

## Solving Water Loading Issues Key To Establishing a Cash Flow Base

### Maintain Target Price - Upgrade to HOLD

On November 29<sup>th</sup>, 2023, TCF announced its Q3/23 financial and operational results. Near-term activities are focused on increasing field production and cash flow through the optimization of recently drilled wells in the SASB field. We are maintaining our \$0.35 target price equivalent to a 2.75x multiple of our 2024 debt-adjusted cash flow forecast. Given the recent stock price pullback, we are upgrading our recommendation to **HOLD**.

**Q3 Highlights:** Net natural gas production in Q3/23 averaged 2.57 MMcf/d, which was below our forecast of 3.5 MMcf/d. When incorporating oil production from the Cendere oil field at 86 bbl/d, the total net production in Q3/23 averaged 514 boe/d. Over the nine months ending September 30, 2023, production averaged 594 boe/d, resulting in funds flow from operations of negative US\$2.4mm. As of September 30, 2023, TCF had negative working capital of US\$11.4 mm. Including long term debt (convertible), TCF exited the quarter with net debt of ~US\$21 mm. On November 28, 2023, TCF closed a C\$10.8mm equity financing. The primary use of proceeds is to paydown current liabilities and to fund the SASB well optimization program.

**SASB Update:** On October 20, 2023, TCF announced that a perforating program increased production from the SASB field to 14.4 MMcf/d or 7.1 MMcf/d net to the Company's 49% interest. Current field production was not disclosed in the Q3/23 results. TCF's near term focus is optimizing production and reducing well downtime from the five recently drilled long reach horizontal wells, and one re-completed well. This includes additional well perforations and the installation of pumps. If successful, TCF plans to resume development of the SASB field during the last half of 2024.

**High Impact Oil Exploration Blocks:** TCF recently announced a farm-in agreement to earn a 50% interest in three exploration blocks located in Southeastern Turkiye. The Company is currently negotiating a joint operating agreement in respect to the blocks. Near-term work commitments include a 351 km 2D seismic program, projected to incur costs ranging from US\$4 to US\$6mm, along with the potential drilling of up to three wells, each estimated to cost approximately US\$2.5mm to US\$3mm. Additional funding will be required to complete this program.

**Maintaining 2024 Forecast:** We are extending TCF the benefit of the doubt, assuming the Company will successfully complete some well optimization activities in Q1/24. Consequently, we are retaining our 2024 production and cash flow projections for the time being. Considering the Company's history of negative funds flow in 2023, its current limited financial flexibility, and the inherent unpredictability and high costs associated with offshore operations, our funds flow forecast of US\$13.5mm may be on the optimistic side. Addressing the reservoir water loading issue and executing the capital program successfully are critical factors for realizing our forecasts.

### IMPACT: Neutral

TCF executed a large capital program in 2023 and achieved significant drilling success, but without the expected immediate boost to production. With TCF currently facing capital constraints, it is imperative for the Company to swiftly and successfully execute its well optimization program in order to establish a sustainable production and cash flow base.

#### RATING & TARGET PRICE

Rating	HOLD
Price	C\$0.28
Price Target	C\$0.35
Market Cap (\$M)	C\$32.80
Projected Return	22.8%

#### MARKET DATA

TCF-CSE	C\$0.28
52 Week Range	C\$2.55 - C\$0.22
Basic Shares O/S (mm)	115.3
Fully Diluted O/S (mm)	146.9
Enterprise Value (\$M)	C\$50
Net Debt (\$M)	C\$17.0

#### ESTIMATES

		2022E	2023E	2024E
Production	Q1	128	550	752
	Q2	118	730	1,002
	Q3	115	514	1,168
	Q4	275	836	1,252
	FY	159	658	1,044
FFO (\$MM)	Q1	(0.9)	2.1	2.3
	Q2	(0.2)	(3.5)	2.5
	Q3	(0.4)	(1.0)	3.5
	Q4	1.7	0.4	5.2
FFPS	Q1	\$(0.02)	\$0.03	\$0.02
	Q2	\$(0.00)	\$(0.05)	\$0.02
	Q3	\$(0.01)	\$(0.01)	\$0.03
	Q4	\$0.02	\$0.00	\$0.05
	FY	\$0.00	\$(0.02)	\$0.12

#### ANALYST INFORMATION

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Figure 1: Detailed Summary and Forecast

