notification and Job Safety Analysis & Evacuation Checklist

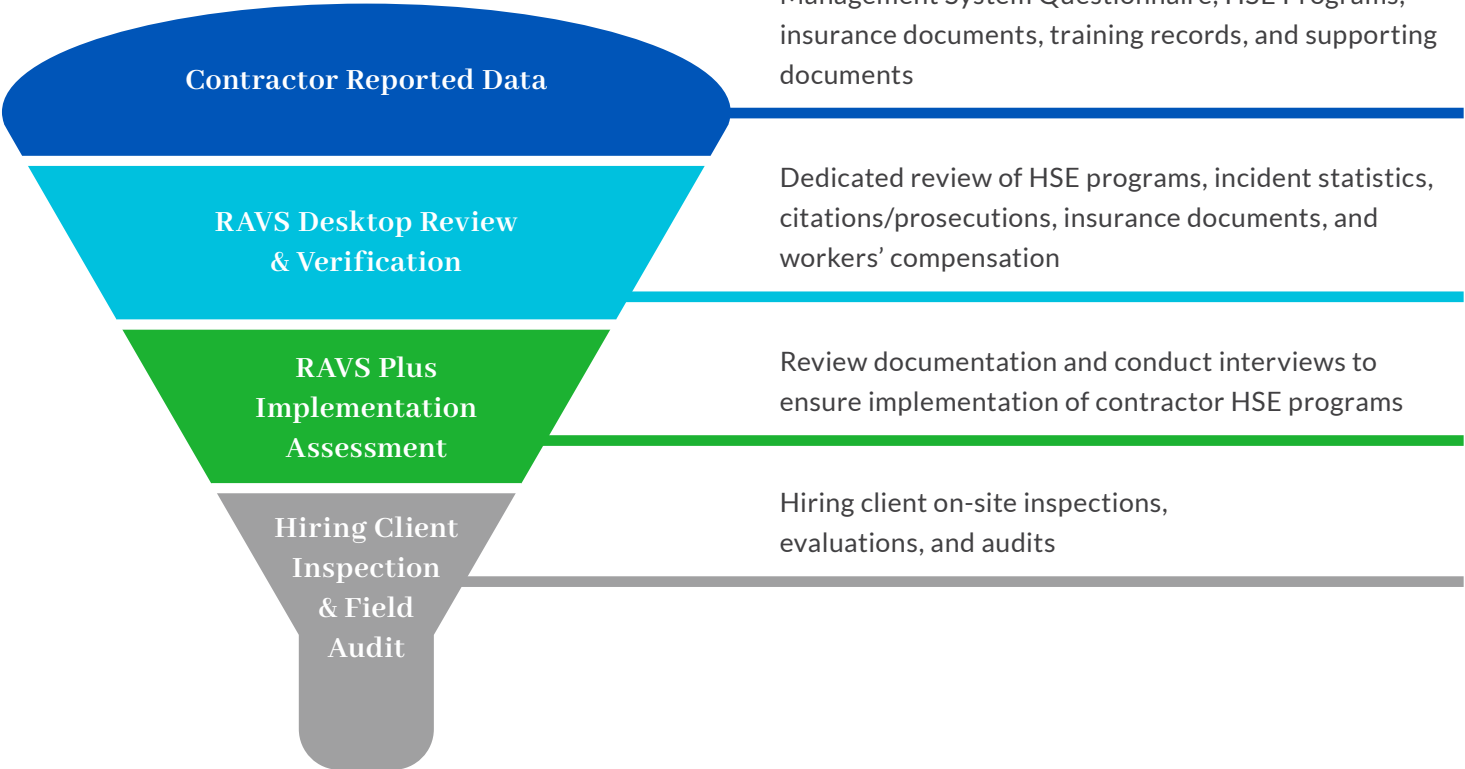


CONFINED SPACES

Confined space entries are not performed without proper training and pre-job planning

RAVS PLUS AUDITS

Every year, we perform a RAVS Plus Audit on each of our contractors through ISNetworld. The annual deep-dive analyzes programs and procedures to ensure compliance with all Lagoon policies and best practices. This independent third-party verification provides an additional step to ensure contractors are meeting Lagoon’s HSE expectations.



