## CORPORATE PARTICIPANTS

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*Investor Relations*

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*Chief Executive Officer*

**Steeve Thibeault**
*Chief Financial Officer*

**Stewart Beckman**
*Senior Vice President, Operations & Technical*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Q1 2015 Financial Results held on May 12, 2015. I would now like to turn the call over to Jessica Largent. The call is being recorded and will be available today for replay. Please go ahead.

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**Jessica Largent, Investor Relations**

Thank you, Camille. I want to welcome you to our financial results conference call. Yesterday we released our first quarter 2015 results press release, MD&A, financial statements, and other annual documents. 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, Jess.

As we enter Oyu Tolgoi's second full year of production, operations continue to improved and progress. Over the past several months I have made multiple trips to Mongolia and I've also met with a number of our large investors. I continue to believe that management and all shareholders have a unified goal of delivering value for Turquoise Hill, which hinges on a number of components. One of those components is solid financial and operational performance, which we will discuss today.

Today I'll start things by providing a high-level view of our first quarter results. I will then turn the call over to Steeve, who will address the financials, and then Stewart will cover off operations.

So for the first quarter, there are few key takeaways I want to highlight:

First, safety is a critical aspect of our business and a major focus throughout Oyu Tolgoi's operation. During the first quarter Oyu Tolgoi achieved a strong safety performance with no fatalities and an all-injury frequency rate of 0.25 per 200,000 hours worked. I would like to commend the Oyu Tolgoi team.

Second, first quarter revenues in concentrate sales were down compared to fourth quarter of 2014. This was expected due to lower quarterly production and head grades. First quarter sales were impacted by the Lunar New Year holiday in February. That said, concentrate sales exceeded production for the quarter and our cash flow from operations was more than $100 million. Also during the quarter Oyu Tolgoi achieved the milestone of shipping their one millionth tonne of concentrate.

Third, operational improvements that were initiated during 2014 are starting to take hold. Stewart will discuss this further.

Fourth, we expect to see higher-grade ore in the second quarter, as we highlighted during our last call. We anticipate the production distribution for 2015 to be similar to last year with levels significantly higher in the second half of this year. In the concentrator, Oyu Tolgoi has a planned shutdown expected to take place during July to install the second set of pebble crusher magnets. This is part of our continuous improvement program.

Lastly, I want to speak about the status of the discussions with the government of Mongolia. I'm sure many of you have seen comments in the media by Mongolian officials about the status of Oyu Tolgoi discussions. While significant progress has been made, we have not finalized the comprehensive agreement that would allow underground development to recommence. We continue to believe that unlocking Oyu Tolgoi's value for all shareholders is through developing the underground. All parties are committed to resolving matters and moving forward with the underground. While a final agreement has not been reached, I believe good progress has been made and I am optimistic we can resolve outstanding matters.

On project financing, we continue to engage with the consortium of banks and they remain supportive of the transaction. Current indications are a suitable financing package will be available once we have successfully resolved the outstanding matters. Until we are able to resolve matters and ultimately restart underground development, I think it's important to remember that we have an open pit mine generating positive operating cash flow.

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

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**Steeve Thibeault, Chief Financial Officer**

Thank you, Jeff.

First I'll take a few minutes to discuss the impact of the conversion of U.S. GAAP to IFRS, then I will discuss Q1 financial results.

So, beginning January 1, 2015 we began preparing our financial statements in accordance with the international financial reporting standards or IFRS. Now our MD&A and financial statements, we highlighted the impact of the conversion. Here are some examples:

First, under U.S. GAAP the first stripping is treated as a current production cost, while under IFRS it is capitalized to mineral property to the extent it benefits future ore extraction. This adjustment impact property, plan, and equipment, or PP&E, and also flowed through the inventory balances on the balance sheet. The impact as of January 1, 2014 was an increase of $9.4 million of PP&E.

Second, under the U.S. GAAP the non-current inventory was carried at the lower of costs and undiscounted net realized value. Under IFRS the company value inventory at the lower of costs and discounted net realized value based on cash flow of when the stockpile are expected to be processed. This resulted in a provision against the non-current inventory and corresponding adjustment to retained earnings at January 1, 2014 of $104 million.

Third, as a result of the IFRS conversion, we also modified the presentation of certain items on the financial statements. Mining royalty are now included within operating expenses where previously they were netted against revenues. Accretion expense from decommissioning obligations is included within finance costs. It was previously shown separately on the (face) of the financials of statement of operations. Deferred income tax liabilities from withholding taxes on intercompany interest payments are now classify as non-current deferred income taxes. It was previously included in accounts payable and accrued liabilities.

And, lastly, under U.S. GAAP in Q4 2014 financial statement the investment in SouthGobi was considered an investment in a company subject to significant influence. The investment was recognized at fair value as a long-term investment with the non-current asset held for sale. Under IFRS the company has determined it had the power to control the activities of SouthGobi and has consolidated SouthGobi in the company consolidated financial statement as held for sale and discontinued operation.

Moving to Q1 financial results, during the first quarter of 2015 Oyu Tolgoi generated net revenue of approximately $426 million on sales of approximately 167,000 tonnes of concentrate. Revenue and sales were down over 2014 fourth quarter, as expected. This reflects lower production due to reduced head grades.

