Parsley Energy, Inc.
Form 10-Q
May 04, 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 March 31, 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 ¨ (Do not check if a smaller reporting company)	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 May 4, 2018, the registrant had 273,944,938 shares of Class A common stock and 42,898,953 shares of Class B common stock outstanding.

Table of Contents

PARSLEY ENERGY, INC.
TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets	7
	Condensed Consolidated Statements of Operations	8
	Condensed Consolidated Statement of Changes in Equity	9
	Condensed Consolidated Statements of Cash Flows	10
	Notes to Condensed Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	51
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	52
Item 1A.	Risk Factors	52
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 6.	Exhibits	52
	Signatures	55

Table of Contents

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.

3

Table of Contents

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.

Table of Contents

(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 used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.

(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:

(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.

Table of Contents

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

	March 31, 2018	December 31, 2017
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$350,762	$554,189
Short-term investments	149,345	149,283
Accounts receivable:		
Joint interest owners and other	49,221	42,174
Oil, natural gas and NGLs	159,314	123,147
Related parties	311	388
Short-term derivative instruments, net	34,563	41,957
Assets held for sale	—	1,790
Other current assets	6,530	6,558
Total current assets	750,046	919,486
PROPERTY, PLANT AND EQUIPMENT		
Oil and natural gas properties, successful efforts method	8,964,262	8,551,314
Accumulated depreciation, depletion and impairment	(938,629)	(822,459)
Total oil and natural gas properties, net	8,025,633	7,728,855
Other property, plant and equipment, net	131,691	106,587
Total property, plant and equipment, net	8,157,324	7,835,442
NONCURRENT ASSETS		
Assets held for sale, net	—	14,985
Long-term derivative instruments, net	25,150	15,732
Other noncurrent assets	8,128	7,553
Total noncurrent assets	33,278	38,270
TOTAL ASSETS	$8,940,648	$8,793,198
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$415,283	$407,698
Revenue and severance taxes payable	124,974	109,917
Current portion of long-term debt	2,388	2,352
Short-term derivative instruments, net	74,675	84,919
Current portion of asset retirement obligations	7,308	7,203
Total current liabilities	624,628	612,089
NONCURRENT LIABILITIES		
Liabilities related to assets held for sale	—	405
Long-term debt	2,179,996	2,179,525
Asset retirement obligations	20,476	19,967
Deferred tax liability	55,730	21,403
Payable pursuant to tax receivable agreement	62,681	58,479
Long-term derivative instruments, net	27,487	20,624
Total noncurrent liabilities	2,346,370	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, 268,550,575 shares issued and 268,112,160 shares outstanding at March 31, 2018 and 252,419,601 shares issued and 252,260,300 shares outstanding at December 31, 2017	2,686	2,524
Class B, $0.01 par value, 125,000,000 shares authorized, 48,731,731 and 62,128,157 shares issued and outstanding at March 31, 2018 and December 31, 2017	487	622
Additional paid in capital	4,911,682	4,666,365
Retained earnings	126,409	43,519
Treasury stock, at cost, 438,415 shares and 159,301 shares at March 31, 2018 and December 31, 2017	(7,200)	(735)
Total stockholders' equity	5,034,064	4,712,295
Noncontrolling interest	935,586	1,168,411
Total equity	5,969,650	5,880,706
TOTAL LIABILITIES AND EQUITY	$8,940,648	$8,793,198

