Condensed Consolidated Interim Statements of Financial Position

Stated in thousands of dollars

(Unaudited)

As at	March 31, 2019	December 31, 2018
Assets		
Current Assets		
Accounts receivable	**$ 50,814**	$ 21,084
Fair value of financial contracts (note 5)	**323**	4,939
Prepaid expenses and deposits	**7,465**	9,222
	58,602	35,245
Petroleum and natural gas properties (note 4)	**1,546,059**	1,528,565
Deferred income taxes	**5,199**	2,898
	$ 1,609,860	$ 1,566,708
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 56,839**	$ 42,350
Dividends payable	**2,616**	2,577
Fair value of financial contracts (note 5)	**5,965**	2,779
Current portion of finance lease obligations (note 11)	**7,047**	—
Current portion of other long term obligations	**1,742**	1,732
	74,209	49,438
Fair value of financial contracts (note 5)	**2,573**	1,128
Bank debt (note 6)	**398,666**	408,593
Convertible debentures (note 7)	**38,308**	37,973
Decommissioning obligations (note 8)	**242,255**	229,213
Long term finance lease obligations (note 11)	**27,004**	5,871
Shareholders' equity		
Share capital	**1,448,069**	1,441,773
Equity component of convertible debentures (note 7)	**3,551**	3,551
Contributed surplus	**54,228**	52,417
Deficit	**(679,003)**	(663,249)
	826,845	834,492
Commitments and leases (note 11)		
Subsequent event (note 12)		
	$ 1,609,860	$ 1,566,708

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

Stated in thousands of dollars, except per share amounts

(Unaudited)

	Three Months Ended March 31, 2019	2018
Petroleum and natural gas revenue (note 10)	$ 97,868	$ 68,290
Processing and other income (note 10)	474	881
Royalties	(11,061)	(8,940)
Realized loss on financial contracts	(716)	(1,582)
Unrealized loss on financial contracts (note 5)	(9,247)	(3,713)
	77,318	54,936
Expenses		
Operating	29,913	21,940
Transportation	3,863	1,815
General and administrative	3,470	3,201
Bad debt provision	131	—
Transaction and other costs	194	708
Stock-based compensation (note 9)	1,088	878
Depletion and depreciation (note 4)	40,083	22,932
Finance expense	9,061	4,831
	87,803	56,305
Loss before income taxes	(10,485)	(1,369)
Deferred income tax recovery	(2,502)	(260)
Net loss and comprehensive loss for the period	$ (7,983)	$ (1,109)
Loss per share (note 9)		
Basic	$ (0.03)	$ (0.01)
Diluted	$ (0.03)	$ (0.01)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Stated in thousands of dollars, except share amounts

(Unaudited)

	Number of common shares	Share capital	Convertible debentures - equity portion	Contributed surplus	Warrants	Deficit	Total equity
Balance at December 31, 2017	232,989,499	$ 1,295,961	3,551	$ 40,198	$ 3,522	$ (567,079)	$ 776,153
Net loss for the period	—	—	—	—	—	(1,109)	(1,109)
Repurchase of common shares for cancellation	(1,862,637)	(10,304)	—	6,631	—	—	(3,673)
Transfer on exercise of RSAs and PSAs [1]	230,000	446	—	(446)	—	—	—
Stock-based compensation	—	—	—	1,279	—	—	1,279
Dividends	—	—	—	—	—	(5,520)	(5,520)
Balance at March 31, 2018	231,356,862	$ 1,286,103	$ 3,551	$ 47,662	$ 3,522	$ (573,708)	$ 767,130
Balance at December 31, 2018	309,286,225	$ 1,441,773	$ 3,551	$ 52,417	$ —	$ (663,249)	$ 834,492
Net loss for the period	—	—	—	—	—	(7,983)	(7,983)
Flow-through shares issued	4,684,932	6,840	—	—	—	—	6,840
Premium on flow-through shares	—	(562)	—	—	—	—	(562)
Transfer on exercise of RSAs and PSAs [1]	8,880	18	—	(18)	—	—	—
Stock-based compensation	—	—	—	1,829	—	—	1,829
Dividends	—	—	—	—	—	(7,771)	(7,771)
Balance at March 31, 2019	**313,980,037**	**$ 1,448,069**	**$ 3,551**	**$ 54,228**	**$ —**	**$ (679,003)**	**$ 826,845**

