Parsley Energy, Inc.
Form 10-Q
November 06, 2015

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 September 30, 2015

or

¨ 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 (State or other jurisdiction of incorporation or organization)	46-4314192 (I.R.S. Employer Identification No.)
303 Colorado Street, Suite 3000	78701

Austin, Texas
(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 November 6, the registrant had 123,712,043 shares of Class A common stock and 32,145,296 shares of Class B common stock outstanding.

PARSLEY ENERGY, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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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 keep in mind the risk factors and other cautionary statements described under, but not limited to, the heading "Item 1A. Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report") and other filings with the United States Securities and Exchange Commission ("SEC"). These forward-looking statements are based on management's current belief, 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 in the forward-looking statements.

GLOSSARY OF CERTAIN TERMS AND CONVENTIONS USED HEREIN

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

“Bbl.” One stock tank barrel, of 42 United States gallons liquid volume, used in reference to crude oil, condensate or natural gas liquids.

“Boe.” One barrel of oil equivalent, with 6,000 cubic feet of natural gas being equivalent to one barrel of oil.

“Boe/d.” One barrel of oil equivalent per day.

“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.

“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.

“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.

“development well.” A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

“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.

“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).

“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.

“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.

“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. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations. For a complete definition of field, refer to the SEC’s Regulation S-X, Rule 4-10(a)(15).

“formation.” A layer of rock which has distinct characteristics that differ from nearby rock.

“GAAP.” Accounting principles generally accepted in the United States.

“gross acres” or “gross wells.” The total acres or wells, as the case may be, in which an entity owns a working interest.

“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.

"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.

"LIBOR." London Interbank Offered Rate.

"MBbl." One thousand barrels of crude oil, condensate or NGLs.

"MBoe." One thousand barrels of oil equivalent.

"Mcf." One thousand cubic feet of natural gas.

"MMBtu." One million British thermal units.

"MMcf." One million cubic feet of natural gas.

"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.

"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 50% interest in 100 gross acres owns 50 net acres.

"NYMEX." The New York Mercantile Exchange.

"operator." The entity responsible for the exploration, development and production of a well or lease.

"PE Units." The single class of units, in which all of the membership interests (including outstanding incentive units) in Parsley Energy, LLC were converted to in connection with our initial public offering.

“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.

“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, the project 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).

“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.

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.

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.

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.

“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).

“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 or increase existing production.

“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.

“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.

“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.

“SEC.” The United States Securities and Exchange Commission.

“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.

“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.

“we,” “our,” “us” or like terms refer to Parsley Energy, Inc., either individually or together with its subsidiaries, as the context requires.

“wellbore.” The hole drilled by the bit that is equipped for oil or gas production on a completed well. Also called well or borehole.

“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.

“workover.” Operations on a producing well to restore or increase production.

“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.

PART 1: FINANCIAL INFORMATION

Item 1: Financial Statements

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED BALANCE SHEETS

(Unaudited)

	September 30, 2015	December 31, 2014
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$123,118	$50,550
Accounts receivable:		
Joint interest owners and other	20,676	37,620
Oil and gas	23,194	22,700
Related parties	587	4,065
Short-term derivative instruments	58,404	80,911
Materials and supplies	—	3,767
Other current assets	7,137	4,548
Total current assets	233,116	204,161
PROPERTY, PLANT AND EQUIPMENT, AT COST		
Oil and natural gas properties, successful efforts method	2,248,655	1,872,616
Accumulated depreciation, depletion and amortization	(252,350)	(128,044)
Total oil and natural gas properties, net	1,996,305	1,744,572
Other property, plant and equipment, net	34,703	16,290
Total property, plant and equipment, net	2,031,008	1,760,862
NONCURRENT ASSETS		
Long-term derivative instruments	42,302	70,805
Deferred loan costs, net	11,600	12,943
Other noncurrent assets	3,245	2,308
Total noncurrent assets	57,147	86,056
TOTAL ASSETS	$2,321,271	$2,051,079
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$158,006	$139,922
Revenue and severance taxes payable	36,797	38,366
Current portion of long-term debt	868	650
Short-term derivative instruments	20,149	29,326
Current deferred tax liability	13,556	12,601
Current portion of asset retirement obligations	5,023	—
Total current liabilities	234,399	220,865

