Granite Ridge Resources Inc. Reports Second-Quarter 2023 Results and Provides Updated Outlook for 2023

August 10, 2023

DALLAS--(BUSINESS WIRE)-- **Granite Ridge Resources Inc. (“Granite Ridge” or the “Company”) (NYSE: GRNT)** today reported financial and operating results for the second quarter 2023 and provided an updated outlook for 2023.

Second Quarter 2023 Highlights

- Grew production 13% to 21,557 barrels of oil equivalent (“Boe”) per day (48% oil), from 19,090 Boe per day for the second quarter of 2022.
- Reported net income of $8.7 million, or $0.07 per share, versus $93.3 million, or $0.70 per share, for the prior year period. Second quarter adjusted net income (non-GAAP) totaled $25.6 million, or $0.19 per share.
- Generated $69.7 million of adjusted EBITDAX (non-GAAP).
- Deployed $63.2 million of capital during the quarter, including $7.5 million of inventory acquisitions (non-GAAP).
- Placed 79 gross (5.54 net) wells online.
- Declared dividend of $0.11 per share of common stock.
- Added to the Russell 3000 Index on June 23, 2023.
- Ended the second quarter of 2023 with liquidity of $109.2 million.

2023 Outlook Updates

- Increased full year 2023 midpoint production guidance to 22,250 Boe per day; now expecting to generate 13% midpoint annual production volume growth as compared to the full year 2022.
- Increased the midpoint of total capital expenditures for full year 2023 by $5 million to $295 million to reflect additional acquisitions.

See “Supplemental Non-GAAP Financial Measures” below for descriptions of the above non-GAAP measures as well as a reconciliation of these measures to the associated GAAP (as defined herein) measures.

Luke Brandenberg, President and CEO of Granite Ridge, commented, “We were pleased to post a 13% increase in year-over-year production during the second quarter of 2023. Driving the growth was a combination of targeted, high-value acquisitions and development activities in key onshore basins across the U.S. In addition, we ended this year’s second quarter with ownership in approximately 158 net producing wells – a 28% increase from the same time last year. We are fortunate to work with a collective group of operators that have proven track records of prudently growing their operational footprint to maximize production and returns. The result has been outsized returns for our investors as we execute our well-defined growth strategy.

“As we look to the remainder of this year and into 2024, we will continue to develop and leverage our deep local relationships to identify and execute on additional opportunities to further expand our business. As in the past, all decisions will be made through a lens of focusing on our highest risk-adjusted rate-of-return opportunities in our deep inventory of prospects. We are encouraged by the positive industry fundamentals we see before us and look forward to enhancing our asset position and continuing to support our operators in their efforts to sustainably grow their respective businesses, which also benefits our shareholders.”

Second Quarter 2023 Summary

Second quarter 2023 oil production volumes totaled 10,418 barrels (“Bbls”) per day, a 13% increase from the second quarter of 2022. Natural gas production for the second quarter of 2023 totaled 66,835 thousand cubic feet of natural gas (“Mcf”) per day, a 13% increase from the second quarter of 2022. As a result, the Company’s total production for the second quarter of 2023 grew 13% from the second quarter of the prior year to 21,557 Boe per day.

Net income for the second quarter of 2023 was $8.7 million, or $0.07 per diluted share. Excluding non-cash and nonrecurring items, the second quarter 2023 adjusted net income (non-GAAP) was $25.6 million, or $0.19 per diluted share. The Company’s average realized price for oil and natural gas for the second quarter of 2023, excluding the effect of commodity derivatives, was $72.86 per Bbl and $3.04 per Mcf, respectively.

Adjusted EBITDAX (non-GAAP) for the second quarter of 2023 totaled $69.7 million, compared to $113.6 million for the second quarter of 2022. Second quarter of 2023 cash flow from operating activities was $74.2 million, including $7.4 million in working capital changes. Operating cash flow before working capital changes (non-GAAP) was $66.8 million. Costs incurred for development activities totaled $58.7 million for the second quarter of 2023.

During the second quarter of 2023, the Company issued 2,471,738 shares of common stock in exchange for 9,887,035 warrants.

The purpose of the warrant exchange was to simplify the Company's capital structure and reduce the potential dilutive impact of the warrants, thereby providing the Company with more flexibility for financing its operations in the future.

