



Condensed Interim Consolidated Financial Statements

MCF Energy Ltd.
(formerly Pinedale Energy Limited)

For the three and nine months ended September 30, 2023 and 2022
(In thousands of Canadian Dollars)
(Unaudited)

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, in thousands of Canadian Dollars)

	Note	September 30, 2023	December 31, 2022
		\$	\$
Current Assets			
Cash and cash equivalents		10,312	9,960
Other receivable		111	25
Prepays		34	-
		10,457	9,985
Non-Current Assets			
Deposit	3	1,645	-
Investment in associate	5	4,393	-
Deferred transaction costs	4	-	1,080
Exploration and evaluation assets	6	19,360	-
		35,855	11,065
Current Liabilities			
Amounts payable and accrued liabilities		417	565
Loan and promissory notes		-	2,654
Deferred consideration	4	5,138	-
		5,555	3,219
Long-Term Liabilities			
Decommissioning liability	7	42	-
Deferred consideration	4	915	-
Deferred tax liability		3,537	-
		10,049	3,219
Shareholders' Equity			
Share capital	8	37,711	5,562
Subscription receipts	8	-	8,369
Equity reserve	8	4,017	712
Accumulated other comprehensive income		(20)	-
Deficit		(15,902)	(6,797)
		25,806	7,846
		35,855	11,065

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

Approved on behalf of the Board of Directors:

/s/ J. Jay Park

Director

/s/ D. Jeffrey Harder

Director

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Condensed Interim Consolidated Statements of Loss

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2023	2022	2023	2022
		\$	\$	\$	\$
Expenses					
General and administration	9	1,056	33	5,703	176
Share-based compensation	8, 9	1,530	-	3,198	92
		(2,586)	(33)	(8,901)	(268)
Other items					
Unrealized foreign exchange gain (loss)		111	(8)	95	(10)
Interest income		146	-	347	-
Other expenses		-	(2)	-	17
Share of loss from equity accounted associate	5	(4)	-	(4)	-
Remeasurement of deferred consideration	4	(819)	(19)	(819)	-
		(566)	(29)	(381)	7
Loss before tax		(3,152)	(62)	(9,282)	(261)
Income Tax					
Deferred income tax recovery		177	-	177	-
Loss for the period		(2,975)	(62)	(9,105)	(261)
Other comprehensive income (loss)					
Foreign exchange translation		(20)	-	(20)	-
Comprehensive loss for the period		(2,995)	(62)	(9,125)	(261)
Basic and diluted loss per share		(0.01)	(0.00)	(0.04)	(0.00)
Weighted average number of common shares outstanding - basic and diluted		221,690,238	112,472,114	208,068,585	112,472,114

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

	Note	Number of Shares	Amount	Subscription Receipts	Equity Reserve	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity (Deficit)
			\$	\$	\$	\$	\$	\$
Balance, December 31, 2021		112,472,114	5,320	-	712	-	(6,282)	(250)
Share-based compensation		-	-	-	92	-	-	92
Loss for the period		-	-	-	-	-	(261)	(261)
Balance, September 30, 2022		112,472,114	5,320	-	804	-	(6,543)	(419)
Balance, December 31, 2022		115,472,114	5,562	8,369	712	-	(6,797)	7,846
Issuance of shares - private placement at \$0.20	8(b)	42,500,000	8,419	(8,369)	-	-	-	50
Issuance of shares - private placement at \$0.50	8(b)	24,799,000	12,400	-	-	-	-	12,400
Share issuance costs		-	(1,109)	-	142	-	-	(967)
Shares issued pursuant to assignment agreement	4, 8(b)	26,250,000	5,250	-	-	-	-	5,250
Shares issued pursuant to share purchase agreement	4, 8(b)	13,527,250	7,104	-	-	-	-	7,104
Exercise of options	8(b)	250,000	85	-	(35)	-	-	50
Share-based compensation	8(c)	-	-	-	3,198	-	-	3,198
Comprehensive loss for the period		-	-	-	-	(20)	(9,105)	(9,125)
Balance, September 30, 2023		222,798,364	37,711	-	4,017	(20)	(15,902)	25,806