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

7

Table of Contents

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

	Three Months Ended March 31, 2018	2017
	(In thousands, except per share data)	
REVENUES		
Oil sales	$331,103	$169,745
Natural gas sales	17,424	12,467
Natural gas liquids sales	40,620	17,413
Other	3,594	1,233
Total revenues	392,741	200,858
OPERATING EXPENSES		
Lease operating expenses	28,832	17,627
Transportation and processing costs	6,267	—
Production and ad valorem taxes	24,186	11,162
Depreciation, depletion and amortization	121,199	68,970
General and administrative expenses (including stock-based compensation of $5,069 and $4,209 for the three months ended March 31, 2018 and 2017)	34,995	24,042
Exploration and abandonment costs	5,411	2,763
Acquisition costs	4	1,344
Accretion of asset retirement obligations	354	136
Other operating expenses	2,175	2,283
Total operating expenses	223,423	128,327
OPERATING INCOME	169,318	72,531
OTHER INCOME (EXPENSE)		
Interest expense, net	(31,968)	(19,336)
Loss on sale of property	(111)	—
Loss on early extinguishment of debt	—	(3,891)
(Loss) gain on derivatives	(10,793)	24,616
Change in TRA liability	(82)	(20,549)
Interest income	2,123	2,371
Other income	301	950
Total other expense, net	(40,530)	(15,839)
INCOME BEFORE INCOME TAXES	128,788	56,692
INCOME TAX EXPENSE	(23,325)	(18,402)
NET INCOME	105,463	38,290
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(22,573)	(8,848)
NET INCOME ATTRIBUTABLE TO PARSLEY ENERGY, INC. STOCKHOLDERS	$82,890	$29,442
Net income per common share:		
Basic	$0.32	$0.13
Diluted	$0.32	$0.13
Weighted average common shares outstanding:		

Basic	260,654	220,674
Diluted	261,639	221,697

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

Table of Contents

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 equity
	(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	$5,880,706
Exchange of PE Units and Class B Common Stock for Class A Common Stock	13,396	(13,396)	135	(135)	255,398	—	—	—	255,398	(255,398)	—
Change in net deferred tax liability due to exchange of PE Units	—	—	—	—	(15,123)	—	—	—	(15,123)	—	(15,123
Issuance of restricted stock	750	—	8	—	(8)	—	—	—	—	—	—
Vesting of restricted stock units	886	—	8	—	(8)	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	279	(6,465)	(6,465)	—	(6,465
Restricted stock forfeited	—	—	—	—	(40)	—	—	—	(40)	—	(40
Stock-based compensation	—	—	—	—	5,109	—	—	—	5,109	—	5,109
Conversion of restricted stock units to restricted stock awards	1,098	—	11	—	(11)	—	—	—	—	—	—
Net income	—	—	—	—	—	82,890	—	—	82,890	22,573	105,463
Balance at March 31, 2018	268,550	48,732	$2,686	$487	$4,911,682	$126,409	438	$(7,200)	$5,034,064	$935,586	$5,969,650

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

Table of Contents

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

	Three Months Ended March 31, 2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$105,463	$38,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	121,199	68,970
Accretion of asset retirement obligations	354	136
Loss on sale of property	111	—
Loss on early extinguishment of debt	—	3,891
Amortization of deferred loan origination costs	1,189	783
Amortization of bond premium	(129)	(129)
Stock-based compensation	5,069	4,209
Deferred income tax expense	23,325	18,402
Change in TRA liability	82	20,549
Loss (gain) on derivatives	10,793	(24,616)
Net cash paid for derivative settlements	(1,903)	(1,188)
Net cash paid for option premiums	(13,506)	(16,291)
Net premiums paid on options that settled during the period	(16,526)	(4,854)
Other	5,215	118
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(43,214)	(7,025)
Accounts receivable—related parties	77	103
Other current assets	20,361	(85,460)
Other noncurrent assets	(635)	(902)
Accounts payable and accrued expenses	(5,427)	17,676
Revenue and severance taxes payable	15,057	9,363
Net cash provided by operating activities	226,955	42,025
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of oil and natural gas properties	(411,073)	(161,003)
Acquisitions of oil and natural gas properties	(27,447)	(589,286)
Additions to other property and equipment	(28,248)	(10,628)
Proceeds from sales of oil and natural gas properties	43,228	—
Other	349	—
Net cash used in investing activities	(423,191)	(760,917)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under long-term debt	—	451,500
Payments on long-term debt	(694)	(66,328)
Debt issuance costs	(32)	(6,280)
Proceeds from issuance of common stock, net	—	2,123,486
Repurchase of common stock	(6,465)	(112)
Net cash (used in) provided by financing activities	(7,191)	2,502,266
Net (decrease) increase in cash, cash equivalents and restricted cash	(203,427)	1,783,374
Cash, cash equivalents and restricted cash at beginning of period	554,189	136,669

Cash, cash equivalents and restricted cash at end of period	$350,762	$1,920,043
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$29,455	$2,463
Cash paid for income taxes	$—	$200
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Asset retirement obligations incurred, including changes in estimate	$359	$3,501
Additions to oil and natural gas properties - change in capital accruals	$13,013	$27,463
Additions to other property and equipment funded by capital lease borrowings	$491	$881

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

Table of Contents
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 and natural gas 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) an indirect, majority owned subsidiary of Parsley LLC, Pacesetter Drilling, 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 months ended March 31, 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.