NONCURRENT LIABILITIES		
Long-term debt	556,161	676,845
Asset retirement obligations	15,042	16,207
Deferred tax liability	58,115	62,334
Payable pursuant to tax receivable agreement	50,689	50,689
Long-term derivative instruments	23,969	31,275
Other noncurrent liabilities	—	375
Total noncurrent liabilities	703,976	837,725
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, 123,817,542 issued and 123,721,449 outstanding at September 30, 2015 and 93,937,947 issued and 93,901,208 outstanding at December 31, 2014	1,230	932
Class B, $0.01 par value, 125,000,000 shares authorized, 32,145,296 issued and outstanding at September 30, 2015 and at December 31, 2014	321	321
Additional paid in capital	1,041,988	644,636
Retained earnings	26,108	61,352
Treasury Stock, at cost, 96,093 shares at September 30, 2015 and 36,739 at December 31, 2014	(77)	—
Total stockholders' equity	1,069,570	707,241
Noncontrolling interest	313,326	285,248
Total equity	1,382,896	992,489
TOTAL LIABILITIES AND EQUITY	$2,321,271	$2,051,079

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
REVENUES				
Oil sales	$51,670	$63,345	$158,776	$170,908
Natural gas sales	7,060	8,296	20,712	23,068
Natural gas liquids sales	5,504	11,976	17,817	29,675
Total revenues	64,234	83,617	197,305	223,651
OPERATING EXPENSES				
Lease operating expenses	15,131	10,507	49,993	27,193
Production and ad valorem taxes	3,471	5,543	13,397	14,026
Depreciation, depletion and amortization	46,085	20,370	127,873	59,208
General and administrative expenses	14,046	9,910	38,088	24,798
Exploration costs	3,824	—	8,558	—
Acquisition costs	—	2,524	—	2,524
Stock based compensation	2,102	910	5,855	52,292
Accretion of asset retirement obligations	187	145	657	354
Rig termination	—	—	8,970	—
Other operating expenses	233	—	256	—
Total operating expenses	85,079	49,909	253,647	180,395
Gain on sale of property	1,300	—	2,331	—
OPERATING INCOME (LOSS)	(19,545)	33,708	(54,011)	43,256
OTHER INCOME (EXPENSE)				
Interest expense, net	(10,966)	(10,014)	(33,176)	(27,848)
Prepayment premium on extinguishment of debt	—	—	—	(5,107)
Derivative income (loss)	34,290	11,767	23,699	(8,262)
Other income (expense)	(579)	165	1,260	425
Total other income (expense), net	22,745	1,918	(8,217)	(40,792)
INCOME (LOSS) BEFORE INCOME TAXES	3,200	35,626	(62,228)	2,464
INCOME TAX BENEFIT (EXPENSE)	(557)	(9,372)	15,133	(11,711)
NET INCOME (LOSS)	2,643	26,254	(47,095)	(9,247)
LESS: NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(1,734)	(9,387)	11,851	(10,544)
NET INCOME (LOSS) ATTRIBUTABLE TO PARSLEY ENERGY, INC. STOCKHOLDERS	$909	$16,867	$(35,244)	$(19,791)
Net income (loss) per common share:				
Basic	$0.01	$0.18	$(0.33)	$(0.47)

Diluted	$0.01	$0.18	$(0.33)	$(0.47)
Weighted average common shares outstanding:				
Basic	109,218	93,168	106,212	42,319
Diluted	109,592	125,421	106,212	42,319

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED 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, 2014	93,937	32,145	$932	$321	$644,636	$61,352	37	$—	$707,241	$285,248	$992,489
Issuance of Class A Common Stock, net of underwriters discount and expenses	29,836	—	298	—	440,702	—	—	—	441,000	—	441,000
Change in equity due to issuance of PE Units by Parsley LLC	—	—	—	—	(37,337)	—	—	—	(37,337)	37,337	—
Increase in net deferred tax liability due to issuance of PE Units by Parsley LLC	—	—	—	—	(11,868)	—	—	—	(11,868)	—	(11,868)
Initial noncontrolling	—	—	—	—	—	—	—	—	—	2,592	2,592

interest allocation attributable to Pacesetter											
Issuance of restricted stock	42	—	—	—	—	—	—	—	—	—	—
Restricted stock forfeited	—	—	—	—	(235)	—	59	(71)	(306)	—	(306)
Vesting of restricted stock unit	2	—	—	—	—	—	—	(6)	(6)	—	(6)
Stock based compensation	—	—	—	—	6,090	—	—	—	6,090	—	6,090
Net loss	—	—	—	—	—	(35,244)	—	—	(35,244)	(11,851)	(47,095)
Balance at September 30, 2015	123,817	32,145	$1,230	$321	$1,041,988	$26,108	96	$(77)	$1,069,570	$313,326	$1,382,896

