AZURE MIDSTREAM

7th Annual Waxy Crude Workshop

Importance of Pipeline & Storage Infrastructure

Agenda

- Azure Midstream Enterprise Overview
- Project Snowboard Update
- Economics of Uinta Basin
- Importance of Pipeline & Storage Infrastructure
  - SWOT Analysis
- Recommendations

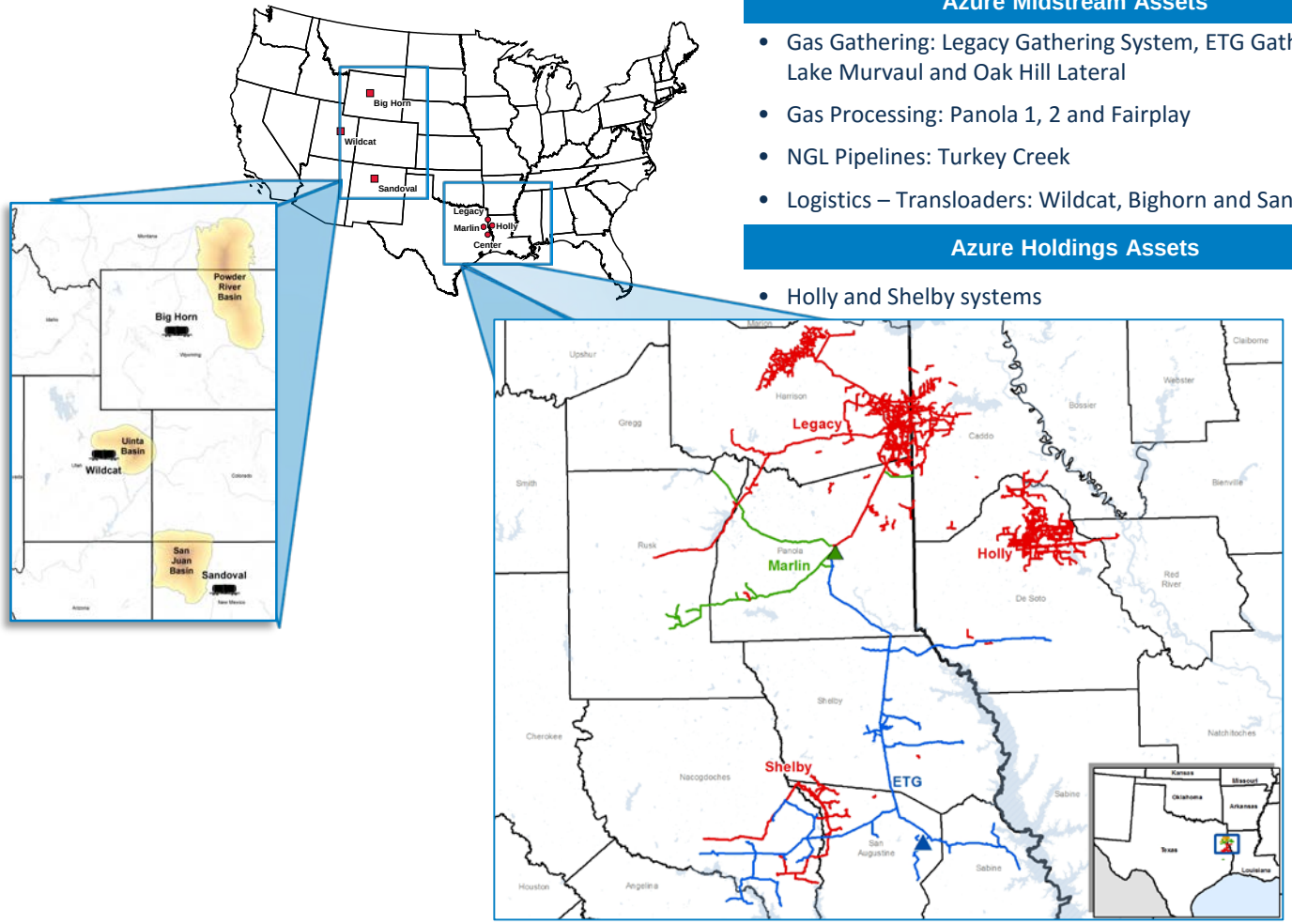
Azure Midstream Enterprise Overview

Azure Midstream Enterprise Overview

- The Azure Midstream Enterprise is comprised of
  - Azure Midstream Partners, LP (NYSE: AZUR); and
  - the parent company Azure Midstream Holdings, LLC ("Azure Holdings")
- The Azure Midstream Enterprise is a growth-oriented midstream organization focused on:
  - Owning, operating, developing, and acquiring midstream energy infrastructure located in core producing areas in the United States
- The Azure Midstream Enterprise will provide natural gas gathering, transportation, compression, treating, processing, NGL transportation, and crude oil transloading services in:
  - Prolific dry-gas Haynesville and Bossier shale formations
  - Liquids-rich high-Btu Cotton Valley formation, and
  - Crude oil fields in Utah, Wyoming, and New Mexico
- ~1,430 miles of pipeline with access to 17 major pipelines and plants (collective throughput capacity of ~3,500 MMcf/d)
- 3 crude oil transloading facilities
- 310 MMcf/d processing capacity
- 2 NGL transportation pipelines with 20,000 Bbls/d takeaway capacity

Azure Midstream Enterprise Overview

Gas Gathering & Processing in East TX & North LA and Crude Logistics in the San Juan, Powder River and Uinta Basins



Azure Midstream Assets

- Gas Gathering: Legacy Gathering System, ETG Gathering System, Lake Murvaul and Oak Hill Lateral
- Gas Processing: Panola 1, 2 and Fairplay
- NGL Pipelines: Turkey Creek
- Logistics – Transloaders: Wildcat, Bighorn and Sandoval facilities

Azure Holdings Assets

- Holly and Shelby systems

Azure Midstream Enterprise Overview

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I.J. ("Chip") Berthelot
President

