Consolidated Financial Statements of

MCF Energy Ltd.
(formerly Pinedale Energy Limited)

Years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

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

MNP

Independent Auditor's Report

To the Shareholders of MCF Energy Ltd. (Formerly Pinedale Energy Limited)

Opinion

We have audited the consolidated financial statements of MCF Energy Ltd. (Formerly Pinedale Energy Limited) and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficit), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statement or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to 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. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated 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 consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Abhishek Kapoor.

MNP LLP

Vancouver, British Columbia

March 16, 2023

Chartered Professional Accountants

MCF Energy Ltd.

(formerly Pinedale Energy Limited)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

		December 31, 2022		December 31, 2021
Assets				
Current				
Cash and restricted cash (Note 3(a))	**$**	**9,960,496**	$	744
Amounts receivable		**25,084**		727
		9,985,580		1,471
Advances and prepayments (Note 4)		**1,079,587**		-
Total assets	**$**	**11,065,167**		1,471
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 7)	**$**	**564,668**	$	124,847
Loan and promissory notes (Note 5)		**2,654,153**		126,943
Total liabilities		**3,218,821**		251,790
Shareholders' equity (deficit)				
Share capital (Note 6)		**5,562,166**		5,319,746
Subscription receipts (Note 11(a))		**8,369,169**		-
Equity reserve		**711,932**		711,932
Deficit		**(6,796,921)**		(6,281,997)
Total shareholders' equity (deficit)		**7,846,346**		(250,319)
Total liabilities and shareholders' equity (deficit)	**$**	**11,065,167**	$	1,471

Nature of operations (Note 1)
Subsequent events (Note 5 and 11)

Approved by the Board of Directors and authorized for issue on March 16, 2023:

"Jay Park" Director

"Jeffrey Harder" Director

MCF Energy Ltd.
(formerly Pinedale Energy Limited)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Years ended	
	December 31, 2022	December 31, 2021
Expenses		
Consulting fees	**$ 166,722**	$ -
Directors' fees (Note 7)	**-**	28,710
Office and administration	**10,994**	1,121
Professional fees	**116,235**	87,618
Regulatory and filing	**29,870**	11,056
Share-based compensation (Notes 6(c) and Note 7)	**92,420**	-
Travel	**105,368**	-
	(521,609)	(128,505)
Other items		
Interest expense (Note 5)	**(4,437)**	-
Foreign exchange	**(7,596)**	(3,642)
Write off of accounts payables and accrued liabilities	**18,718**	-
	6,685	(3,642)
Net loss and comprehensive loss	**$ (514,924)**	$ (132,147)
Basic and diluted loss per share	**$ (0.00)**	$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	**112,669,916**	112,472,114

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 Canadian dollars)

	Share Capital					
	Shares issued	Amount	Subscriptions receipts	Equity reserve	Deficit	Total shareholders' equity (deficiency)
Balance, December 31, 2020	112,472,114	$ 5,319,746	$ -	$ 711,932	$ (6,149,850)	$ (118,172)
Net loss and comprehensive loss	-	-	-	-	(132,147)	(132,147)
Balance, December 31, 2021	112,472,114	5,319,746	-	711,932	(6,281,997)	(250,319)
Subscriptions receipts (Note 11(a))	-	-	8,450,000	-	-	8,450,000
Share issuance costs	-	-	(80,831)	-	-	(80,831)
Share-based compensation (Note 6(c))	-	-	-	92,420	-	92,420
Exercise of stock options (Note 6(c))	3,000,000	242,420	-	(92,420)	-	150,000
Net loss and comprehensive loss	-	-	-	-	(514,924)	(514,924)
Balance, December 31, 2022	**115,472,114**	**$ 5,562,166**	**$ 8,369,169**	**$ 711,932**	**$ (6,796,921)**	**$ 7,846,346**

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 Canadian dollars)

