



Consolidated Financial Statements

MCF Energy Ltd.
(formerly Pinedale Energy Limited)

For the years ended December 31, 2023 and 2022
(In thousands of Canadian Dollars)



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MCF Energy Ltd.

Opinion

We have audited the consolidated financial statements of MCF Energy Ltd. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of loss for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that additional financing is required to meet the Entity's liabilities and commitments as they become due in the Entity's pursuit of revenue generating operations.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "Material Uncertainty Related to Going Concern" section of the auditor's report, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Assessment of the fair value of deferred contingent consideration in a business combination

Description of the matter

We draw attention to note 2e, note 3, and note 5b, to the financial statements. On April 3, 2023, the Entity acquired all of the outstanding shares of Genexco GmbH for total consideration of \$15,396 thousand. The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at fair value at the acquisition date. The total consideration for the acquisition includes an estimate of the fair value of deferred contingent consideration. The fair value of the deferred contingent consideration of \$4,423 thousand is based on the probability and expected timing of each of the payments happening, with estimated future payments being discounted to their net present value at acquisition date. The Entity used a discount rate of 15%, reflecting market participant risk assumptions.

Why the matter is a key audit matter

We identified the assessment of the fair value of deferred contingent consideration in a business combination as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the estimate of the discount rate used to determine the fair value of the deferred contingent consideration. Additionally, the evaluation of the discount rate related to the deferred contingent consideration requires the use of professionals with specialized skills and knowledge in valuation.

How the matter was addressed in the audit



The following are the primary procedures we performed to address this key audit matter:

- We read the purchase agreement to obtain an understanding of the key terms and conditions impacting the valuation of the deferred contingent consideration
- We performed sensitivity analyses to consider the impact of changes in the valuation of the deferred contingent consideration that would result from changes in management's assumptions.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the discount rate by comparing the discount rate to market and other external data.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 16, 2023.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Reinier Deurwaarder.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 23, 2024

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian Dollars)

	Note	December 31, 2023	December 31, 2022
		\$	\$
Current Assets			
Cash and cash equivalents		8,095	9,960
Other current assets		209	25
		8,304	9,985
Non-Current Assets			
Deposit	4	1,682	-
Investment in associate	6	4,371	-
Deferred transaction costs	5	-	1,080
Cash call receivable	7	1,499	-
Exploration and evaluation assets	7	19,316	-
		35,172	11,065
Current Liabilities			
Amounts payable and accrued liabilities	7	1,752	565
Loan and promissory notes		-	2,654
Deferred consideration	5	5,351	-
		7,103	3,219
Non-Current Liabilities			
Decommissioning liability	8	51	-
Deferred tax liability	5, 15	3,570	-
		10,724	3,219
Shareholders' Equity			
Share capital	9	37,711	5,562
Subscription receipts	9	-	8,369
Equity reserve	9	4,345	712
Accumulated other comprehensive income		(3)	-
Deficit		(17,605)	(6,797)
		24,448	7,846
		35,172	11,065

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS (Note 13)

SUBSEQUENT EVENTS (Note 16)

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 consolidated financial statements

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Consolidated Statements of Loss

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

	Note	Years ended December 31,	
		2023	2022
		\$	\$
Expenses			
General and administration		6,960	430
Share-based compensation		3,525	92
		(10,485)	(522)
Other items			
Realized foreign exchange gain (loss)		(60)	(8)
Interest income		462	(4)
Other expenses		-	19
Share of loss from equity accounted associate	6	(17)	-
Gain (loss) on remeasurement of deferred consideration	5	(852)	-
		(467)	7
Loss before tax		(10,952)	(515)
Income Tax			
Deferred income tax recovery	15	144	-
Loss for the period		(10,808)	(515)
Other comprehensive income (loss)			
Foreign exchange translation		(3)	-
Comprehensive loss for the period		(10,811)	(515)
Basic and diluted loss per share		(0.05)	(0.00)
Weighted average number of common shares outstanding - basic and diluted		208,068,585	112,669,916

