

SASB Gas Field Update

Maintain Target Price - Upgrade to SPECULATIVE BUY

This morning, TCF provided an update on its SASB gas field. Near-term activities remain focused on increasing field production and cash flow through the optimization of recently drilled wells in the SASB field. The Company reiterated its production guidance that was released on September 25, 2023, except for timing, which has been pushed three months forward. 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 **SPECULATIVE BUY** (from HOLD).

SASB Update: TCF has ordered pumps, wellheads and new tubing to help address the water loading issues. The Company has received production pumps, some of which require remanufacture of wellheads to install. The wellheads have been ordered and first deliveries are expected in February 2024. In addition to the recently drilled wells, TCF plans to install pumps in two or three legacy wells. The Company's 2024 average production guidance excludes any production additions for these legacy wells. See Figure 1 for TCF's operational and production guidance for the SASB field.

Perforation Program: On October 30, 2023, TCF announced the successful perforation of a total of 30 metres of natural gas pay in the Guluc-2 well and 6 metres of pay in the West Akcakoca-1 well, resulting in an increased production from the SASB field to 14.4 MMcf/d or 7.1 MMcf/d net to the Company's 49% interest. A snag in Akcakoca-3, which delayed the perforation of this well, has been removed, allowing for remaining 6 metres of gas pay to be perforated. The Company also plans to perforate 10.4 metres of gas in the South Akcakoca-2 well.

Maintaining 2024 Forecast: With the successful execution of its well optimization program TCF expects net production in 2024 to average 7.5 MMcf/d versus our 5.8 MMcf/d forecast. For the time being, we are maintaining our 2024 production and cash flow forecast and will adjust as the Company executes its capital program.

IMPACT: Neutral

TCF's near term focus is optimizing production from the SASB field through the installation of artificial lift and velocity string tubing. The Company remains capital constrained, however, the successful execution of its 2024 SASB program could establish a sustainable production and cash flow base to fund future operations.

RATING & TARGET PRICE

Rating	SPECULATIVE BUY
Price	C\$0.20
Price Target	C\$0.35
Market Cap (\$M)	C\$32.80
Projected Return	75.0%

MARKET DATA

TCF-CSE	C\$0.20
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
	FY	0.2	(2.0)	13.5
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: Artificial Lift Activities and Timeline

	1 st QTR 2024	2 nd QTR 2024	3 rd QTR 2024	4 th QTR 2024
Anticipated Production Exit rates:				
100% MMcf/d Gross	9.5 MMcf/d	19.5 MMcf/d	23 MMcf/d	28 MMcf/d
Gross Company 49%⁽²⁾	4.7 MMcf/d	9.6 MMcf/d	11.3 MMcf/d	13.7 MMcf/d
Wells:				
Guluc-2		AL ⁽¹⁾		
South Akcakoca-2	Perforations & Velocity String			AL ⁽¹⁾
West Akcakoca-1	AL ⁽¹⁾			
Akcakoca-3	Perforations & Velocity String			AL ⁽¹⁾
Alapli-2		AL ⁽¹⁾		
Bayhanli-2		AL ⁽¹⁾		
E- Ayazli -1		AL ⁽¹⁾		
E- Ayazli -2		AL ⁽¹⁾		
Akcakoca-5		AL ⁽¹⁾		
Side Track			Drill & AL ⁽¹⁾	
Side Track				Drill & AL ⁽¹⁾
Side Track				Drill & AL ⁽¹⁾

⁽¹⁾AL = "Artificial lift" which solutions include: Progressive Cavity Pump, Reciprocating Rod Pump, Electro Submersible Pumps etc. ⁽²⁾ Before Royalty

Source: Trillion Energy International Inc., Research Capital Corp.

Figure 2: Detailed Summary and Forecast

Trillion Energy International Inc.													TCF
Share Data			Market Value				Stock Price			Target Price			
Class B Shares (mm):	115.3		Market Cap. (\$ mm): \$ 22.5				Close: \$0.20			Target: \$0.35			
Diluted Shares (mm):	115.3		Enterprise Value (\$ mm): \$ 39.5				High: \$2.18			Proj. Return: 79.5%			
Fully Diluted (mm):	146.9		Net Debt (W.C.) (\$ mm): \$ 17.0				Low: \$0.20			EV/DACF 2.75x			
Production		2021A	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Oil	bb/d	124	102	81	86	86	86	85	85	85	85	85	85
NGL's	bb/d	-	-	-	-	-	-	-	-	-	-	-	-
Natural Gas	mmcf/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
Funds Flow & Earnings (US\$)		2021A	2022A	Q1/23E	Q2/23E	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)	(1.0)	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
\$/Barrel of Oil Equivalent (C\$)		2021A	2022A	Q1/23E	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
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
Valuation Metrics (C\$)		2021A	2022A	Q1/23E	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
FD Funds Flow Multiple		na	59.2x	1.3x	na	na	7.4x	na	1.8x	1.6x	1.2x	0.8x	1.2x
EV/DACF Multiple		na	na	2.7x	na	na	7.9x	na	3.6x	3.2x	2.5x	1.7x	1.9x
EV/Production	C\$/mboe/d	223.7	248.0	71.8	54.1	76.8	47.2	60.0	52.5	39.4	33.8	31.6	37.8
Commodity Price		2021A	2022A	Q1/23E	Q2/23E	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	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
Capex and Capital Structure		2021A	2022A	Q1/23E	Q2/23E	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	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	7.2	13.8	15.0	14.5	15.2	22.4	16.8	22.4	22.4	22.4	22.4	22.4
Enterprise Value	C\$ mm	6.9	20.3	25.1	31.5	44.6	42.2	36.5	43.2	42.4	41.8	41.5	41.5
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
Net Asset Value				Reserve Estimate (December 31, 2022)									
		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										
NAV/FD Share		566.1	\$4.91										
Price to core NAV			0.04x										
				Reserve Life Index									
				Production									
				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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