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian Dollars)

		Nine months ended September 30	
	Note	2023	2022
		\$	\$
Operating activities			
Loss for the period		(9,105)	(261)
Items not involving cash:			
Share-based compensation	8	3,198	92
Unrealized foreign exchange gain		(95)	-
Share of loss in associate		4	-
Deferred income tax recovery		(177)	-
Remeasurement of deferred consideration		819	-
Changes in non-cash working capital items:			
Other receivable		(86)	(7)
Prepaid expenses		(34)	-
Amounts payable and accrued liabilities		(146)	43
		(5,622)	(133)
Investing activities			
Net cash consumed upon acquisition of Genexco GmbH		(1,139)	-
Deferred consideration payments	4	(1,104)	-
Exploration and evaluation assets	6	(669)	-
		(2,912)	-
Financing activities			
Proceeds of shares issued, net of share issue costs	8	11,483	-
Proceeds from exercise of options	8	50	-
Funds received from loan and promissory notes		-	197
Repayment of loan and promissory notes		(2,654)	-
		8,879	197
Effect of foreign exchange on cash		7	-
Change in cash		352	64
Cash and cash equivalents, beginning		9,960	-
Cash and cash equivalents, ending		10,312	64
Shares issued for exploration and evaluation assets		5,250	-
Shares issued for share purchase agreement		7,104	-

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

1. NATURE OF OPERATIONS AND GOING CONCERN

MCF Energy Ltd. (formerly Pinedale Energy Limited) (the “Company” or “MCF” or “MCF Energy”) was incorporated under the British Columbia Business Corporations Act on December 17, 2007. The Company is a junior resource company engaged in the identification, and the exploration and development, of both proven and unproven reserves via drilling and/or acquisition with a focus on the European oil and gas sector. On December 23, 2022, the Company changed its name from “Pinedale Energy Limited” to “MCF Energy Ltd.”

The address of the Company's registered office is 25th floor, 700 West Georgia Street, Vancouver, BC, V7Y 1B3, and head office is 3123 - 595 Burrard Street, Vancouver, BC, V7X 1J1.

The Company is trading on the TSX Venture Exchange under the trading symbol “MCF”, on the Frankfurt Stock Exchange under the trading symbol “DC6” and on the OTCQX under the trading symbol “MCFNF.”

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2023, the Company had working capital of \$4,902 (December 31, 2022: working capital of \$6,766), including cash and cash equivalents of \$10,312 (December 31, 2022: \$9,960), however had realized a loss and negative cash flows used in operating activities during the nine months ended September 30, 2023 of \$9,105 and \$5,622 respectively with an accumulated deficit of \$15,902 (December 31, 2022: \$6,797). In addition, the Company does not have any revenue generating operations.

The continued operations of the Company and its ability to fund contractually agreed to exploration and/or development activities, are dependent on its currently available cash and cash equivalent resources and ability to generate future cash flows from operations, through successful exploration and / or development activities, or obtain additional financing. Management believes that sufficient funding will be available through currently available cash and cash equivalents and additional financing to meet the Company's liabilities and commitments as they become due in the Company's pursuit of revenue generating operations. However, there is a risk that capital spending on exploration activities may not be successful and that additional financing will not be available on a timely basis or on terms acceptable to the Company. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statement of financial position. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material.