Operational Activity

The table below provides a summary of gross and net wells completed and put on production for the three and six months ended June 30, 2023:

	Three Months Ended June 30, 2023		Six Months Ended June 30, 2023	
	Gross	Net	Gross	Net
Permian	16	2.36	62	5.13
Eagle Ford	3	0.04	12	2.50
Bakken	7	0.53	17	1.09
Haynesville	0	0.00	0	0.00
DJ	53	2.61	66	2.73
Total	79	5.54	157	11.45

On June 30, 2023, the Company had 186 gross (12.2 net) wells in process.

Costs Incurred

The tables below provide the costs incurred for oil and natural gas producing activities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Property acquisition costs:				
Proved	$ 1,309	$ 2,895	$ 19,298	$ 7,955
Unproved	3,161	12,332	12,791	12,789
Development costs	58,739	44,124	157,345	105,025
Total costs incurred for oil and natural gas properties	$ 63,209	$ 59,351	$ 189,434	$ 125,769

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Inventory acquisitions (non-GAAP) (1)	$ 7,526	$ 21,534	$ 24,264	$ 31,634
Production acquisitions	—	—	17,989	560
Development costs (excluding drilling carry)	55,683	37,817	147,181	93,575
Total costs incurred for oil and natural gas properties	$ 63,209	$ 59,351	$ 189,434	$ 125,769

(1) Includes costs to acquire additional development opportunities and undeveloped acreage acquisition.

Commodity Derivatives Update

The Company's commodity derivatives strategy is intended to manage its exposure to commodity price fluctuations. Please see the table under "Derivatives Information" below for detailed information about Granite Ridge's current derivatives positions.

Updated 2023 Guidance

The following table summarizes the Company's updated operational and financial guidance for 2023.

	2023 Guidance	Updated 2023 Guidance
Annual production (Boe per day)	21,000 - 23,000	21,500 - 23,000
Oil as a % of sales volumes	49 %	49 %
Inventory acquisitions and production acquisitions ($ in millions)	$45 - $45	$50 - $50
Development capital expenditures ($ in millions)	$230 - $260	$230 - $260
Total capital expenditures ($ in millions)	$275 - $305	$280 - $310
Net wells placed on production	19 - 21	19 - 21
Lease operating expenses (per Boe)	$6.50 - $7.50	$6.50 - $7.50

Production and ad valorem taxes (as a % of total sales)	7% - 8%	7% - 8%
Cash general and administrative expense ($ in millions)	$20 - $22	$20 - $22

Conference Call

Granite Ridge will host a conference call on August 11, 2023, at 10:00 AM CT (11:00 AM ET) to discuss its second quarter 2023 results. The telephone number and passcode to access the conference call are provided below:

Dial-in: (888) 660-6093
Intl. dial-in: (929) 203-0844
Participant Passcode: 4127559

To access the live webcast visit Granite Ridge's website at **www.graniteridge.com**. Alternatively, an audio replay will be available through August 26, 2023. To access the audio replay dial (800) 770-2030 and enter confirmation code 4127559.

Upcoming Investor Events

Granite Ridge management will be participating in the following upcoming investor events:

- EnerCom Denver Energy Conference - August 14-16, 2023.
- Barclays CEO Energy-Power Conference - September 5-7, 2023.
- Minerals & Royalty Assembly - October 10, 2023.

Any investor presentations to be used for such events will be posted prior to the events on Granite Ridge's website.

About Granite Ridge

Granite Ridge is a scaled, non-operated oil and gas exploration and production company. We own a portfolio of wells and top-tier acreage across the Permian and four other prolific unconventional basins across the United States. Rather than drill wells ourselves, we increase asset diversity and decrease overhead by investing in a smaller piece of a larger number of high-graded wells drilled by proven public and private operators. We create value by generating sustainable full-cycle risk adjusted returns for investors, offering a rewarding experience for our team, and delivering reliable energy solutions to all – safely and responsibly. For more information, visit Granite Ridge's website at www.graniteridge.com.

