

EB-2019-0166
Lagasco Inc.
Responses to Interrogatories from
The Municipalities

Interrogatory 1:

A copy of any terms of or attachments to the purchase agreement between Lagasco and Dundee referred to at paragraph 3 of the Lowrie Affidavit that describe the underground natural gas pipelines in issue;

Interrogatory 1 Response:

Please find attached the following:

1. The cover page of the Asset Purchase Agreement dated April 4, 2018 between Dundee Energy Limited Partnership by its general partner Dundee Oil and Gas Limited and Lagasco Inc. (the "APA") and the definition of Tangibles, which includes the pipelines purchased by Lagasco.
 2. Schedule A Part 14 and Schedule A Part 15 of the APA, which list out the pipelines being acquired by Lagasco.
 3. Attached as "Lagasco_IR_Municipalities_Q1_Dundee_APA_Pipeline_Schedules_20200810".
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Interrogatory 2:

A copy of any available, up to date plan or plans of the natural gas gathering system referred to at paragraph 5 of the Lowrie Affidavit, including the “similarly situated” pipelines;

Interrogatory 2 Response:

Please find attached nine (9) maps. The first being the “key” map showing all of southwestern Ontario and the oil and gas gathering pipelines Lagasco acquired from Dundee. There are several zoomed in maps showing the different onshore and offshore oil and gas gathering pipeline networks. These maps attached as “Lagasco_IR_Municipalities_Q2_Maps_20200810”.

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Interrogatory 3:

Copies of all MPAC property assessment notices referred to in paragraphs 8 and 9 of the Lowrie Affidavit, including any such notices for “similarly situated” pipelines;

Interrogatory 3 Response:

Attached are the MPAC property assessment notices for all 55 roll numbers that Lagasco purchased from Dundee in November 2018. The pipeline rolls are first, in the same order that they appear in Exhibit B to the Affidavit of Jane E. Lowrie sworn May 25, 2020. These are attached as “Lagasco_IR_Municipalities_Q3_MPAC_Property_Assessment_20200810”.

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Interrogatory 4:

Copies of any other documents reviewed by Lagasco during its due diligence referred to in paragraph 9 of the Lowrie Affidavit that relate to the assessment of the underground natural gas pipelines in issue, including any notices, appeals, or other documents filed by Dundee with MPAC in any taxation year;

Interrogatory 4 Response:

The three municipal tax related documents that were provided to Lagasco as part of the Dundee data room in the sales process run by FTI Consulting Inc. (the court appointed Monitor) in 2018 are attached as:

Lagasco_IR_Municipalities_Q4_EX1_Gathering_Line_System_20200810

Lagasco_IR_Municipalities_Q4_EX2_Gathering_Line_System_Listing_20200810

Lagasco_IR_Municipalities_Q4_EX3_Offshore_Gathering_Line_Map_20200810

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Interrogatory 5:

Copies of any documents obtained by Lagasco (or Dundee) from or issued by the TSSA in respect of the underground natural gas pipelines in issue;

Interrogatory 5 Response:

Attached please find a Memorandum of Understanding from 2006 between the Technical Standards and Safety Authority (TSSA) and the Ministry of Natural Resources Lands and Waters Branch Petroleum Resources Centre (PRC) outlining the jurisdiction of both parties in Section 2. Gas Pipeline Systems. This document clearly delineates that there is a distinction in jurisdiction between transmission and gathering pipelines. This is attached as "Lagasco_IR_Municipalities_Q5_MOU_MNRF_and_TSSA_Re_Jurisdiction_20200810".

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Interrogatory 6:

Copies of any documents that establish or recognize the distinction referred to in paragraph 18 of the Lowrie Affidavit, including any legislative provisions that are not reproduced or referred to elsewhere in the Lagasco Application and supporting evidence;

Interrogatory 6 Response:

Other than the TSSA, CSA and Oil, Gas and Salt Resources Act, we are not aware of any other provisions at this time.

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Interrogatory 7:

Copies of all documents provided to Robert Koller and/or Deloitte LLP, or gathered by them in the course of their investigations related to the expert report ("Deloitte Report") attached as Exhibit "A" to the Affidavit of Robert Koller in support of the Application ("Koller Affidavit"), including all "Information" as defined in paragraph 11) thereof, and including without limitation;

Interrogatory 7 Response:

The Deloitte Report does not rely upon any information provided by management of Lagasco and Bennett Jones LLP, as legal counsel for Lagasco. The Deloitte Report is confined to the differences between natural gas gathering pipelines and transmission pipelines from an economic perspective. As such, the only information relied upon is from quoted sources in the Deloitte Report and our experience regarding the matters that we have been asked to address.

The quoted sources in the Deloitte Report are as follows:

- In paragraph 18 Deloitte provide information obtained from a footnoted website;
- In paragraph 19 Deloitte provide a figure obtained from a footnoted website; and
- In paragraph 31 Deloitte provide an excerpt from a referenced textbook.

The Deloitte quoted sources are all publicly available and as such, have not been provided as an attachment hereto.

Interrogatory 7a:

Copies of all written notes or records of Robert Koller and/or Deloitte LLP of the discussions referred to in paragraph 13)a) of the Deloitte Report; and

Interrogatory 7a Response:

Deloitte does have notes regarding various conversations with these individuals, but none of the discussions and notes relate to the Deloitte Expert report, which, again, discusses the differences between natural gas gathering pipelines and transmission pipelines from an economic perspective. The notes and discussions primarily relate to the issue at hand being Management believes that the relevant pipelines should be classified as gathering lines based on their nature. As a result, Lagasco disputes the property taxes levied against it.