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 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 three months ended March 31, 2017 were adjusted to conform to this guidance, which resulted in an increase in cash flows from operating activities of $0.2 million.

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. 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 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 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 does not expect adoption of this guidance to have a significant impact on its condensed consolidated financial statements.

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

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 (in thousands):

	Three Months Ended March 31, 2018		
	ASC 605	Adjustment	ASC 606
Revenues			
Oil sales	$331,103	$ —	$331,103
Natural gas sales [1]	15,586	1,838	17,424
Natural gas liquids sales [1]	36,191	4,429	40,620
Total production revenues	382,880	6,267	389,147
Operating expenses			
Transportation and processing costs	—	6,267	6,267
Production revenues less transportation and processing costs	$382,880	$ —	$382,880
Net income attributable to Parsley, Inc. stockholders	$82,890	$ —	$82,890

(1) Revenues associated with natural gas and NGLs sales at the plant inlet are considered a single combined performance obligation. The above table includes $4.7 million and $10.5 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 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 the normal purchases and normal sales scope exception as provided by ASC 815, Derivatives and Hedging.

13

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

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 Company's contracts' pricing provisions 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 is reporting revenues disaggregated by product on the condensed consolidated statement 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 the 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 months ended March 31, 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.

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 months ended March 31, 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 tied directly to, or 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.

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

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	Nine Months Ending December 31, 2018	Year Ending December 31, 2019
Put spreads[1]		
Purchased:		
Puts		
Notional (MBbl)	7,650	4,200
Weighted average strike price	$ 50.05	$ 52.86
Sold:		
Puts		
Notional (MBbl)	(7,650)	(4,200)
Weighted average strike price	$ 40.05	$ 42.86
Three-way collars		
Purchased:		
Puts		
Notional (MBbl)	10,200	3,300
Weighted average strike price	$ 50.00	$ 50.45
Sold:		
Puts		
Notional (MBbl)	(10,200)	(3,300)
Weighted average strike price	$ 40.00	$ 40.45
Calls		
Notional (MBbl)	(10,200)	(3,300)
Weighted average strike price	$ 72.40	$ 80.36
Two-way collars		
Purchased:		
Puts		
Notional (MBbl)	825	—
Weighted average strike price	$ 45.67	$ —
Sold:		
Calls		
Notional (MBbl)	(825)	—
Weighted average strike price	$ 61.31	$ —
Basis swap contracts [2]		
Midland-Cushing index swap volume (MBbl)	(3,123)	—
Swap price ($/Bbl)	$ (0.86)	$ —
Rollfactor swap contracts [3]		
Midland-Cushing index swap volume (MBbl)	(4,125)	—

Swap price ($/Bbl)	$ 0.60	—

16

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

(1) Excludes 3,663 notional MBbls with a fair value of $3.8 million related to amounts recognized under master netting agreements with derivative counterparties.
(2) Represents swaps that fix the basis differentials between the index prices at which the Company sells its oil produced in the Permian Basin and the Cushing WTI price.
(3) These positions hedge the timing risk associated with the Company's physical sales. The Company generally sells crude oil for the delivery month at a sales price based on the average NYMEX price during that month, plus an adjustment calculated as a spread between the weighted average prices of the delivery month, the next month and the following month during the period when the delivery month is the first month.

Natural Gas Production Derivative Activities

All material physical sales contracts governing the Company's natural gas production are tied directly or indirectly to NYMEX Henry Hub natural gas prices or regional index prices where the natural gas is sold. The Company uses three-way collars and commodity swap contracts to manage natural gas price volatility.

