Parsley Energy, Inc.
Form 10-Q
August 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-36463

PARSLEY ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	46-4314192
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
303 Colorado Street, Suite 3000 Austin, Texas	78701
(Address of principal executive offices)	(Zip Code)

(737) 704-2300
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	Emerging growth company ¨

If an emerging growth company indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 8, 2018, the registrant had 279,700,281 shares of Class A common stock and 37,076,994 shares of Class B common stock outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressi intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should carefully consider the risk factors and other cautionary statements described under the heading "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "Annual Report") and the risk factors and other cautionary statements contained in our other filings with the United States Securities and Exchange Commission ("SEC"). These forward-looking statements are based on management's current beliefs, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- exploration and development drilling prospects, inventories, projects and programs;
- ability to replace the reserves we produce through drilling and property acquisitions;
- financial strategy, liquidity and capital required for our development program;
- realized oil, natural gas and natural gas liquids ("NGLs") prices;
- timing and amount of future production of oil, natural gas and NGLs;
- hedging strategy and results;
- future drilling plans;
- competition and government regulations;
- ability to obtain permits and governmental approvals;
- pending legal or environmental matters;
- marketing of oil, natural gas and NGLs;
- leasehold or business acquisitions;
- costs of developing our properties;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

All forward-looking statements speak only as of the date of this Quarterly Report. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements.

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GLOSSARY OF CERTAIN TERMS AND CONVENTIONS USED HEREIN

The terms defined in this section are used throughout this Quarterly Report:

(1) Bbl. One stock tank barrel, of 42 U.S. gallons liquid volume, used in reference to crude oil, condensate or natural gas liquids.
(2) Boe. One barrel of oil equivalent, with 6,000 cubic feet of natural gas being equivalent to one barrel of oil.
(3) Boe/d. One barrel of oil equivalent per day.
(4) British thermal unit or Btu. The heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.
(5) Completion. The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.
(6) Condensate. A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.
(7) Dry hole. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.
(8) Developed acreage. Acreage spaced or assigned to productive wells, excluding undrilled acreage held by production under the terms of the lease.
(9) Economically producible. A resource that generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. For a complete definition of economically producible, refer to the SEC's Regulation S-X, Rule 4-10(a)(10).
(10) Exploitation. A development or other project which may target proven or unproven reserves (such as probable or possible reserves), but which generally has a lower risk than that associated with exploration projects.
(11) Exploration costs. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and natural gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
   (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are referred to as geological and geophysical costs or G&G costs.
   (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
   (iii) Dry hole contributions and bottom hole contributions.
   (iv) Costs of drilling and equipping exploratory wells.
   (v) Costs of drilling exploratory-type stratigraphic test wells.
   (vi) Idle drilling rig fees which are not chargeable to joint operations.
(12) Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.
(13) Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious, strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms structural feature and stratigraphic condition are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

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(14) Formation. A layer of rock which has distinct characteristics that differ from nearby rock.
(15) GAAP. Accounting principles generally accepted in the United States.
(16) Gross acres or gross wells. The total acres or wells, as the case may be, in which an entity owns a working interest.
(17) Horizontal drilling. A drilling technique where a well is drilled vertically to a certain depth and then drilled laterally within a specified target zone.
(18) Identified drilling locations. Potential drilling locations specifically identified by our management based on evaluation of applicable geologic and engineering data accrued over our multi-year historical drilling activities.
(19) Lease operating expense. All direct and allocated indirect costs of lifting hydrocarbons from a producing formation to the surface constituting part of the current operating expenses of a working interest. Such costs include labor, superintendence, supplies, repairs, maintenance, allocated overhead charges, workover, insurance and other expenses incidental to production, but exclude lease acquisition or drilling or completion expenses.
(20) LIBOR. London Interbank Offered Rate.
(21) MBbl. One thousand barrels of crude oil, condensate or NGLs.
(22) MBoe. One thousand barrels of oil equivalent.
(23) Mcf. One thousand cubic feet of natural gas.
(24) MMBtu. One million British thermal units.
(25) MMcf. One million cubic feet of natural gas.
(26) Natural gas liquids or NGLs. The combination of ethane, propane, butane, isobutane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.
(27) Net acres or net wells. The percentage of total acres or wells, as the case may be, an owner has out of a particular number of gross acres or wells. For example, an owner who has a 50% interest in 100 gross acres owns 50 net acres.
(28) NYMEX. The New York Mercantile Exchange.
(29) Operator. The entity responsible for the exploration, development and production of a well or lease.
(30) PE Units. The single class of units that represents all of the membership interests in Parsley Energy, LLC.
(31) Proved developed reserves. Proved reserves that can be expected to be recovered:
(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well; or
(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
(32) Proved reserves. Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence, within a reasonable time. For a complete definition of proved oil and natural gas reserves, refer to the SEC’s Regulation S-X, Rule 4-10(a)(22).
(33) Proved undeveloped reserves or PUDs. Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. The following rules apply to PUDs:

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(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances;

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time; and

(iii) Under no circumstances shall estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

(34) Reasonable certainty. A high degree of confidence. For a complete definition of reasonable certainty, refer to the SEC's Regulation S-X, Rule 4-10(a)(24).

(35) Recompletion. The process of re-entering an existing wellbore that is either producing or not producing and completing new or existing reservoirs in an attempt to establish new production or increase existing production.

(36) Reliable technology. A grouping of one or more technologies (including computational methods) that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(37) Reserves. Estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development prospects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market and all permits and financing required to implement the project.

(38) Reservoir. A porous and permeable underground formation containing a natural accumulation of producible hydrocarbons that is confined by impermeable rock or water barriers and is separate from other reservoirs.

(39) SEC. The United States Securities and Exchange Commission.

(40) Spacing. The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies.

(41) Undeveloped acreage. Leased acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

(42) Wellbore. The hole drilled by the bit that is equipped for oil or gas production on a completed well. Also called well or borehole.

(43) Working interest. The right granted to the lessee of a property to explore for and to produce and own oil, natural gas or other minerals. The working interest owners bear the exploration, development and operating costs on either a cash, penalty or carried basis.

(44) Workover. Operations on a producing well to restore or increase production.

(45) WTI. West Texas Intermediate crude oil, which is a light, sweet crude oil, characterized by an American Petroleum Institute gravity, or API gravity, between 39 and 41 and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

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PART 1: FINANCIAL INFORMATION
Item 1: Financial Statements
PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$201,702	$554,189
Short-term investments	99,704	149,283
Accounts receivable:		
Joint interest owners and other	29,721	42,174
Oil, natural gas and NGLs	178,593	123,147
Related parties	241	388
Short-term derivative instruments, net	42,780	41,957
Assets held for sale	—	1,790
Other current assets	41,784	6,558
Total current assets	594,525	919,486
PROPERTY, PLANT AND EQUIPMENT		
Oil and natural gas properties, successful efforts method	9,434,570	8,551,314
Accumulated depreciation, depletion and impairment	(1,074,499)	(822,459)
Total oil and natural gas properties, net	8,360,071	7,728,855
Other property, plant and equipment, net	146,517	106,587
Total property, plant and equipment, net	8,506,588	7,835,442
NONCURRENT ASSETS		
Assets held for sale, net	—	14,985
Long-term derivative instruments, net	30,837	15,732
Other noncurrent assets	7,493	7,553
Total noncurrent assets	38,330	38,270
TOTAL ASSETS	$9,139,443	$8,793,198
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$426,677	$407,698
Revenue and severance taxes payable	134,740	109,917
Current portion of long-term debt	2,462	2,352
Short-term derivative instruments, net	68,242	84,919
Current portion of asset retirement obligations	7,754	7,203
Total current liabilities	639,875	612,089
NONCURRENT LIABILITIES		
Liabilities related to assets held for sale	—	405
Long-term debt	2,180,559	2,179,525
Asset retirement obligations	20,853	19,967
Deferred tax liability	100,392	21,403
Payable pursuant to tax receivable agreement	62,681	58,479
Long-term derivative instruments, net	34,936	20,624
Total noncurrent liabilities	2,399,421	2,300,403

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common stock		
Class A, $0.01 par value, 600,000,000 shares authorized, 280,106,940 shares issued and 279,518,737 shares outstanding at June 30, 2018 and 252,419,601 shares issued and 252,260,300 shares outstanding at December 31, 2017	2,801	2,524
Class B, $0.01 par value, 125,000,000 shares authorized, 37,251,738 and 62,128,157 shares issued and outstanding at June 30, 2018 and December 31, 2017	373	622
Additional paid in capital	5,123,089	4,666,365
Retained earnings	245,564	43,519
Treasury stock, at cost, 588,203 shares and 159,301 shares at June 30, 2018 and December 31, 2017	(11,606)	(735)
Total stockholders' equity	5,360,221	4,712,295
Noncontrolling interest	739,926	1,168,411
Total equity	6,100,147	5,880,706
TOTAL LIABILITIES AND EQUITY	$9,139,443	$8,793,198

