



Granite Ridge Resources, Inc.

Third Quarter 2022 Results Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Scott Espenshade, *Investor Relations Representative*

Luke Brandenburg, *President and Chief Executive Officer*

Tyler Farquharson, *Chief Financial Officer*

P R E S E N T A T I O N

Operator

Good morning, and welcome to Granite Ridge Resources Third Quarter 2022 Results Conference Call.

As a reminder this conference call is being recorded.

I would now like to turn the call over to Scott Espenshade, Investor Relations. Please go ahead.

Scott Espenshade

Thank you. I am Scott Espenshade, Investor Relations Representative for Granite Ridge. Welcome to Granite Ridge Resources' first conference call as a public Company

Today, we'll be discussing the combined pro forma third quarter 2022 financial and operation information compiled from Grey Rock's three investment funds being shown as Granite Ridge for the conference call. Participating on today's call is Luke Brandenburg, President and Chief Executive Officer of Granite Ridge and Tyler Farquharson, Chief Financial Officer.

Please note that the third quarter information in our 10-Q reflects only the financial results and operations of Grey Rock's Fund III as predecessor in the business combination. Granite Ridge did not conduct any activity prior to the business combination on October 24, 2022, and the predecessor Grey Rock Energy Fund III became a subsidiary of Granite Ridge upon the closing of various formation transactions completed concurrently with the business combination. As a result, Granite Ridge's results for the fourth quarter 2022 will not be comparable to the third quarter displayed in the current 10-Q.

For the purpose of presenting Granite Ridge's third quarter results in today's call, Granite Ridge is presenting a summary of selected unaudited pro forma condensed combined operating and financial results for the three months ended September 30, 2022 and 2021, respectively, for Grey Rock Funds I, II and III. The assets of which together with the cash remaining in ENPC's trust account following the stockholder redemptions constitute the assets of Granite Ridge following the business combination.

Today's call was pre-recorded and a playback will be available on Granite Ridge's website. Due to the nature and timing of the business combination, we will not be hosting a question-and-answer session on this call, but intend to enhance disclosure as reporting normalizes for Granite Ridge.

Information reconciling non-GAAP financial measures discussed to their most directly comparable GAAP financial measures is available in the Investor Relations portion of our website and in our earnings release.

Today's conference call contains certain projections and other forward-looking statements within the meaning of federal security 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-Q, which was filed earlier today. We would ask that you review it and the cautionary statement in our earnings release. A replay and transcript will be made available on our website following today's call and will be available for at least 14 days following the call.

I will now turn the call over to Luke.

Luke Brandenburg

Thank you, Scott, and thank you to everyone for attending Granite Ridge's inaugural earnings call.

I'm honored to have been selected to lead Granite Ridge and I'm eager to execute our strategy to seize the opportunities created by today's energy environment. We're excited to introduce you to the new public company in the oil and gas sector, Granite Ridge Resources and its significant value opportunity which trades under the ticker GRNT on the New York Stock Exchange.

Granite Ridge is a premier non-operated oil and gas exploration and production Company. We invest in a diversified portfolio of production and top tier acreage across the Permian, Bakken, Eagle Ford, DJ and Haynesville in partnership with proven operators. We create value by generating sustainable full-cycle risk adjusted returns for investors by offering a rewarding experience for our team, and by playing our part to provide secure reliable energy safely and responsibly. We are well positioned to create substantial value for shareholders.

As most of you are new to Granite Ridge Resources, let me give an overview of the business combination in a short introduction as we are quite distinct from most of our peers in the sector. Granite Ridge was born out of a business combination with the private equity firm Grey Rock Energy Partners, and Executive Network Partnering Corporation, a special purpose acquisition entity that traded under the ticker ENPC. Grey Rock was formed in 2013, with a goal of bringing institutional capital to the non-op sector and it ultimately accumulated an interest in over 2,500 wells across its first three funds. Grey Rock felt that it was an opportune time to enter the public markets and partner with ENPC to form Granite Ridge. The business combination was successful, and we debuted on the New York Stock Exchange on October 25.

