

Granite Ridge Resources(YE 2022 Earnings)

March 28, 2023

Corporate Speakers:

- Wes Harris; Investor Relations; Granite Ridge
- Luke Brandenburg; President, CEO; Granite Ridge
- Tyler Farquharson; CFO; Granite Ridge

Participants:

- Phillip Johnston; Senior E&P Analyst; Capital One Securities
- Jeff Grampp; Analyst; Alliance Global Partners

PRESENTATION

Operator^ Good morning and welcome, everyone, to Granite Bridge Resources fourth quarter and full year 2022 earnings conference call. (Operator Instructions). I will now turn the call over to Wes Harris, investor relations representative for Granite Ridge.

Wes Harris^ Thank you, operator, and good morning, everyone. We appreciate your interest in Granite Ridge Resources. We will begin our call with comments from Luke Brandenburg, President and Chief Executive Officer, who will provide an overview of key matters for the fourth quarter and full year 2022.

We will then turn the call over to Tyler Farquharson, Chief Financial Officer, who will review our financial results. Luke will then return to discuss our future plans and outlook before we open up the call for questions, I would also note that we have posted an updated company presentation to our website.

Today's conference call contains certain projections and other forward-looking statements within the meaning of federal securities laws. These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Additional information on factors that could cause results to differ is available in the Company's 10-K that was filed yesterday. We would ask that you review it in the cautionary statement in our earnings release.

A replay and transcript will be made available on our website following today's call. Granite Ridge disclaims any intention or obligation to update or review or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, you should not place undue reliance on forward looking statements. These and other risks are described in yesterday's press release in our filings with the SEC.

This conference call also includes references to certain non-GAAP financial measures. Information reconciling non-GAAP financial measures discussed to the most directly

comparable GAAP financial measures is available in our earnings release that is posted on our website. Finally, as a reminder, this conference call is being recorded. So, with that, I will turn the call over to Luke Brandenburg, our president and chief executive officer. Luke?

Luke Brandenburg^ Thank you, Wes, and good morning, everyone. Before I jump into our results, I'd like to say that we really do appreciate you joining us for today's call. We are a young public company with a lot of work to do to get our story out, but what a great story it is.

2023 marks our ten-year anniversary of pursuing a non-op strategy. We were one of the first groups to do so with institutional capital, specifically in areas like the Permian and the Eagle Ford.

So, while we are new to the public, we have been creating value for private investors in non-op for years. Our business is built on a solid foundation. The opportunity set is there, and we have the right team on the field to execute. The future is bright for Granite Ridge. With that, we are pleased to report outstanding fourth quarter and full year results for 2022. Our outperformance is a direct result of the hard work of our network of proven operators across the country and our dedicated team of professionals that I'm fortunate to work.

To all, I say thank you for your continued focus and dedication. Our 2022 fourth quarter was successful on many fronts, and we look forward to leveraging that success as we execute on our 2023 business plan. Highlights for the fourth quarter include a 45 percent year over year increase in net production to just under 22,000 barrels of oil equivalent per day, including 52 percent of oil, revenue growth of 46 percent from the prior year period and year over year growth in adjusted EBITDA and adjusted net income of 59 percent, 72 percent respectively.

During the fourth quarter, our operating partners turned 88 wells to sales, which equated to 6.2 net wells for Granite Ridge. On a full-year basis, our operating partners turned 265 wells to sales, which equated to 20.8 net wells for Granite Ridge.

The success we have seen in the development campaigns across our targeted portfolio of assets contributed to material full year 2022 operational and financial outperformance, including a 22 percent increase in net production to just under 20,000 barrels of oil equivalent per day, including 51 percent oil, revenue of \$497 million.

Now, that's 71 percent higher than in 2021 and adjusted EBITDA and adjusted net income growth of 74 percent and 118 percent, respectively. We ended 2022 with a fortress balance sheet that included no debt and liquidity of \$201 million, including \$51 million of cash.

Our continued success in 2022 was also reflected in our year end SEC total proved reserves, which grew 16 percent over the prior year to 51 million barrels of oil

equivalent, including a 50-50 balanced mix of oil and natural gas. This increase in reserves represents an all-in replacement ratio of 1.9 times our production for the year.

Looking at the mix of our total proved reserves at year end, 60 percent were proved developed producing, 1 percent were proved developed nonproducing and 39 percent were proved undeveloped. I would also note that the PD 10 of our total proved reserves using SEC prices grew 100 percent to \$1.6 billion.

