December 18, 2018

We are writing to share with you a number of important changes that we will be making to our proxy voting guidelines with respect to incentive compensation programs in the oil and gas industry. The changes are based on our assessment of existing programs as well as feedback that we have received from our investment partners and portfolio companies.

As we have mentioned previously, SailingStone's proxy voting guidelines are not meant to be rules. We recognize that each company is unique and that our new guidelines may not be appropriate in certain situations. As such, we encourage you to reach out to us if you would like to discuss any of our policies. Our guidelines will continue to evolve over time as corporate governance standards change and as we receive additional feedback from our investors and portfolio companies.

We will publish our updated guidelines on our website to provide transparency into our proxy voting process and the rationale behind our policies. We believe that as owners of companies and as fiduciaries, we have an obligation to be clear about our positions on important governance practices. Below is a summary of the changes that we will be implementing.

<u>Short-Term Incentive Plans</u>

Drilling Rate of Return – In order to create value for shareholders, companies need to generate returns that exceed their cost of capital. We believe that all short-term incentive programs in the oil and gas industry should have a drilling return target and that the minimum required rate of return should be set at a threshold of at least 20% in order to generate a reasonable return at the corporate level. The drilling rate of return target should be the most important component in short-term incentive plans and, in our view, is more appropriate than return on capital employed targets, which reflect decisions made over a much longer period of time and which can be impacted by asset impairments and short-term fluctuations in commodity prices.

In addition, we would like boards to provide sufficient transparency to allow investors to understand how they calculated drilling returns. In estimating drilling returns, we recommend that boards use the E&D capital spending from the cost incurred portion of the annual report and the estimated cash flows from the proved developed producing reserves that were added from that capital spending program per the reserve report using reasonable commodity price assumptions.

Going forward, we will not vote for incentive plans that do not: 1) include a drilling rate of return target in the short-term incentives, 2) set a return hurdle of at least 20%, and 3) provide sufficient disclosures that explain how boards calculated drilling returns. In addition, we will consider the effectiveness of return incentives and the transparency provided in the annual disclosures when deciding whether to vote for or against directors.

Production Targets – We believe that production targets can have a negative impact on the returns that are generated for shareholders. In our view, any production or reserve-based targets in incentive plans should be done on a debt-adjusted, per-share basis in order to improve alignment with shareholders. At the end of the day, it isn't production that matters to shareholders; rather, it is the value of that production net of debt and on a per-share basis that matters. Importantly, debt-adjusted, per-share metrics correlate strongly with share price performance over time.

We believe that threshold targets should be set at a minimum of 10% per year, with incremental upside for greater debt-adjusted, per-share growth. In addition, we would like boards to provide the transparency that allows shareholders to see how they calculate the debt-adjusted, per-share metrics. We recommend calculating the value of the production or reserves using constant pricing for the measurement periods, subtracting net debt at the end of the period, and dividing by shares outstanding at the end of the period. This method removes the variability caused by changes in share prices and commodity prices.

Going forward, we will not vote for incentive plans that have absolute production or reserve targets. We will vote for incentive programs that use debt-adjusted, per-share targets for production and reserves, have reasonable threshold targets, and provide the necessary transparency to understand how companies performed on these metrics. We will consider the effectiveness of any growth-based incentives in aligning management and shareholder interests when evaluating how to vote for directors.

Long-Term Incentive Plans

Time-Vested Restricted Stock – We believe that management teams should be rewarded for creating value for their owners. Conversely, we do not believe that management teams should be rewarded for longevity, especially if they are not creating value for shareholders.

As a result, we will vote against incentive compensation plans that provide time-based incentives, including restricted stock. In addition, we will consider the use of time-vested restricted stock when determining how to vote for directors.

Performance Shares – We believe that incentive awards should be made in the form of performance-based shares as opposed to options or time-vested shares. Performance-based shares that are tied to measures of value creation are far more effective in aligning the interests of management with those of the shareholders.

We believe that debt-adjusted, per-share changes in production and reserve values over a 3-5-year period should be the primary performance objective used in long-term incentive plans, with a minimum threshold of 10% per annum. To the extent that relative total shareholder return (TSR) is used in the long-term incentive program, it should be used in conjunction with absolute shareholder return thresholds and should not carry more weight than the debt-adjusted, per-share targets.

Furthermore, we believe that a significant portion of performance-based share awards should continue to be at risk, even after the shares have vested. If there are not restrictions on the sale of performance-based shares, boards should consider claw back mechanisms in the event of fraud or subsequent value destruction.

For those companies that eliminate time-vested stock grants, we believe that it is reasonable to have larger potential payouts for management teams that have more of their compensation at risk, so long as the performance targets are set at reasonable levels that correspond with value creation for the shareholders.

We will consider the metrics used in long-term incentive compensation plans and the type of awards granted when considering how to vote for compensation plans as well as the directors that are on compensation committees.

Summary

Boards have a responsibility to make sure that the incentives used to compensate management teams are aligned with the interests of the owners of the company. Given the mandate to create value for shareholders, we believe that directors should create incentive programs that are tied to value creation. Production growth, relative TSR, and management longevity are not proxies for value creation. In fact, studies have shown that compensation schemes tied to these metrics do not result in superior long-term share price performance.

Instead, we believe that a meaningful portion of both short-term and long-term incentive compensation should be tied to drilling returns and changes in value-related metrics such as reserves and production on a debt-adjusted, per-share basis. This ensures that management teams are rewarded for the variables which actually drive superior long-term share performance - economic value creation.

Please let us know if you would like to schedule some time to discuss these changes in more detail. We look forward to maintaining an ongoing dialogue as we continue to refine and enhance our proxy voting framework and the corporate governance practices of our portfolio companies.

Sincerely,

SAILINGSTONE CAPITAL PARTNERS