[1] RSA and PSA defined as restricted share and performance share awards

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

Stated in thousands of dollars

(Unaudited)

	Three Months Ended March 31, 2019	2018
Cash provided by (used in)		
Operating		
Net loss	$ **(7,983)**	$ (1,109)
Unrealized loss on financial contracts	**9,247**	3,713
Finance expense	**9,061**	4,831
Interest expense	**(7,468)**	(3,524)
Depletion and depreciation	**40,083**	22,932
Decommissioning expenditures	**(1,707)**	(2,748)
Bad debt provision	**131**	—
Stock-based compensation	**1,088**	878
Deferred income tax recovery	**(2,502)**	(260)
Change in non-cash working capital	**(11,042)**	(498)
Cash flow from operating activities	**28,908**	24,215
Financing		
Bank debt	**(9,927)**	13,122
Dividends paid	**(7,732)**	(5,534)
Purchase of common shares for cancellation	**—**	(3,673)
Issuance of flow-through shares	**6,840**	—
Payments on lease obligations	**(1,706)**	—
Cash flow provided by (used in) financing activities	**(12,525)**	3,915
Investing		
Petroleum and natural gas properties	**(41,261)**	(34,909)
Disposition of petroleum and natural gas properties	**28,080**	6,659
Acquisitions	**(273)**	(174)
Change in non-cash working capital	**(2,929)**	294
Cash flow used in investing activities	**(16,383)**	(28,130)
Change in cash	**—**	—
Cash, beginning of the period	**—**	—
Cash, end of the period	$ **—**	$ —

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts are in thousands of dollars, except share and per share data

1. REPORTING ENTITY

Surge Energy Inc.'s (the "Corporation" or "Surge") business consists of the exploration, development and production of oil and gas from properties in western Canada. The Corporation is a dividend paying entity. The address of Surge's registered office is 2100, 635-8th Avenue SW, Calgary, Alberta, Canada, T2P 3M3. The condensed consolidated interim financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and partnerships.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Corporation in its annual consolidated financial statements for the year ended December 31, 2018, except as noted below. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2018.

This is the first set of the Corporation's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

The consolidated financial statements were authorized for issuance by the Board of Directors on May 6, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as outlined below, these condensed consolidated interim financial statements at March 31, 2019 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2018.

Changes in accounting policies

IFRS 16 was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. On January 1, 2019 the Corporation adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as an increase to right-of-use assets (included in "Petroleum and natural gas properties") with a corresponding increase to lease obligations (the non-current portion recorded in "Long term finance lease obligations" and the current portion recorded in "Current portion of finance lease obligations").

The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 6%. The right-of-use assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and long-term leases for oil batteries and equipment rentals.

The adoption of IFRS 16 included the following elections:

- The Corporation elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- The Corporation elected to use hindsight in determining the lease term where the contract contains terms to extend or terminate the lease;
- The Corporation elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the January 1, 2019 adoption;
- The Corporation elected to not apply lease accounting to certain leases of low value assets;
- The Corporation elected to apply a single discount rate to a portfolio of leases with similar characteristics.

As a result of this adoption, the Corporation has revised the description of its accounting policy for leases as follows:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term.