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2015	2014
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(47,095)	$(9,247)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	127,873	59,208
Accretion of asset retirement obligations	657	354
Non-cash exploration costs	2,867	—
Gain on sale of oil and natural gas properties	(4,255)	—
Loss on sale of other property and equipment	1,924	—
Amortization of deferred loan origination costs	1,593	1,406
Write-off of deferred loan origination costs	532	—
Amortization of bond premium	(573)	(382)
Payment-in-kind interest	—	234
Provision for deferred income taxes	(15,133)	11,711
Stock based compensation	5,855	52,292
Derivative (income) loss	(23,699)	8,262
Net cash received for derivative settlements	32,054	793
Net cash received (paid) for option premiums	25,706	(24,044)
Net premiums received (paid) on options that settled during the period	7,130	(5,441)
Net cash paid to margin account	—	202
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	16,450	31,226
Materials and supplies	3,767	(937)
Other current assets	(9,023)	4,830
Other noncurrent assets	(937)	(10,269)
Accounts payable and accrued expenses	(16,748)	(56,999)
Revenue and severance taxes payable	(1,569)	10,897
Other noncurrent liabilities	(374)	—
Amounts due from related parties	3,478	4
Net cash provided by operating activities	110,480	74,100
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of oil and natural gas properties	(282,171)	(309,803)
Acquisitions of oil and natural gas properties	(64,921)	(622,560)
Acquisition of Pacesetter	(2,408)	—
Additions to other property and equipment	(19,690)	(2,978)
Proceeds from sale of oil and natural gas properties	10,448	—
Proceeds from sale of other property and equipment	1,199	—
Net cash used in investing activities	(357,543)	(935,341)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under long-term debt	105,000	826,632
Payments on long-term debt	(225,510)	(700,888)
Debt issue costs	(782)	(12,161)
Proceeds from issuance of common stock, net	441,000	867,750
Vesting of restricted stock	(6)	—
Purchases of restricted stock	(71)	—
Payment of Preferred Return	—	(6,726)
Net cash provided by financing activities	319,631	974,607
Net increase in cash and cash equivalents	72,568	113,366
Cash and cash equivalents at beginning of period	50,550	19,393
Cash and cash equivalents at end of period	$123,118	$132,759
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$41,791	$26,025
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Asset retirement obligations incurred, including changes in estimate	$3,201	$5,699
Additions to oil and natural gas properties - change in capital accruals	$34,832	$49,734
Additions to other property and equipment funded by capital lease borrowings	$616	$1,613

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

September 30, 2015

(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 on December 11, 2013, pursuant to the laws of the State of Delaware, and 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.

Private Placement of Common Stock

On February 5, 2015, the Company entered into an agreement to sell 14,885,797 shares of its Class A common stock, par value $0.01 per share ("Class A Common Stock"), in a private placement (the "Private Placement") at a price of $15.50 per share to selected institutional investors. The Private Placement closed on February 11, 2015, and resulted in gross proceeds of approximately $230.7 million to the Company and net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately $224.0 million.

Upon completion of the Private Placement, the Company contributed all of the net proceeds to Parsley Energy, LLC ("Parsley LLC") in exchange for 14,885,797 PE Units. As a result, the Company's ownership of Parsley LLC increased to 77.2%, with the remaining holders' of PE Units (the "PE Unit Holders") ownership of Parsley LLC decreasing to 22.8%.