Forward-Looking Statements and Cautionary Statements

This press release contains forward-looking statements regarding future events and future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts included in this release regarding Granite Ridge's 2023 outlook, dividend plans and practices, financial position, operating and financial performance, business strategy, plans and objectives of management for future operations, industry conditions, and indebtedness covenant compliance are forward-looking statements. When used in this release, forward-looking statements are generally accompanied by terms or phrases such as "estimate," "project," "predict," "believe," "expect," "continue," "anticipate," "target," "could," "plan," "intend," "seek," "goal," "will," "should," "may" or other words and similar expressions that convey the uncertainty of future events or outcomes. Items contemplating or making assumptions about actual or potential future production and sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond Granite Ridge's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following: the ability to recognize the anticipated benefits of the business combination, Granite Ridge's financial performance following the business combination, changes in Granite Ridge's strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans, changes in current or future commodity prices and interest rates, supply chain disruptions, infrastructure constraints and related factors affecting our properties, ability to acquire additional development opportunities or make acquisitions, changes in reserves estimates or the value thereof, operational risks including, but not limited to, the pace of drilling and completions activity on our properties, changes in the markets in which Granite Ridge competes, geopolitical risk and changes in applicable laws, legislation, or regulations, including those relating to environmental matters, cyber-related risks, the fact that reserve estimates depend on many assumptions that may turn out to be inaccurate and that any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of the Granite Ridge's reserves, the outcome of any known and unknown litigation and regulatory proceedings, legal and contractual limitations on the payment of dividends, limited liquidity and trading of Granite Ridge's securities, acts of war or terrorism and market conditions and global, regulatory, technical, and economic factors beyond Granite Ridge's control, including the potential adverse effects of the COVID-19 pandemic, or another major disease, affecting capital markets, general economic conditions, global supply chains and Granite Ridge's business and operations, and increasing regulatory and investor emphasis on environmental, social and governance matters.

Granite Ridge has based these forward-looking statements on its current expectations and assumptions about future events. While management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many

of which are beyond Granite Ridge's control. Granite Ridge does not undertake any duty to update or revise any forward-looking statements, except as may be required by the federal securities laws.

Use of Non-GAAP Financial Measures

To supplement the presentation of the Company's financial results prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), this press release contains certain financial measures that are not prepared in accordance with GAAP, including adjusted net income, adjusted earnings per share, adjusted EBITDAX, operating cash flow before working capital changes, free cash flow and inventory acquisitions.

See "Supplemental Non-GAAP Financial Measures" below for a description and reconciliation of each non-GAAP measure presented in this press release to the most directly comparable financial measure calculated in accordance with GAAP.

Granite Ridge Resources Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except par value and share data)	**June 30, 2023**	**December 31, 2022**
ASSETS		
Current assets:		
Cash	$ 14,493	$ 50,833
Revenue receivable	55,532	72,287
Advances to operators	22,917	8,908
Prepaid costs and other	1,354	4,203
Derivative assets - commodity derivatives	10,104	10,089
Total current assets	104,400	146,320
Property and equipment:		
Oil and gas properties, successful efforts method	1,218,096	1,028,662
Accumulated depletion	(452,303)	(383,673)
Total property and equipment, net	765,793	644,989
Long-term assets:		
Other long-term assets	3,142	3,468
Total long-term assets	3,142	3,468
Total assets	$ 873,335	$ 794,777
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued expenses	$ 51,510	$ 62,180
Other liabilities	1,235	1,523
Derivative liabilities - commodity derivatives	157	431
Total current liabilities	52,902	64,134
Long-term liabilities:		
Long-term debt	55,000	—
Derivative liabilities - commodity derivatives	156	—
Derivative liabilities - common stock warrants	681	11,902
Asset retirement obligations	6,052	4,745
Deferred tax liability	106,219	91,592
Total long-term liabilities	168,108	108,239
Total liabilities	221,010	172,373
Stockholders' Equity:		
Common stock, $0.0001 par value, 431,000,000 shares authorized, 135,949,232 and 133,294,897 issued at June 30, 2023 and December 31, 2022, respectively	14	13
Additional paid-in capital	609,909	590,232
Retained earnings	48,610	32,388
Treasury stock, at cost, 971,701 and 25,920 shares at June 30, 2023 and December 31, 2022, respectively	(6,208)	(229)
Total stockholders' equity	652,325	622,404
Total liabilities and stockholders' equity	$ 873,335	$ 794,777