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(Expressed 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)
Subscription receipts	9(b)	-	-	8,450	-	-	-	8,450
Share issuance costs		-	-	(81)	-	-	-	(81)
Share-based compensation	9(c)	-	-	-	92	-	-	92
Exercise of stock options	9(b)	3,000,000	242	-	(92)	-	-	150
Loss for the period		-	-	-	-	-	(515)	(515)
Balance, December 31, 2022		115,472,114	5,562	8,369	712	-	(6,797)	7,846
Issuance of shares - private placement at \$0.20	9(b)	42,500,000	8,419	(8,369)	-	-	-	50
Issuance of shares - private placement at \$0.50	9(b)	24,799,000	12,400	-	-	-	-	12,400
Share issuance costs		-	(1,109)	-	142	-	-	(967)
Shares issued pursuant to assignment agreement	5, 9(b)	26,250,000	5,250	-	-	-	-	5,250
Shares issued pursuant to share purchase agreement	5, 9(b)	13,527,250	7,104	-	-	-	-	7,104
Exercise of options	9(b)	250,000	85	-	(34)	-	-	51
Share-based compensation	9(c)	-	-	-	3,525	-	-	3,525
Comprehensive loss for the period		-	-	-	-	(3)	(10,808)	(10,811)
Balance, December 31, 2023		222,798,364	37,711	-	4,345	(3)	(17,605)	24,448

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

MCF Energy Ltd.
 (formerly Pinedale Energy Limited)
 Consolidated Statements of Cash Flows
 (Expressed in thousands of Canadian Dollars)

	Years ended December 31	
	2023	2022
Operating activities	\$	\$
Loss for the period	(10,808)	(515)
Items not involving cash:		
Share-based compensation	3,525	92
Unrealized foreign exchange gain	6	-
Share of loss in associate	17	-
Deferred income tax recovery	(144)	-
Remeasurement of deferred consideration	852	-
Changes in non-cash working capital items:		
Other current asset	(184)	(24)
Amounts payable and accrued liabilities	(312)	352
	(7,048)	(95)
Investing activities		
Net cash consumed upon acquisition of Genexco GmbH	(1,139)	-
Deferred consideration payments	(1,950)	-
Advances and prepayments	-	(1,042)
Exploration and evaluation assets	(608)	-
	(3,697)	(1,042)
Financing activities		
Proceeds of shares issued, net of share issue costs	11,484	8,420
Proceeds from exercise of options	50	150
Funds received from loan and promissory notes	-	2,527
Repayment of loan and promissory notes	(2,654)	-
	8,880	11,097
Change in cash	(1,865)	9,960
Cash and cash equivalents, beginning	9,960	-
Cash and cash equivalents, ending	8,095	9,960

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

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

(Expressed 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 December 31, 2023, the Company had working capital of \$1,201 (December 31, 2022: working capital of \$6,766), including cash and cash equivalents of \$8,095 (December 31, 2022: \$9,960), however the Company realized a loss during the year ended December 31, 2023 of \$10,808 (December 31, 2022: \$515), and cash used in operating activities of \$7,048 (December 31, 2022: \$95) with an accumulated deficit of \$17,605 (December 31, 2022: \$6,797). In addition, the Company has commitments (refer to Note 13) and 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. Additional financing to meet the Company’s liabilities and commitments as they become due in the Company’s pursuit of revenue generating operations will be required. 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 annual consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and the Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issue by the Board of Directors on April 23, 2024.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

(Expressed 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 1408978 B.C. Ltd., and Genexco 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. In assessing control, potential voting rights that are currently exercisable are considered. 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 consolidated financial statements for the year ended December 31, 2023, are presented in Canadian dollars. The Functional Currency of 1408978 B.C. Ltd it is the Canadian dollar, and the Functional Currency of Genexco 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 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 judgments and estimates made by management affecting the Company's financial statements include:

