

Trillion Energy International Inc.
(CSE: TCF / Frankfurt: 3P2N / OTC: TCFF)

LOI for Development Financing / Q1-2021 Revenue Up 50%

BUY

Current Price: C\$0.33
Fair Value: C\$0.58
Risk: 4

Sector / Industry: Oil and Gas

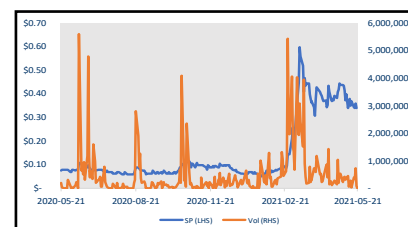
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Highlights

- TCF's shares are up 230% since we initiated coverage in December 2020.
- Q1-2021 revenue was up 50%YoY due to higher oil production and prices. At Cendere, two successful recompletions earlier in the year resulted in a 40% increase in production to 150 bopd.
- TCF entered into a LOI with an undisclosed U.S. investment fund for \$17.5M in financing (royalty + convertible debt) for SASB's development. **Although the LOI is subject to due diligence, and there is no guarantee that the entities will enter into a definitive agreement, we consider this to be a major milestone for TCF.**
- Subject to this financing, the company is planning two new wells, and one workover in H2-2021. In 2022, the company is planning three new wells, and one workover. This is part of a 17-well program, which, if successful, will result in peak annual production of 11.3 bcf net to TCF (\$68M in revenue at \$6/mcf gas).
- 2020 year-end reserve report showed no material YoY change in reserves. **As 94% of the current 3P reserves come from gas, TCF's value is dependent on gas prices in Turkey.**
- Turkey's natural gas imports increased 48% YoY in March, per Turkey's Energy Market Regulatory Authority. Natural gas prices in Turkey are currently \$5.8/mcf, down 6% YoY. **We are expecting an economic recovery in H2-2021, which will likely push prices back up to their historic range of \$6-\$7/mcf.** New cases of COVID-19 in Turkey have been on a declining trend since early April. 20% of its population has received at least one dose of vaccine.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Price Performance (1-year)



	YTD	12M
Ret.	408%	340%
CSE	14%	109%

52 Week Range	C\$0.05 - C\$0.66
Shares O/S	154.4M
Market Cap.	C\$51M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (FYE - Dec 31) (US\$)	2018	2019	2020	2021E	2022E
Production (boepd)	198	191	178	312	1,278
Revenue	\$4,253,326	\$3,915,799	\$2,584,266	\$4,876,218	\$17,667,912
Net Income	-\$2,375,513	-\$1,683,493	-\$3,533,284	-\$1,244,421	\$5,108,163
EPS	-\$0.03	-\$0.02	-\$0.04	\$0.00	\$0.02
Cash	\$795,520	\$863,017	\$202,712	\$8,946,537	\$2,494,802
Working Capital	-\$11,817	\$391,237	-\$1,057,725	\$7,614,998	\$1,260,527
Total Assets	\$8,662,675	\$7,297,185	\$6,487,261	\$23,336,548	\$29,063,297

***See last page for important disclosures, rating and risk definitions. All figures in US\$ unless otherwise specified.**

bcf: billion cubic feet; mcf: thousand cubic feet; boe: barrel of oil equivalent; mmboe: million boe; AT-NPV: After Tax-Net Present Value; BT: Before-Tax; IRR: Internal Rate of Return

Financials

Q1-2021 production was up 2% YoY due to higher production from Cendere

81% of production came from Cendere

Gas production from SASB continued to decline

	2018	2019	2020	Q1-2020	Q1-2021	YoY
Net Production (boepd)	198	191	178	175	178	2%
Cendere (gross)	768	788	737	710	1,071	51%
Cendere (net) - bopd	130	127	118	117	144	23%
SASB (gross)	139	131	122	119	69	-42%
SASB (net) - boepd	68	64	60	58	34	-41%
Gas Price - \$/mcf	\$5.71	\$6.90	\$5.83	\$6.95	\$5.29	-24%
Netback - \$/mcf	-\$9.08	-\$6.37	-\$7.78	-\$4.63	-\$47.80	
Oil Price - \$/boe	\$67.69	\$62.45	\$40.95	\$46.97	\$59.95	28%
Netback - \$/boe	\$34.90	\$31.14	\$8.87	\$14.45	\$32.27	123%