Granite Ridge Resources Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

(in thousands, except per share data)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Revenues:				
Oil and natural gas sales	$ 87,557	$ 150,267	$ 178,867	$ 244,116
Operating costs and expenses:				
Lease operating expenses	14,406	9,515	28,178	17,928
Production and ad valorem taxes	6,303	7,726	12,020	12,900
Depletion and accretion expense	34,969	31,404	68,821	47,529
General and administrative (including non-cash stock-based compensation of $375 and $1,434 for the three and six months ended June 30, 2023)	8,011	2,267	16,590	5,039
Total operating costs and expenses	63,689	50,912	125,609	83,396
Net operating income	23,868	99,355	53,258	160,720
Other income (expense):				
Gain (loss) on derivatives - commodity derivatives	1,221	(5,462)	14,544	(33,858)
Interest expense	(1,211)	(609)	(1,550)	(1,134)
Loss on derivatives - common stock warrants	(11,012)	—	(5,734)	—
Total other income (expense)	(11,002)	(6,071)	7,260	(34,992)
Income before income taxes	12,866	93,284	60,518	125,728
Income tax expense	4,129	—	14,915	—
Net income	$ 8,737	$ 93,284	$ 45,603	$ 125,728
Net income per share:				
Basic	$ 0.07	$ 0.70	$ 0.34	$ 0.95
Diluted	$ 0.07	$ 0.70	$ 0.34	$ 0.95
Weighted-average number of shares outstanding:				
Basic	132,866	132,923	132,933	132,923
Diluted	132,880	132,923	132,941	132,923

Granite Ridge Resources Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Operating activities:		
Net income	$ 45,603	$ 125,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and accretion expense	68,821	47,529
(Gain) loss on derivatives - commodity derivatives	(14,544)	33,858
Net cash receipts from (payments on) commodity derivatives	14,411	(24,907)
Stock-based compensation	1,434	—
Amortization of deferred financing costs	327	21
Loss on derivatives - common stock warrants	5,734	—
Deferred income taxes	14,662	—
Other	(145)	—
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Revenue receivable	16,602	(47,255)
Accrued expenses	1,472	3,712
Prepaid and other expenses	950	(1,529)
Other payable	333	153
Net cash provided by operating activities	155,660	137,310

Investing activities:		
Capital expenditures for oil and natural gas properties	(182,293)	(84,992)
Acquisition of oil and natural gas properties	(29,516)	(20,744)
Refund of advances to operators	—	750
Proceeds from the disposal of oil and natural gas properties	—	748
Net cash used in investing activities	(211,809)	(104,238)
Financing activities:		
Proceeds from borrowing on credit facilities	72,500	11,000
Repayments of borrowing on credit facilities	(17,500)	(9,400)
Cash contributions	—	84
Deferred financing costs	(28)	—
Payment of expenses related to formation of Granite Ridge Resources, Inc.	(43)	—
Purchase of treasury shares	(5,857)	—
Payment of dividends	(29,263)	—
Net cash provided by financing activities	19,809	1,684
Net change in cash and restricted cash	(36,340)	34,756
Cash and restricted cash at beginning of period	51,133	12,154
Cash and restricted cash at end of period	$ 14,793	$ 46,910
Supplemental disclosure of non-cash investing activities:		
Oil and natural gas property development costs in accrued expenses	$ (13,903)	$ 3,835
Advances to operators applied to development of oil and natural gas properties	$ 53,379	$ 31,617
Cash and restricted cash:		
Cash	$ 14,493	$ 46,610
Restricted cash included in other long-term assets	300	300
Cash and restricted cash	$ 14,793	$ 46,910

Granite Ridge Resources Inc.
Summary Production and Price Data

The following table sets forth summary information concerning production and operating data for the periods indicated:

	Three months ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net Sales (in thousands):				
Oil sales	$ 69,070	$ 99,453	$ 142,545	$ 172,038
Natural gas sales	18,487	50,814	36,322	72,078
Total revenues	87,557	150,267	178,867	244,116
Net Production:				
Oil (MBbl)	948	840	1,913	1,611
Natural gas (MMcf)	6,082	5,383	12,802	9,303
Total (MBoe)[(1)]	1,962	1,737	4,047	3,162
Average Daily Production:				
Oil (Bbl)	10,418	9,231	10,569	8,901
Natural gas (Mcf)	66,835	59,154	70,729	51,398
Total (Boe)[(1)]	21,557	19,090	22,357	17,467
Average Sales Prices:				
Oil (per Bbl)	$ 72.86	$ 118.40	$ 74.51	$ 106.79
Effect of gain (loss) on settled oil derivatives on average price (per Bbl)	1.94	(11.61)	1.98	(10.07)
Oil net of settled oil derivatives (per Bbl) (2)	74.80	106.79	76.49	96.72
Natural gas sales (per Mcf)	3.04	9.44	2.84	7.75
Effect of gain (loss) on settled natural gas derivatives on average price (per Mcf)	1.02	(1.37)	0.83	(0.93)
Natural gas sales net of settled natural gas derivatives (per Mcf) (2)	4.06	8.07	3.67	6.82

Realized price on a Boe basis excluding settled commodity derivatives	44.63	86.51	44.20	77.20
Effect of gain (loss) on settled commodity derivatives on average price (per Boe)	4.09	(9.86)	3.56	(7.88)
Realized price on a Boe basis including settled commodity derivatives (2)	48.72	76.65	47.76	69.32
Operating Expenses (in thousands):				
Lease operating expenses	$ 14,406	$ 9,515	$ 28,178	$ 17,928
Production and ad valorem taxes	6,303	7,726	12,020	12,900
Depletion and accretion expense	34,969	31,404	68,821	47,529
General and administrative	8,011	2,267	16,590	5,039
Costs and Expenses (per Boe):				
Lease operating expenses	$ 7.34	$ 5.48	$ 6.96	$ 5.67
Production and ad valorem taxes	3.21	4.45	2.97	4.08
Depletion and accretion	17.82	18.08	17.01	15.03
General and administrative	4.08	1.31	4.10	1.59
Net Producing Wells at Period-End:	157.57	123.35	157.57	123.35

(1) Natural gas is converted to Boe using the ratio of one barrel of oil to six Mcf of natural gas.

(2) The presentation of realized prices including settled commodity derivatives is a result of including the net cash receipts from (payments on) commodity derivatives that are presented in our condensed consolidated statements of cash flows. This presentation of average prices with derivatives is a means by which to reflect the actual cash performance of our commodity derivatives for the respective periods and presents oil and natural gas prices with derivatives in a manner consistent with the presentation generally used by the investment community.

Granite Ridge Resources Inc.
Derivatives Information

The table below provides data associated with the Company's derivatives at August 10, 2023, for the periods indicated:

	2023			2024	2025
	Third Quarter	Fourth Quarter	Total	Total	Total
Producer 3-way (oil)					
Volume (Bbl)	228,572	208,488	437,060	—	—
Weighted-average sub-floor price ($/Bbl)	$ 60.42	$ 60.43	$ 60.43	$ —	$ —
Weighted-average floor price ($/Bbl)	$ 79.12	$ 80.00	$ 79.54	$ —	$ —
Weighted-average ceiling price ($/Bbl)	$ 100.61	$ 101.92	$ 101.23	$ —	$ —
Collar (oil)					
Volume (Bbl)	48,618	371,304	419,922	1,007,846	—
Weighted-average floor price ($/Bbl)	$ 61.50	$ 67.49	$ 66.79	$ 61.92	$ —
Weighted-average ceiling price ($/Bbl)	$ 81.60	$ 88.14	$ 87.38	$ 81.86	$ —
Collar (natural gas)					
Volume (Mcf)	2,530,000	2,086,650	4,616,650	3,301,000	1,406,000
Weighted-average floor price ($/Mcf)	$ 4.25	$ 4.49	$ 4.36	$ 3.26	$ 3.63
Weighted-average ceiling price ($/Mcf)	$ 5.90	$ 6.34	$ 6.10	$ 4.86	$ 5.42
Swaps (natural gas)					
Volume (Mcf)	—	—	—	4,303,000	—
Weighted-average price ($/Mcf)	$ —	$ —	$ —	$ 3.24	$ —

Granite Ridge Resources Inc.
Supplemental Non-GAAP Financial Measures

The Company reports its financial results in accordance with GAAP. However, the Company believes certain non-GAAP performance measures may provide financial statement users with additional meaningful comparisons between current results, the results of its peers and the results of prior periods. In addition, the Company believes these measures are used by analysts and others in the valuation, rating and investment recommendations of companies within the oil and natural gas exploration and production industry. See the reconciliations throughout this release of GAAP financial measures to non-GAAP financial measures for the periods indicated.

