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PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Q1 results call. I would now like to turn the call over to Mr. Tony Shaffer. The 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 first quarter 2016 results press release, MD&A, financial statements, as well as our Notice to Proceed announcement. These items are available on our website and SEDAR.

With me today is our CEO, Jeff Tygesen; Steeve Thibeault, our CFO; and Brendan Lane, Vice President of Operations and Development. We'll 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.

We're calling from Mongolia. Your last night we announced a receipt of Notice to Proceed for the Oyu Tolgoi underground by the various boards. I am thrilled that we have reached this wonderful milestone and that underground development will move forward. We are in Mongolia to mark this occasion with a site event with members of the government and Oyu Tolgoi's hardworking team. I know this is an achievement our shareholders have been looking forward to for some time. I personally want to say thank you for your patience and standing by for us over the last several years. This is an exciting step on the journey toward Oyu Tolgoi realizing its full potential.

Now that we have noticed to proceed I know many of you are eager to understand the next steps. We will move to complete the conditions precedents for the project finance facility and expect the full draw down to be complete in June. We expect to restart underground construction around mid-year. In August 2015 early works funding of approximately $100 million was approved. This allows the underground team to hit the ground running when construction begins, advancing the project by approximately nine months. We currently have approximately 200 people on the underground team and I would expect that number to quickly start to increase. In March, Oyu Tolgoi named Marco Pires as the Chief Development Officer for Underground Development, which was a key appointment. In the coming weeks Oyu Tolgoi remobilization will start to escalate rapidly. I think we are well positioned for a smooth transition to begin construction.

I know there has been some anticipation about the updated capital estimate from the 2016 feasibility study. The 2016 nominal estimate is $5.3 billion. For reference, that estimate on a real 2016 cost basis is $5 billion, which is broadly in line with the 2014 technical report estimate of $4.9 billion. Going forward, we have updated long-term prices of $2.86 per pound of copper and $1,200 per ounce of gold for the 2016 feasibility study. Those prices compare to $3.08 a pound for copper and $1,304 an ounce for gold in the 2014 technical report, which is a reduction of approximately 7.5 percent for both. The vast majority of the reduced value is due to these lower prices.

We are frequently asked why the capital estimate wouldn't go down relative to 2014 estimates given the current industry environment. The majority of the underground work involves digging tunnels, which is heavily dependent on labour. While many costs have decreased in the current environment, labour has not. If we were building a new concentrator, I would agree that the cost would have likely decreased because we would have benefitted from lower input prices; however, that's not the case with the underground project.

We expect to file the updated technical report in the second half of this year. This will allow all shareholders to have the most up-to-date information on Oyu Tolgoi's planned production and development. Other than depletion from ongoing operations we don't expect any material changes to the reserves and resources estimate that were included in the 2014 technical report. Again, I'm very happy that they Notice to Proceed has been approved and we're able to move forward with underground development. This is a historic achievement for Oyu Tolgoi.

Moving to current operations, Oyu Tolgoi's excellent state to performance continued in the first quarter with an all injury frequency rate of 0.21 per 200,000 hours worked. The Oyu Tolgoi workforce again delivered an industry-leading safety performance. First quarter revenue increased almost 19 percent over the fourth quarter reflecting higher gold prices partially offset by lower volumes of concentric sales. We recorded operating cash flow of approximately $195 million for the first quarter, an increase of approximately 45 percent over the fourth quarter. This reflects continued production and delivery cost improvements. First quarter production was strong. Since 2014 we've been working on productivity improvements at the concentrator and we continued to see progress. For the first quarter average throughput was approximately 106,000 tonnes per day. Copper production reached a quarterly record and gold production was stronger than anticipated. The open pit team has been accessing more over the final high-grade benches in Phase 2. Because of that we increased our 2016 gold production guidance to 255,000 to 285,000 ounces. Our copper production guidance remains the same at 175,000 to 195,000 ounces. Mining of the Phase 2 gold core is expected to be complete near mid-year.

In summary, 2016 is starting off quite well. All the necessary approvals are in place to restart underground development and open pit operations are progressing well. While gold grades will be a challenge in the second half of 2016, the mine team is doing all they can to maximize gold production in the first half of this year. Copper and gold prices appear to have stabilized, providing Oyu Tolgoi a bit of financial buffer given the open pit cash flow. The OT team remains focused on developing an efficient cost structure over the next few years as gold grades decrease.