2. BASIS OF PRESENTATION

(a) *Statement of compliance*

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, have been omitted or condensed. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 21, 2023.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

2. BASIS OF PRESENTATION (Continued)

(b) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information

(c) *Basis of consolidation*

These comparative financial statements include the accounts of the Company and its wholly owned subsidiaries, being Pinedale USA Inc. (Delaware, USA), 1408978 B.C. Ltd., Genexco GmbH, and MCF Austria GmbH.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

(d) *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The condensed interim consolidated financial statements for the nine months ended September 30, 2023, are presented in Canadian dollars. The Functional Currency of Pinedale USA Inc., which is currently inactive, is the US dollar, for 1408978 B.C. Ltd it is the Canadian dollar, and the Functional Currency of Genexco GmbH, and MCF Austria GmbH is the Euro.

Transactions in currencies other than the Functional Currency are recorded at the rates of exchange prevailing on the transaction dates. All assets and liabilities are translated into the presentation currency using the exchange rate in effect on the reporting date, shareholders' equity accounts are translated using the historical rates of exchange and revenue and expenses are translated at the average rate for the year.

Exchange gains and losses on translation, if any, are included as a separate component of accumulated other comprehensive income.

(e) *Significant accounting judgments and estimates*

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant judgements and estimates made by management affecting the Company's financial statements include:

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

2. BASIS OF PRESENTATION (Continued)

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected. The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

Share-based compensation

Compensation costs accrued for under the Company's Stock Option Plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model which is based on significant assumptions such as the future volatility of the market price of MCF's shares and fair value assumption at date of grant.

Technical feasibility and commercial viability of exploration and evaluation assets

The determination of technical feasibility and commercial viability, based on the presence of proved and probable reserves and other factors, results in the transfer of assets from exploration and evaluation assets to petroleum and natural gas assets. As discussed above, the estimate of proved and probable reserves is inherently complex and requires significant judgment. Thus, any material change to reserve estimates could affect the technical feasibility and commercial viability of the underlying assets.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets acquired generally require the most judgment and include estimates of resources acquired, forecast benchmark commodity prices, and discount rates. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the purchase price allocation. Future net income can be affected as a result of asset impairment.

Decommissioning provisions

The Company estimates future remediation costs of production facilities, wells, and pipelines at different stages of development and construction of assets or facilities. In most instances, the removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating the cost, future removal technologies in determining the removal cost, and liability-specific discount rates to determine the present value of these cash flows.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

2. BASIS OF PRESENTATION (Continued)

Impairment indicators

At the end of each reporting period, the Company reviews the exploration prospects for external or internal circumstances that indicate the exploration prospects may be impaired. For the purpose of impairment testing, assets are grouped together into cash generating units ("CGU's") for the purpose of impairment testing, which is the lowest level at which there are identifiable cash inflow that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amounts is the higher of its fair value less costs to sell ("FVLCS") and its value in use ("VIU").

3. DEPOSIT

On September 30, 2023, the Company held restricted cash of \$1,645 (EUR €1,150) as collateral with the local mining authority to ensure the Company's fulfillment of environmental obligations pursuant to the Reudnitz permit within the state of Bavaria, in Germany.

4. ACQUISITIONS

a) KPFG

On November 29, 2022, and as amended on January 2, 2023, the Company entered into an assignment agreement with Kepis & Pobe Financial Group Inc. ("KPFG"). On January 3, 2023, KPFG assigned to the Company its rights under two agreements covering projects in Austria and Germany.

In consideration for the assignment, the Company issued on January 3, 2023 an aggregate of 25,000,000 common shares at a deemed price of \$0.20 per common share to certain current KPFG stakeholders. KPFG retained a 1.5% royalty on future production from the assigned projects. In addition, the Company issued 1,250,000 common shares at a deemed price of \$0.20 per common share as finder's shares in relation to the transaction. Additionally, upon execution of the assignment agreement, the Company included \$1,080 of deferred transactions costs in the costs of the acquisition as the acquired rights were not considered to meet the definition of a business in accordance with IFRS 3 Business Combinations. The total cost of the acquisition of the joint operations was \$6,330, which was recognized in Exploration and Evaluation Assets (Note 6).

b) Genexco

On April 3, 2023, the Company acquired all of the outstanding shares of Genexco GmbH ("Genexco"), a private German oil and gas company. The Company purchased a 100% interest in Genexco for EUR €2,492 in cash and issued a total of 11,067,750 common shares to the shareholders of Genexco in connection with the acquisition.

