

## SASB Update - Optimization Operations Underway

### Maintain SPECULATIVE BUY and Target Price

This morning, TCF provided an operational update and released its 2024 guidance. Work continues on optimizing production from the SASB natural gas field which is expected to increase net production from six previously drilled and completed wells to 7.6 MMcf/d by the end of 2023. In 2024, TCF plans to drill 5 new sidetrack wells, which is expected to increase net production to 15.1 MMcf/d by exit 2024. We maintain our **SPECULATIVE BUY** recommendation and our \$2.25 target price equal to a 3.25x multiple of our 2024 funds flow forecast.

**Optimizing SASB Field Production:** Earlier this year, TCF drilled five new deviated wells and recompleted one well, which were all successful. However, with significant pressure differentials between the new wells in the field and other issues related to the long reach deviated wells, the Company has experienced some technical difficulties in optimizing well production flow rates (see our research report dated August 8, 2023). To address these issues, TCF has a number of initiatives underway. The Company is currently installing a booster compressor at the Cayagzi gas processing facility which is expected to add ~5.0 MMcf/d (2.5 MMcf/d net). In October, the Company will perforate an additional 37 metres of gas pay in certain wells. Finally, TCF plans to install electrical submersible pumps ("ESP") in certain wells to maintain long term production. Upon completion of these operations, TCF is targeting an exit 2023 production rate from the SASB field of 15.4 MMcf/d or 7.6 MMcf/d net to the Company's 49% interest.

**High Impact Oil Exploration:** On July 31, 2023, TCF announced a farm-in agreement to earn a 50% interest in three exploration blocks located in Southeastern Turkiye. The blocks are located near to some major oil fields including the Sehit Esmâ Cevik feild discovered in 2022 and the Sehit Aybuke Yalcin field, discovered in 2023 (Figure 1). TCF must fund 100% of the cost of a 351 km 2D seismic program and drill a total of four exploration wells to earn a 50% interest.

**2024 Guidance:** TCF has set its 2024 capital budget at US\$35mm, including US\$26MM for workovers and five sidetrack wells at the SASB field and US\$9mm to be invested into its farm-in oil exploration play, which includes a seismic program followed by two high impact exploration wells. TCF is targeting an exit 2024 production rate from the SASB field of 30.8 MMcf/d or 15.1 MMcf/d net to the Company's 49% interest.

### IMPACT: Neutral

The Company's production guidance is more or less in line with our current forecasts (Figure 2&3). The only change we have made is to increase our 2024 capex forecast to US \$35mm, from US\$22mm. With limited current production and increased leverage, TCF is somewhat capital constrained in the near-term. However, with the completion the SASB field optimization program we expect a boost to production by year-end. We maintain our **SPECULATIVE BUY** recommendation and \$2.25 target price.

#### RATING & TARGET PRICE

Rating	SPECULATIVE BUY
Price	C\$1.09
Price Target	C\$2.25
Market Cap (\$M)	C\$84.90
Projected Return	106.4%

#### MARKET DATA

TCF-CSE	C\$1.09
52 Week Range	C\$2.60 - C\$1.10
Basic Shares O/S (mm)	77.9
Fully Diluted O/S (mm)	79.2
Enterprise Value (\$M)	C\$109
Net Debt (\$M)	C\$24.4

