CORPORATE PARTICIPANTS

Tony Shaffer
Investor & Media Relations

Jeff Tygesen
Chief Executive Officer

Steeve Thibeault
Chief Financial Officer

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Q3 2015 Financial Results call held on November 6, 2015. I would now like to turn the meeting over to Mr. Tony Shaffer. This call is being recorded and will be available later today for replay. Please go ahead.

Tony Shaffer, Investor & Media Relations

Thank you, operator. I want to welcome you to our financial results conference call. Yesterday we released our third quarter 2015 results press release, MD&A, and financial statements. These items are available on our website and on SEDAR.

With me today is Jeff Tygesen, CEO, and Steeve Thibeault, CFO. We will take your questions after our prepared remarks.

This call will include forward-looking statements. Please refer to the forward-looking language included in our press release and MD&A.

I'd now like to turn the call over to Jeff.

Jeff Tygesen, Chief Executive Officer

Thank you, Tony.

Overall we had a solid third quarter. Open pit operations at Oyu Tolgoi continue to progress and we are advancing the restart of underground development. Our current focus is on completing the remaining steps for full commencement of underground construction.

I want to start this morning with a review of the quarter as well as the status of underground preparations. Steeve will discuss the financial aspects and then we'll take your questions.

First, Oyu Tolgoi continues to perform well from a safety perspective. The performance is especially impressive in the context of such a new operation. The year-to-date all-injury frequency rate was 0.31 per 200,000 hours of work. During the quarter they had 85 injury free days.

Second, revenue for the quarter increased 2.5 percent over the second quarter and concentrate sold increased 19 percent over the previous quarter. This reflected stronger volumes sold partially offset by lower copper prices. Operating cash flow for the quarter is just above a $170 million.

Third, open pit operations continue to progress during the quarter. In July there was a planned shutdown to complete improvement projects. One of the main components of the work was to address issues with the ball mill and pebble crusher, which were successfully fixed. Post shutdown, throughput has been consistent with the concentrator averaging 2-3 percent above nameplate capacity. The concentrator team continues to focus on ways for improving performance. During the third quarter work began on Phase 6 of the open pit. This phase has good copper grades but relatively low gold. Work on this phase begins to set Oyu Tolgoi up for similar copper production in 2016. The 2016 plan also utilizes stockpiled ore to augment low grades from Phase 6. As a result of mining in Phase 3, gold production in Q3 was lower than anticipated, though we expect improved gold production in the fourth quarter as the mine accesses higher grade ore in the lower benches of Phase 2. Copper production for the quarter hit a record high. We are maintaining our production guidance for the year and expect to come in at the high end of copper and mid-range for gold.

Fourth, looking forward, we have known for some time, as outlined in the technical report, that metal production over the next several years will be challenging due to lower grades in the mining sequence. This is particularly true for gold. However, one of the positives of the underground delay is Oyu Tolgoi's focus on being a more efficient operation. They have been optimizing the mine plan and implementing an appropriate cost structure. We plan to provide future guidance in early December.

Fifth, in August early work spending was approved to put the underground construction in the best position for project advancement when project financing is complete. Steeve will discuss project financing details but we continue to expect PF signing by the end of the year. In August Oyu Tolgoi filed updated development schedules for the feasibility study with the Mongolian Minerals Council. The last piece of the feasibility study is updating capital estimates, which is expected to be complete in the end of the first quarter or early second quarter of 2016. We are not expecting any material change from the current estimate. Following completion of the capital estimate the Turquoise Hill, Rio Tinto, Oyu Tolgoi boards are expected to provide their decision on notice to proceed early in the second quarter with commencement of underground construction following shortly thereafter. As mentioned, early works are already underway, paving the way for an orderly restarting. In connection with early works Oyu Tolgoi just held an underground development suppliers forum on Wednesday. Nearly 600 companies from 29 countries including 369 Mongolian businesses participated to better understand the process of becoming an underground supplier. The forum is an important milestone in the lead up to restarting construction.

Lastly, I am asked about the impact of current prices on moving forward with the underground. We are a long-term believer in copper and we don't expect prices to remain at these levels forever. As most of you know from our technical report and market updates, it's expected to take approximately five years to bring the underground on line and another five years to ramp up to full production. It's unreasonable to base our restart decision on current prices. Based on market reports, Oyu Tolgoi is expected to be the third largest copper mine in the world when the underground portion of the operation is up and running and an asset like this performs across a wide range of economic cycles. We are long-term focused and our development plans follows suit.

In summary, open pit operations are progressing well and we are anticipating underground restart Q2 2016. Open pit grades will be challenging for the next few years but the primary focus of Oyu Tolgoi has always been about the underground, where 80 percent of the mine's value resides.

At this point I am going to turn the call over to Steeve to discuss the financial aspects of the quarter in more detail.

Steeve Thibeault, Chief Financial Officer

Thank you, Jeff.