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- Incremental borrowing rate: The Incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

4. PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and Natural Gas Properties

		Total
Balance at December 31, 2017	$	2,021,838
Acquisitions		390,966
Dispositions		(397)
Additions		120,552
Change in decommissioning obligations		51,362
Capitalized stock-based compensation		3,548
Balance at December 31, 2018	$	2,587,869
Acquisitions		273
Dispositions		(45,717)
Additions		41,261
Assets under finance lease		29,886
Change in decommissioning obligations		21,493
Capitalized stock-based compensation		741
Balance at March 31, 2019	**$**	**2,635,806**

		Total
Accumulated depletion and depreciation		
Balance at December 31, 2017	$	(872,910)
Depletion and depreciation expense		(114,220)
Impairment		(72,174)
Balance at December 31, 2018	$	(1,059,304)
Depletion and depreciation expense		(40,083)
Dispositions		9,640
Balance at March 31, 2019	**$**	**(1,089,747)**

		Total
Carrying amounts		
At December 31, 2018	$	1,528,565
At March 31, 2019	**$**	**1,546,059**

The calculation of depletion and depreciation expense for the period ended March 31, 2019 included an estimated $825.7 million (December 31, 2018 - $853.6 million) for future development costs associated with proved plus probable reserves and deducted $58.4 million (December 31, 2018 - $140.4 million) for the estimated salvage value of production equipment and facilities.

During the period ended March 31, 2019 the Corporation disposed of certain non-core assets in Northwest Alberta for cash proceeds of $28.1 million. The assets had a carrying value of $36.1 million and an associated decommissioning liability of $8.0 million, resulting in no gain or loss on disposal.

5. RISK MANAGEMENT

As a means of managing commodity price volatility, the Corporation enters into various derivative financial instrument agreements and physical contracts. The fair value of forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates and considering counter-party credit risk). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates. Surge's financial derivative contracts are classified as level two in the fair value hierarchy.

At March 31, 2019, the following risk management contracts were outstanding with an asset fair market value of $0.3 million and a liability fair market value of $8.5 million (December 31, 2018 – asset of $4.9 million and liability of $3.9 million):

WTI Oil Hedges

Type	Term	bbl/d	Currency	Put Sold (per bbl)	Put Acquired (per bbl)	Call Sold (per bbl)	Call Acquired (per bbl)	Swap Price (per bbl)
WTI	Q2 2019	500	USD	$50.00	$57.50	$72.50	—	—
WTI	1H 2019	500	USD	$47.50	$57.50	$75.50	—	—
WTI	1H 2019	500	CAD	$50.00	$60.00	$73.34	—	—
WTI	1H 2019	500	USD	$53.00	$60.00	$80.50	—	—
WTI	1H 2019	500	USD	$53.00	$60.00	$82.00	—	—
WTI	2H 2019	2,000	USD	$53.00	$60.00	$82.79	—	—
WTI	2H 2019	250	USD	—	$50.00	$63.40	—	—
WTI	Feb 2019 - Dec 2019	250	USD	—	—	—	—	$53.90
WTI	2H 2019	500	USD	—	—	—	—	$57.70
WTI	Q2 2019 - Q1 2020	250	USD	—	—	—	—	$58.50
WTI	Q2 2019 - Q1 2020	250	USD	—	$55.00	$65.00	—	—
WTI	Q2 2019 - Q1 2020	250	USD	$45.00	$55.00	$68.50	—	—
WTI	2H 2019	1,000	USD	—	—	—	—	$60.04

Oil Differential Hedges

Type	Term	bbl/d	Currency	Floor (per bbl)	Ceiling (per bbl)	Swap Price (per bbl)
WCS Swap	Feb 2019 - Sep 2019	500	USD	—	—	US$WTI less $19.25
WCS Swap	Q2 2019	1,500	USD	—	—	US$WTI less $13.70
WCS Swap	Q3 2019	2,000	USD	—	—	US$WTI less $17.73
WCS Swap	May 2019 - Jun 2019	250	USD	—	—	US$WTI less $10.35
WCS Swap	Q3 2019	500	USD	—	—	US$WTI less $15.95
WCS Collar	Mar 2019 - Jun 2019	1,500	USD	US$WTI less $13.00	US$WTI less $18.00	—

Natural Gas Hedges

Type	Term	Volume	Currency	Floor	Ceiling
Chicago Collar	Apr 2019-Oct 2019	4,000 mmbtu/d	USD	$2.50 per mmbtu	$3.10 per mmbtu
AECO Swap	Q2 2019 - Q4 2019	3,000 gj/d	CAD	$1.45 per gj	$1.45 per gj

