

# **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

The following discussion is management's assessment and analysis of the results and financial condition of MCF Energy Ltd. (formerly Pinedale Energy Limited) (the "Company" or "MCF"), and should be read in conjunction with the accompanying audited consolidated financial statements and related notes. The preparation of financial data has 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"), and follows the same accounting policies and methods of application as the Company's most recent annual financial statements. All figures are reported in Canadian dollars unless otherwise indicated.

Certain information included in this discussion may constitute forward looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. The effective date of this report is April 23, 2024.

All amounts are in thousands of Canadian dollars, except share and per share information or where otherwise noted.

## **Cautionary Statement on Forward-Looking Information**

This MD&A and annual report contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "budget", "forecast", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A and annual report contains forward-looking information and statements pertaining to: the recent corporate acquisition of Genexco GmbH and expected transaction costs, MCF and its subsidiary's capital plans, activities and budget for 2024, expected well performance, forecasted average production volumes and capital expenditures for 2024, and the Company's strategy.

The forward-looking information and statements contained in this MD&A and annual report reflect several material factors and expectations and assumptions of MCF including, without limitation: that MCF will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of MCF's contingent and prospective resource volumes; certain commodity price and other cost assumptions; the continued availability of oilfield services; and the availability of adequate debt and equity financing and working capital to fund its planned expenditures.

MCF believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations, and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A and annual report are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of MCF's products; unanticipated operating results or production declines that differ from those estimated; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of MCF or by third party operators of MCF's properties, increased debt levels or debt service requirements; inaccurate estimation of MCF's oil and gas resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; a failure to obtain necessary approvals as proposed or at all and certain other risks detailed from time to time in MCF's public documents.

The forward-looking information and statements contained in this MD&A and annual report speak only as of the date of this MD&A and annual report, and MCF does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

# **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## **Profile & Strategy**

MCF is a Canadian upstream oil and gas company with exploration and development assets in Europe. The Company has a portfolio of natural gas weighted exploration/appraisal assets in Austria, Germany and Czechia. The Company holds its interests through joint development agreements, shareholdings in its wholly-owned German subsidiary, and investee company. MCF's long-term plan is to deliver sustainable shareholder value through the exploration, development, and production of its existing asset portfolio, accretive acquisitions of additional exploration and development assets, and monetizing value from its shareholdings in investee companies. MCF will maintain its primary focus on, onshore European, gas-weighted assets, and continues to work on optimizing and unlocking shareholder value through the evaluation of other energy opportunities in the global M&A market.

The Company is a unique investment opportunity for its exposure to European energy development.

## **Overview**

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 25<sup>th</sup> 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."

On November 29, 2022, the Company entered into an assignment agreement with Kepis & Pobe Financial Group Inc. ("KPF"), 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, which were met.

In consideration for the assignment, the Company issued an aggregate of 25,000,000 common shares at a deemed price of \$0.20 per common share to certain current KPF stakeholders. 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.

On January 3, 2023, James Hill, Jay Park, General Wesley Clark, D. Jeffrey Harder, and Richard Wadsworth were appointed directors of the Company. The directors appointed Aaron Triplett, CPA, CA as Chief Financial Officer and Corporate Secretary of the Company. In addition, the Company announced that Ford Nicholson, Gordon Keep, John Gaffney, Deborah Sacrey, Mark Enfield, and Ritchie Wayland agreed to assist the Company as advisors.

On January 3, 2023, the Company closed its non-brokered private placement issuing 42,500,000 shares at \$0.20 for gross proceeds of \$8,500. The Company incurred share issue costs of \$381 in connection with the closing of the private placement.

On March 17, 2023, the Company closed its non-brokered financing. The Company issued 24,799,000 subscription receipts at \$0.50 for gross proceeds of \$12,400. The Company paid finders fees of \$500. The Company issued 982,940 broker warrants exercisable at \$0.62 per share on closing of the placement.

On March 23, 2023, the Company common shares are quoted on the OTCQX® Best Market, graduating from the Pink® market.