As part of the total consideration, a total of 4,919,000 additional common shares were available for further issuance, as contingent considerations together with a total of EUR €4,500 in cash. Of this amount, EUR €2,250 was contingent upon Genexco securing exploration licenses in certain specific geographic areas before October 1, 2024 (achieved).

As at September 30, 2023, the Company has issued 2,459,500 shares and paid EUR €750 in relation to the deferred consideration. Since all milestones have been met, the Company is obligated to pay an additional EUR €1,500 and issue 2,459,500 shares. At the time of acquisition, the Company assigned probabilities to certain milestone payments along with discounted cash payments. As the milestones have been met, the Company has revalued the deferred consideration in the statement of financial position in the amount of \$819.

An additional EUR €1,150 is an earn out provision with a set milestone that is based on the occurrence of an event.

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Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

4. ACQUISITIONS (Continued)

Based on the contingent payments remaining, the deferred consideration relating to the acquisition at September 30, 2023 is \$6,053 comprised of guaranteed future cash payments, achieved milestone cash payments, and estimated earn-out payments of \$4,815, and the issuance of shares in the amount of \$1,238.

In accordance with IFRS 3, Business Combinations, the acquisition meets the definition of a business combination. The Company has control of overall operations of Genexco, and hence the results of Genexco, from the date of acquisition, are included in the consolidated statements of net loss.

Subsequent to September 30, 2023, the Company paid EUR €740 in relation to the deferred consideration.

The following table summarizes the allocation of the purchase price to the fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition. Determinations of fair value often require management to make assumptions and estimates about future events. The below preliminary purchase price allocation is based on management's best estimate at the time of the preparation of these financial statements. The purchase price allocation is not final as the Company is continuing to obtain and verify information required, including those from internal and external specialists, to determine the fair value of certain assets and liabilities including exploration and evaluation assets, decommissioning obligations, income taxes payable and the deferred tax liability, as well as the finalization of working capital adjustments. Upon finalizing the fair value of the net assets acquired, the liabilities assumed, and total consideration paid, adjustments may be required to be made to the accounting for the acquisition. As new information is obtained within one year from the date of acquisition about facts and circumstances that existed at the date of acquisition, the accounting for the acquisition may be revised.

The following table summarizes the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Consideration	Amount
	\$
Cash	7,054
Shares	8,342
	<u>15,396</u>
Net assets of Genexco GmbH as at April 3, 2023:	
Cash	700
Deposit	1,682
Other asset	36
Exploration and evaluation assets	12,417
Investment in Genexco Gas GmbH	4,397
Amounts payable	(80)
Deferred tax liability	(3,714)
Decommissioning liability	<u>(42)</u>
Net assets acquired	15,396

A success fee of EUR €220 was paid in connection with the acquisition, which is recorded as part of general and administrative expenses in the Statement of Loss in the period.

5. INVESTMENT IN ASSOCIATE

On April 3, 2023, the Company completed the acquisition of Genexco (Note 4). As a result of the acquisition, the Company holds a 20% equity interest in Genexco Gas GmbH, a private German oil and gas company. During the nine months ended September 30, 2023, the Company recorded its proportionate share of loss in the amount of \$4 (nine months ended September 20, 2022 – N/A).

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(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

6. EXPLORATION AND EVALUATION ASSETS

The following tables summarize the capitalized costs associated with the Company's exploration and evaluation assets:

	Total
	\$
Acquisition Costs	
Balance December 31, 2022	-
Additions	18,752
Balance, September 30, 2023	18,752
Exploration Costs	
Balance December 31, 2022	-
Additions	608
Balance, September 30, 2023	608
Carrying Value	
Balance, December 31, 2022	-
Balance, September 30, 2023	19,360

During the nine months ended September 30, 2023, the Company spent \$669 in additions broken down as follows: \$608 on exploration costs and \$61 on acquisition costs.