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

(Expressed 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 is generally 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. 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 deferred contingent consideration based on the probability and expected timing of each of the payments happening, with estimated future payments being discounted to their net present value at acquisition date. 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. Judgement is required to determine whether an acquisition constitutes a business for purposes of IFRS Accounting Standards and in determining the acquisition date.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

(Expressed 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. This assessment includes many changing factors, including reserves, project economics, expected capital expenditures and production costs, access to infrastructure, obtaining and the timing of receiving required regulatory approvals, and potential infrastructure construction and expansions. Furthermore, the transfer of E&E assets to PP&E is based on Management's judgement of technical feasibility and commercial viability.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company:

(a) Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

The Company characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and,
- Level 3 inputs are unobservable inputs for the asset or liability.

Classification and measurement of financial assets

The initial classification of a financial asset depends upon the Company's business model for managing its financial assets and the contractual terms of the cash flows.

The Company's financial assets which consist primarily of cash and cash equivalents and other current assets classified as and measured at amortized cost.

At initial recognition, the Company measures a financial asset at its fair value and, in the case of a financial asset not at FVTPL, including transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are recorded as an expense in the consolidated statements of loss and comprehensive loss.

Financial assets are reclassified subsequent to their initial recognition only if the business model for managing those financial assets changes. The affected financial assets will be reclassified on the first day of the first reporting period following the change in the business model. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

(a) Classification and measurement of financial liabilities

The Company's financial liabilities which consist primarily of accounts payable and accrued liabilities, and loan and promissory notes are classified as and measured at amortized cost.

(b) Impairment of financial assets

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses ("ECLs"). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. Loss allowances for financial assets are deducted from the gross carrying amount of the assets. Impairment losses on financial assets are presented under "other expenses" in the consolidated statements of income (loss) and comprehensive income (loss). The Company does not have any financial assets that contain a financing component.

(c) Impairment of non-financial assets

Exploration and evaluation assets ("E&E assets") are assessed for impairment at the area level and are reviewed at each reporting date for indicators of potential impairment, or in the case of previously impaired E&E assets, reversal of impairment. An impairment charge on E&E assets is recognized if the carrying value of the E&E assets exceeds the recoverable amount. Impairment of E&E assets is recognized in net income as impairment of E&E.

If there is an indicator that a previously recognized impairment charge may no longer exist or may have decreased, the recoverable amount of the relevant E&E asset is calculated and compared against the carrying amount. An impairment charge is reversed to the extent that the asset's recoverable amount does not exceed the carrying amount. A reversal of impairment of E&E assets is recognized in net income as reversal of impairment.

(d) Exploration and evaluation assets

Pre-licence exploration costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

The costs to acquire non-producing oil and gas properties or licenses to explore, drill exploratory wells and the costs to evaluate the commercial potential of underlying resources, including related borrowing costs, are initially capitalized as exploration and evaluation assets.

Exploration and evaluation assets ("E&E assets") are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. If an area or exploration well is no longer considered commercially viable, the related capitalized costs are charged to exploration expense.

Exploration and evaluation assets are not subject to depreciation, depletion, and amortization.

(e) Business combinations

The Company accounts for business combinations (or groups of assets) using the acquisition method. The cost of an acquisition is measured as the fair value of the assets received/transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. Identifiable assets and liabilities assumed are measured and recognized at their fair value at the date of the acquisition, with the exception of income taxes. Any deferred tax asset or liability arising from a business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the financial statements from the closing date of the acquisition. Any excess of purchase price over the fair value of net assets is recognized as goodwill on the consolidated statement of financial position or as a gain on bargain purchase price within the consolidated statements of income and comprehensive income.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

(f) Investment in associate

Investments in associates are accounted for using the equity method when the Company determines that it has significant influence over an investment. Investments of this nature are recorded at original cost. Investments in associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Contributions made increase the carrying amount of the investment and distributions received reduce the carrying amount of the investment.

The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. An impairment loss in respect of an equity method accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable amount.

(g) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

(h) Share-based compensation

Share-based compensation to non-employees is measured at the fair value of goods and services received or the fair value of the equity instrument issued, if it is determined that the fair value of the goods or services cannot be reliably measured, share-based compensation is recorded at the date the goods or services are received.

Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. The corresponding amount is recorded in contributed surplus.

The fair value of stock options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest are reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts are transferred to share capital.

(i) Related party transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties subject to common control are also considered to be related. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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3. MATERIAL ACCOUNTING POLICIES (Continued)

(j) Decommissioning liabilities

Provisions for decommissioning and restoration obligations associated with the Company's assets are recognized as decommissioning liabilities. Decommissioning liabilities are measured at present value at the balance sheet date, based on management's best estimate of expenditures required to settle the liability, at the end of the asset's useful life. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset. The long-term liability is increased each reporting period with the passage of time and the associated accretion charge is recognized in net income. Periodic revisions to the liability-specific credit adjusted risk-free discount rate, estimated timing of cash flows, or to the estimated undiscounted cost can also result in an increase or decrease to the decommissioning liabilities and the related asset. Actual costs incurred upon settlement of the liability are recorded against the decommissioning liability to the extent of the liability recognized.

(k) Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be determined for the obligation.

A provision for onerous contracts is recognized when the expected economic benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract. Before a provision is established, the Company first recognizes any impairment charge on assets associated with the onerous contract.

A contingent liability is disclosed when the Company has a possible obligation arising from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly under its control, or when the Company has a present obligation that arises from past events but have not yet been recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured reliably.

(l) Joint arrangements

The Company may conduct its crude oil and natural gas exploration and development activities through jointly controlled operations and the financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks.

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.

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:

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3. MATERIAL ACCOUNTING POLICIES (Continued)

- 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

(m) Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

(n) Income taxes

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent that it relates to a business combination, or to items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Segmented information

The Company has a business unit structure designed to manage assets in each country in which the Company operates. The Company's operating segments derive its exploration and development of E&E assets. The Company has two key operating segments: Canadian business unit and the European business unit.

The Company's Canadian business unit includes costs incurred at the Company's corporate head office located in Vancouver, Canada.

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3. MATERIAL ACCOUNTING POLICIES (Continued)

(p) Changing Regulation

Emissions, carbon taxes and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the IASB has issued an IFRS Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable.

On June 26, 2023, the ISSB released two standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. The Canadian Sustainability Standards Board has been formed to support the adoption of international sustainability standards in Canada, which will include decisions about adoption and effective dates of IFRS S1 and IFRS S2. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards and others that may be developed or evolved over time have yet to be quantified by the Company and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

(q) Changes to accounting policies

New Accounting Policies

Disclosure of Accounting Policies

The Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Material Judgements) which were effective for annual reporting periods beginning on or after January 1, 2023. The amendment required companies to disclose material rather than significant accounting policies and includes guidance around defining materiality in this context. The amendments did not have a material impact on the Company's disclosures of accounting policies or measurement, recognition or presentation of any items within these financial statements.

Future Accounting Pronouncements

Amendments to IAS 1 Presentation of Financial Statements in January 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 Presentation of Financial Statements ("IAS 1") to clarify requirements for the presentation of liabilities as current or non-current in the statement of financial position. In October 2022, the IASB issued further amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. Both amendments are effective for annual periods beginning on or after January 1, 2024. The Company will adopt the pronouncements on January 1, 2024 and each is not expected to have a material impact on the Company's financial statements.

4. DEPOSIT

The Company has previously made a security deposit of \$1,682 (EUR €1,150) as collateral with the state mining authority in Brandenburg, Germany, to ensure the Company's fulfillment of environmental obligations pursuant to the Reudnitz permit.

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5. 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 \$1,043 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 \$6,375, which was recognized in E&E Assets (Note 7).

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 obtained control of the operations of Genexco at that date, and hence the results of Genexco, from the date of acquisition, are included in the consolidated statements of net loss. The acquisition was accounted for as a business combination, with the Company being considered the acquirer for accounting purposes, and the assets acquired and the liabilities assumed being recorded at fair value at the acquisition date.