At this point I'm 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 quarter was $423 million, an increase of 19 percent over the fourth quarter of 2015. The increase was mostly due to higher gold prices, partially offset by lower concentrate sales volume and lower copper prices. Average copper prices in the quarter decreased by 5 percent compared with the fourth quarter of 2015 from $2.20 per pound to $2.11. Copper prices at the end of March improved approximately by 4 percent from December to end the quarter at $2.20 compared to $2.11 at the end of December. The average gold prices for the quarter increased by 7 percent from $1,106 per ounce to $1,183 per ounce when compared with the fourth quarter. Concentrate sales volume decreased approximately 11 percent over the first quarter.

Gross margin was higher than previous quarter at 50.8 percent compared with 32.7 percent in the fourth quarter of 2015. The increase was mostly attributable to operating cost improvement and concentrator efficiencies. Income attributable to Turquoise Hill shareholders in the first quarter was $119 million, an income, all income now related to continuing operations. Due to continued low forecast prices, medium grade copper-gold stockpiles expected to be processed in more than one year are now fully provided against. The charge of $7.9 million was recognized in the quarter. Total cash operating costs at Oyu Tolgoi were $192 million, reflecting production and operating improvement, efficiencies, and cost reductions.

At March 31, 2016 Turquoise Hill's cash balance was approximately $1.5 billion. Operating cash flow for the quarter was $195 million almost double the same period in 2015 and 41 percent above Q4 2015. Capital expenditure on a cash basis was $56 million for the quarter, including $23 million for the underground pre-start activities. C1 costs in the first quarter were only $0.02 per pound compared with $0.88 per pound in the fourth quarter. C1 costs in the quarter were favourably impacted by production volume increases and cost optimization together with a large gold credit per pound of copper produced due to stronger sales volume and prices. First quarter all-in sustaining costs were $0.62 per pound compared to $1.56 in Q4 2015. All-in-sustaining costs were favourable for the same reason as the C1 cost.

That concludes my comment and I'm returning the call to Jeff.

Jeff Tygesen, Chief Executive Officer

Thanks, Steeve.

With a Notice to Proceed approval I wanted to take this opportunity to talk about the longer-term optionality that exists with Oyu Tolgoi. With the challenges the open pit faces over the next several years with gold grade, it's easy to get caught up on current commodity prices and how it impacts open pit operations. The true value of Oyu Tolgoi and the real prize is the underground. We are long-term believers in copper. Based on forward looking supply/demand it's unclear where supply is coming from starting around 2019. For example, Chile provides approximately 30 percent of the world's copper and it's a known fact their grades are declining. And they haven't been able to replace the lower-grade mines with newer supply. If one were to assume the current demand remains flat, you still have a significant supply gap. We think that Oyu Tolgoi's first underground production around 2021 fits very well with the expected supply deficit.

If you were to look at the start of mines like Grasberg or Escondida when they were in the third year of production, they looked nothing like they do today. Escondida started with a concentrator of approximately 20,000 tonnes per day and today they are at 300,000 tonnes per day. We don't expect Oyu Tolgoi to stay at current productions for the long term. We are planning to evaluate our options to expand the concentrator. Given the grade of the underground we only need to reach about 30,000 tonnes per day from the underground before its equivalent to about 100,000 tonnes per day from the open pit. Once production begins from Hugo North Lift 1, additional drilling can be done for Hugo North Lift 2 and convert it from resource to reserve. The decline for Hugo North Lift 1 goes very close to Hugo South. Once the decline is complete we will have close access to Hugo South with a gold converting resource to reserve there as well.

With ore bodies like Oyu Tolgoi it's quite common that other potential ore bodies exist nearby. We expect to do additional exploration in the area in the coming years. Cleary our near-term focus is to construct Hugo North Lift 1 and ramp it up to full production. As that process unfolds there will be points where we can shift to consider the additional development options we have. One other thing I think many people forget is that once the underground is ramped up to full production the mine is expected to produce sufficient cash flow to self-finance future expansion options. Oyu Tolgoi is a truly an amazing asset. Mines like this perform across a wide range of economic cycles. Based on current reserves and resources it's expected to be a multi-generational asset that is hands down the best copper mine in development today.