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

Natural Gas	Nine Months Ending December 31, 2018
Three-way collars	
Purchased:	
Puts	
Notional (MMbtu)	2,250,000
Weighted average strike price	$ 3.00
Sold:	
Calls	
Notional (MMbtu)	(2,250,000)
Weighted average strike price	$ 3.60
Puts	
Notional (MMbtu)	(2,250,000)
Weighted Average Strike Price	$ 2.75

Effect of Derivative Instruments on the Condensed Consolidated Financial Statements

All of the Company's derivatives are accounted for as non-hedge derivatives and therefore all changes in the fair values of its derivative contracts are recognized as gains or losses in the earnings of the periods in which they occur. The table below summarizes the Company's gains (losses) on derivative instruments for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31, 2018	2017
Changes in fair value of derivative instruments	$8,606	29,771
Net derivative settlements	(2,873)	(301)
Net premium realization on options that settled during the period	(16,526)	(4,854)
(Loss) gain on derivatives	$(10,793)	$24,616

The Company classifies the fair value amounts of derivative assets and liabilities as gross current or noncurrent derivative assets or gross current or noncurrent derivative liabilities, whichever the case may be, excluding those amounts netted under master netting agreements. The fair value of the derivative instruments is discussed in Note 14—Disclosures about Fair Value of Financial Instruments. The Company has agreements in place with all of its counterparties that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, the Company maintains accounts with its brokers to facilitate financial derivative transactions in support of its risk management activities. Based on the value of the Company's positions in these accounts and the associated margin requirements, the Company may be required to deposit cash into these broker accounts. During the three months ended March 31, 2018 and 2017, the Company did not receive or post any margins in connection with collateralizing its derivative positions.

The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as option premiums payable and receivable as of the reporting dates indicated (in thousands):

	Gross Amount	Netting Adjustments	Net Exposure
March 31, 2018			
Derivative assets with right of offset or master netting agreements	$63,509	$ (3,796)	$59,713
Derivative liabilities with right of offset or master netting agreements	(105,958)	3,796	(102,162)
December 31, 2017			
Derivative assets with right of offset or master netting agreements	$59,132	$ (1,443)	$57,689
Derivative liabilities with right of offset or master netting agreements	(106,986)	1,443	(105,543)

Concentration of Credit Risk

The Company believes that it has limited credit risk with respect to its exchange-traded contracts, as such contracts are subject to financial safeguards and transaction guarantees through NYMEX. Over-the-counter traded options expose the Company to counterparty credit risk. These over-the-counter options are entered into with a large multinational financial institution with an investment grade credit rating or through brokers that require all the transaction parties to collateralize their open option positions. The gross and net credit exposure from the Company's commodity derivative contracts as of March 31, 2018 and December 31, 2017 is summarized in the preceding table.

The Company monitors the creditworthiness of its counterparties, establishes credit limits according to the Company's credit policies and guidelines and assesses the impact on fair values of its counterparties' creditworthiness. The Company typically enters into International Swap Dealers Association Master Agreements ("ISDA Agreements") with its derivative counterparties. The terms of the ISDA Agreements provide the Company and its counterparties and brokers with rights of net settlement of gross commodity derivative assets against gross commodity derivative liabilities. The Company routinely exercises its contractual right to offset realized gains against realized losses when settling with derivative counterparties. If the Company believes a counterparty's creditworthiness has declined or is suspect, it may seek to novate the applicable ISDA Agreement to another financial institution that has an ISDA Agreement in place with the Company. The Company did not incur any losses due to counterparty nonperformance during the three months ended March 31, 2018 or the year ended December 31, 2017.

