

CORPORATE PARTICIPANTS

Jeff Tygesen
Chief Executive Officer

Steeve Thibeault
Chief Financial Officer

Stewart Beckman
Senior Vice President, Operations & Technical

Tony Shaffer
Investor & Media Relations

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Q2 2015 Financial Results held on August 6, 2015. The call is being recorded and will be available later today for replay.

I would now like to turn the meeting over to Mr. Tony Shaffer. 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 second quarter 2015 results press release, MD&A and financial statements. These items are available on our website and SEDAR.

With me today is Jeff Tygesen, CEO; Steeve Thibeault, CFO; and Stewart Beckman, Senior Vice President of Operations and Technical. 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 would now like to turn the call over to Jeff.

Jeff Tygesen, Chief Executive Officer

Thank you, Tony.

The second quarter was significant for Turquoise Hill with the signing of the underground agreement with the

Mongolian government. The agreement successfully resolved outstanding shareholder matters and is a major first step towards restarting underground development, which is where approximately 80 percent of Oyu Tolgoi's value resides.

The second quarter was strong in terms of production with Oyu Tolgoi reaching a number of all-time highs. While production in the quarter was very good, we continue to work on a number of improvements which we hope will help to lever even stronger production.

This morning I will start things off by providing a high-level overview of the quarter. I will then turn the call over to Steeve, who will address the financials, and then to Stewart, who will cover off operations.

So for the second quarter there were a number of key takeaways I want to highlight:

First, safety is a major focus throughout Oyu Tolgoi's operation and a critical aspect of our business. During the first half of the year Oyu Tolgoi achieved a strong safety performance with an all-injury frequency rate of 0.22 per 200,000 hours worked. I would like to commend the team at Oyu Tolgoi for being injury free for 88 days of the quarter. For such a new operation, this is a very impressive performance.

Second, revenues during the quarter were essentially flat over first quarter, although concentrate sales increased by 13 percent. Revenues reflected a drop in gold prices partially offset by the increase in concentrate. Operating cash flow for the quarter was almost \$240 million.

Third, concentrate production in the quarter was strong as Oyu Tolgoi began accessing higher-grade material. Concentrate production was the highest Oyu Tolgoi has seen since operations began due to increased throughput and higher grades. Second quarter mill throughput was also the best Oyu Tolgoi has experienced since operations began. Increased throughput and higher grades led to significant increase in the production of copper and gold in concentrate over the first quarter. We expect to see improvements in throughput in the second half of the year after work was completed in the July shutdown.

Fourth, mining and processing of higher-grade ore is expected to continue in the second half of 2015. Copper production is expected to be higher in the second half of the year than the first half. Gold production is expected to moderate in the second half of the year as grades begin to decline late in the third quarter. We are maintaining our production guidance for the year.

Lastly, following the signing of the underground agreement in May we are progressing project financing and updating the feasibility study. Steeve will provide more details on project financing but we continue to expect signing by the end of 2015. The feasibility study, which we submitted to the Minerals Council in March of this year, has been tentatively accepted pending the updating of schedules and alignment with the underground agreement. That update is to be submitted to the Minerals Council in September. Ahead of the final approvals by the respective boards an update in the capital estimate will be completed. We don't expect to see a material change in that update from current estimates. The updated capital estimate is expected to be done in the first quarter of 2016 with board approval shortly thereafter.

Overall, I am pleased with current operations and the progress we are making toward restarting underground development. We are working diligently and as quickly as possible to advance that development.

At this point I'm going to turn the call over to Steeve to discuss the financial aspects in more detail.

Steeve Thibeault, Chief Financial Officer

Thank you, Jeff.

In the second quarter the income attributable to the Turquoise Hill shareholders was \$24.9 million. Income from continuing operations, which relates to Oyu Tolgoi, was \$49.9 million. This includes \$61.8 million related to one-time adjustments connected to the underground agreement signed in May and from discontinued operations, solely SouthGobi, was \$25 million, including a loss on the disposal of SouthGobi shares of \$20 million.

Revenues of \$421 million were broadly in line with the previous quarter. Concentrate sales for the second quarter increased to 189,800 tonnes compared to 167,700 tonnes in the first quarter. Higher copper sales in the second quarter were offset by lower gold volume and prices.