Revenue for the third quarter was $431.7 million, an increase of 2.5 percent over the second quarter. The increase resulted from higher sales volume partially offset by lower copper prices. Concentrate sales increased 19 percent over the second quarter.

In the third quarter income attributable to Turquoise Hill shareholders was $21.2 million. Income from continuing operations, which relates to Oyu Tolgoi, was $44 million. The loss from discontinued operations, or SouthGobi, was $22.8 million.

During the quarter a $76 million non-cash charge was recorded in operating expenses for a provision against low-grade stockpile expected to be processed in more than one year. The charge is mainly due to lower expected market prices combined with a change in the mining plan.

At September 30th, Turquoise Hill's cash balance was approximately $1.3 billion. The cash from operating activities before interest and tax for the third quarter was $172 million.

We have updated our capital expenditure guidance for 2015 to $120 million, of which $115 million is related to sustaining capital. Our original guidance was $230 million. The reduction is due to lower spending on the tailings storage facility, lower deferred stripping due to a change in the mining plan, and the allocation to expense versus capital of the underground pre-start expenditure. The capitalization of the underground pre-start expenditure will start with the completion of the project financing in accordance with the company policies.

We have also updated our operating cash cost guidance to approximately $900 million from our previous guidance of $1 billion. The reduction reflects the benefit from the Oyu Tolgoi cost saving initiatives. It excludes non-recurring expenses related to the underground agreement of May 18 of this year, mainly the payment of the tax and the royalty adjustments and the underground pre-start costs. These items will total approximately $80 million.

Turning to unit costs, C1 costs for the third quarter were $0.40 per pound compared to $0.73 per pound in the second quarter. The second quarter included a $22 million charge for the settlement following the underground agreement.

All-in sustaining costs were a $1.52 per pound compared to $1.26 in the second quarter. The current quarter all- in sustaining cost included the non-cash inventory charge of $76 million related to low grade stockpile.

As Jeff mentioned, the project financing is progressing as expected with signing planned by the end of this year. We still continue to have strong support from the banking syndicate.

That concludes my comments and I'm turning the call back to Jeff.

Jeff Tygesen, Chief Executive Officer

Thanks, Steeve.

In conclusion, Oyu Tolgoi delivered solid third quarter results. Revenue in concentrate sales increased, cash flow from operations was more than a $170 million, and we end the quarter with approximately $1.3 billion in cash. The concentrator is operating above nameplate capacity following the July shutdown. We are maintaining our annual production guidance and expect to be at the high end for copper and mid-range for gold. We expect signing of project finance by the end of the year and an updated capital estimate for the feasibility study in first quarter 2016, decisions by the three boards on notice to proceed early in the second quarter of 2016, and restarting the underground shortly thereafter.

That concludes our remarks, Melanie, and we are ready to take questions.

QUESTION AND ANSWER SESSION

Operator

Certainly. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register. Thank you for your patience. Once again, please press star one at this time if you have a question. The first question is from Oscar Cabrera of Bank of America. Please go ahead.

Oscar Cabrera, Bank of America Merrill Lynch

Thank you, operator. Good morning, everyone. I was just wondering if you could provide us with the breakdown of the CapEx that was pushed forward or stayed. I think in your comments you mentioned something to do with tailings and the stripping so, in other words, out of the $120 odd million dollars that you're saving this year, is that going to be spent later on or only part of it?

Steeve Thibeault, Chief Financial Officer

A couple of items we're going to have net save, we're having net savings and, like you say, some will be transferred to next year. On the tailings facility, we had $20 million there, and that's definitely a net savings, okay. What we—remember a couple of years or a year ago we had the issue around the tailings facility and now we've been able to get it right and the cost savings are, the new costs now are aligned around a $20 million savings that we had compared to budget.

Deferred stripping, that's related to a different mining plan, so that depends. I'm not saying it's going to be the following year, so that would be, that's another $20 million, Oscar, that you would have for the following year. There's net savings about $35 million in the overall plan and operation that these ones are not necessarily real savings.

And the last one I would like maybe to mention is the underground. The underground expenses, we had a certain amount, about $25 million in our capital, and the accounting policy is, just to make sure, this amount has been transferred to expenses, because it will be capitalized, we'll start the capitalization of the pre cost, of the pre start costs, Oscar, only when we're going to have the project signing, which we expect by the end of this year. So next year when we'll do, in 2016 when we'll have the pre-start costs, these will be capitalized, but this year they were in the expenses. And I mentioned that when I was talking about the guidance.

Oscar Cabrera, Bank of America Merrill Lynch

That's helpful, thank you. And so would the $150 million in sustaining capital be a good number to use over the next couple of years before you start doing, um, I guess you said the underground doesn't start for another five years, so for the next five years?

Steeve Thibeault, Chief Financial Officer

Oscar, I would say that early next year we're going to provide the guidance for 2016 and there are different elements, because the sustaining includes pre stripping and that could vary significantly year by year depending on the phases that we take. So that's something that we will give you early next year.