The diversification of our asset can be clearly seen when sorting our total approved reserves by region. At year end 2022, 57 percent of our total proved reserves were located in the Permian, 16 percent were in the Eagle Ford, 10 percent were in the Haynesville, 10 percent were in the Bakken, and 7 percent were in the DJ.

Now I'll turn to our outlook for 2023. The past handful of months have been a time of integration, and now we pivot to acceleration. We anticipate capital expenditures of 260 to 270 million during the year, and we expect to turn 18 to 20 net wells to sales.

That CapEx number includes drilling and completion dollars, as well as about \$46 million in acquisitions and opportunity capture that has been spent or committed year to date. It does not include any dollars for uncommitted acquisitions or opportunity capture, but I will note that our team continues to pursue new growth opportunities.

On the DNC CapEx front, we expect roughly 60 percent to occur in the first half of the year, with roughly 60 percent of that coming in the second quarter. We expect full year 2023 production of 20,500 to 22,500 barrels of oil equivalent per day, including 50 percent oil. At the midpoint, that represents a 9 percent increase over full year 2022 production, which we believe is a responsible level of growth.

For the first quarter, we anticipate a slight production decline of around 5 percent from our fourth quarter numbers, as some flush production from 2022 rolls off and our 2023 net turn to sales are weighted towards the back half of the year. So, with that, I will ask Tyler to discuss our financial results in more detail. Tyler?

Tyler Farquharson^ Thank you, Luke, and good morning, everyone. Echoing Luke's comments, we were very pleased with our financial results for the fourth quarter and full year 2022 and look forward to our continued growth in 2023. During the fourth quarter, our average daily production was 22,031 barrels of oil equivalent per day, an increase of 45 percent and 17 percent compared to the fourth quarter of 2021, and sequentially over the last quarter, respectively.

As a reminder, we report our production on a two-stream basis, rolling the revenue realized from natural gas liquid sales into our natural gas revenue. We realized oil prices of \$83.32 per barrel, or approximately 101 percent of the benchmark WTI average for the quarter, and natural gas prices of \$4.97 per MCF, which was approximately 80 percent of the average Henry Hub price for the quarter.

This was moderately lower than our realized natural gas pricing for the third quarter due to widening gas basis differentials, weaker NGL prices, and a larger percentage of gas production coming from the Haynesville.

The overall result was oil and natural gas revenues of \$116.3 million for the quarter, which was 46 percent higher than the fourth quarter of 2021. Turning to costs for the fourth quarter and our expectations for 2023, these operating expenses were \$14.4 million, or \$7.11 per BoE.

For 2023, we are looking at LoE of \$6.50 and \$7.50 per BoE. Production and avalorum [ph] taxes were \$9.8 million, or \$4.86 per BoE, or 8 percent of sales. For 2023, we expect them to be in the range of 7 to 8 percent of sales, and depletion and accretion expense was 21.7 million, or \$10.68 per BoE. Our cash GNA expense for the fourth quarter was 6.5 million, or \$3.19 per BoE.

Our cash GNA for the fourth quarter included \$2.1 million of non-recurring costs incurred in preparation of our Form S-1 filed in January 2023 and transaction related expenses in connection with the formation of Granite Ridge in October 2022.

Included in our GNA are costs directly attributable to Granite Ridge and a management fee from our Master Services agreement with Grey Rock. As a reminder, the MFA is \$10 million per year, or \$2.5 million per quarter, and covers approximately 20 Grey Rock employees that provide various services to Granite Ridge.

We currently expect our full year cash GNA for 2023 to be in the range of 20 to \$22 million. We reported net income of 56.6 million, or \$0.43 per share for the quarter. Adjusted net income was 50.7 million, or \$0.38 per share, which was approximately 72 percent higher than adjusted net income of 29.5 million, or \$0.22 per share for the fourth quarter of 2021. And finally, adjusted EBITDA was 83.2 million, compared to 52.5 million for the same period in 2021.

Contributing to the 58 percent year-over-year growth in adjusted EBITDA was a 45 percent increase in production and a 21 percent increase in realized oil prices that were partially offset by a 26 percent decrease in realized natural gas prices. Capital expenditures during the quarter totaled 91.7 million.

Our well delivery accelerated during the quarter as we completed and placed on production 6.2 net wells, nearly 60 percent of which were in the Permian. This was a dramatic increase from the 3.2 net wells we turned to sales in third quarter and contributed to our production gains versus prior periods.