<b>Trillion Energy International Inc.</b>													<b>TCF</b>
<b>Share Data</b>			<b>Market Value</b>					<b>Stock Price</b>		<b>Target Price</b>			
Class B Shares (mm):	115.3		Market Cap. (\$ mm):		\$ 32.8	Close:		\$0.29	Target: \$0.35				
Diluted Shares (mm):	115.3		Enterprise Value (\$ mm):		\$ 49.9	High:		\$2.55	Proj. Return: 22.8%				
Fully Diluted (mm):	146.9		Net Debt (W.C.) (\$ mm):		\$ 17.0	Low:		\$0.22	EV/DACF 2.75x				
<b>Production</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23A</b>	<b>Q2/23A</b>	<b>Q3/23A</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
Oil	bb/d	124	102	81	86	86	86	85	85	85	85	85	85
NGL's	bb/d	-	-	-	-	-	-	-	-	-	-	-	-
Natural Gas	mcf/d	0.3	0.3	2.8	3.9	2.6	4.5	3.4	4.0	5.5	6.5	7.0	5.8
Boe/d	6:1	177	159	550	730	514	836	658	752	1,002	1,168	1,252	1,044
<b>Funds Flow &amp; Earnings (US\$)</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23E</b>	<b>Q2/23E</b>	<b>Q3/23E</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
Funds Flow	US\$ mm	(1.4)	0.2	2.1	(3.5)	(1.0)	0.4	(2.0)	2.3	2.5	3.5	5.2	13.5
Funds Flow /FD Share	US\$/share	(\$0.04)	\$0.00	\$0.03	(\$0.05)	(\$0.01)	\$0.00	(\$0.02)	\$0.02	\$0.02	\$0.03	\$0.05	\$0.12
Funds Flow /FD Share	C\$/share	(\$0.05)	\$0.00	\$0.04	(\$0.06)	(\$0.02)	\$0.01	(\$0.03)	\$0.03	\$0.03	\$0.04	\$0.06	\$0.16
<b>\$/Barrel of Oil Equivalent (C\$)</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23E</b>	<b>Q2/23E</b>	<b>Q3/23E</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
Revenue	\$/boe	57.44	161.30	137.89	55.97	117.27	73.72	90.61	92.49	76.90	77.05	89.70	83.59
Operating & Transport Costs	\$/boe	40.62	61.39	14.92	17.72	31.21	18.84	20.16	18.63	17.85	15.30	14.82	16.36
Operating Netback	\$/boe	16.82	99.92	107.44	27.31	75.05	43.82	57.94	62.31	49.44	52.12	63.67	56.78
G&A	\$/boe/d	34.89	110.07	33.51	27.69	41.34	25.43	30.85	27.05	20.30	18.61	17.37	20.15
Funds Flow Netback	\$/boe	(21.31)	2.77	41.79	(52.48)	(20.52)	5.64	(8.15)	33.35	27.71	32.30	45.17	35.27
<b>Valuation Metrics (C\$)</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23E</b>	<b>Q2/23E</b>	<b>Q3/23E</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
FD Funds Flow Multiple		na	86.6x	2.0x	na	na	10.9x	na	2.6x	2.4x	1.7x	1.2x	1.8x
EV/DACF Multiple		na	na	3.5x	na	na	9.7x	na	4.4x	4.0x	3.1x	2.2x	2.4x
EV/Production	C\$/mboe/d	282.5	313.2	90.7	68.3	96.9	59.6	75.8	66.3	49.8	42.7	39.8	47.8
<b>Commodity Price</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23E</b>	<b>Q2/23E</b>	<b>Q3/23E</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
Corporate Natural Gas	US\$/mcf	5.19	22.18	22.26	13.11	16.57	12.30	16.06	16.00	13.00	13.00	15.25	14.31
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
<b>Capex and Capital Structure</b>		<b>2021A</b>	<b>2022A</b>	<b>Q1/23E</b>	<b>Q2/23E</b>	<b>Q3/23E</b>	<b>Q4/23E</b>	<b>2023E</b>	<b>Q1/24E</b>	<b>Q2/24E</b>	<b>Q3/24E</b>	<b>Q4/24E</b>	<b>2024E</b>
Capex	US\$ mm	0.2	37.4	5.5	12.2	3.4	0.8	21.8	3.0	2.0	3.0	5.0	13.0
Capex/Cash Flow	%	-18%	23218%	265%	-351%	-348%	173%	-1116%	132%	79%	86%	96%	96%
Weighted Average Basic	mm	31.6	62.0	76.9	74.3	77.8	90.3	79.8	115.0	115.0	115.0	115.0	115.0
Market Cap	C\$ mm	10.6	20.1	21.9	21.2	22.2	32.8	24.5	32.8	32.8	32.8	32.8	32.8
Enterprise Value	C\$ mm	10.2	26.7	32.0	38.2	51.6	52.5	44.3	53.5	52.8	52.2	51.9	51.9
Net Debt (WC)	C\$ mm	(0.3)	6.6	10.1	17.0	29.4	19.8	19.8	20.7	20.0	19.4	19.1	19.1
Net Debt/Cash Flow	C\$ mm	na	na	0.9x	na	-5.6x	8.4x	na	1.7x	1.5x	1.0x	0.7x	1.0x
<b>Net Asset Value</b>			<b>Reserve Estimate (December 31, 2022)</b>										
	C\$mm	C\$/share	(mboe)										
Proven	167.2	\$1.45	Proven		26%	2,149							
Probable	415.9	\$3.61	Probable		74%	6,241							
Reserves (P + P)	583.1	\$5.06	P+P		8,390								
Net Debt	(17.0)	(\$0.15)											
Undeveloped Land	-	\$0.00											
Net Asset Value (Basic)	566.1	\$4.91											
Dilution	-	\$0.00											
<b>NAV/FD Share</b>	<b>566.1</b>	<b>\$4.91</b>											
Price to core NAV		0.06x											
			<b>Reserve Life Index</b>										
			<b>Production</b>										
			2023	2024									
			Proven	8.9	5.6								
			P+P	22.0	22.0								

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.

## 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 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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