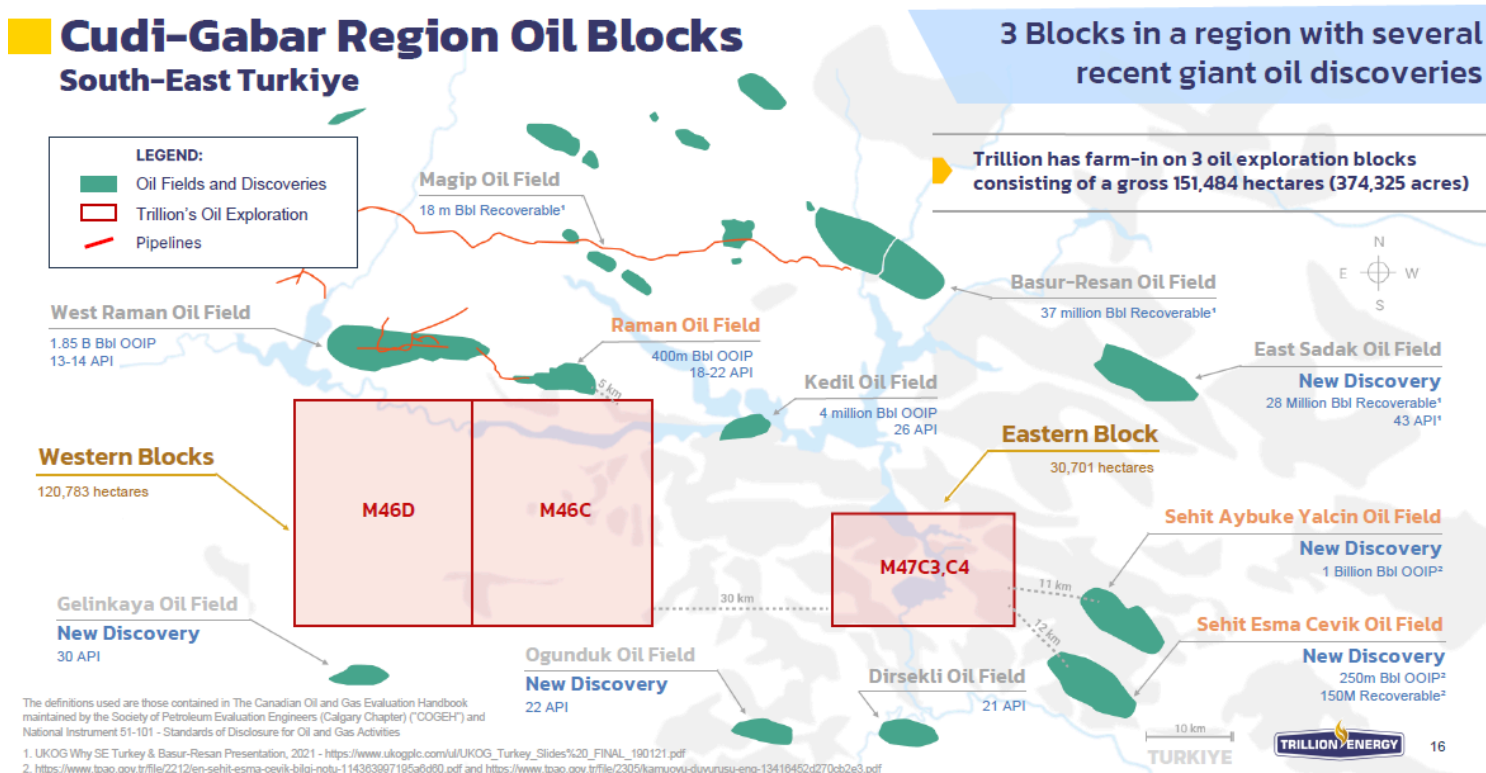
#### ESTIMATES

		2022A	2023E	2024E
Production	Q1	128	714	1,335
	Q2	118	730	1,418
	Q3	115	1,168	2,085
	Q4	275	1,168	2,418
	FY	159	947	1,817
FFO (\$MM)	Q1	(0.9)	2.1	7.2
	Q2	(0.2)	(3.5)	7.8
	Q3	(0.4)	1.8	12.3
	Q4	1.7	3.6	14.6
	FY	0.2	4.0	41.9
FFPS	Q1	\$(0.02)	\$0.03	\$0.09
	Q2	\$(0.00)	\$(0.05)	\$0.10
	Q3	\$(0.01)	\$0.02	\$0.16
	Q4	\$0.02	\$0.05	\$0.19
	FY	\$0.00	\$0.05	\$0.54

#### ANALYST INFORMATION

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Figure 1: Three High Impact Exploration Blocks Targeting Oil



Source: Company presentation, Research Capital Corp.

Figure 2: Trillion - 2024 Guidance

2024 Guidance Summary		Average	Exit
SASB Natural Gas Production (100% interest)	Mcf/d	23,096	30,795
Net SASB Natural Gas Production	Mcf/d	11,317	15,089
Net Candere Oil Production	bbl/d	83	80
Net Corporate Production	Mcfe/d	11,812	15,571
Brent Oil Price <sup>(1)</sup>	US\$/bbl	\$86.80	\$83.65
BOTAS Gas Price <sup>(1)</sup>	US\$/Mcf	\$17.31	\$18.66
Operating Netback	US\$/Mcf	\$12.84	\$14.29
Annualized Operating Netback	US\$/MM	\$55.4	\$81.2

(1) Strip brent pricing (oil) and estimated BOTAS pricing (natural gas) using strip TTF gas pricing + 18% (January 2024 – December 2024).