- President of Azure Midstream since July 2012
- Founded Laser Midstream Company (Laser II), which developed a 1.4 Bcf/d gas gathering system in Northeast Pennsylvania and Southern New York
- Founded Laser Midstream Company (Laser I) which focused on natural gas gathering and processing in Texas and Louisiana and sold to Eagle Rock Energy Partners, L.P. in 2007
- President of a privately owned midstream company (2002 – 2004)
- Served as Chief Operating Officer, Executive VP, and a member of the Board of Directors at MidCoast Energy Resources, Inc, the predecessor gathering and processing business of Enbridge Energy Partners, L.P.

Amanda Bush
Chief Financial Officer

- >10 years of finance and accounting experience in the oil and gas industry
- Previously served as CFO of Spark Energy and Marlin Midstream Partners LP
- Former public accountant at PricewaterhouseCoopers, LLC
- Certified Public Accountant licensed in the State of Texas

David Garrett
VP - Commercial

- Vice President of Business Development for Azure Midstream since July 2012
- Senior Vice President for DCP Midstream Partners, L.P. (NYSE: DPM)
- 21 years with DCP Midstream as Director of Gas Supply and Commercial Vice President
- Previous roles at Texas Oil and Gas, Acadian Gas Pipeline and McRae Oil and Gas

Kipper Overstreet
VP - Pipeline Services and Engineering

- 17 years of leadership experience in financial and technical operations
- Previously served as Director of Operations for Azure Midstream
- Served as Director of Finance for TGGT Midstream, leading the company's finance team during asset sale to Azure
- Former Director in FTI Consulting's Corporate Finance practice, primarily advising energy companies

Victor Davis
VP - Operations

- Over 17 years of oil and gas experience, with a primary focus on midstream operations leadership
- Extensive experience in experience in project management and asset operations
- Previously served as Director of Operations and Operations Manger for TGG Pipeline