Credit Risk Related Contingent Features in Derivatives

Certain commodity derivative instruments contain provisions that require the Company to either post additional collateral or collateral support (including letters of credit, security interests in an asset, or a performance bond or guarantee), or immediately settle any outstanding liability balances, upon the occurrence of a specified credit risk related event. These events, which are set forth in the Company's existing commodity derivative contracts, include, among others, downgrades in the credit ratings of the Company and its affiliates, events of default under the Company's revolving credit agreement (the "Revolving Credit Agreement"), and the release of collateral (other than as provided under the terms of the Company's Revolving Credit Agreement). Although the Company could be required to post additional collateral or collateral support, or immediately settle any outstanding liability balances, under such conditions, the Company seeks to reduce its potential risk by entering into commodity derivative contracts with several different counterparties.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following (in thousands):

	March 31, 2018	December 31, 2017
Oil and natural gas properties:		
Subject to depletion	$5,035,001	$4,492,802
Not subject to depletion		
Incurred in 2018	335,895	—
Incurred in 2017	2,447,923	2,837,766
Incurred in 2016 and prior	1,145,443	1,220,746
Total not subject to depletion	3,929,261	4,058,512
Oil and natural gas properties, successful efforts method	8,964,262	8,551,314
Less accumulated depreciation, depletion and impairment	(938,629)	(822,459)
Total oil and natural gas properties, net	8,025,633	7,728,855
Other property, plant and equipment	159,488	131,115
Less accumulated depreciation	(27,797)	(24,528)
Other property, plant and equipment, net	131,691	106,587
Total property, plant and equipment, net	$8,157,324	$7,835,442

Costs subject to depletion are proved costs and costs not subject to depletion are unproved costs and current drilling projects.

As the Company's exploration and development work progresses and the reserves on the Company's properties are proven, capitalized costs attributed to the properties are subject to DD&A. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the associated reservoir. Depletion expense on capitalized oil and natural gas properties was $117.6 million and $66.7 million for the three months ended March 31, 2018 and 2017, respectively. The Company had no exploratory wells in progress at March 31, 2018 or December 31, 2017.

NOTE 5. ACQUISITIONS AND DIVESTITURES

Acquisitions

During the three months ended March 31, 2018, the Company incurred costs of $27.4 million related to the acquisition of leasehold acreage. During the three months ended March 31, 2018, the Company reflected $23.9 million as part of costs not subject to depletion and $3.5 million as part of costs subject to depletion within its oil and natural gas properties.

On April 20, 2017, the Company and Parsley LLC completed the acquisition (the "Double Eagle Acquisition") of all of the interests in Double Eagle Lone Star LLC, DE Operating LLC, and Veritas Energy Partners, LLC (which were subsequently renamed Parsley DE Lone Star LLC, Parsley DE Operating LLC, and Parsley Veritas Energy Partners, LLC, respectively) from Double Eagle Energy Permian Operating LLC ("DE Operating"), Double Eagle Energy Permian LLC ("DE Permian"), and Double Eagle Energy Permian Member LLC (together with DE Operating and DE Permian, "Double Eagle"), as well as certain related transactions with an affiliate of Double Eagle. The aggregate consideration for the Double Eagle Acquisition, following post-closing adjustments, was $2,579.1 million, which consisted of (i) approximately $1,395.6 million in cash and (ii) 39,848,518 units of PE Units and a corresponding 39,848,518 shares of the Company's Class B common stock, par value $0.01 per share ("Class B Common Stock"). Of the aggregate consideration transferred, approximately $172.3 million in cash and 4,921,557 PE Units (and a corresponding 4,921,557 shares of Class B Common Stock) were deposited in an indemnity holdback escrow account. On April 16, 2018, approximately $138.4 million and 3,937,246 PE Units (and a corresponding 3,937,246 shares of

Class B Common Stock) were released from the indemnity holdback escrow account.

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

The Company is in the process of identifying and determining the fair values of the assets acquired and liabilities assumed, pursuant to the Double Eagle Acquisition, and, as a result, the estimates for fair value are subject to change. The Company anticipates certain changes, including, but not limited to, adjustments to working capital that are expected to be finalized prior to the measurement period’s expiration. The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed as a result of the Double Eagle Acquisition (in thousands):

Cash	$2,469
Receivables	20,756
Derivatives	3,970
Proved oil and natural gas properties	353,000
Unproved oil and natural gas properties	2,257,266
Total assets acquired	2,637,461
Accounts payable	(48,179)
Deferred tax liability	(10,167)
Total liabilities assumed	(58,346)
Estimated fair value of net assets acquired	$2,579,115

The Company has included in its condensed consolidated statements of operations revenues of $33.6 million and earnings of $29.3 million for the three months ended March 31, 2018 associated with the Double Eagle Acquisition.