Source: Company / FRC

Production has been on a declining trend at SASB due to natural well declines, and since no new wells have been added since 2011. SASB's netback has been negative due to declining production, and flat fixed costs.

Q1-2021 revenue was up 50% due to higher production and oil prices

EBITDA remains negative

Net loss was significantly higher due to \$9M in non-cash losses due to increased warrant liabilities (from higher share prices)

Gross margins up significantly due to stronger oil prices

FCF remains negative

Income Statements - Dec 31st YE					
(in US\$)	2019	2020	Q1-2020	Q1-2021	YoY
Oil and gas revenue	\$3,915,799	\$2,584,266	\$631,562	\$944,562	50%
Operating expenses	\$2,593,180	\$2,378,626	\$606,354	\$632,501	4%
Gross Margins	\$1,322,619	\$205,640	\$25,208	\$312,061	1138%
SBC	\$437,725	\$410,555		\$36,900	
General and Administrative	\$1,781,859	\$2,352,383	\$343,918	\$567,773	65%
EBITDA	-\$896,965	-\$2,557,298	-\$318,710	-\$292,612	
Amortization	\$378,507	\$276,635	\$74,153	\$76,226	3%
EBIT	-\$1,275,472	-\$2,833,933	-\$392,863	-\$368,838	
Interest income	-\$14,848	-\$72,074	-\$20,730	-\$42,714	
FOREX and others	-\$393,173	-\$627,277	-\$14,235	-\$9,060,088	
Tax					
Net Income	-\$1,683,493	-\$3,533,284	-\$427,828	-\$9,471,640	

Margins	2019	2020	Q1-2020	Q1-2021
Gross	34%	8%	4%	33%
EBITDA	-23%	-99%	-50%	-31%
Net	-43%	-137%	-68%	-1003%

Summary of Cash Flows		Q1-2020	Q1-2021
Cash Flows from Operations		(91,811)	(256,159)
Cash Flows from Investing		(81,619)	(743)
Cash Flows from Financing		74,454	1,383,421
Net Change		(98,976)	1,126,519
Free Cash Flows		(173,430)	(256,902)

Source: FRC / Company

Working capital turned positive, minimal long-term debt at the end of Q1

(in US\$)	2018	2019	2020	Q1-2021
Cash	\$795,520	\$863,017	\$202,712	\$1,320,802
Working Capital	-\$11,817	\$391,237	-\$1,057,725	\$400,318
Debt	\$380,068	\$609,066	\$578,181	\$782,537
LT-Debt	\$0	\$594,762	\$28,757	\$6,520

Source: FRC / Company

In-the-money options and warrants can bring in \$6M

Stock Options and Warrants: The company has 46.50M warrants (weighted average exercise price of \$0.10), and 11M options (weighted average exercise price of \$0.10) outstanding. All the outstanding options and warrants are in-the-money, implying a potential to raise up to \$6M.

Project Updates

Currently producing 144 boepd

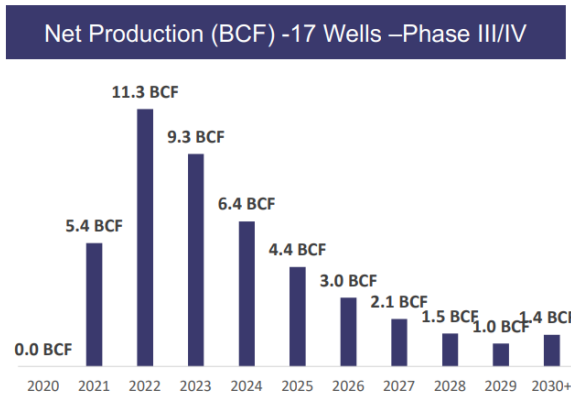
Cendere: Two successful recompletions earlier in the year resulted in a 40% increase in production to 150 bopd.