Project Snowboard Update

Jun '15 | Aug '15 | Sep '15 | Dec '15 | Jan '16 | Feb '16 | Apr '16

June 2015

Azure presents "integrated commercial approach" to the Counties

August 2015

Carbon and Duchesne Counties select Azure

as "preferred partner" for Snowboard pipeline project

September 2015

Azure develops FEED Stage Gate; subsequently approved by the Counties

Commercial and technical diligence commences

December 2015

Azure presents initial FEED study findings to Counties

Big West Oil makes first soft commitment to the terminal project

January 2016

Azure continues commercial diligence

February 2016

Azure continues commercial diligence to confirm marketplace responses

March 2016

Final technical scoping

April 2016

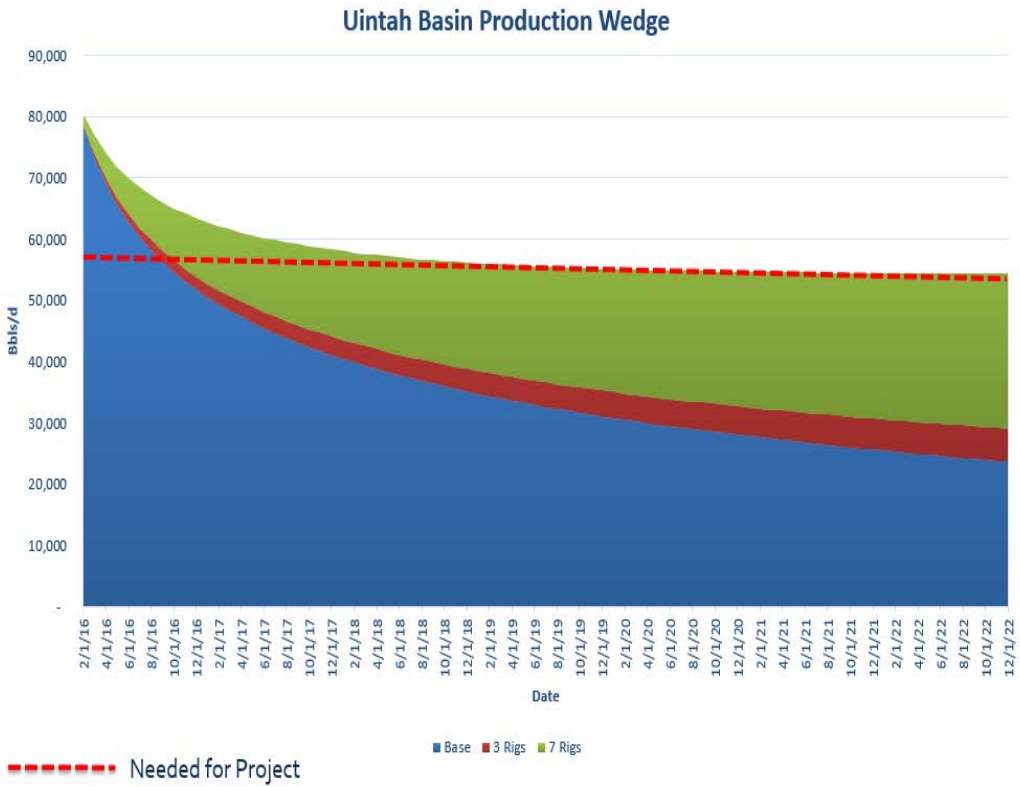
Azure invited to speak at Waxy Crude Workshop

Project Snowboard Update – Proposed Asset Overview

Existing Rail Infrastructure
New Heated Insulated Pipeline
Possible Connection to Rangely Crude Oil Pipeline
Central Utah Light Crude Delivered to Wildcat

Economics in the Uinta Basin

- **Currently 1 rig in basin**
- **Drilling Goal = 55,000 bbl/d**
- **Assume Vertical Wells**
  - 7 rigs needed
  - 23 days to Drill
  - 10 days to Complete
  - ~20 wells/month
  - ~240 wells/year
- **Economics**
  - Breakeven Price = $50-70/bbl
  - Forward Strip = $39-$50/bbl (thru 2024)
- **Transportation Costs**
  - $3-$6/bbl Trucking to SLC
  - $8-$15/bbl Rail to West Coast or Gulf Coast



Importance of Pipeline & Storage Infrastructure

- **Strengths**
  - **Pipe-Rail-Pipe Infrastructure Impact on Marketing**
    - Generates option value & improved reliability
  - **Increased "buffer" from supply chain**
    - Value chain expands on both ends of the pipe
    - Easily manage ratable production AND deliveries
    - More time created by storage
    - Better ability to analyze options & make decisions
  - **Lower operating costs for producers**
    - 100% uptime reliability for take-away
    - Downstream downtime absorbed by "buffer" – not by shutting in production
  - **Additional market access = less risk to producers**
  - **Infrastructure can impact the netback to the wellhead**
  - **Royalty owners benefit through price and productivity**