	Years Ended December 31, 2022	Years Ended December 31, 2021
Cash provided by (used in):		
Operating activities		
Net loss	**$ (514,924)**	$ (132,147)
Items not affecting cash:		
Share-based compensation (Note 6(c))	**92,420**	-
Changes in non-cash working capital items:		
Amounts receivable	**(24,357)**	61,669
Accounts payable and accrued liabilities	**351,403**	10,108
Cash used in operating activities	**(95,458)**	(60,370)
Investing activities		
Advances and prepayments (Note 4)	**(1,042,000)**	-
Cash used in investing activities	**(1,042,000)**	-
Financing activities		
Subscription receipts, net of share issuance costs (Note 11(a))	**8,420,000**	-
Loan and promissory notes (Note 5)	**2,527,210**	31,453
Exercise of stock options (Note 6(c))	**150,000**	-
Cash provided by financing activities	**11,097,210**	31,453
Change in cash and restricted cash	**9,959,752**	(28,917)
Cash, beginning of year	**744**	29,661
Cash, end of year	**$ 9,960,496**	$ 744
Non-cash investing and financing activities		
Share issuance costs included in accounts payable and accrued liabilities	**$ 50,831**	$ -
Deferred transaction costs included in accounts payable and accrued liabilities	**$ 37,587**	$ -

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

1. NATURE OF OPERATIONS

MCF Energy Ltd. (formerly Pinedale Energy Limited) ("MCF" or the "Company") 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 2900 - 550 Burrard Street, Vancouver, BC, V6C 0A3, 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".

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Company's board of directors approved the release of these consolidated financial statements on March 16, 2023.

(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

Comparative financial statements include the accounts of the Company and its wholly-owned subsidiary, being Pinedale USA Inc. (Delaware, USA).

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 in (the "Functional Currency"). The consolidated financial statements for the year ended December 31, 2022 are presented in Canadian dollars. The Functional Currency of Pinedale USA Inc., which is currently inactive, is the US dollar.

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.

2. BASIS OF PRESENTATION (Continued)

Exchange gains and losses on translation, if any, are included as a separate component of accumulated other comprehensive income. There are no exchange gains or losses during the year ended December 31, 2022.

(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:

Going concern

These consolidated financial statements have been prepared on a going concern basis and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Management has applied judgment in the assessment of the Company's ability to continue as a going concern, considering all available information, and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Given the judgment involved, actual results may lead to a materially different outcome.

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 (Note 6(c)) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these consolidated financial statements are described below:

a. *Cash and restricted cash*

Cash consists of deposits held in banks and the Company trust account. The Company places its cash with institutions of high credit-worthiness. As at December 31, 2022, there was $9,899,417 held in the Company trust account. The subscription receipts are subject to regulatory restrictions and are therefore not available for general use by the Company.

b. *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. There are three measurement categories into which the Company classified its financial assets;

Amortized Cost: Includes assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest. Financial instruments under this classification include cash;

Fair Value through Other Comprehensive Income ("FVOCI"): Includes assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, where its contractual terms give rise on specified dates to cash flows that represent solely payments of principal and interest; or,

Fair Value Through Profit or Loss ("FVTPL"): Includes assets that do not meet the criteria for amortized cost or FVOCI and are measured at fair value through profit or loss.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Financial instruments (Continued)

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.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

Classification and measurement of financial liabilities

A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

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.

Financial liabilities at FVTPL are measured at fair value with changes in fair value, along with any interest expense, recognized in the consolidated statement of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Any gain or loss on derecognition is also recognized in the consolidated statement of income (loss) and comprehensive income (loss).

c. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. 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.

e. 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.

f. Provisions

Provisions are recognized for liabilities of uncertain timing or amounts that have arisen as a result of past transactions, including legal or constructive obligations and it is probable that there will be a requirement to settle. The provision is measured at the best estimate of the present value of the amount required to settle the obligation using a pre-tax rate reflecting current market assessment, the time value of money and the risk specific to the obligation. Future increases resulting from the passing of time will be recognized as an accretion expense.

g. 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.

h. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Income taxes (Continued)

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.

i. New accounting standards issued but not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC.

The following amendments are effective for the period beginning January 1, 2023:

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021 the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

On May 7, 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendments narrow the scope of the initial recognition exemption so that is does not apply to the transactions that give rise to equal and offsetting temporary differences.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. New accounting standards issued but not yet effective (continued)

The Company is currently assessing the impact of these accounting standards and amendments. The Company does not believe that these amendments will have a significant impact on its consolidated financial statements.

4. ADVANCES AND PREPAYMENTS

On November 29, 2022, the Company entered into an assignment agreement with Kepis & Pobe Financial Group Inc. ("KPFG"), to establish MCF as an active explorer and developer of new natural gas discoveries in Western Europe. The agreement had certain closing conditions to be met before completion of the transaction. See Note 11 (Subsequent Events) for a detailed description of the transaction which was completed on January 3, 2023.