Divestitures

During the three months ended March 31, 2018, the Company sold 45,438 gross (4,409.1 net) acres for total proceeds of $43.2 million, subject to customary purchase price adjustments. As of December 31, 2017, the Company classified certain of these assets as held for sale. Upon closing the sale, the Company recognized no gain or loss in accordance with the guidance for partial sales of oil and natural gas properties under ASC Topic 932, Extractive Activities—Oil and Gas.

NOTE 6. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations relate to future plugging and abandonment expenses on oil and natural gas properties and related facilities disposal.

The following table summarizes the changes in the Company’s asset retirement obligations for the three months ended March 31, 2018 (in thousands):

	March 31, 2018
Asset retirement obligations, beginning of period	$27,170
Additional liabilities incurred	359
Accretion expense	354
Liabilities settled upon plugging and abandoning wells	(25)
Disposition of wells	(74)
Asset retirement obligations, end of period	$27,784

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

NOTE 7. DEBT

The Company's debt consisted of the following as of the dates indicated (in thousands):

	March 31, 2018	December 31, 2017
Revolving Credit Agreement	$—	$—
6.250% senior unsecured notes due 2024	400,000	400,000
5.375% senior unsecured notes due 2025	650,000	650,000
5.250% senior unsecured notes due 2025	450,000	450,000
5.625% senior unsecured notes due 2027	700,000	700,000
Capital leases	4,707	4,906
Total debt	2,204,707	2,204,906
Debt issuance costs on senior unsecured notes	(25,506)	(26,341)
Premium on senior unsecured notes	3,183	3,312
Less: current portion	(2,388)	(2,352)
Total long-term debt	$2,179,996	$2,179,525

Redemption of 2022 Notes

On December 6, 2016, Parsley LLC and Parsley Finance Corp. ("Finance Corp."), each a subsidiary of the Company, issued a conditional notice of redemption to redeem any and all of their 7.500% senior unsecured notes due 2022 (the "2022 Notes") that remained outstanding following the consummation of a cash tender offer. In connection therewith, on January 5, 2017, Parsley LLC and Finance Corp. redeemed the $61.8 million aggregate principal amount of the 2022 Notes that remained outstanding and made a cash payment of $67.5 million to the remaining holders of the 2022 Notes, which included principal of $61.8 million, prepayment premium on the extinguishment of debt of $3.9 million and accrued interest of $1.8 million.

On January 6, 2017, the indenture, as supplemented, dated as of February 5, 2014, by and among Parsley LLC, Finance Corp., certain subsidiaries of Parsley LLC, as guarantors, and U.S. Bank National Association, as trustee, governing the 2022 Notes was satisfied and discharged. The 2022 Notes were scheduled to mature on February 15, 2022.

Revolving Credit Agreement

As of March 31, 2018, the borrowing base under the Revolving Credit Agreement was $1.8 billion, with a commitment level of $1.0 billion. There were no borrowings outstanding and $8.9 million in letters of credit outstanding as of March 31, 2018, resulting in availability of $991.1 million. The amount Parsley LLC is able to borrow under the Revolving Credit Agreement is subject to compliance with the financial covenants, satisfaction of various conditions precedent to borrowing and other provisions of the Revolving Credit Agreement. See Note 15—Subsequent Events for information regarding the terms of the Sixth Amendment to the Revolving Credit Agreement, which was entered into on April 30, 2018.

As of March 31, 2018, letters of credit under the Revolving Credit Agreement bear a 1.5% weighted average interest rate.