First quarter income attributable to shareholders was $96.2 million, which included non-cash impairment reversal credit related to SouthGobi investment of approximately $35 million.

The cash balance at the end of March was a little more than $950 million with an operating cash flow of $105 million for the period. As previously mentioned, these funds are earmarked for underground development. Capital expenditure for the quarter totalled approximately $30 million including $27 million of sustaining capital.

Our cash operating cost guidance for 2015 has increased from $900 million to $1 billion, an increase of $100 million to consider the IFRS presentation change related to the 5 percent royalty payable to the government of Mongolia. Previously, the royalty was deducted from revenue and now are reflected as a cash operating expense.

Lastly, this first quarter we began reporting unit cost data, both C1 cash costs and all-in sustaining costs. These metrics are impacted by by-product credits, which were substantial in the first quarter due to the high gold content in the concentrates sold. We have provided a reconciliation to cash operating costs and the MD&A for reference.

That concludes my comments. I'm going to turn it call to Stewart.

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**Stewart Beckman, Senior Vice President, Operations & Technical**

Thank you, Steeve.

There were no surprises in the quarter. Concentrate production for Q1 was about 30 percent lower than Q4, primarily the result of mining lower grade ores, which was in line mining schedule. During the quarter we completed a most successful shutdown to date. The shutdown was conducted successively on both SAG mills to re-line the mills and to undertake other advancements and improvement work. The work was completed on time and with no injuries.

Mining is on track with material mined in Q1 about 15 percent higher than the previous quarter. As Jeff indicated, the mine continuous improvement program has really started to get traction. The program is mostly been low-cost modification and other operational improvements. For example, quick change initiatives, improved manning coverage for shift change and mill breaks, and simple modifications to the truck trays to allow them to carry more, combined with training and monitoring to ensure that every truck load is a full one.

As planned, we started to regain access to the high grade zone in Q2. Encouragingly, we also continue to see a slight positive reconciliation in the open pit. While the concentrator milling rates increased in Q1 as improvements started to take effect, there are further improvements planned in the summer shutdown. In particular, some modifications were made to the pebble crushing circuit that partially resolved recycle issues which restrict SAG mill rates. Extra magnets will be added to the circuit during the full planned shutdown. We expect that this, along with other improvements, will improve concentrated throughput. Additionally, our mine to mill project has been underway, looking to optimize such things as blast fragmentation, crusher product size, and concentrator performance. We've made some improvements in this space and work continues. For 2015 our guidance remains at 175,000 to 195,000 tonnes of copper and 600,000 to 700,000 ounces of gold and concentrates.

Finally, the Mongolian Minister for Mining, Mr. Jigjid, has appointed an expert group and they've started the process of reviewing the modified feasibility study. OTFS 2015, which was submitted in mid-March. We had a series of meetings and presentations over the last few weeks and the experts were on site over the weekend.

That concludes my comments. I'll turn it back over to you, Jeff.

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**Jeff Tygesen, Chief Executive Officer**

Thanks, Stewart.

In summary, Oyu Tolgoi delivered solid first quarter results. Sales exceeded production for the quarter, cash flow from operations was more than $100 million, operational improvements are starting to take hold, and in the second quarter we started mining higher grade ore. We continue active engagement with the government to resolve outstanding matters and I am confident that we can reach a successful outcome.

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

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## QUESTION AND ANSWER SESSION

**Orest Wowkodaw, Scotiabank**

Hi. Good morning. I was wondering if you could help explain how to understand the movements in the shareholder loan accounts. It looks like it was $7.8 billion as of the end of 2014 and now it's at $6.9 billion. I see from the disclosure that there was a $150 million payment in Q1 but how do we understand the differences in terms of change of these accounts?

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**Steeve Thibeault, Chief Financial Officer**

Orest, the presentation in the last year was reflecting the two numbers together. The Q1 has the right presentation where we're showing the two numbers separately, so we're showing the shareholder loans and we're showing the lending certificates separately. It's something that we picked up after and it was not very clear in the last quarter. So there is no increase, as you say, there was a payment done, but the movement for the shareholder loans would go down. It's just a question of presentation that Q4 was not correct, if I can say this way.

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**Orest Wowkodaw, Scotiabank**

Oh, I see. Okay. So really you're saying the Q4 balance should have been something different than the 7.8 to get to the 6.9 today?

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**Steeve Thibeault, Chief Financial Officer**

It was including both the shareholder loans and the EOT loans as well.

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**Orest Wowkodaw, Scotiabank**

Okay.

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**Steeve Thibeault, Chief Financial Officer**

They should not have been combined, Orest, okay? We should have presented that differently.

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**Orest Wowkodaw, Scotiabank**

Okay. Thank you for the clarification.

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**Craig Hutchison, TD Securities**

Good morning, guys. Can you give us a sense or what throughputs you're actually targeting for this year and how long you anticipate that shutdown to be in July to make the changes to the pebble crusher?