The total consideration for the acquisition was \$15,396, including \$3,646 (EUR €2,492) in cash, 11,067,750 common shares issued to the shareholders of Genexco and valued at \$5,867 based on the closing price of the Company's shares of \$0.53 on April 3, 2023, and deferred consideration of \$5,886 in cash and shares.

Settlement of \$4,423 of the deferred consideration is contingent on certain events occurring, including the Company obtaining two exploration licenses in certain specific geographic areas before October 1, 2024 (occurred). Deferred consideration that is not contingent on certain events occurring is \$1,463 (EUR €1,000) in cash. At the time of acquisition, the Company determined the fair value of the deferred contingent consideration based on the probability and expected timing of each of the payments happening, with estimated future payments being discounted to their net present value at acquisition date. The Company used a discount rate of 15%, reflecting market participant risk assumptions.

At year-end, the Company had obtained the two exploration licenses, resulting in the issuance of 2,459,500 shares and payment of \$1,958 (EUR €1,339) in relation to the deferred contingent consideration before December 31, 2023, while the Company continued to be obligated to pay an additional \$2,418 (EUR €1,654) and issue an additional 2,459,500 shares in relation to the relation to the exploration licenses obtained at December 31, 2023.

As the milestones have been met, the Company has revalued the deferred contingent consideration in the statement of financial position in the amount of \$852.

An additional \$1,682 (EUR €1,150) is an earn out provision with a set milestone that is based on the award of a production license.

Based on the contingent payments remaining, the deferred consideration relating to the acquisition at December 31, 2023 is \$5,351 comprised of guaranteed future cash payments, achieved milestone cash payments, and estimated earn-out payments of \$4,113, and the issuance of shares in the amount of \$1,238.

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5. ACQUISITIONS (Continued)

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.

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 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
	<hr/>
	15,396
Net assets of Genexco GmbH as at April 3, 2023:	
Cash	700
Deposit	1,682
Other asset	39
Exploration and evaluation assets	12,431
Investment in Genexco Gas GmbH	4,389
Amounts payable	(80)
Deferred tax liability	(3,714)
Decommissioning liability	(51)
	<hr/>
Net assets acquired	15,396

A success fee of \$322 (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.

6. INVESTMENT IN ASSOCIATE

As a result of the acquisition of Genexco (Note 5(b)), the Company acquired a 20% equity interest in Genexco Gas GmbH ("Genexco Gas"), a private German oil and gas company. During the year ended December 31, 2023, the Company recorded its proportionate share of losses of Genexco Gas in the amount of \$17 (year ended December 31, 2022 – N/A).

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7. EXPLORATION AND EVALUATION ASSETS

The following tables summarizes the capitalized costs associated with the Company's E&E assets:

	Total
	\$
Acquisition Costs	
Balance December 31, 2022	-
Additions	18,852
Balance, December 31, 2023	18,852
Exploration Costs	
Balance December 31, 2022	-
Additions	464
Balance, December 31, 2023	464
Carrying Value	
Balance, December 31, 2022	-
Balance, December 31, 2023	19,316

During the year ended December 31, 2023, the Company spent \$608 in additions broken down as follows: \$464 on exploration costs and \$144 on acquisition costs.

Reudnitz Production Licence, Germany

The Company obtained a 50% interest in a production license in Reudnitz, Germany as part of the assignment of projects by KPFG (Note 5(a)). The remaining ownership in the license was obtained by the Company as part of the acquisition of Genexco (Note 5(b)).

During the year ended December 31, 2023, the Company paid \$340 (US\$250) as a non-refundable payment upon entering into the agreement.

Lech East Exploration License, Germany

On August 1, 2023, Genexco, the Company's wholly owned subsidiary, was awarded a natural gas exploration concession, Lech East. Lech East is approximately 100 km² in Southwest Bavaria, Germany, granted by the Bavarian State Ministry of Economic Affairs, Regional Development and Energy for an initial term of three years.