On April 3, 2023, the Company completed the acquisition of Genexco GmbH ("Genexco"), a privately held German oil and gas company. The Company purchased a 100% interest in Genexco for \$1,838 (EUR €1,250) in cash and issued a total of 11,067,750 common shares to the shareholders of Genexco in connection with the acquisition. A total of 4,919,000 additional common shares were available for issuance, and a total of \$4,648 (EUR €3,250) in cash was due. Of this amount, \$3,218 (EUR €2,250) was contingent upon Genexco achieving a number of predetermined milestones before

## **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

October 1, 2024, including obtaining a number of licences, net of final working capital adjustments. A success fee of \$322 was paid in connection with the acquisition.

Concurrently with closing of the acquisition, the Company issued 24,799,000 common shares on conversion of the subscription receipts that were pursuant to the concurrent financing on March 17, 2023.

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 km<sup>2</sup> in Southwest Bavaria, Germany, granted by the Bavarian State Ministry of Economic Affairs, Regional Development and Energy for an initial term of three years.

On August 11, 2023, and in concurrence with the award of the Lech East exploration concession, the Company issued 2,459,500 common shares and paid \$1,097 (EUR €750) to the former Genexco shareholders on the basis of meeting a predetermined milestone included in the contingent consideration for the Genexco acquisition discussed in Note 5 of the consolidated financial statements.

On September 18, 2023, the Company's wholly owned subsidiary, was awarded a substantial multi-zone oil and natural gas exploration concession, Erlenwiese, spanning approximately 87 km<sup>2</sup> in Western Germany, by the Hessen Ministry of Environment, Climate, and Energy, through its mining authority granted for an initial term of three years. This event triggered the remaining milestone payments due of \$2,145 (EUR €1,500) and the issuance of 2,459,500 common shares (issued).

On January 5, 2024, the Company and ADX Energy Ltd. ("ADX") amended the agreement to outline the Company's commitment to finance 50% of the Welchau-1 well expenses, up to 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 of the consolidated financial statements.

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

On February 23, 2024, the Company acquired oil and gas exploration licences 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 km<sup>2</sup> km), and three exploration licences covering 42,551.5 acres (172.2 km<sup>2</sup>).

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.

# MCF Energy Ltd. (formerly Pinedale Energy Limited)

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## Operations Update

### *Austria – Welchau #1*

In Austria, the Welchau well spudded on February 24th and completed drilling on March 14th at a total depth of 1733 meters. Positive results of both gas and condensate/oil were seen at the surface. The well had to be circulated to clear the gas concentrations to safe levels. The interpretation by our reservoir engineer is that zone 6-19 are likely in the water bearing part of the reservoir and zone 6 is close to what could be an oil-water contact. The most important conclusion is that 100+ m of potential hydrocarbon bearing (in either liquid or gas form) reservoir may exist between zone 1-5.



### *Erlenweise*

Erlenweise, is primarily an oil play with associated gas. 2D seismic has been acquired and MCF is applying AI and machine learning analysis. MCF has identified 3D seismic over the area that can be acquired for a nominal cost, for further analysis.

### *Lech East*

In August 2023, Genexco completed the acquisition of Lech East, a gas exploration concession spanning approximately 100 km<sup>2</sup>; in Southwest Bavaria, Germany. The concession is granted by the Bavarian State Ministry of Economic Affairs for an initial term of three years. Lech East is adjacent to the 10 km<sup>2</sup>; Lech concession, in which MCF holds a 20% investment, through Genexco Gas.

MCF has processed 3D seismic and has identified six to eight potentially drillable prospects within the concession for the same Jurassic targets found in the Lech concession. If these wells are successful, there will be more development locations for each prospect, subject to further technical analysis and interpretation. The Company anticipates having several wells permitted by the end of 2024.

**MCF Energy Ltd.**  
**(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
 Financial Condition and Results of Operations  
 Annual Report – December 31, 2023

---

*Investment in Associate (Genexco Gas GmbH)*

Genexco Gas GmbH (the 'Operator') has advised MCF that the Lech - Kinsau 1A well in Germany, will be a re-entry of a well drilled in 1983 by Mobil. MCF has been informed that the permit to begin drilling operations has been delayed as the local regulatory agency has not provided the necessary approval, to date. The Operator has advised MCF that they expect the agency will approve the application, mid to late May.

The Operator has advised MCF that their revised estimate for spudding the well is now in August 2024. MCF is carried for the first 5 million euros in the Kinsua-1A well.