SASB: Despite having negative netbacks, the company continues to produce at SASB to partially offset the fixed costs associated with the project, as well as to maintain continuity of staff and operations in anticipation of the upcoming development program this year.

LOI for a \$17.5M financing

In April 2021, the company entered into a LOI with an undisclosed U.S. investment fund for \$17.5M in financing. The financing includes \$4.50M in royalty financing (5% of net production from Cendere, and 3% from SASB; total payments will be capped at \$16M), and \$13.5M in convertible debt (three-year term/13% p.a./conversion price of \$0.28). The convertible debt will be financed in stages. The LOI is subject to due diligence.

Subject to the above financing, the company is planning two new wells and one workover in H2-2021. This is part of a 17-well program, which, if successful, will result in peak **annual production of 11.3 bcf net to TCF (\$68M in revenue at \$6 per mcf gas)**, and average annual production of 4-5 bcf (\$24-\$30M in annual revenue) over the first 10 years.



Source: Company

The company **recently commenced a geophysical assessment** to potentially expand its resource-base, as well expand its acreage from 12,385 ha to 200,000 ha, by applying for a Technical Assessment Permit. In 2020, TCF’s partner, Turkey’s state-owned oil and gas company, Türkiye Petrolleri Anonim Ortaklığı / TPAO, made a major discovery, 150 km north of SASB. This discovery is very encouraging for TCF, as it indicates potential for additional gas reserves at depth on their land. That said, as we mentioned in our initiating report, a possible negative for TCF is that TPAO might assign more resources and capital to the new discovery instead of advancing SASB.

Reserve Update

Reserve Estimates (SASB + Cendere) – December 31, 2020

RESERVE CATEGORY	LIGHT AND MEDIUM CRUDE OIL		Conventional Natural Gas		Oil Equivalent	
	Gross (Mbbbl)	Net (Mbbbl)	Company Gross MMcf	Company Net MMcf	Company Gross Mboe	Company Net Mboe
PROVED						
Producing	233	204	0	0	233	204
Developed Non-Producing	0	0	0	0	0	0
Undeveloped	0	0	11,571	10,125	1,929	1,687
TOTAL PROVED	233	204	11,571	10,125	2,161	1,891
TOTAL PROBABLE	70	61	8,610	7,534	1,505	1,317
TOTAL PROVED PLUS PROBABLE	303	265	20,182	17,659	3,666	3,208
TOTAL POSSIBLE	67	59	11,073	9,689	1,913	1,674
TOTAL PPP	370	323	31,255	27,348	5,579	4,881

RESERVE CATEGORY	NET PRESENT VALUE OF FUTURE NET REVENUE (US\$M)									
	BEFORE INCOME TAXES					AFTER INCOME TAXES				
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
PROVED										
Producing	4,939	4,411	3,975	3,614	3,314	4,625	4,131	3,722	3,384	3,102
Developed Non Producing	0	0	0	0	0	0	0	0	0	0
Undeveloped	32,094	28,094	24,035	20,384	17,242	23,645	20,964	17,927	15,081	12,586
TOTAL PROVED	37,032	32,505	28,010	23,998	20,555	28,269	25,095	21,649	18,465	15,688
TOTAL PROBABLE	49,224	40,525	33,762	28,565	24,536	38,324	31,635	26,338	22,243	19,064
TOTAL PROVED PLUS PROBABLE	86,256	73,030	61,773	52,563	45,092	66,593	56,730	47,988	40,708	34,752
TOTAL POSSIBLE	69,057	55,201	45,200	37,936	32,524	53,753	43,134	35,334	29,642	25,399
TOTAL PPP	155,314	128,231	106,973	90,499	77,615	120,346	99,864	83,322	70,350	60,152