In consideration for the assignment, the Company will issue an aggregate of 25,000,000 common shares at a deemed price of $0.20 per common share (issued on January 3, 2023) to certain current KPFG stakeholders. In addition, the Company will issue 1,250,000 common shares (issued January 3, 2023) at a deemed price of $0.20 per common share as finder's shares in relation to the transaction.

As at December 31, 2022, $1,079,587 (2021: $Nil) of advances and prepayments relating to the transaction were recorded on the consolidated statement of financial position.

5. LOAN AND PROMISSORY NOTES

As at December 31, 2022, the Company had loan and promissory notes of $2,654,153 (2021: $126,943) consisting of the following:

On September 16, 2020, the Company executed a promissory note of US$75,000 to Flavocure Biotech, Inc. ("Flavocure") to secure short-term financing for working capital purposes related to a terminated Merger Agreement.

During the year ended December 31, 2021, an additional promissory note of US$25,042 was issued. The note was unsecured, interest free and was repayable on July 31, 2021. On May 25, 2022, the Company entered into a debt swap agreement (the "Debt Swap Agreement") wherein a US$100,042 promissory note to Flavocure was settled. $nil was owing to Flavocure as at December 31, 2022. Pursuant to the Debt Swap Agreement, in exchange for the settlement, the Company assigned a promissory note of US$99,500 ($136,385) to an arm's length party. This promissory note is interest free and payable on demand. The Debt Swap Agreement resulted in a gain on settlement of debt of $2,988.

The Company assigned debt in the amount of US$99,500 ($134,763) from a shareholder to three individuals. The loan is still outstanding at year end, is interest free and payable on demand. The loan was repaid in full subsequent to year end.

On June 23, 2022, a note payable of $106,000, was issued to a shareholder. The note accrues interest at 8% per annum and is payable on June 23, 2023. As at December 31, 2022, accrued interest on notes payable of $4,437 is included in accounts payable and accrued liabilities.

In November and December 2022, in conjunction with a private placement (Note 11(a)(i)), a group of investors deposited $1,980,000 into the Company lawyer's trust account. This amount was an overpayment of funds, and was returned in the subsequent period on January 13, 2023.

During the year ended December 31, 2022, the Company received a loan of $81,246 from a shareholder. The loan is still outstanding at year end, is interest free and payable on demand. The loan was repaid in full subsequent to year end.

(Expressed in Canadian dollars)

5. LOAN AND PROMISSORY NOTES (Continued)

During the year, the Company received a loan of US$260,000 ($352,144) from a shareholder in regard to the assignment agreement (Note 4). The loan is still outstanding at year end, is interest free and payable on demand. The loan was repaid in full subsequent to year end.

6. 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, 2022, there were 115,472,114 (2021: 112,472,114) Class A shares outstanding and no Class B shares outstanding.

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 $150,000 (Note 6(c)).

(c) Stock options

The Company has established a "rolling" Stock Option Plan (the "Plan"). Under the Plan, the number of options reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The maximum term of each option shall not be greater than 10 years. The exercise price of each option shall not be less than the market price of the Company's shares at the date of grant. Options granted to consultants performing Investor Relations Activities shall vest over a minimum of 12 months with no more than 1/4 of such options vesting in any 3-month period. All other options vest at the discretion of the Board of Directors.

In April 2022, the Company granted 3,000,000 options to certain directors, officers and consultants of the Company. The options vested immediately and were 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 $92,420, or $0.0308 per option. 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%.

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

A summary of the changes in options is presented below:

	Options Outstanding	Weighted average exercise price
Balance, December 31, 2020 and 2021	-	$ -
Granted	3,000,000	0.05
Exercised	(3,000,000)	0.05
Balance, December 31, 2022	-	$ -

(Expressed in Canadian dollars)

6. EQUITY (Continued)

(d) Warrants

A summary of the changes in warrants is presented below:

	Warrants outstanding	Weighted average exercise price
Balance, December 31, 2020	10,999,999	$ 0.31
Expired	(999,999)	0.26
Balance, December 31, 2021	10,000,000	0.31
Expired	(10,000,000)	0.31
Balance, December 31, 2022	-	$ -

7. RELATED PARTY TRANSACTIONS

Key Management includes personnel having the authority and responsibility for planning, directing and controlling the Company and includes the directors and executive officer.

	Year ended December 31, **2022**	2021
Directors' fees	**$ -**	$ 28,710
Share-based compensation	**30,808**	-
	$ 30,808	$ 28,710

As at December 31, 2022, accounts payable and accrued liabilities included $38,192 related to travel reimbursement (2021: $54,603 related to director fees and other costs) payable to the Chief Executive Officer of the Company.