So, what is Granite Ridge? In essence, we have two sides to the house. The first is a cash flow generating asset base that is diversified across operator, basin and hydrocarbon type. The second is similar to a private equity fund, but with daily liquidity, a quarterly dividend and long term investor alignment that will allocate the cash flows across attractive investment opportunities and shareholder return initiatives. Combined, Granite Ridge offers investors a proven business development mousetrap that leverages real time data and analytics to provide exposure to top tier, often private operators and high quality basins underpinned by strong cash flow and attractive dividend yield and a fortress balance sheet.

Let me go over some of the basic facts of the business combination. Granite Ridge begins with no debt. We feel this is very important, and we'll discuss it more later. We have approximately 133 million shares outstanding, and unlike most SPACs, Granite Ridge has a clean structure with only 10.3 million warrants

outstanding and limited downside protection for the SPAC sponsors. Tyler will discuss more of this and the details later.

Our strategy at Granite Ridge is unique in the upstream space as only a small number of public focus exclusively on non-operating properties. We believe Granite Ridge has a differentiated offering by giving the public investor exposure to core areas under the best operators, both public and private, through a vehicle with low leverage that is built for growth. I continue to mention private operators across most basins and particularly the Permian, some of the best drilling inventory and operators are privately owned, making it difficult for public investors to access these assets.

Granite Ridge has and will continue to build our exposure under the premier private operators. Furthermore, we believe the non-op sector is right for consolidation both at the asset level and consolidating the consolidators, which we expect to provide a lot of opportunity to capture value in the coming years.

Let me now highlight our capital allocation strategy. We have a sustainable return of capital framework in place at Granite Ridge. Our fortress balance sheet and low cost operations provide significant cash flow. We've implemented dividends structure anticipated to be \$60 million per annum that provides strong cash returns to shareholders of roughly 5% at current prices, but upside growth potential through our aggregation strategy. This framework will allow Granite Ridge to sustain leverage less than 1 times EBITDA, though I am much more comfortable at half a turn of leverage or less higher price environments like we're experiencing today.

As previously noted, we currently have zero debt outstanding. This capital strategy allows us to comfortably prioritize our highest return opportunities, and over the longer term, focus the excess cash flow and increasing the return of capital to shareholders. In the more immediate future, our cash flow gives us the flexibility to support our existing shareholders, as we evaluate opportunities to manage the equity overhang from our controlling stockholder.

I'd like to talk a bit more about what the business development mousetrap I mentioned earlier has accomplished this year. In times of relatively higher hydrocarbon prices, we'd like to reduce market risk by focusing more on near-term drilling opportunities and less on production bias. That means two things. One, we're willing to pay more for wells that we'll be able to put on production sooner, and two our asset diversity allows us to deploy capital where the rigs are and currently most of that is in the Permian. These opportunities are not banker marketed deals, but rather generated from deep relationships built over nearly a decade of our partner Grey Rock, earning the right to be a trusted counterparty by consistently being in places like Midland and Denver to buy a stake and to make an offer in good times and in bad.

One thing that stands out to me about our third quarter, and it may go without saying, but the timing of putting wells on production can be lumpy and does not necessarily tie with Capex. We added only one half net well during the quarter, but we spent \$72 million of Capex due to our more robust than expected deal pipeline. While most of that \$72 million of Capex went either to entry cost or drilling and completion for our 17.8 net wells in progress at quarter end, 5.5 net of which have since been put on production, that Capex spend is not expected to generate production until the fourth quarter or early 2023. That said, production still increased by 29% from the third quarter of last year to over 21,000 barrels per day of oil equivalent, roughly 45% of which is oil.