Reudnitz Production Licence, Germany

During the nine months ended September 30, 2023, the Company paid US\$250 (CDN\$340) as a non-refundable payment upon entering into the agreement.

The Reudnitz Production License expires on December 31, 2023. The Company is in the process of applying for an extension.

Welchau Area, Molasse Basin, Austria

Under the terms of the agreement, the Company will fund up to 50% of exploration drilling costs for the Welchau well. Upon paying 50% share of the cost, the Company will earn a 50% share of cost hydrocarbons and a 20% share of profit hydrocarbons. ADX VIE GmbH is designated as the initial operator and holds the license.

During the nine months ended September 30, 2023, the Company paid EUR €297 (CDN\$428) as a funding contribution in relation to the agreement.

Joint control is defined as the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial, and operating decisions essential to the relevant activities require the unanimous consent of the parties sharing control. When the Company enters into agreements that provide for specific percentage interests in exploration properties, a portion of the Company's exploration activities is conducted jointly with others, without establishment of a corporation, partnership, or other entity.

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(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

Under IFRS 11 “Joint Arrangements”, this type of joint control of exploration assets and joint exploration and/or development activities is considered as a joint operation, which is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In these financial statements, the Company recognizes the following in relation to its interests in joint operations:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly; and
- its expenses, including its share of any expenses incurred jointly.

7. DECOMMISSIONING LIABILITY

The Company calculated the present value of the decommissioning liability using a credit-adjusted risk-free rate, calculated using a credit spread of 12.7% as at September 30, 2023 (December 31, 2022 – N/A). The Company's credit spread is determined using the Company's implied cost of borrowing at the end of the reporting period.

The Company has estimated the decommissioning liability based on current cost estimates of €855 (CDN\$1,251) (December 31, 2022 – N/A). Current cost estimates are inflated to the amounts expected to be incurred at the estimated time of abandonment of thirty (30) years using an estimated inflation rate of 2%. (December 31, 2022 – N/A).

8. EQUITY

(a) Authorized

Unlimited number of voting Class A common shares with no par value.

Unlimited number of voting Class B common shares with no par value.

(b) Issued and fully paid common shares

As at September 30, 2023, there were 222,798,364 (December 31, 2022: 115,472,114) Class A shares outstanding and no Class B shares outstanding.

Shares issued during the nine months ended September 30, 2023

On August 11, 2023, and in concurrence with the award of the Lech East exploration concession, the Company issued 2,459,500 common shares at a deemed value of \$0.53 to the former Genexco shareholders on the basis of meeting a predetermined milestone included in the contingent consideration for the Genexco acquisition discussed in Note 4.

On April 4, 2023, 250,000 stock options were exercised for gross proceeds of \$50.

On April 3, 2023, the Company completed the acquisition of Genexco (Note 4). The Company purchased a 100% interest in Genexco for EUR €1,250 in cash and issued a total of 11,067,750 common shares to the shareholders of Genexco in connection with the acquisition.

On April 3, 2023, concurrently with closing of the acquisition of Genexco, the Company issued 24,799,000 common shares on conversion of the subscription receipts that were issued pursuant to the concurrent financing on March 17, 2023 described below.

On March 17, 2023, the Company closed its non-brokered financing. The Company issued 24,799,000 subscription receipts at \$0.50 for gross proceeds of \$12,400. The Company incurred share issue costs of \$807 in connection with closing of the placement. The Company issued 982,940 broker warrants exercisable at \$0.62 per share on closing of the placement.

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(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

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8. EQUITY (Continued)

On January 3, 2023, the Company closed its non-brokered private placement issuing 42,500,000 shares at \$0.20 for gross proceeds of \$8,500. The Company incurred share issue costs of \$381 in connection with the closing of the placement. Proceeds for the private placement had been received in December 2022, and were transferred from Subscription receipts to Share capital on issuance of the shares.