Source: Company / GLJ

No material YoY change in reserves: 3P reserves of 5.6 mmboc (gross)

However, AT-NPV10% of 3P reserves declined 20% to \$83M due to lower commodity price forecasts used by GLJ

TCF believes the above estimates are conservative as GLJ used a low gas recovery factor (RF) of 60%-70% for the discovered non-producing pools, and 56% for the development prospects vs the historical rates of 80% in the region. Management's estimates of reserves/resources are shown below.

Item	Class	BCF ⁽¹⁾	NPV10% \$US Million ⁽²⁾	Class	BCF ⁽¹⁾	NPV10% \$US Million ⁽²⁾
Discovered non producing	2P	26.9	\$75.54	3P	35.9	\$134.7
Development prospects unrisked	Medium estimate	52.1	\$216	High Estimate	74.5	\$369.8
Exploration	Medium estimate	35.3	\$154	High Estimate	68.2	\$319
TOTAL		114.3	\$445.5		178.6	\$820.5

Source: Company / GLJ

FRC Projections

Based on the company's revised production plans, we are lowering our production and EPS forecasts; the company was previously planning to bring 17 wells into production in 2021/2022

	2021E (Old)	2021E (New)	2022E (Old)	2022E (New)
Production (boepd)	517	312	2,556	1,278
Revenue (\$M)	\$7.30	\$4.88	\$34.04	\$17.67
Adj. Net Income (\$M)	-\$0.87	-\$1.24	\$11.44	\$5.11
EPS (\$)	-\$0.01	\$0.00	\$0.03	\$0.02

Source: FRC

Valuation and Rating

TCF is trading well below comparables' average multiples

Our fair value estimate declined from \$0.60 to \$0.58 per share as we pushed out our production forecasts

Company	Symbol	Enterprise Value (US\$)	EV/AT-NPV10% of 2P Reserves	EV/2P Reserves \$ per bcf
1 Canacol Energy Ltd.	TSX: CNE	\$807	51%	\$1.29
2 Touchstone Exploration	TSX: TXP	\$273	50%	\$0.68
3 NG Energy	TSXV: GASX	\$109	84%	\$4.21
4 JKX Oil and Gas	LSE: JKX	\$26	n/a	\$0.05
5 SDX Energy	AIM: SDX	\$39	38%	\$0.54
6 Trillion Energy	CSE: TCF	\$53	23%	\$0.74
Average (excl. outliers)			42%	\$1.25
FV of Trillion Energy (C\$)			\$0.60	\$0.57
Average (C\$)				\$0.58

Source: FRC/Various Companies

We are reiterating our BUY rating, and adjusting our fair value estimate from C\$0.60 to C\$0.58 per share. Key catalyst includes stronger gas prices, and closing of the development financing.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Our valuation is highly sensitive to gas prices in Turkey.
- SASB is a highly capital-intensive project.
- Delay in closing the financing will impact project development timelines.
- Potential for share dilution.
- Development risks.
- Geopolitical and currency risks.

We rate TCF's shares a risk of 4 (Speculative).

APPENDIX

Income Statements - Dec 31st YE					
(in US\$)	2018	2019	2020	2021E	2022E
Oil and gas revenue	\$4,253,326	\$3,915,799	\$2,584,266	\$4,876,218	\$17,667,912
Operating expenses	\$2,802,080	\$2,593,180	\$2,378,626	\$2,915,255	\$9,178,881
Gross Margins	\$1,451,246	\$1,322,619	\$205,640	\$1,960,963	\$8,489,031
SBC	\$337,227	\$437,725	\$410,555	\$431,083	\$452,637
General and Administrative	\$2,118,213	\$1,781,859	\$2,352,383	\$2,470,002	\$2,593,502
EBITDA	-\$1,004,194	-\$896,965	-\$2,557,298	-\$940,122	\$5,442,892
Amortization	\$729,627	\$378,507	\$276,635	\$304,299	\$334,728
EBIT	-\$1,733,821	-\$1,275,472	-\$2,833,933	-\$1,244,421	\$5,108,163
Interest income	-\$33,929	-\$14,848	-\$72,074		
FOREX and others	-\$607,763	-\$393,173	-\$627,277		
Tax					
Net Income	-\$2,375,513	-\$1,683,493	-\$3,533,284	-\$1,244,421	\$5,108,163