Following the signing of the underground agreement in May we recognized in our financial statements the following one-time charges: The write-off of the 2 percent net smelter royalty for \$36.8 million; the true-up for the government royalty, sales royalty, which are now calculated on gross sales instead of net sales, for \$17 million; and the settlement of the 2014 Tax Act for \$22.1 million. Please note that the charge of \$8 million had

already been recognized in the previous period for the same item.

At June 30th our cash balance was approximately \$1.2 billion. This has increased from \$954 million at the end of March. Cash from operating activities for the second quarter was \$239 million. Capital expenditure on a cash basis was \$35 million. It includes approximately \$15 million of sustaining capital, \$8 million for deferred stripping, and \$9 million for the tailings storage facility.

We are maintaining our 2015 guidance for CapEx and cash operating cost. We expect total CapEx to be \$230 million and cash operating cost to be approximately \$1 billion.

Now turning to unit costs, C1 costs for the second quarter were \$0.73 per pound compared to \$0.09 per pound in the first quarter. The second quarter C1 costs were unfavourably impacted by certain one-time adjustments related to the underground agreement and lower by-product credits. The impact of the underground agreement on C1 costs was \$0.14 per pound for the quarter and \$0.09 for the first half of 2015.

Cash operating costs for the second quarter were \$2.33 per pound compared to \$2.96 for the first quarter. The cost reduction is explained by additional production volume and cost reduction generated by Oyu Tolgoi offsetting the one-time charges related to the underground agreement.

That concludes my comments and I'm going to turn the call over to Stewart.

Stewart Beckman, Senior Vice President, Operations & Technical

Thank you, Steve.

The second quarter was OT's best production quarter so far. This result was an outcome of both steady and improving performance of the operations both in the mine and the concentrator and increasing grades as we again access the high-grade zone in phase two of the mine. Through the rest of 2015 we will continue to process ore from phases two and three, which will include a portion of ore from the high-grade zone in phase two. As a result, we've maintained guidance of 175,000 to 195,000 tonnes of copper and 600,000 to 700,000 ounces of gold in concentrates.

The planned shutdown in July, which included a period of full plant shutdown, was successfully completed. During

the shutdown there were some improvement projects completed which mostly addressed outstanding commissioning limitations. Initial indications are encouraging. We also inspected much of the plant, including the thickeners, and replaced the rake arms in thickener number two.

In March 2015 we submitted a version of the feasibility study to the Mongolian Minerals Council in order to meet our five-yearly update requirement. As it was not a resolution to the shareholders issues at the time, this version of the feasibility study had nominal restart dates. The Minerals Council has tentatively accepted this feasibility study pending an update of the schedules and alignment with the underground plan. This will be submitted before the first of September.

The basis of the feasibility study and the capital estimate was completed in late 2013. Ahead of the final approval of the project by the board, an update to the capital estimate will be completed in parallel with other pre-start activities which we've started. We have engaged the third EPCM contractor for this work in parallel with some critical path detailed engineering works.

That concludes my comments. Back to you, Jeff.

Jeff Tygesen, Chief Executive Officer

Thanks, Stewart.

In summary, Oyu Tolgoi delivered strong second quarter results. Concentrate sales increased, although revenues were impacted by falling gold prices. Cash flow from the operations was almost \$240 million and we ended the quarter with approximately \$1.2 billion of cash.

Increased mill throughput, higher grades led to increases in concentrate production as well as copper and gold in concentrates. Processing of higher-grade ore is expected to continue in the second half of 2015 and we are maintaining our annual production guidance.

Following our agreement with the Mongolian government in May, which resolved outstanding shareholder matters, we are progressing project financing and updating the underground feasibility study.

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

QUESTION AND ANSWER SESSION

Ralph Profiti, Credit Suisse

Good morning. Thanks, operator. Stewart, in your assessment post shutdown it seems you are more confident in mill reliability as a whole. My question is how much above 100,000 tonnes per day on a sustainable basis now do you think taking into account work to date without an incremental capital can this mill run?

Stewart Beckman, Senior Vice President, Operations & Technical

That's a leading subjective question. We're planning for the rest of the year to average, by month, between 100,000 and 110,000 tonnes, depending on what sort of maintenance work we will be doing. We've got another planned shutdown for realigning in September, a short one, for the SAG mills, so we'll average for the half, including the relatively large shutdown in July, at about 100,000 tonnes.