At year end, we had an additional 16.7 net wells in progress, of which we expect approximately one third to be placed on production in the first half of 2023. As Luke already covered, we are guiding to 2023 capital expenditures of \$260 million to \$270 million, including \$46 million of opportunity capture that occurred through last week.

We do not guide to additional opportunity capture beyond what has already occurred to date. We initiated our ongoing quarterly cash dividend targeted at \$60 million annually, or \$0.11 per share per quarter during the fourth quarter.

Annualized at approximately \$0.44 per share, this represents an approximate 9 percent dividend yield measured against the current price as of this past Friday, March 24. In mid-December, our board approved a \$50 million stock buyback plan to repurchase shares in the open market.

During the last half of December, we repurchased a little over 25,000 shares, and we continue to repurchase shares during the first quarter as we view Granite Ridge as undervalued given our lower risk, non op business model supported by a diversified asset base and production mix located in key prolific producing basins across the U.S.

Finally, turning to the balance sheet, as of year-end, we had no borrowings under the revolving credit facility that we entered into this past October with an availability of \$150 million on the revolver and cash of \$51 million, we began this year with liquidity of 201 million.

As such, we remain in a strong position to continue to execute on opportunities to strategically expand the business through acquisitions and other immediately accretive transactions that complement our current business and increase value for all shareholders. I will now hand it back to Luke for his closing comments. Luke?

Luke Brandenburg^ Thanks, Tyler. It has been a busy handful of months since we went public in late October, and market sentiment continues to evolve as it relates to the energy industry.

During this period, I have been pleased to have a significant number of conversations with current and prospective shareholders about why we believe Granite Ridge is a differentiated investment vehicle for capitalizing on the significant benefits afforded by the upstream oil and gas sector. We believe Granite Ridge is uniquely positioned on multiple fronts.

First and foremost, our non-op business model materially decreases risks for investors as we participate in a smaller portion of a larger number of wells as compared to operators in the business. This provides the opportunity to materially diversify our asset position in premier basins across the U.S.

The execution of that strategy has resulted in our current ownership interest in more than 2,350 wells across the Permian, Eagle Ford, Haynesville, Bakken and DJ. Our business development efforts are focused on high-quality, near-term drilling inventory that drives more immediate value to our shareholders than long dated inventory.

Finally, our non-op business model allows us to carry less overhead as we partner with the best operators in each basin versus building an internal operations team. Our fortress balance sheet is also key for the company.

We are committed to ensuring that we maintain a conservative leverage profile, which serves us well given the cyclical nature and inherent volatility of the oil and gas sector. As a non-op, we have the ability to elect to participate in development activity on a well-by-well basis, and we are not burdened by long term contracts or drilling obligations common to operators.

We also enjoy increased flexibility related to hedging obligations. We continue to view Granite Ridge as unique given the small number of publics that focus exclusively on non-operated properties. Granite Ridge provides the public investor exposure to core areas of production under the best operators, both public and private, through a vehicle with low leverage that is built for responsible long-term growth. We will continue to partner with private operators, many of which have some of the country's best drilling inventory, particularly in the Permian.

As such, we provide public investors access to first class private operators that would have been previously inaccessible to traditional upstream investors. We are committed to the ongoing and long-term return of capital to our shareholders, and our business model is ideally suited to ensure our success in this regard.

We've built a business that will comfortably provide \$60 million in annual cash dividends to our shareholders. Recognizing the volatility of the oil and gas sector, we've also implemented an Opportunistic share repurchase program that we have and will continue to execute on as appropriate.

Supporting our overall strategy is our focus on responsible growth in our areas of operation over time. We clearly recognize that the oil and gas industry is cyclical and the pricing of hydrocarbons is volatile.

As such, we will continue to place emphasis on adding assets to our portfolio at a reasonable pace that supports our cost structure, which is highly fixed and requires minimal overhead increases to support incremental production growth. I'm going to go a bit off script here to wrap up.

Our stock performance year to date has been ugly. We are trading like a company with a little cash flow and a lot of debt when the opposite is true. We have a technical challenge from our 80 percent private equity overhang, but one day that will be behind us. And in the meantime, we look awfully cheap at less than two times trailing twelve months adjusted EBITDA and approaching a 9 percent dividend yield. So, with that, we are happy to answer any questions folks may have on today's call. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). Our first question will come from the line of Phillip Johnston with Capital One. Please go ahead.