Interrogatory 7b:

The Letter of Representation referred to in paragraph 13)d) thereof;

Interrogatory 7b Response:

Attached as "Lagasco_IR_Municipalities_Q7(b)_Deloitte_Managment_Rep_Letter_20200810".

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Interrogatory 8:

Copies of any documents or information regarding the valuation methods or approaches used by Lagasco for the purposes of the acquisition of the underground natural gas pipelines in issue from Dundee;

Interrogatory 8 Response:

The valuations used for the purposes of the purchase price allocation were negotiated between FTI Consulting Inc. (the court appointed Monitor), Dundee and Lagasco.

Due to the nature of the operations, the pipelines' only value lies in their ability to allow for the extraction of oil and gas from the reserves in the ground. They do not have any stand alone value. Without the underlying reserves they would represent a liability to Lagasco.

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Interrogatory 9:

Copies of all annual reports of gas production and gas reserves at each licenced well connected to or serviced by the natural gas gathering system in issue during each relevant tax year or fiscal year; and

Interrogatory 9 Response:

The executive summary of the reserve reports showing oil and gas reserves in place are attached as:

Lagasco_IR_Municipalities_Q9_EX1_Deloitte_Reserve_Evaluation_2015_Executive_Summary_20200810
Lagasco_IR_Municipalities_Q9_EX2_Deloitte_Reserve_Evaluation_2016_Executive_Summary_20200810
Lagasco_IR_Municipalities_Q9_EX3_Deloitte_Reserve_Evaluation_2017_Executive_Summary_20200810
Lagasco_IR_Municipalities_Q9_EX4_Deloitte_Reserve_Evaluation_Jun_30_2019_Executive_Summary_20200810
Lagasco_IR_Municipalities_Q9_EX5_Deloitte_Reserve_Evaluation_Sept_30_2019_Executive_Summary_20200810

Please see the response to 10 below for the annual gas production response.

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Interrogatory 10:

Copies of any other records kept in the ordinary course of business that show the volume of gas produced at each licenced well connected to or serviced by the natural gas gathering system in issue. And any other gas volumes carried by the underground natural gas pipelines in issue during each relevant year.

Interrogatory 10 Response:

Attached are copies of the Form 8s which are filed annually by Lagasco to the MNRF. They show the production from all active wells, as well as the prices received for the commodities sold.

The Form 8s are attached as:

Lagasco_IR_Municipalities_Q10_EX1_2015_MNRF_Annual_Form_8_Offshore_20200810
Lagasco_IR_Municipalities_Q10_EX2_2015_MNRF_Annual_Form_8_Onshore_20200810
Lagasco_IR_Municipalities_Q10_EX3_2016_MNRF_Annual_Form_8_Offshore_20200810
Lagasco_IR_Municipalities_Q10_EX4_2016_MNRF_Annual_Form_8_Onshore_1_of_2_20200810
Lagasco_IR_Municipalities_Q10_EX5_2016_MNRF_Annual_Form_8_Onshore_2_of_2_20200810
Lagasco_IR_Municipalities_Q10_EX6_2017_MNRF_Annual_Form_8_Offshore_20200810
Lagasco_IR_Municipalities_Q10_EX7_2017_MNRF_Annual_Form_8_Onshore_1_of_2_20200810
Lagasco_IR_Municipalities_Q10_EX8_2017_MNRF_Annual_Form_8_Onshore_2_of_2_20200810
Lagasco_IR_Municipalities_Q10_EX9_2018_MNRF_Annual_Form_8_Offshore_Jan_Mar_20200810
Lagasco_IR_Municipalities_Q10_EX10_2018_MNRF_Annual_Form_8_Offshore_Apr_Dec_20200810
Lagasco_IR_Municipalities_Q10_EX11_2018_MNRF_Annual_Form_8_Onshore_Jan_Mar_1_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX12_2018_MNRF_Annual_Form_8_Onshore_Jan_Mar_2_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX13_2018_MNRF_Annual_Form_8_Onshore_Jan_Mar_3_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX14_2018_MNRF_Annual_Form_8_Onshore_Apr_Dec_1_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX15_2018_MNRF_Annual_Form_8_Onshore_Apr_Dec_2_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX16_2018_MNRF_Annual_Form_8_Onshore_Apr_Dec_3_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX17_2019_MNRF_Annual_Form_8_Offshore_20200810
Lagasco_IR_Municipalities_Q10_EX18_2019_MNRF_Annual_Form_8_Onshore_1_of_3_20200810
Lagasco_IR_Municipalities_Q10_EX19_2019_MNRF_Annual_Form_8_Onshore_2_of_3_20200810

The graphs below illustrate the production declines on an annual basis as a result of depletion, as well as the MPAC pipeline value assessments. They clearly illustrate the fundamental issue with the current value of the pipeline assessments, which don't take depletion into account whatsoever. The problem continues to worsen, year over year, and has contributed to several bankruptcies of oil and gas production companies in Ontario.

The average annual **decline** for oil is 8% and for natural gas is 5%. The average annual **increase** in MPAC pipeline values is 2%.

Summary of Lagasco Production – taken directly from the Form 8s

Year	Offshore Gas Mcf/d	Onshore Oil bopd	Onshore Gas Mcf/d	Total Gas Mcf/d	Total Oil bopd	Total BOE/d	Pipeline Assessed Value M\$
2015	11,298	552	764	12,061	552	2,562	
2016	10,622	480	641	11,263	480	2,357	43,111
2017	9,901	442	459	10,360	442	2,169	43,967
2018	9,462	417	264	9,726	417	2,038	44,927
2019	9,157	383	301	9,458	383	1,959	45,878
2020							46,829
Ann. Decline	5%	8%	15%	5%	8%	6%	-2%