8. INCOME TAX

Income tax expense

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, 2022 and 2021.

	2022	**2021**
	$	**$**
Net income before tax	(514,924)	(132,147)
Statutory tax rate	27.00%	27.00%
Expected income tax expense (recovery)	(139,029)	(35,680)
Stock based compensation	24,953	-
Share issuance costs	(20,820)	-
Change in deferred tax asset not recognized	134,896	35,680
Income tax expense (recovery)	-	-

(Expressed in Canadian dollars)

8. INCOME TAX (CONTINUED)

Deferred tax liabilities

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 unrecognized deductible temporary differences are as follows:

	2022	2021
Canada	**$**	**$**
Non-capital losses	862,041	427,092
Promissory note	-	3,720
Loans and notes payable	3,720	-
Financing costs	64,665	-
Capital losses	2,978,820	2,978,820
Unrecognized deductible temporary differences	3,909,246	3,409,632

As at December 31, 2022, the Company has not recognized a deferred tax asset in respect of capital loss carry forwards of approximately $2,978,820 (2021: $2,978,820) 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 $862,041 (2021: $427,092) which expire from 2037 to 2042 for Canadian income tax purposes, subject to the final determination by taxation authorities.

9. CAPITAL MANAGEMENT

The Company manages its cash, common shares, and stock options as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash held.

10. FINANCIAL INSTRUMENTS

Financial Risk Management

Cash, amounts receivable, accounts payable and accrued liabilities, and loan and promissory notes are held at amortized cost which approximates fair value due to the short-term nature of these instruments.

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 The Company valued deferred consideration (iii) as a level 3 instrument. The Company used a probability weighted discount model to determine the fair value of the deferred consideration. Key assumptions included a discount rate of 10% and a time frame of 12 months after which the Company expects the consideration milestone to have been achieved.

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 amounts receivable.

Liquidity Risk

At December 31, 2022, the Company had cash and restricted cash of $9,960,496 to settle current liabilities of $3,218,821 and working capital of $6,766,759. 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.

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. As at December 31, 2022, the Company had $359,500 in short-term loans recorded in US dollars (Note 5). As a result, the Company will be affected by changes in the US dollar relative to the Canadian dollar.

10. 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, 2022. 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.

11. SUBSEQUENT EVENTS

a) On January 3, 2023, the Company completed the following transactions:

  i. The Company closed its non-brokered private placement issuing 42,500,000 shares at $0.20 for gross proceeds of $8,500,000. The Company paid $180,375 of finder's fees in connection with the closing of the private placement.

  ii. The Company granted an aggregate of 13,600,000 stock options at $0.20 per common share, expiring on January 10, 2033.

  iii. KPFG assigned to the Company its rights under two agreements covering projects in Austria and Germany as follows:

    i. ADX VIE GmbH ("ADX") in respect of ADX's Welchau Well and the Welchau Area in Austria (collectively "Welchau"). Welchau is a large gas prospect in the foothills of the Austrian Alps. It is a thrust-belt play with an estimated drill depth of 1,150-2,000 metres targeting the Steinalm Formation reservoir, proven by a 1989 well, which intersected at least a 400-metre gas column adjacent to and down-dip from Welchau. The prospect is 18 kilometres from pipeline infrastructure and is anticipated to be drill tested before September 2023.

    ii. Genexco GmbH ("Genexco"), a privately-owned German corporation, in respect of Genexco's exploration rights in the Reudnitz prospect, a confirmed gas accumulation established by three previously drilled wells. Several additional hydrocarbon prospects in Germany in the application stage.

  The Company has 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.

b) On February 21, 2023, the Company, entered into a letter of intent to expand its acquisition of German oil and gas interests through its purchase of all of the outstanding share of Genexco. In addition to the previously announced purchase on January 23, 2023, the Company has also included additional interests held by a German company affiliated with Genexco. This acquisition now grants the Company a 20% interest in a prospective additional German oil and gas exploration licence, where a well is scheduled to be drilled in the second half of 2023. Pursuant to the letter of intent, the Company will pay 4,500,000 Euros and issue shares with a deemed value of 6,500,000 Euros.

c) In connection with the Genexco acquisition, on February 23, 2023, the Company announced that it has increased its previously announced non-brokered financing of subscription receipts from $8,000,000 to an aggregate of 24,000,000 subscription receipts at $0.50 for gross proceeds of $12,000,000.