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share data)			
REVENUES				
Oil sales	$396,325	$178,066	$727,428	$347,811
Natural gas sales	12,235	12,983	29,659	25,450
Natural gas liquids sales	57,275	20,336	97,895	37,749
Other	1,953	2,292	5,547	3,525
Total revenues	467,788	213,677	860,529	414,535
OPERATING EXPENSES				
Lease operating expenses	35,904	29,631	64,736	47,258
Transportation and processing costs	6,471	—	12,738	—
Production and ad valorem taxes	27,331	11,397	51,517	22,559
Depreciation, depletion and amortization	145,552	83,315	266,751	152,285
General and administrative expenses (including stock-based compensation of $5,363 and $5,251 for the three months ended June 30, 2018 and 2017 and $10,432 and $9,460 for the six months ended June 30, 2018 and 2017)	35,991	31,761	70,986	55,803
Exploration and abandonment costs	3,366	2,442	8,777	5,205
Acquisition costs	(2)	7,176	2	8,520
Accretion of asset retirement obligations	359	193	713	329
Other operating expenses	2,477	2,503	4,652	4,786
Total operating expenses	257,449	168,418	480,872	296,745
OPERATING INCOME	210,339	45,259	379,657	117,790
OTHER INCOME (EXPENSE)				
Interest expense, net	(33,758)	(22,764)	(65,726)	(42,100)
Gain on sale of property	5,166	—	5,055	—
Loss on early extinguishment of debt	—	—	—	(3,891)
(Loss) gain on derivatives	(9,466)	43,514	(20,259)	68,130
Change in TRA liability	—	—	(82)	(20,549)
Interest income	1,686	2,178	3,809	4,549
Other income (expense)	234	(177)	535	773
Total other income (expense), net	(36,138)	22,751	(76,668)	6,912
INCOME BEFORE INCOME TAXES	174,201	68,010	302,989	124,702
INCOME TAX EXPENSE	(33,243)	(12,216)	(56,568)	(30,618)
NET INCOME	140,958	55,794	246,421	94,084
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(21,803)	(15,048)	(44,376)	(23,896)
NET INCOME ATTRIBUTABLE TO PARSLEY ENERGY, INC. STOCKHOLDERS	$119,155	$40,746	$202,045	$70,188
Net income per common share:				
Basic	$0.44	$0.17	$0.76	$0.30
Diluted	$0.44	$0.17	$0.76	$0.30

Weighted average common shares outstanding:				
Basic	272,239	245,698	266,479	233,255
Diluted	272,846	246,792	267,043	234,315

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Issued Shares						Shares				
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Additional paid in capital	Retained earnings	Treasury stock	Treasury stock	Total stockholders' equity	Noncontrolling interest	Total equi
	(In thousands)										
Balance at December 31, 2017	252,420	62,128	$2,524	$622	$4,666,365	$43,519	159	$(735)	$4,712,295	$1,168,411	$5,880,70
Exchange of PE Units and Class B Common Stock for Class A Common Stock	24,876	(24,876)	249	(249)	472,861	—	—	—	472,861	(472,861)	—
Change in net deferred tax liability due to exchange of PE Units	—	—	—	—	(26,541)	—	—	—	(26,541)	—	(26,541
Issuance of restricted stock	802	—	8	—	(8)	—	—	—	—	—	—
Vesting of restricted stock units	910	—	9	—	(9)	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	429	(10,871)	(10,871)	—	(10,871
Restricted stock forfeited	—	—	—	—	(245)	—	—	—	(245)	—	(245
Stock-based compensation	—	—	—	—	10,677	—	—	—	10,677	—	10,677
Conversion of restricted stock units to restricted stock awards	1,098	—	11	—	(11)	—	—	—	—	—	—
Net income	—	—	—	—	—	202,045	—	—	202,045	44,376	246,421
Balance at June 30, 2018	280,106	37,252	$2,801	$373	$5,123,089	$245,564	588	$(11,606)	$5,360,221	$739,926	$6,100,14