As mentioned in our September press release, we may see a bit of a production pullback in the fourth quarter of potentially a few thousand barrels equivalent per day, as some operators given supply and labor constraints are delayed in bringing wells online. However, we expect to see those volumes early next year.

We are fresh off our first Board meeting that mainly focused on many of the administrative and governance tasks of a newly formed company. We feel fortunate to have a diverse strong Board that has a keen focus on ESG metrics that will be meaningful in managing and reducing the business risks at Granite Ridge. We did not have our 2023 capital plans approved at this meeting. We expect that we will release our 2023 guidance along with our fourth quarter results early next year. Currently, it is our belief that our 2022 activity levels should serve as a guide to activity next year, but that may be augmented through our aggregation strategy.

At this point, I will hand it off to Granite Ridge's CFO, Tyler Farquharson to summarize the core elements of our business combination and third quarter results on a pro forma combined basis.

Tyler Farquharson

Thanks, Luke, and thank you to everyone for joining our inaugural conference call.

I too am grateful to humbly help lead Granite Ridge Resources and will strive to protect and enhance its financial firepower. Let me start by describing the business combination in more detail.

As a result of the business combination, Granite Ridge owns the non-operator working interest previously held by Grey Rock's Fund I, Fund II and Fund III portfolios, and in turn these Grey Rock funds, together with their GPs and limits of partners now own equity in Granite Ridge.

Going forward, the Grey Rock team will help manage Granite Ridge through a long-term services agreement providing technical, legal, commercial, acquisition and divestment and back office support. Granite Ridge and Grey Rock have agreed that during the term of the services agreement, which has a five year initial term, Granite Ridge and any additional oil and gas focused funds managed by Grey Rock or its affiliates will have the opportunity to jointly participate in investment opportunities for upstream, non-operated oil and gas assets, with 75% of any such future transactions allocated to Granite Ridge and 25% of any such future transactions allocated to oil and gas focused funds managed by Grey Rock or its affiliates.

Granite Ridge has 132.9 million shares outstanding and there were approximately 94% redemptions, which brought approximately \$21 million of cash to Granite Ridge's balance sheet, a portion of which funded transaction fees. In addition to the 132.9 million common shares outstanding, Granite Ridge has an additional 10.3 million warrants outstanding with a strike price of \$11.50.

Today, the Grey Rock funds are the controlling shareholder of Granite Ridge, holding approximately 90% of the total outstanding shares. On the date of the business combination, all of Grey Rock Fund I and approximately 25% of Grey Rock Fund II shares were distributed to the fund's limited partners and are no longer controlled by the Grey Rock funds. The remaining approximately 3 million shares are held by the SPAC sponsor and SPAC shareholders.

As noted earlier, our 10-Q for the third quarter reports financials and operational activity from Grey Rock's Fund III only as it was the accounting predecessor to Granite Ridge. I will be discussing the pro forma combined financials and operating information for Funds I, II and III to provide our investors and analysts a clear starting point for Granite Ridge.

Beginning on the income statement with the contributors to revenue, Granite Ridge produced approximately 21,000 barrels of oil equivalent per day in the third quarter, of which 45% was oil. We report our production on a two stream basis rolling the revenue realized from natural gas liquid sales into our natural gas revenue. For the quarter, we realized oil prices of \$91.71 or approximately 98% of the benchmark WTI average for the quarter and natural gas prices of \$9.24 per MCF, which was

approximately 116% of the average Henry Hub price for the quarter. Again, our revenue from natural gas liquids sales are reported through the natural gas revenue, leading to these higher realizations.

This resulted in oil and gas revenues of approximately \$137 million for the quarter, which was decreased by \$15 million due to realized hedge settlements leading to quarterly Adjusted EBITDA of \$99 million and an Adjusted EBITDA margin of 72%.