Importance of Pipeline & Storage Infrastructure

- **Strengths (continued)**
  - **Environmental, Health and Safety Considerations**
    - Highway safety
    - Emissions

Table 85: Crash Summary, 2006 to 2010

Highway Segment	Crash Rate[a]	Expected Crash Rate[b]	Severe Crash Rate[c]	Expected Severe Crash Rate[b]	Fatalities
U.S. 40 west (Wasatch County to S.R. 208)	1.87	1.56	2.5	7.6	0
U.S. 40 central (S.R. 208 to Naples)	1.61	1.56	5.3	7.6	11
U.S. 40 east (Naples to Colorado)	1.03	1.56	7.0	7.6	2
U.S. 191 south (Carbon County to U.S. 40)	2.93	1.90	19.5	10.9	2
U.S. 191 north (U.S. 40 to Daggett County)	4.31	1.90	24.5	10.9	2
S.R. 35 (S.R. 208 to S.R. 87)	1.22	1.97	9.1	12.1	2
S.R. 45	4.20	1.97	0.0	12.1	0
S.R. 87	1.63	1.97	7.2	12.1	2
S.R. 88	1.17	1.97	4.7	12.1	0
S.R. 121	2.74	1.97	4.3	12.1	0
S.R. 208	2.63	1.97	26.3	12.1	1

Source: USTM

[a] Crashes per year per million-vehicle miles (2008–2010)

[b] 5-year (2006–2010) statewide average based on roadway functional class, AADT, and urban/rural area type

[c] Severe crashes (incapacitating injury or fatal crashes) per year per hundred million-vehicle-miles

Environmental and Social Costs ($Million)	
Site emissions and ecological impacts	($1,246)
Vehicle emissions	($24)
Safety impacts	($101)
Total	**($1,371)**

(source: Uinta Basin Energy and Transportation Study, April 2013)

Importance of Pipeline & Storage Infrastructure

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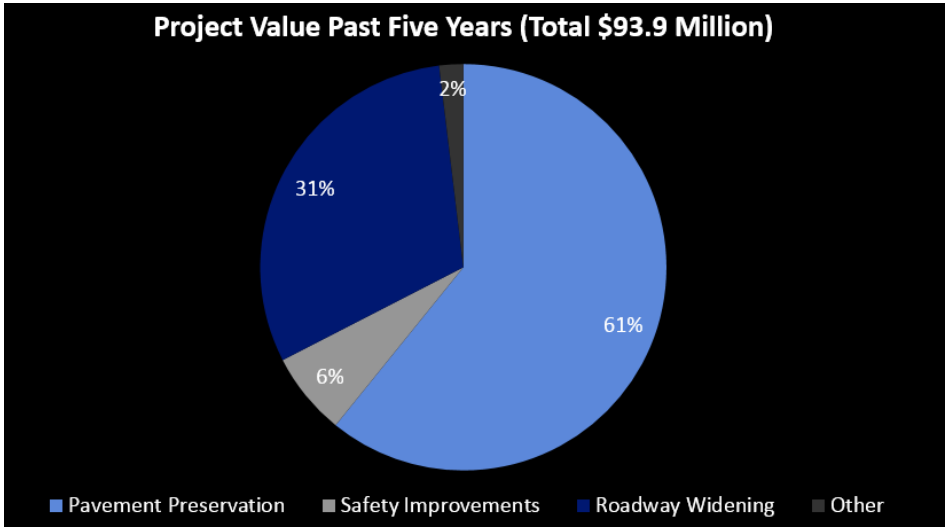
- **Weaknesses**
  - **Current price environment**
  - **Commodity pricing history & pricing power of refineries over producers**
  - **Contract tenor – difficult to match supply/demand over longer time period**
  - **Product pour point – transportation challenge**
  - **Cost to build out pipelines & facilities**
    - $150 - $250 million of capital projects required to put infrastructure in place
  - **Understanding "The Gap" in getting to SLC Refineries**
    - Current delivery rates to SLC via truck = $4-$6
    - Estimated delivery rate via "pipe-rail-pipe" = $6
    - Midstream Cost of Capital
      - 10% - 25%
    - Trucking capital costs born by taxpayer
    - Truck rates reflect only fixed/variable operating costs – not capital invested

