

# An Open Letter from SailingStone Capital Partners to Turquoise Hill's Independent Directors

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

Dear Independent Directors of [Turquoise Hill Resources Ltd.](#),

We note with interest the recently announced cash bid from Rio Tinto ("Rio") to acquire the minority stake in Turquoise Hill ("TRQ") for C\$34/share, or approximately \$2.7bn. While we appreciate that a formal process has now commenced, we want to take this opportunity to highlight our perspective on the proposal.

As you must know, Rio's cash cost basis in Turquoise Hill is approximately \$6.6bn or \$63.70 per share, inclusive of their participation in the January 2014 rights offering which was the last time that Rio acquired equity in TRQ. Other than a write down in 2013 related to the temporary closure of Oyu Tolgoi and again in 2019 related to their own incompetence, Rio has never impaired this asset. Given the billions of dollars of capex that subsequently has been deployed, the significant de-risking that has occurred, and the coming wall of free cash flow that begins with sustainable first production in 2023, we strongly suggest that any assessment of fair value starts with Rio's cash cost basis, particularly considering the impact that a much more robust commodity outlook and the time value of money have on TRQ's valuation. An additional premium to compensate minority shareholders for losing access to an asset of this quality seems eminently reasonable.

On a related note, it is obvious that as the entity responsible for developing and operating the mine, Rio Tinto has access to a significant amount of material information which has yet to be released to the public. Specifically, TRQ management has indicated that updates to both the underground mine development plan and an open pit optimization are due in the next few months. Presumably neither the independent directors nor management has access to this information since it would have to be disclosed. And, presumably, the news can't be all that negative or Rio would not be making a cash bid, although we are concerned that Rio now is clearly conflicted in terms of providing fulsome updates to its partners and the market. Given the history of poor governance and repeated attempts at minority suppression, the structural asymmetry of information, and the bid that is on the table, how can you be confident that you are or will be informed sufficiently to determine a full and equitable purchase price?

Third, we are confused by the sequence of recent events. In January of this year, TRQ and Rio announced an amended Heads of Agreement ("HOA") which includes a mandatory minimum \$650mm equity raise by Turquoise Hill to help address the funding gap caused by Rio's inability to develop the underground mine on time and on budget. While it obviously is extremely expensive financing (albeit slightly less so after today's announcement), the TRQ Board of Directors agreed to the new terms. TRQ directors are required by law to act in the best interest of all TRQ shareholders, not just their respective employers. Rio's bid is conditional on TRQ not raising equity and, if successful with their proposal, will not be injecting high cost-of-capital equity to finish the underground development. Why does equity make sense when minorities are forced to participate but not when the entity which created the funding shortfall and which has been paid almost \$1bn in fees has 100% control?

This leads us to our final point: valuation. Rio is bidding \$2.7bn to acquire the remaining 49.2% of TRQ that they don't own, compared to the \$6.6bn spent to acquire 50.8% between 2006-2013. Even assuming much lower commodity prices than we are experiencing today, Turquoise Hill shareholders can reasonably expect a first dividend as early as 2025. Subsequently, free cash flow available for distribution ramps up to between \$0.5-\$4+bn per year, depending on your view of copper and gold prices. In other words, the bid represents less than a year of potential free cash flow for an asset that, according to Rio's 2021 annual report:

By 2030, it is expected to be the fourth largest copper mine in the world. It is also one of the most modern, safe, sustainable and water-efficient operations globally... The size and quality of this Tier 1 asset provides additional options, which could see production sustained for many decades.

Rio's reminder in their proposal that "should Turquoise Hill investors not accept the Proposed Transaction, Rio welcomes their continued investment and equal share of future risks and funding obligations" is laughable. TRQ minorities are the only investors with pure equity risk in this project and we have suffered from Rio's ineptitude along the way. Since Rio is convinced that "the terms of the proposal are compelling for Turquoise Hill shareholders," surely the reverse is true as well. We would be more than happy to participate in a proposal to purchase Rio Tinto's stake in TRQ for C\$34/share.

These are not new issues. We first wrote to you on July 19, 2016, expressing our concern that Rio would attempt to leverage its access to material, non-public information within the context of a most advantageous governance structure to make an opportunistic bid for the TRQ minorities' interest. Furthermore, we have highlighted repeatedly the potential conflict that exists between the Turquoise Hill independent directors and minority shareholders due to your lack of equity ownership. However, Rio has provided you with a golden opportunity to prove us wrong. We look forward to your response to their proposal.

In summary, this bid appears to be highly opportunistic, coming in the midst of an equity overhang caused by Rio's mismanagement of both the project and the partnership and just ahead of mine completion with the accompanying free cash flow that will benefit all stakeholders for decades into the future. Furthermore, the commodity backdrop is as attractive as it has ever been, placing a premium on any long-lived, low-cost reserve base. We expect that you will review all of your options and will undertake all steps necessary to ensure that Turquoise Hill's share price reflects its status as the owner of one of the most strategically important, structurally attractive assets in the world. We stand by, as always, to help in any way that we can.

Best regards,

SailingStone Capital Partners LLC

#### ABOUT SAILINGSTONE CAPITAL PARTNERS LLC

SailingStone Capital Partners, a division of Pickering Energy Partners, provides investment solutions in the global natural resource space with a specific focus on the industrial businesses, commodities and infrastructure assets which will enable the energy transition. SailingStone manages concentrated, long-only equity portfolios for institutional investors.

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