Reconciliation of Net Income to Adjusted EBITDAX

Adjusted EBITDAX (as defined below) is presented herein and reconciled from the GAAP measure of net income because of its wide acceptance by the investment community as a financial indicator.

The Company defines adjusted EBITDAX as net income, before (1) exploration and abandonments, (2) depletion and accretion expense, (3) (gain) loss on derivatives – commodity derivatives, (4) net cash receipts from (payments on) commodity derivatives, (5) (gain) loss on disposal of oil and natural gas properties, (6) interest expense (7) (gain) loss on derivatives – common stock warrants (8) non-cash stock-based compensation (9) warrant exchange transaction costs and (10) income tax expense. Adjusted EBITDAX is not a measure of net income or cash flows as determined by GAAP.

The Company's adjusted EBITDAX measure provides additional information that may be used to better understand the Company's operations. Adjusted EBITDAX is one of several metrics that the Company uses as a supplemental financial measurement in the evaluation of its business and should not be considered as an alternative to, or more meaningful than, net income as an indicator of operating performance. Certain items excluded from adjusted EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historic cost of depreciable and depletable assets. Adjusted EBITDAX, as used by the Company, may not be comparable to similarly titled measures reported by other companies. The Company believes that adjusted EBITDAX is a widely followed measure of operating performance and is one of many metrics used by the Company's management team and by other users of the Company's consolidated financial statements. For example, adjusted EBITDAX can be used to assess the Company's operating performance and return on capital in comparison to other independent exploration and production companies without regard to financial or capital structure, and to assess the financial performance of the Company's assets and the Company without regard to capital structure or historical cost basis.

The following table provides a reconciliation of the GAAP measure of net income to adjusted EBITDAX for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Net income	$ 8,737	$ 93,284	$ 45,603	$ 125,728
Interest expense	1,211	609	1,550	1,134
Income tax expense	4,129	—	14,915	—
Depletion and accretion expense	34,969	31,404	68,821	47,529
Non-cash stock-based compensation	375	—	1,434	—
Warrant exchange transaction costs	2,456	—	2,456	—
(Gain) loss on derivatives - commodity derivatives	(1,221)	5,462	(14,544)	33,858
Net cash receipts from (payments on) commodity derivatives	8,025	(17,132)	14,411	(24,907)
Loss on derivatives - common stock warrants	11,012	—	5,734	—
Adjusted EBITDAX	$ 69,693	$ 113,627	$ 140,380	$ 183,342

Reconciliation of Net Cash Provided by Operating Activities to Operating Cash Flow Before Working Capital Changes and to Free Cash Flow

The Company provides Operating Cash Flow ("OCF") before working capital changes, which is a non-GAAP financial measure. OCF before working capital changes represents net cash provided by operating activities as determined under GAAP without regard to changes in operating assets and liabilities. The Company believes OCF before working capital changes is an accepted measure of an oil and natural gas company's ability to generate cash used to fund development and acquisition activities and service debt or pay dividends. Additionally, the Company provides free cash flow, which is a non-GAAP financial measure. Free cash flow is cash flow from operating activities before changes in working capital in excess of exploration and development costs incurred. The Company believes that free cash flow is useful to investors as it provides measures to compare cash from operating activities and exploration and development costs across periods on a consistent basis.

These non-GAAP measures should not be considered as alternatives to, or more meaningful than, net cash provided by operating activities as indicators of operating performance.