*Reudnitz*

The planned well work over was completed post-quarter-end and will be evaluated for approximately six weeks before beginning to flow rate test. Depending on the results of the testing, there are several options in development and partnership, which are being actively evaluated.

*Czech Production and Exploration Assets*

The acquisition of three production concessions and three exploration concessions has been completed. Located in the Vienna Basin of Czechia within the Carpathian Mountains, the Acquisition consists of three production licenses covering 6,880 acres (27.8 km<sup>2</sup>), and three exploration licences covering 42,551.5 acres (172.2 km<sup>2</sup>).

The project consists of reactivation of three currently shut in wells; LM-3, NT-2 and Krasna NP-823. There are two proven and productive targets, the Miocene sands and Devonian carbonates. Significant untested potential exists in the oil-productive fractured basement.

The Company plans to restore the wells to production and explore other methods to monetize the gas production from the wells, this includes onsite power generation and feeding the local gas grid.

**Selected Annual Information**

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
	\$	\$	\$
Total assets	35,172	11,065	1
Total liabilities	10,724	3,219	252
Total revenue (before royalties)	-	-	-
Net loss and comprehensive loss	(10,808)	(515)	(132)
Basic and diluted loss per share	(0.05)	(0.00)	(0.00)
Weighted average number of common shares outstanding	208,068,585	112,669,916	112,472,114

**MCF Energy Ltd.**  
**(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
 Financial Condition and Results of Operations  
 Annual Report – December 31, 2023

**Summary of Quarterly Results**

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
	\$	\$	\$	\$
Loss for the period	(1,703)	(2,975)	(2,685)	(3,445)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.02)

Weighted average number of common shares outstanding	222,798,364	221,690,238	219,533,492	182,677,170
---	-------------	-------------	-------------	-------------

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
	\$	\$	\$	\$
Loss for the period	(254)	(43)	(186)	(33)
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)	(0.00)

Weighted average number of common shares outstanding	112,669,916	112,472,114	112,472,114	112,472,114
---	-------------	-------------	-------------	-------------

Loss for Q2 2022 increased primarily due to share-based compensation, professional fees, and regulatory and filing fees, as a result of the management change. Loss for Q4 2022 increased significantly due to increased consulting fees, professional fees, share-based compensation, and travel, as a result of the pending hydrocarbon acquisitions. Loss for Q1, Q2 and Q3 2023 was primarily driven by share-based compensation and increase in general and administration expenses as the Company is significantly more active than prior periods. In addition, the Company had a \$819 loss in remeasurement of deferred consideration relating to the Genexco acquisition, which is a non-cash item. In Q4 2023, the loss was lower due to no options granted in the quarter and no remeasurement of deferred consideration.

**Overall Performance and Results of Operations**

Cash decreased by \$1,814 during the year ended December 31, 2023, due to \$11,484 received from net subscription receipts partially offset by \$2,654 of loan repayments, \$7,048 used in operating activities and \$3,697 used in investing activities.

**Three months ended December 31, 2023 and 2022**

Loss for the three months ended December 31, 2023, increased by \$1,449 from the three months ended December 31, 2022, the increase in loss for the period is primarily due to:

- An increase of \$345 in consulting. The Company entered into management contracts starting January 2023. In addition, the Company incurred additional consulting fees with respect to its German hydrocarbon assets.
- An increase of \$396 in marketing and investor relations. The Company engaged various service providers upon completion of its significant financial transactions on January 3, 2023 and April 3, 2023.

**Year ended December 31, 2023 and 2022**

Loss for the year ended December 31, 2023, increased by \$10,293 from the year ended December 31, 2022, the increase in loss for the period is primarily due to:

# **MCF Energy Ltd.**

## **(formerly Pinedale Energy Limited)**

### Management's Discussion and Analysis of Financial Condition and Results of Operations Annual Report – December 31, 2023