Pacesetter Drilling, LLC

On April 21, 2015, Parsley Energy Operations, LLC ("Operations"), established a limited liability company, Pacesetter Drilling, LLC ("Pacesetter"), as a wholly owned subsidiary. On June 15, 2015, Pacesetter entered into an asset purchase agreement with an oilfield drilling company to acquire certain property, equipment, and other assets (the "Pacesetter Acquisition"). The Pacesetter Acquisition was accounted for using the acquisition method under Accounting Standards Codification ("ASC") Topic 805, "Business Combinations." Operations and Pacesetter's President contributed cash in exchange for ownership in Pacesetter. Pacesetter then paid total consideration of $7.0 million for its interest in the purchased assets, of which $4.4 million was allocated to Operations and $2.6 million was allocated to the noncontrolling interest. As a result of the Pacesetter Acquisition, Operations has a 63.0% interest in Pacesetter.

Public Offering of Common Stock

On September 18, 2015, the Company entered into an agreement to sell 14,950,000 shares of its Class A Common Stock (including 1,950,000 shares issued pursuant to the underwriters' option to purchase additional shares) at a price of $15.00 per share in an underwritten public offering (the "September Offering"). The September Offering resulted in gross proceeds of approximately $224.3 million to the Company and net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately $217.0 million. A portion of the net proceeds were used to repay borrowings outstanding under the Company's amended and restated credit agreement (as amended, the "Revolving Credit Agreement") with Wells Fargo Bank, National Association, as the administrative agent, and the remainder of the net proceeds are expected to be used to fund a portion of the Company's capital program, which may include acquisitions.

Upon completion of the September Offering, the Company contributed all of the net proceeds to Parsley LLC in exchange for 14,950,000 PE Units. As a result, the Company's ownership of Parsley LLC increased to 79.4%, with the PE Unit Holders' ownership of Parsley LLC decreasing to 20.6%.

NOTE 2. BASIS OF PRESENTATION

These condensed consolidated and combined financial statements include the accounts of the Company and its majority-owned subsidiary, Parsley LLC, and its wholly owned subsidiaries: (i) Parsley Energy, L.P. ("Parsley LP"), (ii) Parsley Energy Management, LLC (the "General Partner"), (iii) Operations, and its wholly owned subsidiary, Parsley Energy Aviation, LLC, and (iv) Parsley Finance Corp ("Finance Corp"). These condensed consolidated and combined financial statements also include the accounts of Pacesetter, a majority-owned subsidiary of Operations. Parsley LP owns 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.

PARSLEY ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

September 30, 2015

(Unaudited)

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. We believe the disclosures made are adequate to make the information not misleading. We recommend that these condensed consolidated and combined financial statements should be read in conjunction with Parsley LLC's audited condensed consolidated and combined financial statements and related notes thereto included in the Annual Report.

In the opinion of management, 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 nine month periods ending September 30, 2015, are not necessarily indicative of the operating results of the entire fiscal year ending December 31, 2015.

Significant Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Actual results could differ from those estimates. For a complete description of the Company's significant accounting policies and critical estimates, see Note 3—Summary of Significant Accounting Policies in the Annual Report.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market and consists of oil and gas drilling or repair items such a tubing, casing and pumping units. These items are primarily acquired for use in future drilling or repair operations and are carried at lower of cost or market. "Market," in the context of valuation, represents net realizable value, which is the amount that the Company is allowed to bill to the joint account under joint operating agreements to which the Company is a party. During 2015, the Company made significant materials and supplies purchases and evaluated assets based on current operations. The Company determined that these materials and supplies would not be utilized in the current year and therefore reclassified them to noncurrent assets as non-depreciable other property, plant and equipment.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current presentation. These reclassifications include the reclassification of a one-time non-cash compensation expense of $51.1 million from Incentive Unit Compensation to Stock Based Compensation on the condensed consolidated and combined Statement of Operations and condensed consolidated and combined Statement of Cash Flows for the nine months ended September 30, 2014. These reclassifications also include the reclassification of NGLs sales of $5.5 million and $17.8 million from Natural Gas Sales to Natural Gas Liquids Sales on the condensed consolidated and combined Statement of Operations for the three and nine months ended September 30, 2014.

Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard will be effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated and combined 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 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the analysis to be performed in determining whether certain types of legal entities should be consolidated. Under the revised guidance, all legal entities are subject to reevaluation under the revised consolidation model, unless a scope exception applies. Though the revised guidance mostly affects asset managers, all reporting entities involved with limited partnerships or similar entities are required to reevaluate such entities for consolidation. The guidance is effective for public business entities for fiscal years and for interim periods within those fiscal years beginning after December 15, 2015. The amended guidance will not materially affect the Company’s condensed consolidated and combined financial statements or notes to the condensed consolidated and combined financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, as part of its simplification initiative to reduce the cost and complexity in accounting standards. The ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. The treatment is consistent with the current presentation of debt discounts or premiums. For public business entities, the guidance is effective for financial statements covering fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amended guidance must be applied on a retrospective basis and will not materially affect the Company's condensed consolidated and combined financial statements or notes to the condensed consolidated and combined financial statements.