On January 3, 2023, the Company issued an aggregate of 25,000,000 common shares at a deemed price of \$0.20 per common share to certain current KPFG stakeholders. In connection with the transaction, the Company also issued 1,250,000 common shares at a deemed price of \$0.20 per common share to certain finders.

Shares issued during the year ended December 31, 2022

On December 7, 2022, the Company issued 3,000,000 common shares pursuant to the exercise of stock options at \$0.05 per common share for proceeds of \$150.

(c) Stock Options

The Company has adopted a share option plan for which options to acquire up to a total of 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of ten years, and a vesting period and exercise price determined by the directors.

On September 26, 2023, the Company granted 5,750,000 options to certain consultants of the Company and a charitable organization. The options vest immediately and are exercisable at a price of \$0.29 per common share until September 26, 2033. Using the Black-Scholes valuation model, the grant date fair value was \$1,349. The following weighted average assumptions were used for the valuation of the options: risk-free interest rate of 4.09%, option life of 10 years, annualized volatility of 75%, and dividend rate of 0.00%.

On January 3, 2023, the Company granted 13,600,000 options to certain directors, officers and consultants of the Company and charitable organizations. The options vest over one year and are exercisable at a price of \$0.20 per common share until January 3, 2033. Using the Black-Scholes valuation model, the grant date fair value was \$1,668. The following weighted average assumptions were used for the valuation of the options: risk-free interest rate of 3.21%, option life of 10 years, annualized volatility of 75%, forfeiture rate of 7.54% and dividend rate of 0.00%.

In April 2022, the Company granted 3,000,000 options to certain directors, officers and consultants of the Company. The options vested immediately and are exercisable at a price of \$0.05 per common share until April 27, 2032. Using the Black-Scholes valuation model, the grant date fair value was \$92. The following weighted average assumptions were used for the valuation of the options: risk-free interest rate of 2.75%, option life of 10 years, annualized volatility of 75% and dividend rate of 0.00%.

On April 4, 2023, 250,000 stock options were exercised for gross proceeds of \$50.

During the year ended December 31, 2022, 3,000,000 options were exercised for proceeds of \$150.

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(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

8. EQUITY (Continued)

A summary of the changes in options is presented below:

	Options Outstanding	Weighted Average Exercise Price
		\$
Balance, December 31, 2021	-	-
Granted	3,000,000	0.05
Exercised	(3,000,000)	0.05
Balance, December 31, 2022	-	-
Granted	19,350,000	0.23
Exercised	(250,000)	0.20
Balance, September 30, 2023	19,100,000	0.23

The following tables summarize information about the Company's stock options outstanding at September 30, 2023:

Options Outstanding	Options Exercisable	Exercise Price	Expiry Date
		\$	
13,350,000	8,627,000	0.20	January 3, 2033
5,750,000	5,750,000	0.29	September 26, 2033
19,100,000	14,377,000		

(d) Warrants

On March 17, 2023, the Company issued 982,940 broker warrants as part of a private placement agreement with an exercise price of \$0.62. The warrants expire March 17, 2024. Using the Black-Scholes valuation model, the grant date fair value was \$142, and recorded as share issuance costs. The following weighted average assumptions were used for the valuation of the options: risk-free interest rate of 3.55%, warrant life of 1-year, annualized volatility of 75% and dividend rate of 0.00%.

A summary of the changes in warrants is presented below

	Warrants Outstanding	Weighted Average Exercise Price
		\$
Balance, December 31, 2021	10,000,000	0.31
Expired	(10,000,000)	0.31
Balance, December 31, 2022	-	-
Granted	982,940	0.62
Balance, September 30, 2023	982,940	0.62

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

8. EQUITY (Continued)

The following table summarizes the warrants outstanding at September 30, 2023:

Warrants Outstanding and Exercisable	Exercise Price	Expiry Date
	\$	
982,940	0.62	March 17, 2024
982,940		

9. RELATED PARTY TRANSACTIONS

Key management consists of personnel having the authority and responsibility for planning, directing, and controlling the activities of the Company, which are the directors and executive officers of the Company.