Covenant Compliance

The Revolving Credit Agreement and the indentures governing the 5.625% senior unsecured notes due 2027 (the "2027 Notes"), 5.250% senior unsecured notes due 2025 (the "New 2025 Notes"), the 5.375% senior unsecured notes due 2025 (the "2025 Notes"), and the 6.250% senior unsecured notes due 2024 (the "2024 Notes" and, together with the 2027 Notes, the New 2025 Notes and the 2025 Notes, the "Notes") restrict the Company's ability and the ability of certain of its subsidiaries to, among other things: (i) incur or guarantee additional indebtedness or issue certain types of preferred stock; (ii) pay dividends on capital stock or redeem, repurchase or retire its capital stock or subordinated indebtedness; (iii) transfer or sell assets; (iv) make investments; (v) create certain liens; (vi) enter into agreements that restrict its restricted subsidiaries from issuing dividends or making other payments to the Company; (vii) consolidate, merge or transfer all or substantially all of its assets; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications. If at any time the Notes are rated investment grade by either Moody’s Investors Service, Inc. or

Standard & Poor’s Ratings Services and no default or event of default (as defined in the indentures) has occurred and is continuing, many of the foregoing covenants pertaining to the Notes will be suspended. If the ratings on the Notes were to subsequently decline to below investment grade, the suspended covenants would be reinstated.

As of March 31, 2018, the Company was in compliance with all required covenants under the Revolving Credit Agreement and each of the indentures governing the Notes.

Principal Maturities of Debt

Principal maturities of debt outstanding at March 31, 2018 are as follows (in thousands):

2018	$1,822
2019	2,057
2020	754
2021	57
2022	17
Thereafter	2,200,000
Total	$2,204,707

Interest Expense

The following amounts have been incurred and charged to interest expense for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Cash payments for interest	$29,455	$2,463
Change in interest accrual	1,453	16,219
Amortization of deferred loan origination costs	1,189	783
Amortization of bond premium	(129)	(129)
Total interest expense, net	$31,968	$19,336

NOTE 8. EQUITY

Earnings per Share

Basic earnings per share (“EPS”) measures the performance of an entity over the reporting period. Diluted earnings per share measures the performance of an entity over the reporting period while giving effect to all potentially dilutive common shares that were outstanding during the period. The Company uses the “if-converted” method to determine the potential dilutive effect of exchanges of outstanding PE Units (and corresponding shares of its outstanding Class B Common Stock), and the treasury stock method to determine the potential dilutive effect of vesting of its outstanding restricted stock and restricted stock units. For the three months ended March 31, 2018 and 2017, Class B Common Stock was not recognized in dilutive earnings per share calculations as the effect would have been antidilutive.

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

The following table reflects the allocation of net income to common stockholders and EPS computations for the periods indicated based on a weighted average number of common stock outstanding for the period:

	Three Months Ended March 31,	
	2018	2017
Basic EPS (in thousands, except per share data)		
Numerator:		
Basic net income attributable to Parsley Energy, Inc. Stockholders	$82,890	$29,442
Denominator:		
Basic weighted average shares outstanding	260,654	220,674
Basic EPS attributable to Parsley Energy, Inc. Stockholders	$0.32	$0.13
Diluted EPS		
Numerator:		
Net income attributable to Parsley Energy, Inc. Stockholders	82,890	29,442
Diluted net income attributable to Parsley Energy, Inc. Stockholders	$82,890	$29,442
Denominator:		
Basic weighted average shares outstanding	260,654	220,674
Effect of dilutive securities:		
Time-Based Restricted Stock and Time-Based Restricted Stock Units	985	1,023
Diluted weighted average shares outstanding (1)	261,639	221,697
Diluted EPS attributable to Parsley Energy, Inc. Stockholders	$0.32	$0.13

(1) As of March 31, 2018 and 2017, there were 1,356,522 performance-based restricted stock awards (“PSAs”) and 640,062 performance-based restricted stock units (“PSUs”), respectively, that could vest in the future based on predetermined performance and market goals. These units were not included in the computation of EPS for the three months ended March 31, 2018 and 2017, respectively, because the performance and market conditions had not been met, assuming the end of the reporting period was the end of the contingency period.

Noncontrolling Interest

As a result of the equity offerings completed by the Company in 2017, the consummation of the Double Eagle Acquisition and exchanges by holders of PE Units (the “PE Unit Holders”), during 2017, the Company’s ownership of Parsley LLC decreased from 86.5% to 80.2% and the PE Unit Holders’ ownership of Parsley LLC increased from 13.5% to 19.8%.