CAD/USD FX Hedges

Type	Term	Monthly Notional Amount (US$)	Total Notional Amount (US$)	Swap Rate (CAD$ per USD$)
Avg Rate Forward	2019	$1,000,000	$12,000,000	$1.2726
Avg Rate Forward	2H 2018 - 1H 2019	$3,000,000	$36,000,000	$1.2850

Interest Rate Hedges

Type	Term	Notional Amount (CAD$)	Surge Receives	Surge Pays	Fixed Rate SGY Receives
Fixed-to-Floating Rate Swap	Feb 2018-Feb 2023	$100,000,000	Floating Rate	Fixed Rate	Semi-Annual Step Up • Beginning at 1.786% • Ending at 2.714% • Averaging 2.479%

The following table summarizes the sensitivity of the fair value of the Corporation's market risk management positions to fluctuations in natural gas prices, crude oil prices, and foreign exchange. All such fluctuations were evaluated independently, with all other variables held constant. Fluctuations in crude oil and natural gas prices would have had the following impact on the net earnings:

Net earnings impact for the period ended March 31, 2019	Price Increase	Price Decrease
Crude Oil - Change of +/- $1.00	(1,403)	1,403
Natural Gas - Change of +/- $0.10	(126)	126
Interest rate - Change of +/- 100 points	(750)	750
Foreign Exchange - Change of +/- $0.01	(30)	30

6. BANK DEBT

As at March 31, 2019, the Corporation had an extendible, revolving term credit facility at $550 million with a syndicate of Canadian banks. The facility is available on a revolving basis until May 27, 2019. On May 27, 2019, at the Corporation's discretion, the facility is available on a non-revolving basis for a one-year period, at the end of which time the facility would be due and payable. Alternatively, the facilities may be extended for a further 364-day period at the request of the Corporation and subject to the approval of the syndicate. As the available lending limits of the facilities are based on the syndicate's interpretation of the Corporation's reserves and future commodity prices, there can be no assurance that the amount of the available facilities will not decrease at the next scheduled review. Interest rates vary depending on the ratio of net debt to cash flow. The facility had an effective interest rate of prime plus 2.50 percent as at March 31, 2019 (December 31, 2018 – prime plus 1.25 percent).

The facility is secured by a general assignment of book debts, debentures of $1.5 billion with a floating charge over all assets of the Corporation with a negative pledge and undertaking to provide fixed charges on the major producing petroleum and natural gas properties at the request of the bank. Under the terms of the agreement, the Corporation cannot increase the amount of dividends per share paid to its shareholders on a monthly basis unless (i) the Aggregate Principal Amount under the Credit Facilities is no greater than $450 million; and (ii) the total payout ratio (as defined in the credit agreement) is no greater than 100 percent. During the period ended March 31, 2019 the monthly dividend remained at $0.008333 per share, in which the Corporation was in compliance with the covenant noted above.

7. CONVERTIBLE DEBENTURES

Convertible Debentures

	Number of convertible debentures	Liability Component	Equity Component
Balance at December 31, 2017	44,500	36,715	3,551
Accretion of discount	—	1,258	—
Balance at December 31, 2018	44,500	37,973	3,551
Accretion of discount	—	335	—
Balance at March 31, 2019	**44,500**	**38,308**	**3,551**

The fair value of the convertible debentures at March 31, 2019 was $44.1 million using quoted market prices on the TSX (level 1 fair value).

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total inflated and undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $448.3 million (December 31, 2018 – $467.0 million). These payments are expected to be made over the next 50 years with the majority of costs to be incurred between 2023 and 2066. A risk free rate of 1.90 percent (December 31, 2018 – 2.18 percent) and an inflation rate of 1.50 percent (December 31, 2018 – 1.50 percent) was used to calculate the fair value of the decommissioning obligations.