Oscar Cabrera, Bank of America Merrill Lynch

Okay, great. Thanks. The other thing I was wondering is if you could provide the terms that you get in your TC/RCs. I mean this is the second quarter that they've come lower than what we were expecting. I think in the past you have mentioned that you're doing everything in international terms but just, you know, the numbers that we're getting are lower than those international terms.

Steeve Thibeault, Chief Financial Officer

Oscar, I'm sorry, I'm not sure I understood your question. On the terms that were getting on the...?

Oscar Cabrera, Bank of America Merrill Lynch

On the treatment charges.

Steeve Thibeault, Chief Financial Officer

Ah, no, we don't—we don't provide details on these ones. I think that if your question is, we look at the market for September and we're not getting your exact revenue is because keep in mind that we're having provisional pricing and in reality when you're trying to reconcile our revenue, Oscar, is instead of taking the quarter in which we are making our sales its more the following quarter that you have to take because of this provisional pricing. Okay?

So, in other words, when people try to reconcile our revenue they take the quarter, the quarterly market prices, and when you have a market where prices are reducing or have a significant decrease you don't have matches because of the 90-day provisional pricing that we're having. So for a proxy it's better to take the following quarter than the current quarter.

Oscar Cabrera, Bank of America Merrill Lynch

Okay. So, for example, for this quarter you're saying you're lagging by 90 days or you're looking at the price of the last day of the quarter to price everything?

Steeve Thibeault, Chief Financial Officer

Exactly the way would be, the price for the third quarter would be mainly based on September forward prices for October and November. That would be the average price that you would have. And that will give you a better proxy. And that's because of that provisional pricing.

Oscar Cabrera, Bank of America Merrill Lynch

Great. Thank you very much.

Operator

Thank you. Once again, please press star one at this time if you have a question.

Once again, please press star one at this time if you have a question.

The following question is from Ralph Profiti from Credit Suisse. Please go ahead.

Ralph Profiti, Credit Suisse

Good morning. Thank you for taking my question. Where do you anticipate or estimate the stockpile to be at the end of the year is my first question and if you can sort of split that between what you will characterize as medium-grade material and high-grade material?

Jeff Tygesen, Chief Executive Officer

Ralph, this is Jeff. Thanks for your question. The stockpile will be similar at the end of the year where it is today, because we are not moving a lot of material in or out. The high grade is very low tonnage. It's more intermediate, make efficient use of the crusher, so if the crusher is down for a short period trucks end up placing material there then its picked up in a very short period of time. The medium-grade stockpile, as I referenced, will be going down in 2016 where we try to balance some of the gold that's not going to be there out of Phase 6. So we see that decreasing through the year. Percentage wise it will probably be a decrease of somewhere between 30 percent and 40 percent. That would be my high-level estimate at this point.

Ralph Profiti, Credit Suisse

Right. And can I characterize, Jeff, of your comments when you speak about balancing because these grades that you are sort of following a mine plan leading into the project financing that will make OT at these metals prices sort of free cash flow breakeven-ish? Is that kind of a fair way to characterize how you're going to use this stockpile over the next two years?

Jeff Tygesen, Chief Executive Officer

Well, we've had, as any good miner we start with the highest grade, and Phase 1 and Phase 2 had the highest grades because the part of it, I'm talking a total net smaller return because of the gold grades. As we start developing Phase 4, which is below Phase 2, there is a period of about two years of stripping to get to the higher-grade material. And, as from the tech report, Phase 6 and Phase 3 don't have the same level of gold grades. But we did stockpile lower-grade material that has higher gold by-product than the material coming out of Phase 6. So, yes, it's all about maintaining our positive cash flow.

Steeve Thibeault, Chief Financial Officer

Ralph, if I can add on that one, if you take the technical report and adjust its prices, okay, we do the same, and what we have seen and we are continuing, we are definitely focused on the year where we have low gold and making sure that those years we maintain operating cash flow at least neutral and even a little bit more, okay? And that's being done through what you've seen this year, the initiative around the mill and the operation and second around the cost initiatives.

Ralph Profiti, Credit Suisse

Excellent. Very helpful.

Steeve Thibeault, Chief Financial Officer

That will continue the following years.

Ralph Profiti, Credit Suisse

Thank you, again.

Steeve Thibeault, Chief Financial Officer

You're welcome, Ralph.

Jeff Tygesen, Chief Executive Officer

Thanks, Ralph.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Tygesen.

Jeff Tygesen, Chief Executive Officer

Thank you for joining us on today's call. Next steps we're absolutely focused on the signing of project financing, completing the feasibility study, and planning for an underground restart Q2 2016. As I've said several times before, 80 percent of Oyu Tolgoi's value resides in our underground reserves and, in my opinion, it's the best copper opportunity in development today. Thank you.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