Our G&A cost will be those attributable to Granite Ridge and also will include the Management fee from our master services agreement with Grey Rock. The Granite Ridge G&A expense going forward will include salaries for Luke and myself, plus typical public Company expenses. The MSA is a \$10 million per year or \$2.5 million per quarter and covers approximately 20 Grey Rock employees that provide various services back to Granite Ridge.

Production costs for the third quarter were \$12.5 million or \$6.58 per BOE. Production taxes for the third quarter were \$7.7 million or \$4.02 per barrel of oil equivalent. Interest expense was de minimis at \$570,000 and we expect this to remain de minimis given our undrawn facility.

For bottom line results, Granite Ridge reported net income of \$65.9 million, and after adjusting for non-cash unrealized hedging gains Granite Ridge reported adjusted net income of \$47.7 million. Adjusted EBITDA for the third quarter of 2022 was \$99 million compared to \$59.4 million for the prior year quarter, primarily due to a 29% year-over-year increase in net production, and a 26% and 72% increase in oil and gas prices, respectively.

In the third quarter, we generated approximately \$114 million in discretionary cash flow, and \$251 million through the first nine months of the year. This compares favorably to our internally funded capital investments of \$198 million, including acquisition spending for the first nine months of the year. Our development capital expenditures of \$59.2 million in the third quarter resulted in a half net well being placed online with an additional 17.8 net wells in progress at quarter end. We also had \$12.1 million in acquisitions resulting from our ground game activity, and other capitalized costs of \$0.7 million for a total of \$72 million in investments for the third quarter. This resulted in \$25 million of free cash flow for the quarter. We believe that our strategy will be able to generate significant free cash flow to grow the value of Granite Ridge and deliver healthy returns to our shareholders.

Granite Ridge anticipates paying a dividend of \$60 million annually. For the third quarter, our Board of Directors has approved a prorated dividend of \$0.08 per share, representing a \$0.11 per common share dividend for the full quarter, which will have a record date of December 1, 2022 payable on December 15, 2022.

The initial common dividend was prorated to the effective date of Granite Ridge's business combination on October 24, 2022. Annualized at approximately \$0.45 per share, this represents an approximate 5% dividend yield measured against our current price as of last Thursday.

In October, Granite Ridge entered into a senior secured revolving credit agreement with Texas Capital Bank as admin agent. The credit agreement has a maturity of five years from the effective date thereof, and is secured by a first priority mortgage and security interest in substantially all assets of the Company and its restricted subsidiaries. The credit agreement provides for an aggregate maximum revolving credit amount of \$1 billion, an initial borrowing base of \$325 million and aggregate elective commitments of \$150 million.

We ended October with no debt outstanding and cash on the balance sheet of \$37 million, which provided the Company with total liquidity of \$187.1 million on a pro forma basis for the new credit facility. Our net cash position places us well below the leverage target of less than 1.0 that Luke mentioned.

Finally, please note that we have provided detailed analysis of adjusted items and reconciliations of non-GAAP numbers to GAAP in the attachments to our earnings release. We appreciate your interest in Granite Ridge.

Thanks, and I'll now turn the call back over to Luke for closing remarks.

Luke Brandenburg

Thank you, Tyler. To bring us home here, I'm extremely proud of our partnership with Grey Rock and ENPC. The business combination has set us up for success and public life (phon). While we have a to do list to enhance the investability of Granite Ridge, and to continue to provide more and better information on our value proposition, we are building on a firm foundation based on a fortress balance sheet with no debt, attractive valuation underpinned by a nearly 5% dividend yield, and assets and processes that have a history of generating strong cash flow.

I'd like to end by sharing a bit about the folks behind the Company. In addition to Management and a sponsor, we are highly aligned with public shareholders. Up and down the organization, we have the right team on the right platform to consolidate the fragmented non-op (phon) market and to drive long term value for our shareholders. I'm both humbled and proud to be a part of what we're building at Granite Ridge and want to thank you for partnering with us.

Operator

This will conclude today's conference call. Thank you for your participation. You may now disconnect.