Balance Sheets - Dec 31st YE					
(in US\$)	2018	2019	2020	2021E	2022E
Current Assets					
Cash and cash equivalent	\$795,520	\$863,017	\$202,712	\$8,946,537	\$2,494,802
Accounts receivable and others	\$958,125	\$717,851	\$797,613	\$877,374	\$1,140,587
	\$1,753,645	\$1,580,868	\$1,000,325	\$9,823,911	\$3,635,388
Property and equipment	\$106,155	\$45,116	\$128,257	\$8,397,397	\$20,580,452
Oil and gas properties	\$6,650,932	\$5,574,295	\$5,346,916	\$5,103,477	\$4,835,695
Restricted cash and others	\$151,943	\$96,906	\$11,763	\$11,763	\$11,763
Assets	\$8,662,675	\$7,297,185	\$6,487,261	\$23,336,548	\$29,063,297
Current Liabilities					
A/P and others	\$1,385,394	\$1,175,327	\$1,508,626	\$1,659,489	\$1,825,437
Loans	\$380,068	\$14,304	\$549,424	\$549,424	\$549,424
	\$1,765,462	\$1,189,631	\$2,058,050	\$2,208,913	\$2,374,861
ARO and others	\$4,026,129	\$3,712,885	\$5,842,889	\$5,842,889	\$5,842,889
Loans, convertible debt and others		\$594,762	\$28,757	\$28,757	\$28,757
Shareholder's Equity					
Common stock	\$26,131,633	\$26,743,949	\$27,034,891	\$44,546,654	\$44,546,654
Deficit	-\$23,260,549	-\$24,944,042	-\$28,477,326	-\$29,290,664	-\$23,729,864
	\$2,871,084	\$1,799,907	-\$1,442,435	\$15,255,990	\$20,816,790
Total Liabilities and Shareholder's Equity	\$8,662,675	\$7,297,185	\$6,487,261	\$23,336,548	\$29,063,297

Cash Flow Statements - Dec 31st YE
(in US\$)

	2019	2020	2021E	2022E
Cash flows from operations				
Net income	-\$1,683,493	-\$3,533,284	-\$1,244,421	\$5,108,163
Amortization	\$378,507	\$276,635	\$304,299	\$334,728
SBC	\$437,725	\$410,555	\$431,083	\$452,637
Others	\$507,728	\$884,548		
	-\$359,533	-\$1,961,546	-\$509,040	\$5,895,529
Change in working capital				
A/R and others	\$290,945	-\$229,216	-\$79,761	-\$263,212
A/P and others	\$244,905	\$565,459	\$150,863	\$165,949
	\$176,317	-\$1,625,303	-\$437,938	\$5,798,265
Cash flows from investing activities				
Property and equipment	-\$10,615	-\$73,725	-\$8,330,000	-\$12,250,000
Others				
Oil and gas properties	-\$37,449	-\$5,084		
	-\$48,064	-\$78,809	-\$8,330,000	-\$12,250,000
Cash flows from financing activities				
Equity	\$15,692	\$1,004,228	\$17,500,000	
Debt	\$98,151	-\$895		
	\$113,843	\$1,003,333	\$17,500,000	\$0
FOREX	-\$180,444	-\$44,669		
Net change in cash	\$61,652	-\$745,448	\$8,732,062	-\$6,451,735

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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