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$246,421	$94,084
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	266,751	152,285
Accretion of asset retirement obligations	713	329
Gain on sale of property	(5,055)	—
Loss on early extinguishment of debt	—	3,891
Amortization of deferred loan origination costs	2,374	1,803
Amortization of bond premium	(258)	(258)
Stock-based compensation	10,432	9,460
Deferred income tax expense	56,568	30,476
Change in TRA liability	82	20,549
Loss (gain) on derivatives	20,259	(68,130)
Net cash (paid) received for derivative settlements	(7,211)	2,115
Net cash paid for option premiums	(26,330)	(13,281)
Other	8,208	261
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(42,993)	(22,575)
Accounts receivable—related parties	147	74
Other current assets	(31,419)	46,318
Other noncurrent assets	(318)	(842)
Accounts payable and accrued expenses	(32,213)	52,672
Revenue and severance taxes payable	24,823	17,973
Net cash provided by operating activities	490,981	327,204
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of oil and natural gas properties	(854,228)	(361,742)
Acquisitions of oil and natural gas properties	(56,014)	(2,088,286)
Additions to other property and equipment	(48,047)	(19,520)
Proceeds from sales of oil and natural gas properties	42,553	13,557
Maturity of short-term investments	49,627	—
Other	35,018	(630)
Net cash used in investing activities	(831,091)	(2,456,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under long-term debt	—	452,480
Payments on long-term debt	(1,461)	(67,411)
Debt issuance costs	(45)	(9,206)
Proceeds from issuance of common stock, net	—	2,123,527
Repurchase of common stock	(10,871)	(137)
Net cash (used in) provided by financing activities	(12,377)	2,499,253
Net (decrease) increase in cash, cash equivalents and restricted cash	(352,487)	369,836
Cash, cash equivalents and restricted cash at beginning of period	554,189	136,669

Cash, cash equivalents and restricted cash at end of period	$201,702	$506,505
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$64,047	$15,102
Cash paid for income taxes	$—	$200
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Asset retirement obligations incurred, including changes in estimate	$940	$8,084
Additions to oil and natural gas properties - change in capital accruals	$46,969	$121,663
Additions to other property and equipment funded by capital lease borrowings	$1,175	$2,500
Common stock issued for oil and natural gas properties	$—	$1,183,501
Net premiums on options that settled during the period	$(34,598)	$(9,917)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Parsley Energy, Inc. (either individually or together with its subsidiaries, as the context requires, the "Company") was formed in December 2013 to succeed the Company's predecessor, which began operations in August 2008 when it acquired operator rights to wells producing from the Spraberry Trend in the Midland Basin. The Company is engaged in the acquisition and development of unconventional oil, natural gas and NGLs reserves located in the Permian Basin, which is located in West Texas and Southeastern New Mexico and is comprised of three primary sub-areas: the Midland Basin, the Central Basin Platform and the Delaware Basin.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

These condensed consolidated financial statements include the accounts of (i) the Company, (ii) Parsley Energy, LLC, the Company's majority owned subsidiary ("Parsley LLC"), (iii) the direct and indirect wholly owned subsidiaries of Parsley LLC, and (iv) Pacesetter Drilling, LLC, an indirect, majority owned subsidiary of Parsley LLC, of which Parsley LLC owns, indirectly, a 63.0% interest. Parsley LLC also owns, indirectly, a 42.5% noncontrolling interest in Spraberry Production Services, LLC ("SPS"). The Company accounts for its investment in SPS using the equity method of accounting. All significant intercompany and intra-company balances and transactions have been eliminated.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted from this Quarterly Report, as permitted by SEC rules and regulations. The Company believes the disclosures made in this Quarterly Report are adequate to make the information herein not misleading. The Company recommends that these condensed consolidated financial statements should be read in conjunction with its audited consolidated financial statements and related notes thereto included in the Annual Report.

The interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim period. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results of the entire fiscal year ending December 31, 2018.

Use of Estimates

These condensed consolidated financial statements and related notes are presented in accordance with GAAP. Preparation in accordance with GAAP requires the Company to (i) adopt accounting policies within accounting rules set by the Financial Accounting Standards Board ("FASB") and by the SEC and (ii) make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The major estimates and assumptions impacting the Company's condensed consolidated financial statements are the following:

- estimates of proved reserves of oil and natural gas, which affect the calculations of depletion, depreciation and amortization ("DD&A") and impairment of capitalized costs of oil and natural gas properties;
- estimates of asset retirement obligations;
- estimates of the fair value of oil and natural gas properties the Company owns, particularly properties that the Company has not yet explored, or fully explored, by drilling and completing wells;
- impairment of undeveloped properties and other assets;
- depreciation of property and equipment; and
- valuation of commodity derivative instruments.