Ralph Profiti, Credit Suisse

Okay. Okay, that's fair. Steeve, can you maybe shed some light on the accuracy of the cost estimate for a full feasibility study that we'll see in the first quarter? You know, typically plus or minus 10 to 15 percent but, you know, given some of the counterparty discussions and more time you've had to work on the number, could we see a significantly tighter cost estimate in terms of the accuracy?

Steeve Thibeault, Chief Financial Officer

I'll leave that to Stewart. Stewart is very involved in that process, Ralph, okay?

Stewart Beckman, Senior Vice President, Operations & Technical

Yeah. So, Ralph, we're preparing the estimate to an FS level. We'll engage our EPCM in the re-estimate. We have had them do some work with us on a review earlier in the year, so we're relatively confident at this stage, and we're hoping to see some improvements as a result of where the market currently is. We'll be prepared to the feasibility study level, which is minus 10 plus 15 percent.

Ralph Profiti, Credit Suisse

Okay. All right. Thank you for that. Thank you.

Operator

Thank you. The following question is from Craig Hutchison from TD Securities. Please go ahead.

Craig Hutchison, TD Securities

Good morning. Thanks for taking my question. There was an article about a month back in Reuters that mentioned that, I think it was the prime minister of Mongolia mentioned that there was a commitment by Rio Tinto to spend between \$250 and \$300 million on the underground development in 2015. Are there any commitments to spend this year and do you guys feel comfortable spending from your cash balance ahead of securing the actual debt financing?

Jeff Tygesen, Chief Executive Officer

Craig, thanks for your question. This is Jeff. There were comments in the news, statements that the PM made. There is spending that's going to be going on in getting the project ready, so we're in a position, once we secure project financing and approvals have all been agreed to. Is it in the range that the PM was quoting or what people were quoting by the PM? It's probably a little bit less. But it's in line with what we said in our tech report. It's just been moved back in time. But Stewart can add a little bit to that.

Stewart Beckman, Senior Vice President, Operations & Technical

So we've started the preparations for restart. We've started to employ key leadership roles. We've started critical engineering work. We have a plan in place. We'll be back to the board very shortly to request the funding for that. We've been using the funding that we already had approved for work for this year to proceed with that work. So what I would say is we're moving as fast as we can and our aim is not to slow down the work ahead of the approval and the preparation works we're doing in parallel with the work required to get the final approvals of the feasibility study and the project next year after financing and the feasibility and the re-estimate is done and submitted. Does that help?

Craig Hutchison, TD Securities

Yeah, that's helpful. Thanks. Can you just remind me, the \$230 million of CapEx forecasted for this year, does that include some underground spending or is that sustaining and specific to the open-pit operation?

Stewart Beckman, Senior Vice President, Operations & Technical

We had \$20 million approved this year, which was holding costs and some critical engineering and proceeding with some of the important critical path contract works. For example, we've completed the EPCM process. We haven't yet awarded the EPCM but we have notified the preferred EPCM contractor.

Steve Thibeault, Chief Financial Officer

And the majority was sustaining and non-underground strategic projects that we had also a small amount that was there too, Craig.

Craig Hutchison, TD Securities

Okay, thanks. Maybe just one last question for me: Can you give us a sense of what strip ratio you're going to be running at for the next, say, 12 months?

Jeff Tygesen, Chief Executive Officer

On average I'd say it's probably 2, 2.2 to 1.

Craig Hutchison, TD Securities

2.2 to 1. Okay, great. Thanks, guys.

Operator

Thank you. Once again, please press star one if you have a question. The following question is from Daniel McConvey from Rosspoint Investments. Please go ahead.

Daniel McConvey, Rossport Investments

Good morning, Jeff, everyone. A couple questions: as you're now with more mining behind you I just wondered if there's anything, how the reconciliation is doing between the mine plan and the blast results. And as you look forward to 2016 is what you're seeing so far in the pit, is there, do you expect much in the way of changes from what was in the technical report?