---

- An increase of \$322 in administrative success fees. A success fee of EUR €220 was paid in connection with the Genexco acquisition, which is recorded as part of general and administrative expenses in the Statement of Loss in the period.
- An increase of \$1,612 in consulting. The Company entered into a financial advisory mandate agreement for financial advice and corporate administration services starting March 2022. In addition, the Company entered into management contracts starting January 2023.
- An increase of \$3,433 in share-based compensation. On January 2, 2023, the Company issued 13,600,000 stock options that vest over a one-year period. On September 26, 2023, the Company issued 5,750,000 stock options that vested immediately.
- An increase of \$203 in travel expense. The increase was due to property investigation and acquisition costs related to the German and Austria hydrocarbon assets.
- An increase of \$2,836 in marketing and investor relations. The Company engaged various service providers upon completion of its significant financial transactions on January 3, 2023 and April 3, 2023.
- An increase of \$688 in professional fees. The Company closed an acquisition of Genexco during the period, in addition various other agreements were entered into.

### **Liquidity and Capital Resources**

As at December 31, 2023, the Company had working capital of \$1,201 and cash of \$8,095 to settle current liabilities of \$7,103. The Company recorded a loss of \$10,808 during the year ended December 31, 2023, and had total shareholders' equity of \$24,448 as at December 31, 2023.

For the year ended December 31, 2023, investing activities consumed cash of \$3,697 related to funds spent on exploration and evaluation assets, and acquisitions, compared to the comparable period of December 31, 2022, in which investing activities consumed cash of \$1,042.

For the year ended December 31, 2023, financing activities provided cash of \$8,880 from net private placement subscription receipts net of loan and promissory note payments, compared to the comparable period of December 31, 2022, in which financing activities provided cash of \$11,097.

See the accompanying nine months ended condensed interim consolidated financial statements for a breakdown of share transactions during the period and comparable period.

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.

# MCF Energy Ltd. (formerly Pinedale Energy Limited)

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## Outstanding Share Data

The Company has authorized an unlimited number of voting Class A and B common shares without par value.

As at the date of this MD&A, there were 243,607,864 Class A shares outstanding, and 14,850,000 stock options outstanding.

## Contractual Obligations and Commitments

MCF has contractual obligations in the normal course of operations including joint operating agreements, and employee agreements. These obligations are of a recurring, consistent nature and impact MCF's operations in an ongoing manner.

## Off Balance Sheet Arrangements

MCF does not have any off-balance sheet arrangements that would result in a material change to its financial position or performance during the reporting periods.

## 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.

## Risks and Uncertainties

MCF monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, MCF maintains a level of liability insurance, which is believed to be adequate for the Company's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. The Company is subject to various risks and uncertainties, including, but not limited to, those listed below.

### *Going-Concern Risk*

The Company's financial statements have been prepared on a going concern basis under which the Company is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. While Management believes MCF currently has sufficient cash to fund its exploration and development activities, and anticipated general and administrative expenses, MCF's future operations may become dependent upon the successful completion of equity or debt financing and the achievement of profitable operations. There can be no assurances that the Company will be

# **MCF Energy Ltd.**

## **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

successful in completing additional equity or debt financing or in achieving profitability, or that such additional equity or debt financing will be completed on terms satisfactory to the Company. The Company currently has no material sources of revenues and there can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to meet future obligations.

### *Inflation Risk*

A failure to secure the services and equipment necessary for the Company's future operations for the expected price, on the expected timeline, or at all, may have an adverse effect on the Company's financial performance and future cash flows. The Company's operating and capital costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. The Company's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows. In addition, with rising inflation levels combined with global cost of living expenses, the Company may be faced with the challenge of how to attract and retain employees and consultants.

### *Financing Ability*

The Company's ability to continue development and acquisition efforts will require investments from equity investors. The Company may incur operating losses as it pursues new business opportunities. There is no guarantee that the Company will be successful in completing an economically viable transaction which would attract further funding.

### *Key Personnel of the Company*

The Company's future growth and its ability to develop its projects depends, to a significant extent, on its ability to attract and retain highly qualified personnel. The Company is highly dependent on the principal members of its senior management group and the loss of their services could impede the Company's business strategy and growth.