Phillip Johnston^ Hey, guys, thanks. Just a few questions about the CapEx guidance for '23. First, just on the 92 million DNC budget, what are you guys assuming for well cost inflation this year, whether it's relative to the full year '22 average? Or the Q4 exit rate.

Luke Brandenburg^ Hey, morning, Phillip, and thanks for being the inaugural question for Granite Ridge earnings call. Question on the inflation side, it's pretty interesting. We were doing analysis of that this morning and really looking at DNC CapEx inflation, really on an annual basis over the past several years. And we saw a pretty material increase, as you'd expect, '20 to '21 to '22.

The interesting piece is when we looked at CapEx inflation from '22 wells versus ASEs [ph] that we have in hand right now for wells that are in process. Those are up quite a bit in areas like the Haynesville. And then we're seeing still upwards of 20 percent from 2022 numbers, but they've really starting to flatten out in the Permian.

On average, it may be a high single digit inflation at most, but then you see in other areas, our Bakken apus have actually come down quite a bit. So, on the whole, I think that the number that you'd see is slightly up, but it's a single digit type number when comparing to what we actually saw in 2022.

Phillip Johnston^ Okay, perfect, that's helpful. And then, just for the 18 to 20 net wells plan for the year, pretty similar to last year's well count. Just wondering about the mix, maybe by region, would you expect it to be fairly similar to last year? Around 60ish percent for Permian and call it 15 to 20 percent for both Eagle Ford and Haynesville with the rest kind of split between the (inaudible)?

Luke Brandenburg^ Good question. So, Permian, we expect to be a little north of 60 percent, maybe 65 percent. Best guess at this time. Our Eagle Ford operations are interesting because our real main driver there is one of strategic partnerships that we have, and so we have chunkier [ph] working interest there. So, I think that your Eagle Ford wells could be closer to 15-ish percent.

And then your Delta is going to be some handful of wells that are coming online early this year. Some of the Bakken maybe a little over a net well, but really our Midland basin has dropped off a lot. We are going to be less than one net well there. Really, that's just a factor of the continued consolidation in the Midland. There are a lot of good folks out there doing that. So, our burgers and beer strategy has slowed down in the Midland relative to Delaware.

Phillip Johnston^ Yeah. Okay And then if I could maybe sneak one more in for Tyler. The 46 million acquisitions and opportunity capture budget, I think you mentioned that's kind of what's been spent or committed year to date. So, obviously that number is going

to creep higher throughout the year. How should we think about what that number might eventually grow to by the end of this year?

Tyler Farquharson^ Yeah, so that number does have opportunity capture that's occurred basically through the end of the first quarter. There was a larger acquisition included in that number that we closed in January than our typical opportunity capture, as well as it also includes any additional carry or wells that are expected to turn sales throughout the year.

So, we'd expect it to move up. I would not expect that to be our quarterly run rate. So, I think for the full year, it would increase, but I wouldn't expect it to rapidly increase with what we saw in Q4. I think for that number, we size that number where we think our expected cash flow is for the year. So, I think that would be the first spot where we would look to shift some of our spending to outer years versus spending more in the current period.

Phillip Johnston^ Great. Thanks, guys. Appreciate it.

Luke Brandenburg^ Thank you.

Operator^ (Operator Instructions). Your next question will come from the line of Jeff Grampp with Alliance Global Partners. Please go ahead.

Jeff Grampp^ Morning, guys. Thanks for the time. Maybe building on the last topic on the acquisitions, any detail you guys would be comfortable sharing in terms of the location of the assets, any production or kind of near-term development expectations, anything you guys would care to share would be helpful.

Luke Brandenburg^ Yeah, I'd say most of our acquisition dollars. And good morning, by the way. I look forward to seeing you out in Sunny California next week. Most of our, our real burgers and beer strategy, you're going to see us active where the rigs are. And so, most of that will be in play in West Texas, specifically in the Delaware Basin. And really what we're targeting, Jeff, is assets, where we anticipate development within the next couple of years.

One of the challenges about non-op it's just difficult for us to get approved reserve credit for any inventory much beyond one year, but certainly beyond two. So, that's really our focus is where can we get high-quality, near-term inventory. Most of that is in the Delaware. Another place we put a little bit of capital is really the DJ Basin. You have less competition up there. Competition is very high quality, and so it doesn't mean you're stealing things up there.