In May 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities that value inventory using the first-in, first-out or average cost method to measure inventory at the lower of cost and net realizable value. For public business entities, the amended guidance is effective for fiscal years beginning after December 15, 2016, and for interim periods within those years. The amended guidance must be applied on a prospective basis and is not expected to materially affect the Company's condensed consolidated and combined financial statements or notes to the condensed consolidated and combined financial statements.

NOTE 3. DERIVATIVE FINANCIAL INSTRUMENTS

Commodity Derivative Instruments and Concentration of Risk

Objective and Strategy

The Company utilizes commodity swap contracts, three-way collars, and put spread options to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects.

Derivative Activities

Oil production derivative activities. All material physical sales contracts governing the Company's oil production are tied directly to, or are highly correlated with, NYMEX WTI oil prices. The Company uses derivative contracts to manage oil price volatility and basis swap contracts to reduce basis risk between NYMEX prices and the actual index prices at which the oil is sold.

The following table sets forth the volumes associated with the Company's outstanding oil derivative contracts as of September 30, 2015 and the weighted average oil prices for those contracts:

Crude Options	Three Months Ending December 31, 2015	Year Ending December 31, 2016	2017
Purchased:			
Puts (1)			
Notional (MBbl)	1,140	7,470	2,202
Weighted Average Strike Price	$ 54.28	$53.56	$58.19
Sold:			
Puts (1)			
Notional (MBbl)	(1,140)	(7,470)	(2,202)
Weighted Average Strike Price	$ 35.99	$37.91	$40.00
Basis swap contracts: (2)			
Midland-Cushing index swap volume (MBbl) (3)	—	780	2,100
Price differential ($/Bbl)	$ —	$(1.39)	$(1.66)

(1) The Company excluded from the tables herein 10,640 notional MBbls with a fair value of $244.2 million related to amount 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.

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(3) During the second quarter of 2015, the Company entered into basis swap contracts for 2,880 MBbls of the Company’s 2016 and 2017 production with a negative price differential ranging from $1.35 per MBbl to $1.70 per MBbl between the Midland WTI price index and the Cushing WTI price index.

During 2015, the Company has periodically elected to lower certain strike prices for both long and short put positions. By lowering the strike prices for the put spreads, the Company collected approximately $4.8 million of cash for 4,110 notional MBbls during the three months ended September 30, 2015, which is reflected in its quarter-end cash balance. The Company collected approximately $45.6 million for 8,415 notional MBbls during the nine months ended September 30, 2015.

Gas production derivative activities. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to NYMEX Henry Hub ("HH") gas prices or regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and the actual index prices at which the gas is sold.

The following table sets forth the volumes per day associated with the Company's outstanding gas derivative contracts as of September 30, 2015 and the weighted average gas prices for those contracts:

Natural Gas	Three Months Ending December 31, 2015
Purchased:	
Puts	
Notional (MMbtu)	600
Weighted Average Strike Price	$ 4.50
Sold:	
Puts	
Notional (MMbtu)	(600)
Weighted Average Strike Price	$ 3.75
Calls	
Notional (MMbtu)	(600)
Weighted Average Strike Price	$ 5.25

Effect of Derivative Instruments on the Condensed Consolidated and Combined 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 Company recognized income from its derivative activities of $34.3 million and $11.8 million for the three months ended September 30, 2015 and 2014, respectively. The Company recognized income from its derivative activities of $23.7 million and a loss of $8.3 million for the nine months ended September 30, 2015 and 2014, respectively. These gains and losses are included in the Condensed Consolidated and Combined Statements of Operations line item, Derivative income (loss).

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 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 and nine months ended September 30, 2015, the Company did not receive or post any margins in connection with collateralizing its derivative positions. During the year ended December 31, 2014, the Company received and posted margins with some of its counterparties to collateralize certain derivative positions.