Importance of Pipeline & Storage Infrastructure

- **Opportunities**
  - **80,000 bbls/day of stranded crude all transported via truck**
  - **SLC refineries built capacity for waxy feedstock component**
  - **Pipeline transportation is cheaper, safer & more reliable in long run**
  - **Export markets**
    - Education of coastal refineries to benefits of waxy crude feedstocks
  - **Change the way producers contract with downstream buyers**
  - **Recent market clearing events = reset cost base**
  - **Technological improvements lowering upstream costs**
  - **Refineries showing creativity by deploying capital for drilling**

Importance of Pipeline & Storage Infrastructure

- **Threats**
  - **Competitive market barriers (SLC refineries & logistics options)**
  - **Trucking rates not reflecting true cost of transportation**
    - $93.9 million spent on Hwy US 40 from 2010-2015
    - Cost of Highway Expansion Projects = $124 million through 2040



(source: UDOT US 40 Corridor Study)

Table 31: Planned Capacity Projects

County	Project Name and Location	Length	Improvement Type	Estimated Cost
Phase One 2011-2020				
Duchesne	U.S. 40 mile post (MP) 70.1 to MP 100.0 Duchesne Urban Area STIP CD	29.9	Passing lanes	$18,000,000
Uintah	S.R. 121 MP 37.3 to MP 40.3 (existing 3-lane)	3.0	Widening	$5,000,000
Uintah	U.S. 40 widen eastbound and westbound from 1 lane to 2 lanes from MP 130.3 to MP 133.4	3.1	Passing lanes	$5,000,000
Uintah	U.S. 40 MP 152.0 to 153.0 eastern limit of Naples	1.0	Passing lanes	$4,000,000
Uintah	U.S. 40 widen eastbound and westbound from MP 117.8 to MP 119.4 Roosevelt and Ballard Urban Area	1.6	Passing lanes	$10,000,000
Phase One Total				**$42,000,000**
Phase Two 2021-2030				
Duchesne	U.S. 40 MP 107.6 eastern limit of Duchesne to western limit of Roosevelt	1.2	Passing lanes	$2,000,000
Duchesne	U.S. 191 widen northbound and southbound from 1 lane to 2 lanes from MP 262.2 to MP 271.8	9.6	Passing lanes	$14,000,000
Wasatch/Duchesne	U.S. 40 widen eastbound and westbound from MP 37.5 to MP 69.2 Daniels Summit to western limit of Duchesne	31.7	Passing lanes	$22,000,000
Phase Two Total				**$38,000,000**
Phase Three 2031-2040				
Uintah/Daggett	U.S. 191 widen northbound and southbound from 1 lane to 2 lanes from MP 363.6 to MP 392.6	29.0	Passing lanes	$44,000,000
Phase Three Total				**$44,000,000**

Source: UDOT USTM

Importance of Pipeline & Storage Infrastructure

- **Threats (continued)**
  - **Outside basin crudes taking up capacity in SLC refiners**
    - Refiners already seeking Bakken & other crudes to fill open capacity
  - **Size & vertical integration of refineries**
    - Refiners are the key to making a project work
    - Hard to move big companies with diverse interests (including trucking)
  - **Lost production due to transport constraints**

Table 46: Non-discounted and Discounted Production Gap due to Transportation Constraints in the Uinta Basin - 2013 to 2042

Forecast Level	Total (Undiscounted)	Present Value at 3%
Low	$14.7 billion	$8.1 billion
Mid	$29.0 billion	$15.8 billion
High	$52.8 billion	$29.0 billion

Recommendations

- **Align Interests & Incentives**
  - **Producers**
  - **Refineries**
  - **State & local stakeholders**

- **Encourage Creativity**
  - **Contracting**
  - **Partnerships**
  - **Find a way to introduce a market based solution reflecting total cost**
    - Including costs imposed by
      - Highway programs
      - Environmental & safety impacts
      - Lost production