Welchau Area, Molasse Basin, Austria

As part of the assignment of projects by KPFG, the Company obtained the right to earn an interest in a license in the Welchau Area in Austria. Under the terms of the agreement, the Company will fund up to 50% of exploration drilling costs for the initial 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.

See Subsequent Events Note 16(a), as the Company subsequently owns a 25% share of profit hydrocarbons.

During the year ended December 31, 2023, the Company paid \$428 (EUR €297) as a funding contribution in relation to the agreement.

Included in cash call receivable at December 31, 2023, is \$1,499 related to a cash call for Welchau included in accounts payable and accrued liabilities.

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8. DECOMMISSIONING LIABILITY

The Company has obligations to abandon and remediate the impact from historic drilling and production activities on certain of its licenses. The Company calculated the present value of these decommissioning liability using a credit-adjusted risk-free rate of 15%, including a credit spread of 12.7% as at December 31, 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 expenditures based on current cost estimates, net of salvage value of \$1,494 (EUR €1,045) (December 31, 2022 – N/A). Current cost estimates are inflated to the amounts expected to be incurred at the estimated time of abandonment after thirty (30) years using an estimated inflation rate of 3%. (December 31, 2022 – N/A).

9. 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 December 31, 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 year ended December 31, 2023

On August 11, 2023, and in concurrence with the award of the Lech East exploration concession, the Company issued 2,459,500 Class A common shares at a value of \$0.53 to the former Genexco shareholders as a result of meeting a predetermined contingent consideration milestone for the Genexco acquisition discussed in Note 5(b).

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

On April 3, 2023, the Company completed the acquisition of Genexco (Note 5(b)). The Company purchased a 100% interest in Genexco for \$1,838 (EUR €1,250) in cash and issued a total of 11,067,750 Class A common shares at a value of \$5,867 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 Class A 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 for Class A common shares at \$0.50 for gross proceeds of \$12,400. The Company incurred share issue costs of \$807 in connection with closing the placement. The Company issued 982,940 broker warrants for Class A common shares exercisable at \$0.62 per Class A common share on closing of the placement.

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9. EQUITY (Continued)

On January 3, 2023, the Company closed its non-brokered private placement issuing 42,500,000 Class A common 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 Class A 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 under 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 November 28, 2023, the Company cancelled 3,750,000 of these options.

On January 3, 2023, the Company granted 13,600,000 Class A common share 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 Class A common share 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.

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9. 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
Cancelled	(3,750,000)	0.29
Balance, December 31, 2023	15,350,000	0.21

The following tables summarize information about the Company's stock options outstanding at December 31, 2023:

Options Outstanding	Options Exercisable	Exercise Price	Expiry Date
		\$	
13,350,000	8,995,833	0.20	January 3, 2033
2,000,000	2,000,000	0.29	September 26, 2033
15,350,000	10,995,833		

(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, which was 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, December 31, 2023	982,940	0.62

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9. EQUITY (Continued)

The following table summarizes the warrants outstanding at December 31, 2023:

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

10. 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:

	Year ended December 31, 2023	Year ended December 31, 2022
	\$	\$
Consulting fees	821	-
Director fees	92	-
Share-based compensation	1,072	31
	1,985	31

As at December 31, 2023, there is \$60 (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 5(a).

11. 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.

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12. 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 December 31, 2023, the Company had cash of \$8,095 to settle current liabilities of \$7,103 and working capital of \$1,201. 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.

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12. 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 December 31, 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.

13. COMMITMENTS

- a) The Company is committed to future expenditures of \$1,941 (EUR €1,328) 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 \$1,645 (EUR €1,150) 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.

14. SEGMENTED INFORMATION

As at December 31, 2023, the Company primarily operates in one reportable operating segment, being oil and gas exploration in Europe.

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

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

15. INCOME TAXES

The following table reconciles the expected income tax expense at the Canadian statutory income tax rate to the amounts recognized in the statement of loss and comprehensive loss for the year ended December 31, 2023 and 2022.