But we are seeing some opportunities that may be shorter in terms of cycle time, whereas in the Permian we may be buying acreage and wells. We hope it'll be online in twelve months in the DJ base. And occasionally, you may be buying inventory under units that have a rig on site.

And so, shorter cycle time there. Really the biggest driver for us, though, is again buying in front of the drill bit. And so, while we've done some smaller production acquisitions, that's not really a primary focus going forward, especially at these hydrocarbon prices on the low side.

Jeff Grampp^ Got it. That's really helpful. And sticking on the Delaware, I think the slide deck referenced a strategic partnership. Can you discuss that a bit more? I mean, it sounds like that's kind of part of the broader acquisition strategy, but maybe just give us some more detail to the extent you guys can share any details there. Thank you.

Luke Brandenburg^ Yeah. You got it, Jeff. That's really, I'd say a primary growth focus for us is the strategic partnership. So, really what that looks like it's finding a capital partner, excuse me, an operator that we're excited about, that we know and have known for a long time, that is looking for a different source of capital, maybe a more flexible source of capital. And really the goal is, can we provide a creative, constructive solution for them?

And so, what we did is we found a group out, based out of Midland. A really high-quality team that's been doing this for a long time. They were historically private equity backed and had a lot of success. They were looking for a bit of a different source of capital. The private equity fundraising has really fallen off a cliff over the past five years, and the strategy shifted as well.

You spoke some fantastic assets and private equity backed companies, but their strategy has been more of a build larger businesses, and there are still folks out there that are focused on the smaller unit by unit development. This was really an opportunity to partner with one of those.

And so, what it looks like for us, you pick the team. You are side by side as you're evaluating opportunities, and then you work together to come up with a drilling plan. And so, from a non-op perspective, we're really able to mitigate a lot of the historical challenges with non-op. We're able to have more control over the timing, more control over the development pace, and also the zones that we're drilling.

So, look, we can't do a lot of those, but they're really strategic bets that we're making with teams we like in areas we like. So, that's an exciting area for us. And really what it looks like, for the public investor, it kind of looks like private equity exposure, except with daily liquidity and frankly, more alignment with the investor.

So, that's a neat strategy. That's one that I say Tyler and I spent a lot of our time on is how can we grow that? Because the base business of our burgers and beer strategy, that's just a great mousetrap that's been built over the past decade, and we're not going to come in and dramatically change that. But we can focus a lot on these strategic partnerships, and I think it'll be a real driver of growth for us.

Jeff Grampp^ Understood. That's really helpful. Do those tend to be bespoke to the needs of the operator? Or is there a particular structure in terms of are you guys acquiring a working interest across a specified amount of acreage? Are you acquiring, are the strategic partnerships like a ROFER [ph] on undeveloped locations? Or just kind of curious how you guys tend to structure those if you care to share.

Luke Brandenburg^ Yeah, so it's bespoke to the operator, and what I really look at that, it's kind of interesting if you look over the course of private equity. Private equity did more project financing and then really went to a model that was more corporate level.

They wanted to be involved in everything a management team is doing. These strategic partnerships can be more project in nature, but the difference is, if these projects are a drilling unit, for example, you're often developing the whole thing on day one.

And so, as a result, it's project finance, but it's really 100 percent of what they're doing in that unit. So, it's kind of a neat hybrid there. Our objective is to always stay at the working interest level and provide a structure that allows our partner operators to have their own interest. They control their company. Again, we agree on capital spending up front, we agree on the plan up front.

And so, they really, though, are to hit the core of your question, they're asset level partnerships and they are generally on a project basis, though we may have an area of interest with the operator to where the opportunities that they see in any particular area may come to us.

Jeff Grampp^ Got it. Understood. That's really helpful. I appreciate the time, guys.

Luke Brandenburg^ You got it.

Operator^ We have no further questions at this time. I'll turn the conference back to management for any closing remarks.

Luke Brandenburg^ Thank you, Regina [ph]. Just want again thank everybody for being on the call. This is an exciting time for us. Our first public earnings call to take Q&A anyway, so just very much appreciate your time, appreciate your interest in Granite Ridge. And look, we'd love to chat with you. We'd love to come see you if you have any questions and look forward to many more calls in the future.

Operator^ Ladies and gentlemen, that will conclude today's meeting. Thank you all for joining. You may now disconnect