A reconciliation of the decommissioning obligations is provided below:

	March 31, 2019	December 31, 2018
Balance, beginning of period	**$ 229,213**	$ 162,308
Liabilities related to acquisitions	**—**	17,471
Liabilities related to dispositions	**(7,997)**	—
Change in estimate [1]	**20,828**	49,038
Liabilities incurred	**665**	2,324
Accretion expense	**1,253**	4,420
Decommissioning expenditures	**(1,707)**	(6,348)
Balance, end of period	**$ 242,255**	$ 229,213

[1]The change in estimate was primarily the result of decreasing the discount rate.

9. SHARE CAPITAL

(a) Flow-through Share Issuance

In March 2019, the Corporation issued 4.7 million flow-through shares related to Canadian development expenditures at a price of $1.46 per share for total gross proceeds of $6.8 million. The implied premium on the flow-through shares of $0.12 per share or $0.6 million was recorded as a flow-through share liability. As at March 31, 2019, the Corporation had incurred $nil of qualifying exploration expenditures, with the remaining commitment to be spent in 2019.

In November 2018, the Corporation issued 0.4 million flow-through shares related to Canadian exploration expenditures at a price of $2.40 per share for total gross proceeds of $1.0 million. The implied premium on the flow-through shares of $0.65 per share or $0.3 million was recorded as a flow-through share liability. As at March 31, 2019, the Corporation had incurred the qualifying exploration expenditures. The implied premium related to expenditures made prior to March 31, 2019 had been released through the deferred tax expense.

(b) Restricted and Performance Share Award Incentive Plan

The Corporation has a Stock Incentive Plan which authorizes the Board of Directors to grant restricted share awards ("RSAs") and performance share awards ("PSAs") to directors, officers, employees and certain consultants of Surge.

Subject to the terms and conditions of the plan, each RSA entitles the holder to an award value to be typically paid as to one-third on each of the first, second and third anniversaries from the date of grant. Each PSA entitles the holder to an award value to be typically paid on the third anniversary of the date of grant. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 15% (2018 - 15%) was used to value all awards granted for the period ended March 31, 2019. The weighted average fair value of awards granted for the period ended March 31, 2019 is $nil (2018 - $1.81) per PSA granted and $1.35 (2018 - $1.85) per RSA. In the case of PSAs, the award value is adjusted for a payout multiplier which can range from 0.0 to 2.0 and is dependent on the performance of the Corporation relative to pre-defined corporate performance measures for a particular period. On the vesting dates, the Corporation has the option of settling the award value in cash or common shares of the Corporation. For purposes of stock-based compensation a payout multiple of 1.0 was assumed for the PSAs granted during the period.

The total number of RSA and PSA units granted cannot exceed 4.5 percent of the issued and outstanding shares of the Corporation.

The number of restricted and performance share awards outstanding are as follows:

	Number of restricted share awards	Number of performance share awards
Balance at December 31, 2018	3,889,902	5,316,079
Granted	15,125	—
Reinvested [1]	72,263	98,892
Exercised	(8,880)	—
Forfeited	(56,840)	(24,136)
Balance at March 31, 2019	**3,911,570**	**5,390,835**

[1] Per the terms of the plan, cash dividends paid by the Corporation are reinvested to purchase incremental awards.

(c) Stock-based compensation

A reconciliation of the stock-based compensation expense is provided below:

	Three Months Ended March 31,	
	2019	2018
Stock-based compensation on SARs	**—**	(220)
Stock-based compensation on PSAs and RSAs	**1,829**	1,335
Capitalized stock-based compensation	**(741)**	(237)
Total stock-based compensation expense	**$ 1,088**	$ 878

(d) Per share amounts

The following table summarizes the shares used in calculating loss per share:

	Three Months Ended March 31,	
	2019	2018
Weighted average number of shares - basic and diluted	**309,447,717**	233,006,881

In computing diluted per share amounts at March 31, 2019, all RSAs and PSAs were excluded from the calculation as their effect was anti-dilutive. The common shares potentially issuable on the conversion of the convertible debentures were also excluded as they were determined to be anti-dilutive.