During the three months ended March 31, 2018, certain PE Unit Holders exercised their exchange right under the Second Amended and Restated Limited Liability Company Agreement of Parsley LLC (the “Parsley LLC Agreement”), collectively electing to exchange an aggregate of 13,396,526 PE Units (and a corresponding number of shares of Class B Common Stock) for an aggregate of 13,396,526 shares of the Company’s Class A common stock, par value $0.01 per share (“Class A Common Stock”). In turn, the Company exercised its call right under the Parsley LLC Agreement, electing to issue Class A Common Stock directly to each of the exchanging PE Unit Holders in satisfaction of their election notices. As a result of these exchanges of PE Units (and corresponding shares of Class B Common Stock) for shares of Class A Common Stock during the three months ended March 31, 2018, the Company’s ownership in Parsley LLC increased from 80.2% to 84.6% and the ownership of the PE Unit Holders in Parsley LLC decreased from 19.8% to 15.4%.

Because these changes in the Company’s ownership interest in Parsley LLC did not result in a change of control, the transactions were accounted for as equity transactions under ASC Topic 810, Consolidation, which requires that any differences between the carrying value of the Company’s basis in Parsley LLC and the fair value of the consideration received are recognized directly in equity and attributed to the controlling interest.

The Company has consolidated the financial position and results of operations of Parsley LLC and reflected that portion retained by the PE Unit Holders as a noncontrolling interest.

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

The following table summarizes the noncontrolling interest income (loss):

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Net income (loss) attributable to the noncontrolling interests of:		
Parsley LLC	$22,415	$9,007
Pacesetter Drilling, LLC	158	(159)
Total net income attributable to noncontrolling interest	$22,573	$8,848

NOTE 9. STOCK-BASED COMPENSATION

In connection with the Company's initial public offering (the "IPO"), the Company adopted the Parsley Energy, Inc. 2014 Long Term Incentive Plan for employees, consultants, and directors of the Company who perform services for the Company. Refer to "Compensation Discussion and Analysis—Elements of Compensation—Incentive Compensation" in the Company's Proxy Statement filed on Schedule 14A for the 2018 Annual Meeting of Stockholders for additional information related to this equity based compensation plan.

On February 12, 2018, the PSUs granted in 2016 and 2017 were converted into PSAs at 200% of the target payout for such awards. Similarly, certain of the time-based restricted stock units ("RSUs") granted in 2016 were also converted to time-based restricted stock awards ("RSAs") on February 12, 2018. As converted, the PSAs and RSAs are intended to be economically identical to the pre-conversion awards with the same material terms and conditions, including vesting schedules and performance criteria.

Stock-based compensation expense recorded for each type of stock-based compensation award for the three months ended March 31, 2018 and 2017 is as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Time-based restricted stock	$1,888	$1,117
Time-based restricted stock units	1,655	1,791
Performance-based restricted stock awards (1)	1,526	1,301
Total stock-based compensation	$5,069	$4,209

(1) Includes stock based compensation expense related to historical performance-based stock units.

Stock-based compensation is included in General and administrative expenses in the Company's condensed consolidated statements of operations included within this Quarterly Report. There was approximately $37.5 million of unamortized compensation expense relating to outstanding RSAs, RSUs, and PSAs at March 31, 2018. The unrecognized compensation expense will be recognized on a straight-line basis over the remaining vesting periods of the awards, which is a period of less than three years on a weighted average basis.

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

The following table summarizes the Company’s time-based restricted stock, time-based restricted stock unit, and performance-based restricted stock award activity for the three months ended March 31, 2018 (in thousands):

	Time-Based Restricted Stock (RSAs)	Time-Based Restricted Stock Units (RSUs)	Performance-Based Restricted Stock Units (PSUs)	Performance-Based Restricted Stock Awards (PSAs)
Outstanding at January 1, 2018	779	1,200	640	—
Granted [(1)]	250	279	—	500
Converted	242	(242)	(428)	856
Vested	—	(462)	(212)	