Actual results may differ from estimates and assumptions of future events and these revisions could be material. Future production may vary materially from estimated oil and natural gas proved reserves. Actual future prices may vary significantly from price assumptions used for determining proved reserves and for financial reporting.

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Significant Accounting Policies

For a complete description of the Company’s significant accounting policies, see Note 2—Summary of Significant Accounting Policies in the Annual Report.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current presentation. Such reclassifications had no effect on the Company’s previously reported net income, earnings per share, cash flows or retained earnings.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) Topic 605, Revenue Recognition, and most industry-specific guidance. The Company adopted this standard effective January 1, 2018 using the modified retrospective approach. As a result, the Company changed its accounting policy for revenue recognition, as detailed below under “Impact of ASC Topic 606 Adoption.” The Company also implemented processes and controls to ensure new contracts are reviewed for the appropriate accounting treatment and to generate the required disclosures under the standards.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall, as an amendment to ASC Subtopic 825-10. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other items, this update will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. This impairment assessment reduces the complexity of the other-than-temporary impairment guidance that certain entities follow. The Company adopted ASU 2016-01 as of January 1, 2018. The adoption of this guidance did not have a material effect on the Company's financial position, results of operation or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), which requires that a statement of cash flows explain the total change during the period in cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The amended guidance will be effective for the Company for annual periods beginning after December 15, 2017. The amendments should be applied using a retrospective transition method to each period presented. Early adoption is permitted for any entity in any interim or annual period. The Company implemented the new guidance on January 1, 2018 and disclosure revisions have been made for the periods presented on the condensed consolidated statements of cash flows. The Company’s condensed consolidated statements of cash flows for the six months ended June 30, 2017 were adjusted to conform to this guidance, which resulted in an increase in cash flows from operating activities of $0.6 million.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740), which amends certain guidance in ASC 740, Income Taxes, to reflect Staff Accounting Bulletin No. 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act (the “Tax Act”) in the period of enactment. This guidance also includes amendments to the XBRL Taxonomy. For public business entities, the amendments in ASU 2018-05 are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company has prepared its condensed consolidated financial statements for the three and six months ended June 30, 2018 in accordance with ASU 2018-05. The Company expects to have all estimates finalized by fourth quarter of 2018. Any adjustments recorded to these estimates through 2018 will be included in income from operations as an adjustment to tax expense. The ultimate impact of the Tax Act may differ from the Company’s estimates based on the Company’s further analysis of the new law and additional regulatory guidance that may be issued.

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Recently Issued but Not Yet Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which modifies lessees' recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP guidance. In July 2018, the FASB issued also ASU No. 2018-10, Codification Improvements to Topic 842, Leases, which further clarifies guidance previously issued. The amended guidance will be effective for the Company for annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-02 will have on its condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment clarifies certain aspects of the new guidance (ASU 2016-01) on recognizing and measuring financial instruments and presentation requirements for certain fair value option liabilities. For public business entities, the amendments in ASU 2018-03 are effective for fiscal years ending after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the effects the adoption of ASU 2018-03 will have on its condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation—Stock Compensation (Topic 718), which is part of FASB's simplification initiative. The areas for simplification involve multiple aspects of the accounting for non-employee share-based payment transactions and share-based payment transactions for acquiring goods and services from non-employees. For public business entities, the amendments in ASU 2018-05 are effective for fiscal years ending after December 15, 2018. Early adoption is permitted. The Company does not expect adoption of this guidance to have a significant impact on its condensed consolidated financial statements.

Impact of ASC Topic 606 Adoption

The Company's adoption of ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), resulted in the following adjustments for the three months ended June 30, 2018 (in thousands):

	Three Months Ended June 30, 2018		
	ASC 605	Adjustment	ASC 606
Revenues			
Oil sales	$396,325	$ —	$396,325
Natural gas sales (1)	11,094	1,141	12,235
Natural gas liquids sales (1)	51,945	5,330	57,275
Total production revenues	459,364	6,471	465,835
Operating expenses			
Transportation and processing costs	—	6,471	6,471
Production revenues less transportation and processing costs	$459,364	$ —	$459,364
Net income attributable to Parsley, Inc. stockholders	$119,155	$ —	$119,155

(1) Revenues associated with natural gas and NGLs sales at the plant inlet are considered a single combined performance obligation. The applicable line items include $3.9 million and $16.3 million of natural gas and NGLs sales, respectively, completed at the plant inlet.