Source: Company News Release, Research Capital Corp.

Figure 3: Detailed Summary and Forecast

Trillion Energy International Inc.													TCF
Share Data			Market Value					Stock Price			Target Price		
Class B Shares (mm):	77.9		Market Cap. (\$ mm):		\$ 84.9			Close:	\$1.09		Target: \$2.25		
Diluted Shares (mm):	79.2		Enterprise Value (\$ mm):		\$ 109.4			High:	\$2.60		Proj. Return: 106.4%		
Fully Diluted (mm):	131.4		Net Debt (W.C.) (\$ mm):		\$ 24.4			Low:	\$1.10		EV/DACF 3.5x		
Production		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Oil	bbl/d	124	102	81	86	85	85	84	85	85	85	85	85
NGL's	bbl/d	-	-	-	-	-	-	-	-	-	-	-	-
Natural Gas	mcm/d	0.3	0.3	3.8	3.9	6.5	6.5	5.2	7.5	8.0	12.0	14.0	10.4
Boe/d		177	159	714	730	1,168	1,168	947	1,335	1,418	2,085	2,418	1,817
Funds Flow & Earnings (US\$)		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Funds Flow	US\$ mm	(1.4)	0.2	2.1	(3.5)	1.8	3.6	4.0	7.2	7.8	12.3	14.6	41.9
Funds Flow /FD Share	US\$/share	(\$0.04)	\$0.00	\$0.03	(\$0.05)	\$0.02	\$0.05	\$0.05	\$0.09	\$0.10	\$0.16	\$0.18	\$0.53
Funds Flow /FD Share	C\$/share	(\$0.05)	\$0.00	\$0.04	(\$0.06)	\$0.03	\$0.06	\$0.07	\$0.12	\$0.13	\$0.21	\$0.25	\$0.72
Earnings/FD Share	US\$/share	(\$0.06)	(\$0.10)	\$0.03	(\$0.03)	(\$0.02)	\$0.01	(\$0.01)	\$0.04	\$0.05	\$0.10	\$0.12	\$0.31
\$/Barrel of Oil Equivalent (C\$)		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Revenue	\$/boe	57.44	161.30	95.65	87.54	69.00	94.33	85.39	108.23	108.40	109.29	109.55	109.01
Operating & Transport Costs	\$/boe	40.62	61.39	21.19	17.72	30.73	30.73	26.45	9.57	9.45	8.82	8.64	9.02
Operating Netback	\$/boe	16.82	99.92	62.51	58.88	30.25	51.78	48.44	85.13	85.40	86.80	87.21	86.36
G&A	\$/boe/d	34.89	110.07	34.00	27.69	17.12	17.12	22.29	17.94	16.89	11.36	9.80	13.12
Funds Flow Netback	\$/boe	(21.31)	2.77	32.18	(52.48)	16.91	33.49	11.56	59.23	60.06	64.37	65.61	63.01
Valuation Metrics (C\$)		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
FD Funds Flow Multiple		na	331.2x	7.5x	na	8.7x	4.4x	15.6x	2.2x	2.0x	1.3x	1.1x	1.5x
EV/DACF Multiple		na	na	11.1x	-9.0x	12.2x	6.9x	15.9x	3.7x	3.4x	2.1x	1.8x	1.8x
EV/Production	C\$/mboe/d	619.7	686.9	153.2	149.8	93.6	93.6	115.5	81.9	77.1	52.5	45.2	60.2
EV/boe reserves	C\$/boe	13.04											
Commodity Price		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Corporate Natural Gas	US\$/mcf	5.19	22.18	22.26	13.11	11.50	16.00	15.72	18.53	18.53	18.53	18.53	18.53
Exchange Rate	C\$ per US\$	1.25	1.30	1.35	1.36	1.36	1.36	1.35	1.36	1.36	1.36	1.36	1.36
Exchange Rate	TL per US\$												
Capex and Capital Structure		2021A	2022A	Q1/23A	Q2/23A	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Capex	US\$ mm	0.2	37.4	5.5	12.2	6.0	3.0	26.7	5.0	7.0	11.0	12.0	35.0
Capex/Cash Flow	%	-18%	23218%	265%	-351%	330%	83%	668%	69%	90%	89%	82%	84%
Weighted Average Basic	mm	31.6	62.0	76.9	74.3	77.9	77.9	76.8	77.9	77.9	77.9	77.9	77.9
Market Cap	C\$ mm	40.4	77.0	83.8	81.0	84.9	84.9	83.7	84.9	84.9	84.9	84.9	84.9
Enterprise Value	C\$ mm	40.0	83.6	94.0	105.4	116.5	115.6	114.3	112.6	111.6	109.8	106.3	106.3
Net Debt (WC)	C\$ mm	(0.3)	6.6	10.1	24.4	31.5	30.7	30.6	27.7	26.7	24.9	21.4	21.4
Net Debt/Cash Flow	C\$ mm	na	na	0.9x	na	3.2x	1.6x	5.7x	0.7x	0.6x	0.4x	0.3x	0.4x
Net Asset Value	C\$mm	C\$/share	Reserve Estimate (December 31, 2022)										
Reserves (P + P)	583.1	\$7.48			Proven		26%		2,149				
Net Debt	(24.4)	(\$0.31)			Probable		74%		6,241				
Undeveloped Land	-	\$0.00			P+P				8,390				
Net Asset Value (Basic)	558.7	\$7.17											
Dilution	0.9	\$0.01											
<b>Core NAV/FD Share</b>	<b>559.6</b>	<b>\$7.18</b>											
Price to core NAV		0.15x											
Risked Resource Value (C\$)	120.0	\$1.52			Proven		37.0		6.2				
<b>Risked NAV/FD share</b>	<b>679.6</b>	<b>\$8.58</b>			P+P		144.3		12.7				
Price to risked NAV (multiple)		0.13x											