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The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as cash collateral on deposit with the brokers as of the reporting dates indicated (in thousands):

	Gross Amount Presented on Balance Sheet	Netting Adjustments	Cash Collateral Posted (Received)	Net Exposure
September 30, 2015				
Derivative assets with right of offset or master netting agreements	$ 100,706	$ (44,118)	$ —	$ 56,588
Derivative liabilities with right of offset or master netting agreements	(44,118)	44,118	—	—
December 31, 2014				
Derivative assets with right of offset or master netting agreements	$ 151,716	$ (60,601)	$ —	$ 91,115
Derivative liabilities with right of offset or master netting agreements	(60,601)	60,601	—	—

Credit Risk Related Contingent Features in Derivatives

Certain commodity derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk related event. These events, which are defined by the existing commodity derivative contracts, are primarily downgrades in the credit ratings of the Company and its affiliates. None of the Company's commodity derivative instruments were in a net liability position with respect to any individual counterparty at September 30, 2015 and December 31, 2014.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
Oil and natural gas properties:		
Subject to depletion	$1,624,943	$1,248,376
Not subject to depletion-acquisition costs		
Incurred in 2015	102,059	—
Incurred in 2014	473,359	562,046
Incurred in 2013 and prior	48,294	62,194
Total not subject to depletion	623,712	624,240
Gross oil and natural gas properties	2,248,655	1,872,616
Less accumulated depreciation and depletion	(252,350)	(128,044)
Oil and natural gas properties, net	1,996,305	1,744,572
Other property and equipment	41,066	19,177
Less accumulated depreciation	(6,363)	(2,887)
Other property and equipment, net	34,703	16,290
Property and equipment, net	$2,031,008	$1,760,862

Costs subject to depletion are proved costs and costs not subject to depletion are unproved costs and current drilling projects. At September 30, 2015 and December 31, 2014, the Company had excluded $623.7 million and $624.2 million, respectively, of capitalized costs from depletion.

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 depreciation, depletion and amortization. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and gas reserves related to the associated reservoir. Depletion

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expense on capitalized oil and gas property was $44.8 million and $20.0 million for the three months ended September 30, 2015 and 2014, respectively. Depletion expense on capitalized oil and gas property was $124.3 million and $58.0 million for the nine months ended September 30, 2015 and 2014, respectively. The Company had no exploratory wells in progress at September 30, 2015 and December 31, 2014.

NOTE 5. ACQUISITIONS AND DIVESTITURES OF OIL AND GAS PROPERTIES

Acquisitions

The following acquisitions were accounted for using the acquisition method under ASC Topic 805, "Business Combinations," which requires the acquired assets and liabilities to be recorded at fair values as of the respective acquisition dates.

During the three months ended September 30, 2015 and 2014, the Company acquired, from unaffiliated individuals and entities, additional working interests in wells it operates through a number of separate, individually negotiated transactions for an aggregate total cash consideration of $12.2 million and $7.5 million, respectively. During the nine months ended September 30, 2015 and 2014, the Company acquired, from unaffiliated individuals and entities, additional working interests in wells it operates through a number of separate, individually negotiated transactions for an aggregate total cash consideration of $14.1 million and $19.8 million, respectively. The Company reflected the total consideration paid as part of its costs subject to depletion within its oil and gas properties. The revenues and operating expenses attributable to the working interest acquisitions during the three and nine months ended September 30, 2015 and 2014, were not material.

In addition to the above acquisitions, the Company incurred a total of $23.0 million and $40.8 million in leasehold acquisition costs during the three months ended September 30, 2015 and 2014, respectively, which are included as part of costs not subject to depletion. The Company incurred a total of $50.8 million and $67.6 million in leasehold acquisition costs during the nine months ended September 30, 2015 and 2014, respectively.

Divestitures

In July 2015, the Company sold 9,164 net acres for total proceeds of $9.3 million and recognized a gain on the sale of $3.2 million.

In August 2014, the Company sold its interest in one operated well and 38 net acres for total proceeds of $0.2 million and recognized a $2.1 million loss on the sale.

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 as of September 30, 2015 (in thousands):

	September 30, 2015
Asset retirement obligations, beginning of period	$ 16,207
Additional liabilities incurred	1,268
Accretion expense	657
Liabilities settled upon plugging and abandoning wells	—
Revision of estimates	1,933
Asset retirement obligations, end of period	