The following tables provide a reconciliation from the GAAP measure of net cash provided by operating activities to OCF before working capital changes and to free cash flow:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Net cash provided by operating activities	$ 74,186	$ 81,246	$ 155,660	$ 137,310
Changes in cash due to changes in operating assets and liabilities:				
Revenue receivable	(10,169)	33,236	(16,602)	47,255
Accrued expenses	3,137	(3,042)	(1,472)	(3,712)

Prepaid and other expenses	(885)	1,582	(950)	1,529
Other payable	482	8	(333)	(153)
Total working capital changes	(7,435)	31,784	(19,357)	44,919
Operating cash flow before working capital changes	66,751	113,030	136,303	182,229
Development costs	58,739	44,124	157,345	105,025
Free cash flow	$ 8,012	$ 68,906	$ (21,042)	$ 77,204

Reconciliation of Net Income to Adjusted Net Income and Adjusted Earnings per Share

The Company's presentation of adjusted net income and adjusted earnings per share that exclude the effect of certain items are non-GAAP financial measures. Adjusted net income and adjusted earnings per share represent earnings and diluted earnings per share determined under GAAP without regard to certain non-cash and nonrecurring items. The Company believes these measures provide useful information to analysts and investors for analysis of its operating results on a recurring, comparable basis from period to period. Adjusted net income and adjusted earnings per share should not be considered in isolation or as a substitute for earnings or diluted earnings per share as determined in accordance with GAAP and may not be comparable to other similarly titled measures of other companies.

The following table provides a reconciliation from the GAAP measure of net income to adjusted net income, both in total and on a per diluted share basis, for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share data)	**2023**	**2022**	**2023**	**2022**
Net income	$ 8,737	$ 93,284	$ 45,603	$ 125,728
(Gain) loss on derivatives - commodity derivatives	(1,221)	5,462	(14,544)	33,858
Net cash receipts from (payments on) commodity derivatives	8,025	(17,132)	14,411	(24,907)
Loss on derivatives - common stock warrants	11,012	—	5,734	—
Warrant exchange transaction costs	2,456	—	2,456	—
Tax impact on above adjustments (a)	(4,602)	—	(1,829)	—
Changes in deferred taxes and other estimates	1,191	—	1,191	—
Adjusted net income	$ 25,598	$ 81,614	$ 53,022	$ 134,679
Earnings per diluted share - as reported	$ 0.07	$ 0.70	$ 0.34	$ 0.95
(Gain) loss on derivatives - commodity derivatives	(0.01)	0.04	(0.11)	0.25
Net cash receipts from (payments on) commodity derivatives	0.06	(0.13)	0.11	(0.19)
Loss on derivatives - common stock warrants	0.08	—	0.04	—
Warrant exchange transaction costs	0.02	—	0.02	—
Tax impact on above adjustments (a)	(0.04)	—	(0.01)	—
Changes in deferred taxes and other estimates	0.01	—	0.01	—
Adjusted earnings per diluted share	$ 0.19	$ 0.61	$ 0.40	$ 1.01
Adjusted earnings per share:				
Basic earnings	$ 0.19	$ 0.61	$ 0.40	$ 1.01
Diluted earnings	$ 0.19	$ 0.61	$ 0.40	$ 1.01

(a) Estimated using statutory tax rate in effect for the period.

Reconciliation of Total Costs Incurred for Oil and Natural Gas Properties to Inventory Acquisitions

The Company defines inventory acquisitions as costs incurred to acquire additional development opportunities and undeveloped acreage acquisitions and excludes producing property acquisition costs. The Company believes that inventory acquisitions are useful to investors as they provide a measure of Company's costs incurred for current and future drilling opportunities on a consistent basis.

The following tables provide a reconciliation from the GAAP measure of total costs incurred for oil and natural gas properties to inventory acquisitions:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Property acquisition costs:				
Proved	$ 1,309	$ 2,895	$ 19,298	$ 7,955
Unproved	3,161	12,332	12,791	12,789
Development costs	58,739	44,124	157,345	105,025
Total costs incurred for oil and natural gas properties	63,209	59,351	189,434	125,769

Less: Development costs (excluding drilling carry)	(55,683)	(37,817)	(147,181)	(93,575)
Less: Production acquisitions	—	—	(17,989)	(560)
Inventory acquisitions (non-GAAP)	$ 7,526	$ 21,534	$ 24,264	$ 31,634

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Source: Granite Ridge Resources, Inc.