### *Cybersecurity*

The Company has become increasingly dependent upon the availability, capacity, reliability and security of its information technology (IT) infrastructure, and its ability to expand and continually update this infrastructure, to conduct daily operations. It depends on various IT systems to estimate resources quantities, process and record financial and operating data, analyze seismic and past drilling information, and communicate with employees and third-party partners. The Company's IT systems are increasingly integrated in terms of geography, number of systems, and key resources supporting the delivery of IT systems. The performance of key suppliers is critical to ensure appropriate delivery of key services. Any failure to manage, expand and update the IT infrastructure, any failure in the extension or operation of this infrastructure, or any failure by key resources or service providers in the performance of their services could materially and adversely affect the Company's business. financial condition and results of operations. The ability of the IT function to support the Company's business in the event of a disaster such as fire, flood or loss of any of the office locations and the ability to recover key systems from unexpected interruptions cannot be fully tested. There is a risk that, if such an event occurs, the Company's continuity plan may not be adequate to immediately address all repercussions of the disaster. In the event of a disaster affecting a data center or key office location, key systems may be unavailable for several days, leading to inability to perform some business processes in a timely manner.

### *Conflicts of Interest*

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies or may have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will declare their conflict and will abstain from voting for or against the approval of such participation or such terms.

# **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## *The Russia/Ukraine Crisis*

The Company's operations could be adversely affected by the effects of the escalating Russia/Ukraine crisis and the effects of sanctions imposed against Russia or that country's retributions against those sanctions, embargos or further-reaching impacts upon energy prices, food prices and market disruptions. The Company cannot accurately predict the impact the crisis will have on its operations and the ability of contractors to meet their obligations with the Company, including uncertainties relating the severity of its effects, the duration of the conflict, and the length and magnitude of energy bans, embargos and restrictions imposed by governments. In addition, the crisis could adversely affect the economies and financial markets of Canada and in general, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations. Additionally, the Company cannot predict changes in commodities pricing which may alternately affect the Company either positively or negatively.

## *International Operations*

MCF Energy participates in oil and gas projects located in foreign markets. Oil and gas exploration, development and production activities in these markets are subject to political, economic, and other uncertainties that may adversely affect MCF's operations. The Company could be adversely affected by changes in applicable laws and policies in the countries where MCF has interests. Additional uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, civil unrest, nationalization, renegotiation or nullification of existing or future licenses and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, changes to regulations on certain technology applications, changes to taxation laws and policies, assessments and audits (including income tax) against the Company by regulatory authorities, difficulty or delays in obtaining necessary regulatory approvals, risks associated with potential future legal proceedings, and the imposition of currency controls. These uncertainties, all of which are beyond MCF's control, could have a material adverse effect on MCF's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas licences acquired by MCF, the Company could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing a licence in which MCF acquires an interest. MCF may require licences or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licences and permits when required.

## *Different Legal System and Litigation*

MCF's oil production and exploration activities are in countries with legal systems that in various degrees differ from that of Canada. Rules, regulations and legal principles may differ in respect of matters of substantive law and of such matters as court procedure and enforcement. Almost all exploration rights and related contracts of MCF are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that the Company's ability to exercise or enforce its rights and obligations may differ between different countries and also from what would have been the case if such rights and obligations were subject to Canadian law and jurisdiction. MCF's operations are, to a large extent, subject to various complex laws and regulations as well as detailed provisions in licenses and agreements that often involve several parties. If the Company was to become involved in legal disputes in order to defend or enforce any of its rights or obligations under such concessions, licenses, and agreements or otherwise, such disputes or related litigation could be costly, time consuming and the outcome would be highly uncertain. Even if the Company ultimately prevailed, such disputes and litigation may still have a substantially negative effect on MCF's business, assets, financial conditions, and its operations.

## *Anti-Bribery and Anti-Corruption Laws*

The Company is subject to anti-bribery and anti-corruption laws, including the Corruption of Foreign Public Officials Act (Canada), and the Bribery Act 2010 (United Kingdom). Failure to comply with such laws could subject the Company to, among other things, reputational damage, civil or criminal penalties, other remedial measures and legal expenses which could adversely affect the Company's business, operational results, and financial condition. Weaknesses in the anti-corruption legal and judicial system of certain countries may undermine the Company's or a host government's capacity to effectively detect, prevent and sanction corruption. To mitigate this risk, the Company has implemented an anti-corruption compliance and onboarding program for anyone that does business with the Company, and an anti-corruption policy and

# **MCF Energy Ltd.**

## **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

associated training initiatives for its personnel and consultants. However, the Company cannot guarantee that its personnel, contractors, or business partners have not in the past or will not in the future engage in conduct undetected by the processes and procedures adopted by the Company, and it is possible that the Company, its personnel or contractors, could be subject to investigations or charges related to bribery or corruption as a result of actions of its personnel or contractors.