Source: Company Reports, Research Capital Corp.

## Company Description:

**Trillion Energy International Inc.** holds a 49% interest in the SASB natural gas field in Türkiye, one of the Black Sea's first and largest-scale natural gas development projects. The company also holds a 19.6% (except three wells with 9.8%) interest in the Cendere oil field in Türkiye and a 100% interest in, the Vranino 1-11 block in Bulgaria, which is prospective unconventional natural gas.

## Risks:

While this is not an exhaustive list, we view the following risks as being noteworthy to investors in Trillion Energy International Inc.

**COMMODITY PRICE RISK** | Our 2023 and our 2024 realized natural gas price forecast is substantially higher than the 10-year range of approximately US\$ 7 - US\$12/mcf. If the domestic natural gas price reverts back to the normal range, our funds flow forecast would likely be overstated.

**PRODUCTION CONCENTRATION RISK** | In the near term, nearly all of Trillions' production will be derived from the SASB natural gas project. With significant pressure differentials between the new wells in the field and other issues related to the long reach deviated wells, the Company has experienced some technical difficulties in optimizing well production flow rates. Trillion has engaged a service provider to help resolve the production bottlenecks. Failure to find a solution to the production issues would impact the Company's ability to achieve our targets and potentially impact valuation.

**FINANCIAL RISK** | Trillion currently has limited production and cash flow and must rely on working capital to fund its capital intense, offshore drilling operations. If Trillion is unable to increase production as expected, the Company may need to source additional capital which may not be available when needed.

**POLITICAL RISK** | Trillion is an international oil and natural gas company with primary activities in Türkiye and as a result is subject to political risks. The government extensively regulates the energy industry, with influence over exploration and production activities, prices, taxes, and royalties. New regulations or modifications to existing regulations could adversely impact the company's profitability.

**EXCHANGE RATE RISK** | Over the past several years, the Turkish lira has steadily depreciated against the U.S. dollar. Trillion receives its revenue in Turkish lira and faces foreign exchange risk from converting from the Turkish lira to the US and Canadian dollars. The Turkish lira is difficult to hedge, given its low liquidity and expensive spreads.

**EXPLORATION RISK** | The company's current and future proved reserves will decline as reserves are produced. Future revenue will depend on Trillion's ability to replace reserves through acquisition or exploration and development of new reserves. Exploration and development drilling is capital intensive and is subject to numerous estimates and interpretations of geological and geophysical data. A portion of Trillion's capital expenditures in 2023 and 2024 is expected to be directed to appraisal and exploration activities.

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