(e) Dividends

The Board of Directors declared for the months of January through March 2019 cumulative dividends of $0.024999 per share (January - March 2018 - $0.023751 per share). Dividends of $0.008333 per share are declared and outstanding at March 31, 2019 and were paid in April 2019. Dividends for the month of April 2019 have been declared at $0.008333 per share.

10. REVENUE

The following table presents the Corporations petroleum and natural gas revenues disaggregated by revenue source:

	Three Months Ended March 31,	
	2019	**2018**
Oil	**$ 91,128**	$ 64,492
Natural gas liquids	**2,425**	2,461
Natural gas	**4,315**	1,337
Total petroleum and natural gas revenue	**$ 97,868**	$ 68,290
Processing and other revenue	**474**	881
Total petroleum, natural gas and other revenue	**$ 98,342**	$ 69,171

Of total petroleum and natural gas revenue, three customers represented combined sales of $55.5 million for the period ended March 31, 2019 (2018 - $56.7 million).

11. COMMITMENTS AND LEASES

Future minimum payments relating to operating lease and firm transport commitments at March 31, 2019 are as follows:

	March 31, 2019	December 31, 2018
Less than 1 year	$ 4,032	$ 12,058
1 - 3 years	6,486	17,874
3 - 5 years	4,945	10,105
5+ years	6,422	9,394
Total commitments	**$ 21,885**	$ 49,431

The decrease in total commitments as at March 31, 2019 compared to December 31, 2018 is due to the adoption of IFRS 16 effective January 1, 2019 (see note 3).

The Corporation had the following future commitments associated with its lease obligations:

	Total
Balance at December 31, 2018	$ 5,871
Additions upon adoption of IFRS 16 at January 1, 2019	29,886
Interest expense	575
Lease payments	(2,281)
Balance at March 31, 2019	**$ 34,051**
Current portion	7,047
Long term portion	27,004

Upon adoption of IFRS 16 on January 1, 2019, the Corporation recognized a $29.9 million right-of-use asset (included in "Petroleum and natural gas properties") and a $29.9 million lease obligation.

In relation to the leases recognized upon adoption of under IFRS 16, the Corporation has recognized during the period ended March 31, 2019, $1.9 million of depreciation charges, $2.3 million of lease payments and $0.6 million of interest expense from these leases.

As at March 31, 2019, the Corporation has recorded a $33.9 million right-of-use asset (included in "Petroleum and natural gas properties") and a $34.1 million lease obligation (the non-current portion of $27.0 million recorded in "Long term finance lease obligations" and the current $7.0 million portion recorded in "Current portion of finance lease obligations").

12. SUBSEQUENT EVENT

Subsequent to March 31, 2019, the Corporation entered into an agreement with a syndicate of underwriters (the "Underwriters"), led by National Bank Financial Inc. pursuant to which the Underwriters will purchase $30.0 million principal amount of convertible subordinated unsecured debentures (the "Debentures") at a price of $1,000 per Debenture (the "Offering"), on a "bought deal" basis. The Corporation has granted the Underwriters an over-allotment option to purchase up to an additional $4.5 million aggregate principal amount of the Debentures, on the same terms, exercisable in whole or in part at any time up to the 30th day following initial closing of the Debenture financing.

The Debentures will mature and be repayable on June 30, 2024 (the "Maturity Date") and will accrue interest at the rate of 6.75 percent per annum payable semi-annually in arrears on December 31 and June 30 of each year (each an "Interest Payment Date"), with the first such payment to be made December 31, 2019. At the holder's option, the Debentures may be converted into common shares of the Corporation at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Corporation, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $2.25 per share, subject to adjustment in certain events (the "Conversion Price"). This represents a conversion rate of approximately 444.4444 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

The Debentures may not be redeemed by the Corporation prior to June 30, 2022. On and after June 30, 2022 and prior to June 30, 2023, the Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125 percent of the Conversion Price. On or after June 30, 2023 and prior to the Maturity Date, the Debentures may be redeemed by the Corporation, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.