### *Shared Ownership and Dependency on Partners*

The Company's operations are primarily conducted together with one or more joint operating partners through contractual arrangements. In such instances, the Company may be dependent on, or affected by, the due performance and financial strength of its partners. If a partner fails to perform or becomes insolvent, the Company may, among other things, risk losing rights or revenues or incur additional obligations or costs, experience delays, or be required to perform such obligations in place of its partners. The Company and its partners may also, from time to time, have different opinions on how to conduct certain operations or on what their respective rights and obligations are under a certain agreement. If a dispute were to arise with one or more partners relating to a project, such dispute may have material adverse effect on the Company's or investee company's operations relating to such project.

### *Risks Relating to Concessions, Licences and Contracts*

MCF's joint interest operations are based on a relatively limited number of agreements, licences and contracts. The rights and obligations under such agreements, licences and contracts may be subject to interpretation and could also be affected by, among other things, matters outside the control of MCF Energy. In case of a dispute, it cannot be certain that the view of the Company would prevail or that the Company otherwise could effectively enforce its rights which, in turn, could have significantly negative effects on MCF Energy. Also, if the Company or any of its partners were found to have failed to comply with their obligations or liabilities under an agreement, licence or contract, including record-keeping, budgeting, and time scheduling requirements under production sharing contracts, the Company's or partner's rights under such agreement, licence or contract may be terminated or otherwise relinquished in whole or in part. The Company cannot guarantee that requirements are adequately met by its joint interest partners, which could bring an increased risk of impairment and reduced future cash flow.

### *Resource Volumes*

There are many uncertainties inherent in estimating quantities of oil and natural gas resources (contingent and prospective) and the future cash flows attributed to such resources. The actual production, revenues, taxes and development and operating expenditures with respect to the resources associated with the Company's assets will vary from estimates thereof and such variations could be material. Estimates of resources that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of resources rather than actual production history. There is uncertainty that it will be commercially viable to produce any portion of the contingent resources. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

### *Test Results and Initial Production Rates*

Any references in the Executive Chairman's Message to initial, early and/or test production/performance rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will continue production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production. The initial production rate may be estimated based on other third-party estimates or limited data available at this time. Initial production or test rates are not necessarily indicative of long-term performance of the relevant well or fields or of ultimate recovery of hydrocarbons.

### *Risks Associated with Hydrocarbon Estimates*

Basic reservoir parameters, such as porosity, net hydrocarbon pay thickness, fluid composition and water saturation, may vary from those assumed by the Company's independent third-party resource evaluator affecting the volume of

## **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

hydrocarbon estimated to be present. Other factors such as the reservoir pressure, density and viscosity of the oil and solution gas/oil ratio will affect the volume of oil that can be recovered. Additional reservoir parameters such as permeability, the presence or absence of water drive and the specific mineralogy of the reservoir rock may affect the efficiency of the recovery process. Recovery of the resources may also be affected by well performance, reliability of production and process facilities, the availability and quality of source water for enhanced recovery processes and availability of fuel gas. There is no certainty that certain interests are not affected by ownership considerations that have not yet come to light.

### *Decommissioning*

The Company is responsible for compliance with all applicable laws, regulations and contractual requirements regarding the decommissioning, abandonment and reclamation of the Company's jointly owned assets at the end of their economic life, the costs of which may be substantial. It is not possible to predict these costs with certainty since they will be a function of requirements at the time of decommissioning, abandonment and reclamation and the actual costs may exceed current estimates. Laws, regulations and contractual requirements about abandonment and decommissioning may be implemented or amended in the future

### *Future Acquisitions or Dispositions*

Acquisitions, dispositions and other strategic transactions involve a number of risks, including potential disruption of the Company's ongoing business; distraction of management; financial leveraging of the Company; the failure to realize the anticipated benefits and cost savings of those transactions, or loss or reduction of control over certain of the Company's assets or the Company generally. The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the results of operations, business prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

### *Selling Off of Shares*

The market price for the Company's common shares may be volatile, and subject to some fluctuations. To the extent that any issued and outstanding common shares of the Company are sold into the market, there may be an oversupply of common shares and an undersupply of purchasers. If this occurs the market price for the common shares of the Company may decline significantly and investors may be unable to sell their common shares at a profit, or at all.

