

SailingStone Capital Partners Writes Open Letter to Turquoise Hill Board Commending Them on Initial Steps to Improve Corporate Governance at Oyu Tolgoi

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SailingStone Capital Partners (a large, long-time owner of [Turquoise Hill Resources Ltd.](#) (TSX:TRQ) (NYSE:TRQ), has written the attached letter to the Turquoise Hill Board of Directors:

Dear Members of the Board of [Turquoise Hill Resources Ltd.](#),

As a large, long-time shareholder of Turquoise Hill, SailingStone Capital Partners would like to commend Turquoise Hill and the Government of Mongolia for the recent collective efforts to increase transparency, improve alignment, and reduce uncertainty related to the development and financing of Oyu Tolgoi's immense underground copper and gold reserves. It is in the interest of all stakeholders to bring this world-class mine into production as safely and expeditiously as possible.

Trust, proper corporate governance, and a clear understanding of roles and responsibilities sit at the core of any partnership. Since there appears to be some confusion about the relationship between TRQ, the Government of Mongolia and Rio Tinto, please indulge our effort to set the record straight. Turquoise Hill owns 66% of Oyu Tolgoi, with the remaining 34% held by the Government of Mongolia. Turquoise Hill has agreed to fund the Government's equity stake and pro-rata share of development capital which is to be repaid from future cash flows once the underground mine is commissioned. Rio Tinto has been hired to operate and develop the mine. In addition, Rio has provided completion guarantees as a means to facilitate a project finance facility which efficiently allocates risk based on capabilities. Sovereign risk is absorbed by the international lending syndicate while Rio Tinto, a self-proclaimed leading global mining group, accepts the risk of mine development. To be clear, Rio is compensated for their completion guarantee in the form of incremental support fees above and beyond the \$850 million in cost recoveries and management services payments received since 2011. Rio Tinto is also the majority shareholder of Turquoise Hill, having paid approximately \$6.3 billion for its 51% ownership stake.

Over the last decade, Rio has received more than \$1.5 billion in compensation for its work at Oyu Tolgoi and related financings. While that sum may seem de minimis for a global mining conglomerate, it is important to note that ex-iron ore and Oyu Tolgoi, Rio has generated approximately \$15 billion in negative free cash flow over the same time frame.¹ Turquoise Hill, meanwhile, has invested just over \$10 billion into the project², while OT paid the Government approximately \$2.6 billion in taxes and royalties between 2010 and 2019, directly employs almost 8,200 Mongolian nationals and worked with more than 560 Mongolian businesses in 2019.³ By some estimates, Oyu Tolgoi will represent more than 30% of Mongolian GDP when the underground is at full capacity and clearly is the most important proxy for foreign direct investment into Mongolia.

While the roles and responsibilities of the OT partnership are relatively straightforward, proper corporate governance and trust have been in short supply. Thus, we are encouraged by two recent events which we believe are important first steps in creating the alignment and governance standards necessary to complete a project as complex and important as Oyu Tolgoi.

First, we applaud the decision of the OT board to move forward with a fully independent review of the cost overrun and delays associated with Shaft 2, which we have been requesting since the initial announcement last July. Since Rio Tinto is responsible for the project, is being paid for its efforts, and apparently has

shareholders who are concerned about the associated risks, an independent post mortem¹; in a public manner in the interest of transparency, accountability and integrity²; would indeed be³; appropriate and fair⁴; for all stakeholders. Of course, any effort to impede these efforts could only be cause for serious concern on behalf of Oyu Tolgoi's owners and inevitably would lead to a further degradation of trust. Building a multibillion-dollar block cave is no mean feat, and all participants understand that there are risks involved. However, having the party responsible for mine construction be the sole beneficiary of a capital overrun and multi-year delay runs counter to the concept of⁵; partnership.⁶ The mere commencement of this review process, supported by all stakeholders, is a seminal step in the history of Oyu Tolgoi. We surely are not alone in our eager anticipation of the Special Committee's findings.

Second, we believe that the decision to commence arbitration proceedings to clarify Rio's role and obligations in supporting Turquoise Hill's attempt to obtain the lowest cost sources of financing to meet the incremental funding requirements, caused in no small part by Rio's own mismanagement, is not only appropriate but the only available option. Basic principles of corporate governance require that board members and management teams put the interest of their shareholders, in this case the shareholders of TRQ, ahead of their own. Rio Tinto's cost of capital is totally irrelevant in any decision regarding Turquoise Hill. To suggest otherwise is to explicitly acknowledge an abrogation of the collective Board's fiduciary obligations. There is no alternative interpretation. Fortunately, in this situation there are attractive financing options available⁷; the rare occasion when doing the right thing is actually possible.

In theory, Rio Tinto should be aligned with Turquoise Hill minority shareholders and the Government of Mongolia to maximize the value of Turquoise Hill's share price. After all, Rio paid more than \$6 billion for their equity stake in the Company and Oyu Tolgoi's success has significant positive implications for the Government and people of Mongolia. Over the past several years, however, Rio has left itself open to accusations of intentionally depressing the share price, a conclusion made all the more pointed when comparing Rio Tinto's stock returns to TRQ's. Supporting Turquoise Hill's efforts to identify the lowest cost source of financing as a means to either eliminate or mitigate the amount of equity raised is consistent with first principles of corporate finance and proper corporate governance.

Similar to the independent review discussed above, the refusal to seek out the most efficient means of financing OT results in a prim facie conclusion that Rio is intentionally suppressing the stock price. This conclusion only makes sense if Rio is attempting to harm the minorities ahead of a planned take-out or to undercut the Government of Mongolia in any negotiations related to a debt for equity swap in conjunction with a tax and royalty agreement. Since yet another corporate governance failure cannot be high on Rio's list of priorities at the moment, securing non-equity financing seems like a unique opportunity to level-set the partnership and advance the development of what everyone acknowledges is one of the most important mining assets in the world. We expect that recent events have helped Rio's board and interim management suite better understand the significance of these decisions as well.

In summary, we are encouraged by recent events and believe that your actions will serve to further de-risk the project by enhancing governance at OT and TRQ, and by increasing the level of trust across the partnership. We thank you for your efforts on behalf of Turquoise Hill shareholders, and for working with the Government of Mongolia and other stakeholders to usher in a new era of cooperation at Oyu Tolgoi.

Best regards,

SailingStone Capital Partners LLC

About SailingStone Capital Partners LLC

SailingStone Capital Partners LLC is an employee-owned investment advisory firm focused exclusively on providing investment solutions in the global natural resource space with a specific focus on the commodities and services which are key enablers of the energy transition. Based in the San Francisco Bay Area, SailingStone manages concentrated, long-only equity portfolios for institutional investors.

¹ Sellside model from a firm which has requested anonymity

² Turquoise Hill financial statements

³ Turquoise Hill OTTR 2020 presentation, updated for current employment levels

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