The Company's adoption of ASC 606, resulted in the following adjustments for the six months ended June 30, 2018 (in thousands):

	Six Months Ended June 30, 2018		
	ASC 605	Adjustment	ASC 606
Revenues			
Oil sales	$727,428	$ —	$727,428
Natural gas sales [1]	26,680	2,979	29,659
Natural gas liquids sales [1]	88,136	9,759	97,895
Total production revenues	842,244	12,738	854,982
Operating expenses			
Transportation and processing costs	—	12,738	12,738
Production revenues less transportation and processing costs	$842,244	$ —	$842,244
Net income attributable to Parsley, Inc. stockholders	$202,045	$ —	$202,045

(1) Revenues associated with natural gas and NGLs sales at the plant inlet are considered a single combined performance obligation. The applicable line items include $8.6 million and $26.8 million of natural gas and NGLs sales, respectively, completed at the plant inlet.

Changes to natural gas and NGLs sales were made in accordance with the new control model defined in ASC 606. Under the new control model, the Company was required to identify and separately analyze each contract associated with revenues to determine the appropriate accounting application. The Company considered various indicators for contracts and the weighting of their relevance to determine when control transferred to the customer (such as whether raw gas is sold at the receipt point or residue gas and NGLs are sold at the tailgate of the gas processing plants). Based on this analysis, the Company concluded that the presence of product redelivery and take-in-kind rights, if substantive, are determinative indicators of control transferring at the tailgate if there is intent at contract inception. Additionally, the Company considers risk of loss an important indicator of when control transfers, which is comprised of risks associated with loss of product, exposure to product mix and recoveries, and exposure to index prices versus actual prices. The Company concluded that title, custody, and acceptance are not determinative indicators of control, as such factors may be present in the case of a sale or the performance of a service.

As a result of this analysis, the Company modified its accounting and presentation of natural gas and NGLs sales, and transportation and processing costs under certain marketing agreements. This is due to the conclusion that the Company represents the principal and the ultimate third party is its customer, which implies that the Company maintains control of the product through the tailgate of gas processing plants in certain natural gas processing and marketing agreements with certain midstream entities in accordance with the control model in ASC 606. This is a change from previous conclusions reached by the Company for these agreements, when utilizing the principal versus agent indicators under ASC Topic 605, Revenue Recognition ("ASC 605"), where the Company acted as the agent and the midstream processing entity acted as its customer. As a result, the Company modified its presentation of revenues and expenses for these agreements. Revenues related to these agreements are now presented on a gross basis for amounts expected to be received from third-party customers through the marketing process. Transportation and processing costs related to these agreements, incurred prior to the transfer of control to the customer at the tailgate of the natural gas processing facilities, are now presented as Transportation and processing costs on the Company's condensed consolidated statements of operations.

Certain of the Company's contracts for the sale of commodities contain embedded derivatives. The Company has elected to utilize the normal purchases and normal sales scope exception as provided by ASC 815, Derivatives and Hedging.

Revenue from Contracts with Customers

Revenue is measured based on considerations specified in contracts with customers, excluding any sales incentives or amounts collected on behalf of third parties. The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and NGLs are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured. Generally, the pricing provisions in

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the Company's contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas, and prevailing supply and demand conditions. As a result, the prices of the Company's oil, natural gas, and NGLs fluctuate to remain competitive with other available oil, natural gas, and NGLs supplies. The Company reports revenues disaggregated by product on its condensed consolidated statements of operations.

Oil Sales

Oil production is sold at the wellhead and the Company collects an agreed-upon index price, net of pricing differentials. In this scenario, revenue is recognized when control transfers to the purchaser at the wellhead at the net price received by the Company.

