September 4, 2019

We are writing to share with you a number of important changes that we are making to our proxy voting guidelines with respect to corporate governance and incentive compensation practices. The changes are based on our assessment of value creation across the natural resources sector, as well as feedback that we have received from our investment partners.

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 and how they may apply to your company.

As we have done on the past, 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 for the 2020 proxy voting season.

<u>Governance</u>

Independent Chair – Boards are tasked with creating value for shareholders and evaluating the performance of management teams. We have observed that some boards, especially in the U.S. energy sector, appear more interested in protecting their own jobs than promoting shareholder interests, particularly when the chairperson is also the chief executive officer. Best corporate governance practices include having an independent chairperson to avoid the obvious conflicts of interest that exist when the CEO is allowed to be the chairperson as well.

Going forward, we will vote against the entire board of a company if the roles of chairperson and CEO are not separated. We will also vote against the chairperson if he or she is not independent.

Engagement – Since directors are elected to represent the shareholders, they should engage directly with large shareholders. Frequently, boards rely on management teams to engage with shareholders despite the conflicts of interest that exist with this approach.

We will vote against the directors of a company if that company has not adopted a formal shareholder engagement program which allows large owners to speak directly with independent directors at least once per year.

Director Compensation – The interests of the directors should be aligned with the interests of the shareholders whom the directors represent. To that end, we believe that *at least* 50% of director compensation should be made in the form of shares, not cash. Furthermore, directors should not be allowed to sell their shares until they have resigned or have been removed from the board. In addition, clawback mechanisms should be in place in the event of fraud or negligence.

We will not support directors if their cash compensation represents more than 50% of total compensation and restrictions are not put in place to prevent directors from selling shares while they are on the board.

Change of Control Provisions – We believe that management teams should be rewarded for generating attractive, sustainable returns, not simply for staying on the job. For many companies, there is little incentive for management teams to sell the companies that they are running, in large part because management teams and directors often own very little stock. This needs to change.

Ideally, this problem should be addressed by compensating management teams and directors in stock, tying the size of the equity grants to the value that they have created, and prohibiting the sale of shares until an executive or director leaves the company (more on that below). However, until share ownership has increased materially, and the alignment between management teams and shareholders has improved, we believe that change of control provisions should be increased substantially in order to provide management teams with an incentive to sell or merge their companies when that outcome benefits shareholders. Provided that the shareholder returns associated with a transaction are attractive, we believe that management teams should receive at least 3x their current salary and bonus in a change of control. In stock transactions, we believe that a significant portion of the provision should be made in the form of restricted stock in order to tie the compensation to the returns associated with the combination. We believe that a vesting period of at least one year is appropriate for stock rewards associated with a change of control.

We believe that change of control rewards should be tied to the absolute total shareholder returns (TSR). When management teams own much more stock, and are compensated for creating economic value, change of control provisions should become less important and less material since the alignment with shareholders will be much improved.

Similarly, the move toward compensating directors in stock will also improve alignment in the assessment of M&A opportunities. All too often, directors get in the way of value-accretive M&A opportunities that may result in a loss of their income stream. The use of change of control provisions and stock compensation should help to improve alignment and allow value-creating M&A opportunities, which are desperately needed in the natural resource sector, to be pursued.

We will vote against all directors of boards which do not implement a change of control provision with a minimum payout of 3x the current salary and bonus.

Short-Term Incentive Plans

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 (STIPs) 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 20% in order to generate a reasonable return at the corporate level. The drilling rate of return target should be the most heavily weighted component in short-term incentive plans. In our view, drilling rate of return is more appropriate than return on capital employed targets for STIPs, since return on capital employed (ROCE) reflects decisions made over a much longer period of time and can be impacted by asset impairments and short-term fluctuations in commodity prices.

In addition, we expect 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 drilling rate of return hurdle of at least 20%, and 3) provide sufficient disclosures that explain how drilling returns are calculated. 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 the future, we will not support incentive plans that include absolute production or reserve targets**. In our view, any production or reserve-based targets should be calculated on a debt-adjusted, per-share basis in order to improve alignment with shareholders. Debt-adjusted, per-share metrics correlate strongly with share price performance over time because they are an approximation of the value available to each share, net of debt.

If dividend/debt-adjusted, per-share goals are used in incentive plans, 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 dividend/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.

Therefore, we will vote against all incentive compensation plans that provide time-based incentives, including restricted stock grants that are not tied to performance targets. 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. Importantly, 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.

Unlike companies in most sectors, many companies in the natural resources industry have historically relied on relative total shareholder return as the primary performance metric used in long-term incentive plans, even when most companies in the industry are not creating value. Given the track record of the industry, the use of relative TSR is no longer appropriate.

Going forward, we will only support those plans that use performance metrics that are tied to absolute value creation. Examples include absolute TSR, return on capital employed, and debt-adjusted, per-share changes in production or reserves. In addition, incentive plans need to have reasonable hurdles. Large payouts should not be made unless returns exceed the cost of capital and absolute total shareholder returns are at least 10% per annum.

Furthermore, we believe that a significant portion of performance-based share awards should continue to be at risk, even after the shares have vested. We do not believe that management teams and directors should be allowed to sell shares while they are employed. In addition, boards should have claw-back mechanisms for share awards 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 corporate governance and management compensation practices 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 result in inferior 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 economic value creation and absolute TSR. This ensures that management teams are rewarded for the one thing that matters most – creating value for shareholders.

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