LAGOON BENEFITS

- Provides an additional level of third-party verification regarding program implementation
- Provides opportunity to host interviews at our sites
- Helps contractors improve

CONTRACTOR BENEFITS

- Provides one evaluation for all ISNetworld Clients
- Provides feedback on open items to drive continuous improvement
- Offers access to a dedicated team providing assistance and sample resources
- Includes additional marketing benefits through a RAVS Plus contractor icon

ESG PLUS AUDITS

We also conduct a deep dive into the ESG performance of each of our contractors, as we consider them valued partners in our journey towards a more sustainable, transparent and inclusive workplace.

ISNetworld coordinates and completes the assessment process for each of the companies.

The objective is to assess implementation of ESG programs and include the following key elements:

- Review written ESG policies and procedures
- Evidence of ESG key performance indicator tracking, such as energy consumption, waste generation and gender breakdown
- Evaluation of employees' ESG knowledge
- Interview and feedback by an ISN sustainability professional with company management

Following the implementation period, ISNetworld:

- Reviews assessments and evaluates the completeness and accuracy of documentation
- Interviews the contractor's management team and reviews open items and areas of opportunity



CONTRACTOR MANAGEMENT

A critical aspect of safety is managing contractors through ISNetworld. Lagoon has robust expectations for our contractors, and ISNetworld scores potential contractors and subcontractors against our standards.

Our customized, weighted scorecard incorporates a wide variety of measures: training documents, written programs, experience, citations, fatalities, lost time rate and total recordable injuries. Our process also requires an ESG culture questionnaire – which is rare in our industry – ensuring potential contractors have programs in place to capture emissions and water usage data. Companies that do not complete this part of the assessment receive a 0 overall and are ineligible to work with us.

We only work with rigorously vetted companies; Lagoon meets with contractor managers before work commences to set clear expectations for HSE and ESG performance. Vendor performance is tracked through field audits and biannual meetings.

SAMPLE ISNETWORLD SCORECARD

Grade Scorecard			
Grade Component	Status	Points	Gaps
HSE Culture Questionnaire	Satisfactory	10 / 13	⚠️
Lost Time Case Rate (LTC)	Exceptional	10 / 10	✅
Total Recordable Incident Rate (TRIR)	Exceptional	10 / 10	✅
Days Away/Restricted or Transfer Rate (DART)	Exceptional	10 / 10	✅
Fatalities	No Fatalities Reported	10 / 10	✅
Citations	No Citations	5 / 5	✅
Experience Modifier	Rate is 0.70	5 / 5	✅
Training Documents	Training Documents score is 85.71	0 / 7	⚠️
Written Programs	RAVS score is 88.86	20 / 30	⚠️
Insurance	Current Documents are Not Submitted	-100 / 0	⚠️
Site Tracker	Status is Not Applicable	0 / 0	✅
TPS Alert DOT	Status is Not Available	0 / 0	✅
TPS Alert Non-DOT	Status is Not Available	0 / 0	✅
Environmental Questionnaire, ESG	Complete Questionnaire	0 / 0	✅
Ethics Questionnaire, ESG	Complete Questionnaire	0 / 0	✅
Human Rights Questionnaire (ESG)	Completed Questionnaire	0 / 0	✅
Total		-20 / 100	

FOCUS ON ENVIRONMENT

We don't just preach environmental stewardship. We make focused, strategic plans that will lower the impact of our operations on the environment.

Most importantly, our board-approved plan places us on a pathway to carbon neutrality by 2030, with an expectation that technological developments will get us to net zero by 2040.

Our Paris Agreement-aligned, net-zero business plan involves lowering our direct emissions (Scope 1 and Scope 2) through a wide variety of measures, including moving away from gasoline-powered vehicles. We will request and transparently provide third-party verification of our status through GRESB, including a third-party greenhouse gas audit.

When we operated in Oklahoma we sought to purchase as much renewable energy as feasible from third-party providers, as well as offsets and renewable energy credits (RECs) to account for the lack of renewable energy available in certain locations.

In Texas, we are on track to purchase RECs for 100% of our Scope 2 emissions by January 2024.



Additionally, beginning in 2025, we expect to transition 20% of our fleet each year to electric-powered vehicles and eliminate gasoline-powered vehicles by the end of the decade.



WHAT IS LDAR?

Lagoon's facilities are not considered "affected"; therefore, a leak detection and repair (LDAR) program is not federally required.

However, because of our great emphasis on emissions reductions, we made the decision to voluntarily and proactively implement an LDAR program to maintain our high standards.

LDAR uses an optical gas imaging system to detect fugitive emissions of methane and volatile organic compounds. This program helps reduce residual methane emissions, ensuring harmful gasses do not enter the atmosphere.