	2023	2022
	\$	\$
Net loss for the year	(10,952)	(515)
Statutory tax rate	27.00%	27.00%
Expected income tax expense (recovery)	(2,957)	(139)
Stock based compensation	952	25
Gain/loss on remeasurement of deferred compensation	230	(21)
Foreign rate differential	(11)	-
Change in deferred tax asset not recognized	1,643	135
Income tax expense (recovery)	(144)	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

The Company recognized a \$3,714 (2022: \$Nil) deferred tax liability on the acquisition of Genexco GmbH. This was due to the difference between the accounting and tax values of the exploration and evaluation assets. See below for the recognition and movement of the deferred taxes in the period.

	2022	Recognized through P&L	Business Combination	2023
		\$	\$	\$
Property, plant & equipment	-	(24)	(3,729)	(3,753)
Asset retirement obligation	-	0	15	15
Non-capital losses	-	168	-	168
Deferred tax liability	-	144	(3,714)	(3,570)

In addition to the above, the Company has the following unrecognized temporary differences for which they are unable to offset against its deferred tax liability as it is located in a different jurisdiction:

	2023	2022
Non-capital losses	8,692	862
Loans and notes payable	-	4
Financing costs & other	773	65
Capital losses	3,346	3,346
Unrecognized deductible temporary differences	12,811	4,276

As at December 31, 2023, the Company has not recognized a deferred tax asset in respect of capital loss carry forwards of approximately \$3,346 (2022: \$3,346) which may be carried forward indefinitely to apply against taxable capital gains in future years for Canadian income tax purposes, subject to the final determination by taxation authorities.

The Company has not recognized a deferred tax asset in respect of non-capital loss carry forward of approximately \$8,692 (2022: \$862) which expire from 2037 to 2043 for Canadian income tax purposes, subject to the final determination by taxation authorities. The Company has recognized \$168 (2022: \$0) of net operating loss carryforwards in Germany, which do not expire.

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16. SUBSEQUENT EVENTS

- a) On January 5, 2024, the Company and ADX have amended the agreement to outline the Company's commitment to finance 50% of the Welchau-1 well expenses, up to \$7,300 (EUR €5,100), in exchange for increasing the Company's economic interest in the Welchau investment area to 25% from 20%. Upon reaching the revised well cost cap, the Company and ADX will cover their respective shares of 25% and 75% for the expenses related to the Welchau investment area. See Note 6.

Upon signing the amended agreement, the Company paid \$1,497 (EUR €1,025) as a funding contribution towards the Welchau-1 well.

- b) On February 23, 2024, the Company acquired oil and gas exploration licenses in the Czech Republic. Located in the Vienna Basin of Czechia within the Carpathian Mountains, the Acquisition consists of three production licences covering 6,880 acres (27.8 sq. km), and three exploration licences covering 42,551.5 acres (172.2 sq. km).

The Company issued 17.5 million common shares to the vendor, and made a cash payment of \$1,800 (US\$1,325). Additionally, the Company issued 350,000 common shares as an advisory success fee.

A Czech company (the "Manager"), familiar with local operations, will manage the Czech assets from its office in Prague. The Manager's compensation includes a set fee of \$65 per month in cash, and cash bonuses, based on performance up to a maximum of \$800. In addition, the Manager will be granted a net profit royalty from successful wells varying between 2.5% and 10% for seven years, and a flat 2.5% thereafter. If, by the later of 24 months from closing, or fiscal year end 2025, less than \$5,000 has been deployed in connection with the Company's assets or operations in the Czech Republic, the royalty gets extended one year before reverting to a flat 2.5%. If after 36 months from closing, less than \$5,000 has been deployed, the Manager shall have the option to purchase 50% of the working interest in certain lands for \$500.

- c) On March 17, 2024, 982,240 broker warrants exercisable at \$0.62 expired unexercised.
- d) On April 1, 2024, the Company issued 2,459,500 Class A common shares to the former shareholders of Genexco GmbH as part of the deferred consideration. See Note 5(b).
- e) On April 3, 2024, 500,000 share options were exercised for gross proceeds of \$100.