### *Investment in Associates*

MCF Energy has invested in other frontier oil and gas exploration companies that are similar to MCF Energy, and that face similar risks and uncertainties faced by MCF Energy, which could have a material adverse effect on their businesses, prospects and results of operations. Such risks include, without limitation, equity risk, liquidity risk, commodity price risk, currency risk, foreign investment risk, and changes in environmental regulations, economic, political or market conditions, or the regulatory environment in the countries in which they operate. The associates are entities in which the Company has influence but has no control over their financial and operational policies. The Company's investments are not diversified over different types of investments and industries, rather, they are concentrated in one type of investment. If a company in which MCF Energy has invested fails, liquidates, or becomes bankrupt, MCF Energy could face the potential risk of loss of some, or all, of its investments, and the Company may be unable to recover its initial investment amount, or any amount, from its various investments in other frontier oil and gas exploration companies.

## **Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgments and/or estimates that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances,

## **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

having regard to previous experience, but actual results may differ materially from the amounts included in the consolidated financial statements.

Refer to the consolidated financial statements for the year ended December 31, 2023 and 2022 for the significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty.

### **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 amounts receivable.

##### ***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.

##### ***Currency Risk***

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

# MCF Energy Ltd. (formerly Pinedale Energy Limited)

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## 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.

## Additional Disclosure

Additional disclosure concerning the Company's general and administrative expenses is provided below:

	Year ended December 31, 2023	Year ended December 31, 2022
	\$	\$
Administrative success fee	322	-
Business development	341	-
Consulting fees	1,779	167
Marketing and investor relations	2,836	-
Office and administration	398	11
Professional fees	804	116
Regulatory and filing fees	171	30
Travel	309	106
	<u>6,960</u>	<u>430</u>

# **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## **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 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 of the consolidated financial statements.

Upon signing the amended agreement, the Company paid EUR €1,025 (\$1,497) 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 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 US\$48 per month in cash, and cash bonuses, based on performance up to a maximum of US\$595. In addition, the Manager will be granted a net profit royalty from successful wells varying between 10% and 2.5% 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 US\$3,700 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 US\$3,700 has been deployed, the Manager shall have the option to purchase 50% of the working interest in certain lands for US\$370.

- 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

## **Management's Report on Internal Control over Financial Reporting**

In connection with National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

# **MCF Energy Ltd.** **(formerly Pinedale Energy Limited)**

Management's Discussion and Analysis of  
Financial Condition and Results of Operations  
Annual Report – December 31, 2023

---

## **Outlook**

Energy security and independence has become a material focus for much of Europe as a result of the changing geopolitical landscape, as evidenced in the Russia-Ukraine conflict. Countries like Austria and Germany, among others, are having to re-evaluate their energy needs, consumption, and sourcing.

Based on current government policies and market trends, it is management's view that petroleum and natural gas demand will continue to grow within Europe, from sources that are regionally produced. While commodity price volatility is expected, an underlying focus on energy security will continue to drive strong demand for locally produced energy.

Management believes that the most impactful catalysts for the Company in 2024 are appraisal drilling results, follow-on exploration, and accretive acquisitions focused on developing long-term European energy security and independence.

## **Barrels of Oil Equivalent**

The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. Amounts have been calculated by using the conversion ratio of six thousand cubic feet (6 mcf) of natural gas to one barrel (1 "bbl") of crude oil. The boe conversion ratio of 6 Mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Related Definitions:

- Mcf refers to thousand cubic feet.
- MMcf refers to million cubic feet.
- Bcf refers to billion cubic feet.
- Bcfe refers to billion of cubic feet equivalent.
- MMbo refers to million of barrels of oil.
- MMboe refers to million of barrels of oil equivalent.
- MMcf/d refers to million of cubic feet per day.

## **Additional Information**

Additional information relating to the Company is available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).