Most leaks are caused by seal or gasket failures due to normal wear of equipment. On an ongoing basis we quickly identify needed repairs and make improvements to hatches, connections and valves. This extra step helps keep the air clear for everyone in our community and reduces greenhouse gasses.

LEAK DETECTION AND REPAIR



**WE HAVE A ROBUST PROGRAM IN PLACE,
DESPITE NO FEDERAL REQUIREMENT**



**OPTICAL GAS IMAGING DETECTS METHANE
AND VOLATIVE ORGANIC COMPOUND EMISSIONS**



GEO-HAZARD RISK ASSESSMENTS



Prior to selecting a well site, we ensure we're not injecting it into a geologically sensitive area. Lagoon

works with multiple operators in the Midland Basin, along with the Railroad Commission, to identify and mitigate potential seismic risks.

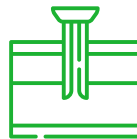
Lagoon-operated SWDs are shallow disposal wells and, accordingly, Lagoon believes its operated SWDs present a low seismic risk. Although this is the current understanding, our team works diligently to stay on top of the latest research and mapping in the area. Plans also are in place to install two Seismic Monitoring Stations on Lagoon locations to help expand the Tex-Net catalog.

Lagoon understands disposing only into the shallow strata comes with its own inherent risks. We utilize a multistep approach using reservoir characterization and volumetrics, among other steps, to vet all disposal locations for possible shallow hazards and potential capacity constraints.

NEXT, WE EVALUATE PROXIMITY TO:



Existing disposals into the same zone, including understanding cumulative volumes disposed in the zone and total permitted volumes in the same zone within the vicinity



Plugged wellbores, specifically wellbores without adequate plugging



Offset wells with tops of cement below the disposal zone



Production in any zones of interest for injection

The established vetting process is evolving as the Lagoon team learns more about identifying and mitigating potential hazards.



GRESB

GRESB provides validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and decision-making.

Lagoon chooses to participate in GRESB reviews to ensure we hold ourselves accountable for our ESG performance. In our 2022 assessment, our score increased from 87 out of 100 to 96, demonstrating clear improvements since the beginning of our GRESB program.

Lagoon is leading the way in this area. We are ahead of our American peers by choosing to participate. In 2022, we achieved a five-star rating, placing us as the highest scoring natural resource transportation company in the U.S.

GRESB Infrastructure is an internationally recognized, reputable sustainability benchmark tool. It is already widely utilized in Europe, and it's rapidly gaining prominence in the U.S. An annual assessment questionnaire provides a standardized way to measure sustainability performance.

GRESB synthesizes complex ESG matters and tracks performance and improvement. It provides a robust annual ESG health check and allows management teams to tailor clear action plans.



Additionally, we outperformed benchmark averages in all three categories — environmental, social and governance — and scored higher overall than 90% of participating entities across a variety of industries.

In fact, we received a perfect score in multiple areas, including health & safety; air pollution; greenhouse gas emissions; energy; and stakeholder engagement.

We outperformed our peer group average in 8 of 10 categories. This score is incredibly important to us, as it is a multi-step, thorough examination and is a long and difficult process.

We are exceptionally proud to be an ESG-centric company, and we look forward to continual improvement.

WHY IS GRESB IMPORTANT?

- Identifies strengths and opportunities for improvement
- Synthesizes complex ESG matters into achievable and understandable considerations
- Highly valued communication tool for investors
- Tracks performance and improvement, as well as insight into peers operating in the same sector/ industry
- Provides a robust annual ESG health check and allows management teams to tailor bespoke ESG action plans with clear targets for the year(s) ahead

Lagoon scored higher overall than 100% of participating entities in the following areas:





FOCUS ON PEOPLE AND COMMUNITY

Putting a Community Relations Team in place to support the communities in which we operate has been a priority since Lagoon's inception.

We are integrated into our communities, and we support programs that make a difference. Our team supports a wide variety of local nonprofits, including:

- REAL Single Moms
- Young Life Midland
- Rope Youth
- Down Syndrome Association of Central Oklahoma
- OK Fuel
- Midland YMCA
- Bynum School of Midland
- Oklahoma City Memorial Marathon

We plan to expand our efforts as our operations move into new areas and our company grows. We understand the larger we become, the greater our responsibility to the people around us – and the greater opportunity to serve others.



LAGOON WATER MIDSTREAM

**ESG REPORT
2022**