Stewart Beckman, Senior Vice President, Operations & Technical

Yeah, so we've been seeing a positive reconciliation between the blast hole samples and the ore block model. We've got a strategy for stockpiling. We currently have about 3 million tonnes in the high-grade tactical stockpile and about 30 million tonnes in our medium-grade stockpile, which makes the reconciliation back through the mill and so sort of a total value stream a little bit difficult. We are running a short-term model in the pit, which looks forward three to six benches in the mine, for optimizing the mine. We don't yet have enough data to determine whether or not we will have to make a change to the resource, ah, reserve model, but at this stage what we're seeing is a positive reconciliation.

Daniel McConvey, Rossport Investments

Okay, thanks. Two more questions. On the financing, I think you know the answer to this, it's a very, very robust ore body but is there a price for copper, say, you know, sub \$2, where it would be more difficult for the banks to close?

Steeve Thibeault, Chief Financial Officer

Daniel, on that one, remember what we said, the total capacity funding for the project is \$6 billion, and that's pretty much getting, getting in line with that at the moment. The current project financing is \$4.2 billion so I don't see any problem for the current phase to secure what we already have, like the \$4.2 billion. Very confident there.

Daniel McConvey, Rossport Investments

Okay, no matter—I shouldn't say no matter what the price but with circa 20 percent prices from here it shouldn't be an issue.

Steeve Thibeault, Chief Financial Officer

Keep in mind that the price, I mean I never say never an issue, okay, but I think that, let's face it, the model that we have, especially with the banks, already has some conservatism built into it, and that's already factored in some of their prices, the prices that they are using, and we're still confident with the current financing.

Daniel McConvey, Rossport Investments

Okay. Okay, thank you. Finally, just as you're ramping up for the underground, any positive surprise you're seeing with contractors, et cetera, given the current market conditions? Or are things kind of falling, the pricing you're getting now is kind of falling in line with what you would have expected three to six months ago?

Stewart Beckman, Senior Vice President, Operations & Technical

We haven't got to the point where we could comment on that yet. We haven't done enough work with the contractors. As we set out with the re-estimate work with our preferred EPCM we'll get a better handle on that.

Daniel McConvey, Rossport Investments

Okay, great. Thank you very much, guys.

Operator

Thank you. The following question is from Sasha Bukacheva from BMO. Please go ahead.

Sasha Bukacheva, BMO Capital Markets

Thank you, operator. Steeve, I just want to get a little bit more clarity around the capital expenditure. So that \$20 million that you have improved for holding costs and engineering and some critical path work, is that a part of your \$230 million budget or is that in addition to it?

Steeve Thibeault, Chief Financial Officer

No, that's part of it, Sasha.

Sasha Bukacheva, BMO Capital Markets

That's part of the budget. Okay. And then is there any other work you might have to do between now and the underground sanctioning that might entail additional capital cost on top of that \$230 million budget?

Steeve Thibeault, Chief Financial Officer

In addition to that, yeah, we would have if, ah, Stewart, do you want to answer if there would be additional capital between...?

Stewart Beckman, Senior Vice President, Operations & Technical

Yeah. So we're in the latter stages of preparing an application to the board for capital for readiness works to ensure that we continue with the ramp-up in preparation for restart in parallel with the re-estimate work and other requirements for the sign-off for the final approval of the project.

Sasha Bukacheva, BMO Capital Markets

And the order of magnitude budget on that would be roughly...? Can you provide us maybe with a range?

Stewart Beckman, Senior Vice President, Operations & Technical

It'd be about \$100 million, inclusive of the \$20 million.

Sasha Bukacheva, BMO Capital Markets

Perfect. And then that money would potentially come out in the second half of this year.

Stewart Beckman, Senior Vice President, Operations & Technical

Through to the point where we would seek approval, which would be the end of the first quarter.

Steeve Thibeault, Chief Financial Officer

Q2 2016.

Stewart Beckman, Senior Vice President, Operations & Technical

Roughly.

Sasha Bukacheva, BMO Capital Markets

Okay. Okay, perfect.

Stewart Beckman, Senior Vice President, Operations & Technical

It's still very rough.

Sasha Bukacheva, BMO Capital Markets

Got it. Thank you very much. That's it for me.

Operator

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

Jeff Tygesen, Chief Executive Officer

Thank you for joining us on the call today. Operations at Oyu Tolgoi continue to improve and we expect the processing of higher-grade ore in the second half of 2015. We are working diligently on progressing project financing as well as updating the feasibility study and moving closer to restarting underground development. Thank you again.