Natural Gas and NGLs Sales

Under the Company's natural gas processing contracts, it delivers natural gas to a midstream processing entity at the wellhead or the inlet of the midstream processing entity's system. The midstream processing entity gathers and processes the natural gas and remits proceeds to the Company for the resulting natural gas and NGLs sales. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction, which includes considerations of product redelivery, take-in-kind rights and risk of loss. For those contracts where the Company has concluded that control of the product transfers at the tailgate of the plant, meaning that the Company is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation and processing fees presented as Transportation and processing costs on the Company's condensed consolidated statements of operations. Alternatively, for those contracts where the Company has concluded control of the product transfers at the inlet of the plant, meaning that the Company is the agent and the midstream processing entity is the Company's customer, the Company recognizes natural gas and NGLs sales based on the net amount of proceeds received from the midstream processing. The Company also determined that losses associated with shrinkage and line loss ("FL&U") occur prior to the change in control. As a result, natural gas and NGLs sales are presented net of FL&U costs.

Production Imbalances

Previously, the Company elected to utilize the entitlements method, which is no longer applicable, to account for natural gas production imbalances. The Company now utilizes the sales method to account for natural gas production imbalances; if the Company sells natural gas to a customer in excess of its entitled share of production, the Company is required perform a principal versus agent analysis to determine whether it should record the gross amount of revenue and transportation and processing costs equal to the other owners' interests or recognize the net amount of revenue. In conjunction with the adoption of ASC 606, for the three and six months ended June 30, 2018, there was no material impact to the financial statements due to this change in accounting for production imbalances.

Transaction Price Allocated to Remaining Performance Obligations

A significant number of the Company's product sales are short-term in nature, with a contract term of one year or less. For these contracts, the Company has utilized the practical expedient in ASC 606-10-50-14, which exempts the Company from the requirements to disclose the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC 606-10-50-14(a), which states the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these contracts, each unit of product generally represents a separate performance obligation therefore, future volumes are wholly unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required.

Contract Balances

Under the Company's product sales contracts, the Company invoices customers once performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company's product sales contracts do not give rise to contract assets or liabilities under ASC 606.

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Prior-Period Performance Obligations

The Company records revenue in the month production is delivered to the purchaser. Settlement statements for certain natural gas and NGLs sales, however, may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. In these situations, the Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between the Company's revenue estimates and actual revenue received have historically been insignificant. For the three and six months ended June 30, 2018 and 2017, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material.

NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Commodity Derivative Instruments and Concentration of Risk

Objective and Strategy

The Company enters into multiple types of commodity derivative contracts to (i) reduce the effect of price volatility on the Company's oil and natural gas revenues and (ii) support the Company's annual capital budgeting and expenditure plans.

Oil Production Derivative Activities

The Company's material physical sales contracts governing its oil production are typically correlated with NYMEX WTI oil prices. The Company uses put spread options, three-way collars and two-way collars to manage oil price volatility, and basis swap contracts and rollfactor swap contracts to reduce basis risk between NYMEX WTI prices and the actual index prices at which the oil is sold.

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The following table sets forth the volumes associated with the Company's outstanding oil derivative contracts expiring during the periods indicated and the weighted average oil prices for those contracts:

Crude Options	Six Months Ending December 31, 2018	Year Ending December 31, 2019
Put spreads[1]		
Purchased:		
Puts		
Notional (MBbl)	6,600	8,700
Weighted average strike price	$ 49.67	$ 56.98
Sold:		
Puts		
Notional (MBbl)	(6,600)	(8,700)
Weighted average strike price	$ 39.66	$ 46.98
Three-way collars		
Purchased:		
Puts		
Notional (MBbl)	5,700	3,300
Weighted average strike price	$ 50.00	$ 50.45
Sold:		
Puts		
Notional (MBbl)	(5,700)	(3,300)
Weighted average strike price	$ 40.00	$ 40.45
Calls		
Notional (MBbl)	(5,700)	(3,300)
Weighted average strike price	$ 75.65	$ 80.36
Two-way collars		
Purchased:		
Puts		
Notional (MBbl)	552	—
Weighted average strike price	$ 45.67	$ —
Sold:		
Calls		
Notional (MBbl)	(552)	—
Weighted average strike price	$ 61.31	$ —
Basis swap contracts [2]		
Midland-Cushing index swap volume (MBbl)	2,084	—
Swap price ($/Bbl)	$ (0.86)	$ —
Rollfactor swap contracts [3]		
Midland-Cushing index swap volume (MBbl)	2,760	—

Swap price ($/Bbl)	$ 0.60	—

(1) Excludes 2,444 notional MBbls with a fair value of $11.1 million related to amounts recognized under master netting agreements with derivative counterparties.

(2) Represents swaps th