In conclusion, Oyu Tolgoi delivered strong first quarter results. The underground is expected to restart around the middle of the year. Open pit operations are performing well. Concentrator production continues to expand beyond nameplate capacity. Our balance sheet is strong and we ended the quarter with approximately $1.5 billion of cash. The journey towards realizing Oyu Tolgoi's full potential is truly underway.

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

Ralph Profiti, Credit Suisse

Good day, everyone. Thank you. Jeff, are you able to help me with the mining cost for the block cave on a dollars per tonne basis in the feasibility study? You may still be working on finalization of these numbers but, as you know, the 2014 technical report blended these figures for both the open pit and the underground.

Jeff Tygesen, Chief Executive Officer

Thanks for your question, Ralph. The mining cost on a unit basis I can give you a rough ballpark on a dollar per pound, and it just happens to be we'll be at roughly at $1 per pound from the underground.

Ralph Profiti, Credit Suisse

Okay, that's great. Thank you. Second question, Jeff, 110,000 tonnes per day at the concentrator post the expansion, this 200 million, seems like an awfully conservative number. I don't want to hold you to something bigger but is something like a 120,000 to 125,000 tonnes per day, with what you're seeing on the debottlenecking and the process control initiatives, possible over say the next five years?

Jeff Tygesen, Chief Executive Officer

The majority of the capital cost that we've just reported is for the back end of the concentrator where we'll be putting in additional float cells to handle the additional cooper concentrate. There is some front end, ah, an extra ball mill. As we move to the underground the grind size is a bit finer, so a little bit more work on the front end, but the majority of the costs are going to be at the back end of the concentrator in the flotation.

Ralph Profiti, Credit Suisse

I see. Understood. Thank you very much.

Craig Hutchison, TD Securities

Good morning, guys. Great to hear the news. A question on the start-up. You guys said 2021, Rio Tinto said 2020 in their press release, can you just clarify which one it is and is there is possibility to accelerate it to 2020 based on development rates?

Jeff Tygesen, Chief Executive Officer

Craig, this is Jeff. Thanks for your question. They're both correct. If you look at the first draw bell, that's currently targeted towards the end of 2020, and what I referenced for 2021 is where we'll have sustainable production at a rate more than one draw bell. So it's kind of a blend and so they're both correct. But the answer to the second part of your question, is there a potential for upside, I think so. And the reason I say that is the current assumptions as far as a development rate are somewhat conservative and depending on the rock characteristics that we run into there's a chance that those will actually do better than our current assumptions.

Craig Hutchison, TD Securities

Okay. And then if you look at the 2014 study, I believe the reserve NPV was with $7.4 billion. Today's release is $4.6 billion and I understand in 2015 and in parts of 2014 you probably captured about $1 billion dollars of NPV from the open pit. Is the rest largely explained by the drop in metal prices, the 7.5 percent that's quoted in today's release versus 2014's?

Jeff Tygesen, Chief Executive Officer

Yeah, it's roughly about 80, 80 percent is due to change in price and, yes, we have captured, like we now have $1 billion in cash or $1.5 billion that has come from the operation. So if you look at the difference in price and what we have made over the past two years, that gets us close to the earlier estimate.

Craig Hutchison, TD Securities

Okay. And then maybe just a question again on the expansion. You mentioned some additional drilling at Hugo South and some work on Life 2, what's sort of really the trigger for you guys to go for an expansion to say 140 or 150? What are you sort of looking for?

Jeff Tygesen, Chief Executive Officer

So there's two parts to that. Currently we're doing, I think Q1 was a 106,000 tonnes a day. Our target for this year is 38 million tonnes, which is about a 104,000, a little over a 104,000 tonnes a day, so we're a little bit above that. Every day the site team is trying to figure out ways to add incrementally to the throughput. So there is the creep that we've talked about trying to do without much capital but there will be a little bit of capital to as we discover new bottlenecks in the system.

But as far as drilling Hugo South and Hugo North Lift 2, that's initially planned just to convert resource to reserve so that we have, we can start developing production plans for those two resources. If there is going to be any upside from the underground for the mill, and it's just a guesstimate on my part at this point in time because we haven't done all the work yet, but Hugo South would be additive to Hugo North Lift 1 and 2, but because Lift 2 is underneath Lift 1 we can't necessarily do both of those at the same time. But Hugo South offers optionality to increase mill throughput.