Compensation to key management:

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
	\$	\$
Consulting fees	613	-
Share-based compensation	936	31
	1,549	31

As at September 30, 2023, there is \$80 (December 31, 2022: \$38) included in accounts payable and accrued liabilities owing to key management.

Certain key management personnel hold a 1.0% royalty on some of the Company's projects – See Note 4(a).

10. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to continue investor, creditor and market confidence and to sustain the future development of the business. The Company's objectives when managing capital are to:

- Deploy risked capital to maximize the potential return on investment to its shareholders;
- Maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and
- Maintain a capital structure that provides financial flexibility to execute potential strategic acquisitions.

The Company's strategy is designed to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas prospects. MCF considers its capital structure to include shareholders' equity, stock options, and working capital. In order to maintain or adjust its capital structure, the Company may from time-to-time issue new Common Shares, acquire or dispose of assets, farm-out a portion of its working interest in one or more asset, seek debt based financing, and adjust its capital spending to manage working capital.

In order to facilitate the management of its capital expenditures and working capital, the Company prepares annual budgets which are updated quarterly depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditures and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

11. FINANCIAL INSTRUMENTS

Financial Risk Management

Cash and restricted cash, sales tax recoverable, in-transit receivable, and accounts payable and accrued liabilities are held at amortized cost which approximates fair value due to the short-term nature of these instruments. Deferred consideration is held at fair value.

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data.

Financial Instrument Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

Credit Risk

Credit risk arises from the potential for non-performance by counterparties of contractual financial obligations. The Company is exposed to credit risk on cash. The Company reduces its credit risk on cash by maintaining its bank account with a large international financial institution and temporarily holds cash in the Company lawyer's trust account. The maximum exposure to credit risk is equal to the carrying value of its cash and sales tax recoverable.

Liquidity Risk

At September 30, 2023, the Company had cash of \$10,312 to settle current liabilities of \$5,555 and working capital of \$4,902. The Company manages liquidity risk through the management of its capital structure. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities.

See Note 1 – Nature of Operations and Going Concern.

Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Company's reporting currency, will fluctuate due to changes in exchange rates. The Company has future funding commitments in Euro currency. Management monitors foreign exchange exposure, and if appropriate, will look at entering into derivative contracts. The Company has no assets or liabilities denominated in foreign currency.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Interim Condensed Consolidated Financial Statements

Nine months ended September 30, 2023 and September 30, 2022

(Unaudited, in thousands of Canadian Dollars, except for per share amounts)

11. FINANCIAL INSTRUMENTS (Continued)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity prices, and equity prices.

I. Interest Rate Risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Due to the short-term nature of the Company's financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2023. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital, and liquidity. Interest rate risk is assessed as low.

II. Equity Price Risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company is not exposed to price risk.

12. COMMITMENTS

- a) The Company is committed to future expenditures of EUR €1,846 (CDN\$2,666) on the Welchau prospect.
- b) The Company is obligated to fund its decommissioning liabilities associated with the Reudnitz prospect. The Company is currently evaluating the decommissioning liability. Genexco, its wholly owned subsidiary, has a total of EUR €1,150 (CDN\$1,645) on account with the local mining authority.
- c) In addition to joint interest costs, the Company is obligated to fund up to 50% of cost overruns, relating to its joint interest operation, under the terms of its joint development agreement.

The Company makes provisions for cases brought against it, and/or contingent liabilities when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated.

13. SEGMENTED INFORMATION

As at September 30, 2023, the Company primarily operates in one reportable operating segment, being oil and gas exploration in Europe.