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**Jeff Tygesen, Chief Executive Officer**

Craig, this is Jeff. With Stewart spending a lot of time on site and working with the site team, I'm going to let him respond to that.

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**Stewart Beckman, Senior Vice President, Operations & Technical**

Hi, Craig. It's Stewart. How are you?

Okay. So we haven't disclosed the rates that we're after but they're of the order of 110 tonne a day through the plant will be the target post shutdown. We do see those from time to time coming through the plant now. And the shutdown duration hasn't been finalized yet. And the shutdown work is included in the annual plan, so it's not extra work that we need to do. It'll be—it's been taken into consideration when we issued guidance, for the year anyway. But it will be of the order of couple of weeks. And we need to do a significant shutdown once a year. We couldn't do a lot of the work in January because we needed to do the shutdown successively so that we could keep the mills going, at least one of lines going so that we didn't freeze the plant.

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**Craig Hutchison, TD Securities**

The 110 tonnes per day, I assume that's a nominal rate. Can we apply, I guess, like a 92 percent availability factor to that number?

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**Stewart Beckman, Senior Vice President, Operations & Technical**

We're aiming to achieve above 110. But, at this stage, that's above the design number, but that will be our expectation of that order on a continuous basis.

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**Craig Hutchison, TD Securities**

Is the ore softer than you guys had anticipated? Because I thought there was some constrains to getting up above 100,000 tonnes a day given the hardness of the ore.

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**Stewart Beckman, Senior Vice President, Operations & Technical**

No. So what the team has been doing, they've been doing a number of things. In particular, looking at blast fragmentation. So they're increasing the cost in the pit of blasting to get a finer blast coming into the plant. We're also running the primary crusher at closed gap so, when we can, that's may be some six inches down to four inches. So we're providing harder feed. And then there's been a whole series of work around optimizing the control of the mills. And we do get restricted around the mills because of the performance of the magnets, so what happens is we've had a lot of balls failing, um, and then ball seal comes up and then we end up with the crusher's going to bypass with a large circulating (load).

So we've done some initial work by modifying the equipment that we've got and that's improved it. We've done a whole lot of work to replace, to change ball hardness, so we've got a tougher ball that crushes a little bit faster but is less likely to break in the mills. And then on the shutdown we'll do some major modifications to the screens, to the magnets, sorry. So there's been quite a quantum of work. That's not everything that's happened but that's a big chunk of the work that's happened. And, you know, if you step back and have a look at the amount of the work that the team have been putting in, it's pretty impressive, over the last, really the last six to twelve months, and so we would hope to see that coming to fruition in the back half of the year.

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**Craig Hutchison, TD Securities**

Okay, thanks.

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**Orest Wowkodaw, Scotiabank**

Hi. Thanks for taking my follow up. I was wondering if you could provide any colour in terms of the negotiations with the Mongolian government in terms of what areas are still left to be resolved. I know you don't want to get into specifics but if you could maybe just provide any colour in terms of what's left in order for phase two to move forward?

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**Jeff Tygesen, Chief Executive Officer**

Orest, this is Jeff. I'll field that question. As you may or may not know, we've been in discussions for a period of time and what we're trying to conclude and finalize are some of the more technical questions related to stabilization of the original investment agreement with relation to tax, and that's where the time is being spent, is to make sure, and I think the Prime Minister was quoted recently as saying that "His technical team needs to make sure the agreements that we reach are sustainable for a long period of time and then we just don't reach an agreement and then find a technical issue that might crop up later." So it's spending that time and that level of detail to ensure that basically all the Ts are crossed Is are dotted. But it's getting into the details of the tax calculations.

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**Orest Wowkodaw, Scotiabank**

And is it your view that if once the tax sort of agreement is stabilized that the other issues are relatively minor in terms of that are left to be resolved or?

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**Jeff Tygesen, Chief Executive Officer**

Well, there were no real minor issues, but we've been able to work through those and reach understandings on those. And I want to point out that it's a package, not just one item and then we move on, but a collective package. So I think all items when we started the initial discussions were something that we could achieve agreement on and we're just getting it down to those last few that require a little more time and, as everybody knows, it takes a lot of time with the tax guys.

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**Orest Wowkodaw, Scotiabank**

Is it your expectation that you would be in position to reach a final agreement three months from now when we have your Q2 call?

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**Jeff Tygesen, Chief Executive Officer**

I've been hopeful for a while. I would say and characterize that both sides are working very hard and it's in everybody's best interest to do it sooner than later, but I wouldn't want to pick a date and say this is it, because the likelihood of hitting that date, I'd be wrong. It could be earlier or it could be later but that date, I know I'd be wrong.

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**Orest Wowkodaw, Scotiabank**

Okay, fair enough. Thank you very much.

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**Operator**

Thank you. We have no further questions registered at this time. I would now like to turn the meeting back over to Mr. Tygesen. Please go ahead.

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**Jeff Tygesen, Chief Executive Officer**

Well, I'd like to thank you for joining us on today's call. Operations at Oyu Tolgoi continue to improve and we should begin to see higher grade ore process beginning in the second quarter. I am confident that matters with the Mongolian government will be successfully resolved. Again, thank you for joining us and that concludes the call.

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