Craig Hutchison, TD Securities

Okay. And maybe just one last question from me on the quarterly results. The revenue you guys reported seemed high versus the sales volume. Was there any positive provisional pricing adjustments or was it related to the timing of the gold sales and you captured some of the best prices for the quarter?

Steeve Thibeault, Chief Financial Officer

You got it right.

Jeff Tygesen, Chief Executive Officer

Yeah. So when the prices go down, provisional doesn't help you, when prices go up they do. So we did benefit from that. And that was probably the biggest piece.

Steeve Thibeault, Chief Financial Officer

Craig, you'll be happy that in note 23 in our financial statement you can find more information around that, so have a look, have a look to the numbers in that note you'll see the number that probably has created that.

Craig Hutchison, TD Securities

Okay. I appreciate it. Thanks, guys.

Sasha Bukacheva, BMO Capital Markets

Thank you. Good morning and congratulations. I wanted to know how sustainable the costs cuts are that we've seen in the quarter and when we might see updated cost guidance for 2016 and then what would you be projecting for 2017 compared to the 2016 levels.

Steeve Thibeault, Chief Financial Officer

You said the sustaining, Sasha, sorry I missed the first...?

Sasha Bukacheva, BMO Capital Markets

The operating costs were definitely lower than what we expected and I think they were also tracking lower compared to your guidance, because I think they guided to 800 million if I am not mistaken and the cost came into the low dots, like below 200 on annualized basis. So how sustainable are those lower cost spend?

Steeve Thibeault, Chief Financial Officer

The main difference at the moment, Sasha, comes from the deferred stripping, okay? What's happening is that we have, remember in the first quarter we had a bench failure, okay, and that slowed down a little bit the deferred stripping, and honestly overall the year I think that can be probably a favourable area in term of CapEx. Now you'll understand that very often with deferred stripping it's just a swing between capital and operating expense. So I would say that I would not be surprised if we're going to be lower but we're still finalizing our estimate for the year before giving any guidance.

Sasha Bukacheva, BMO Capital Markets

Fair enough. Do you have a target in mind that you're trying to reach or how do you think about trying to lower your stripping costs?

Steeve Thibeault, Chief Financial Officer

Yeah, it's a change in the mining plan that we have, Sasha, and I would not be able to give you a number or a target today. It wouldn't be appropriate. Like I say, we are compiling and hopefully around the mid-year we should be able to look at that and probably give you something, maybe a new guidance. I'm not promising but probably we will have the information at that time to revise that.

Sasha Bukacheva, BMO Capital Markets

Okay. That's good to know. And second question I had was on the VAT numbers, Mongolian VAT of about $1 billion over the life of project that was included in the capital estimate. Is that refundable?

Steeve Thibeault, Chief Financial Officer

No.

Sasha Bukacheva, BMO Capital Markets

Okay, thank you. That's it from me.

Jeff Tygesen, Chief Executive Officer

Sasha, just to clarify, when you talk about that, that's over the life of the reserve, right?

Sasha Bukacheva, BMO Capital Markets

Yes. Yes, the $300 million for the extension and then $700 million during the life of mine post expansion.

Jeff Tygesen, Chief Executive Officer

I think we only gave capital estimates for the reserve case and not the life of mine resource. So that would go until 2054. Right?

Sasha Bukacheva, BMO Capital Markets

Yes.

Jeff Tygesen, Chief Executive Officer

Okay. Just difference in terms, life of mine cost would include resource and the reserve case is just open pit and Lift 1.

Sasha Bukacheva, BMO Capital Markets

Yeah, no, I'm just referring to (inaudible) that was noted that the capital estimate provided that's between 2016 and 2054 for the reserve piece.

Jeff Tygesen, Chief Executive Officer

Yep. Right. Thank you.

Sasha Bukacheva, BMO Capital Markets

So that's not refundable?

Jeff Tygesen, Chief Executive Officer

No.

Operator

Thank you. This will conclude today's question-and-answer session. I will now turn the meeting back over to Mr. Tygesen for closing remarks.

Jeff Tygesen, Chief Executive Officer

Thank you for joining us today for the call. Underground development is expected to restart mid-2016. 80 percent of Oyu Tolgoi's value resides in our underground reserves and, I've said this before and I'll continue to say it, in my opinion is the best copper opportunity in development today. Thank you.
