

CORPORATE PARTICIPANTS

Jessica Largent
Investor Relations

Kay Priestly
Chief Executive Officer

Steeve Thibeault
Chief Financial Officer

Stewart Beckman
Senior Vice President, Operations & Technical

CONFERENCE CALL PARTICIPANTS

Terence Ortslan
TSO & Associates

Craig Hutchison
TD Securities

Daniel McConvey
Rosspart Investments

Ralph Profiti
Credit Suisse

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Q3 Results held on November 10, 2014. I would now like to turn the call over to Jessica Largent. The call is being recorded and will be available later today for replay. Please go ahead.

Jessica Largent, Investor Relations

Thank you, operator. I want to welcome you to our third quarter 2014 financial results conference call.

This morning we released our third quarter results press release, MD&A, and financial statements. These items are available on our website and SEDAR.

With me today is Kay Priestly, 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 Kay.

Kay Priestly, Chief Executive Officer

Thank you, Jess. Good morning everyone and thank you for joining us today.

I'm going to start the call off with a high-level overview of the quarter. Steeve Thibeault will cover the financial aspects of the quarter and Stewart Beckman will discuss operations. I'll finish with the status of discussions with Mongolian government and then we'll take your questions.

In terms of the high-level overview, there are several key takeaways that are important. First, concentrate sales in the third quarter where the best we've seen thus far. With so much discussion focused on the government negotiations I think it is important that we recognize that we have an operating copper and gold mine generating significant operating cash flow. I am very proud of the team at Oyu Tolgoi for all their achievements this year, particularly the ramp up in sales and the focus on operating as efficiently as possible.

Second, we continue to work with the government to resolve the shareholder matters and finalize project finance. Last week's resignation of the Mongolian prime minister and announcement that a new cabinet would be formed will likely impact the timing of those discussions. We are not in a position to make any predictions or comment on the political environment. We are monitoring the situation and we have to wait and see how the political process unfolds. We stand ready and willing to work with the new leadership when in place and continue our engagement.

Third, I want to speak to safety, which is a critical part of our operations. Safety remains a major focus for Oyu Tolgoi and the mine's management is committed to reducing risk and injury. Through the end of the third quarter, Oyu Tolgoi's all-injury frequency rate was 0.50 per 200,000 hours' work.

At this point I'd like to turn thing over to Steeve to discuss the financial aspects of the quarter.

Steeve Thibeault, Chief Financial Officer

Thanks.

As previously mentioned by Kay, sales for the third quarter were the best we've seen so far from Oyu Tolgoi. Net revenue was \$466 million, which is a 9 percent increase over the second quarter from approximately 220,000 tonnes of concentrate. Sales for the quarter exceeded production, resulting in a planned inventory drawdown. Fourth quarter sales are expected to remain strong and we continue to target between four to eight weeks of concentrate inventory at Oyu Tolgoi by the end of this year.

In terms of cash flow, the inventory drawdown is having a positive impact on working capital. Given Oyu Tolgoi's strong sales this year and the operation moving to a steady state, we are building a strong cash position with cash on-hand of approximately \$345 million at the end of September. Reduced capital and expenditure due to the underground being on care and maintenance also contributed to the increase of cash. Compared with our funding constraints during the recent years, I have to say that this is a nice situation to be in. Cash surplus is currently earmarked for the underground development. Until we are ready to move ahead with the underground, our investment strategy is designed to preserve cash.

Our net income related to continuing operations was \$40.8 million for the quarter. Following the sales and purchase agreement of approximately 30 percent of SouthGobi, we reclassified SouthGobi asset and liability on the balance sheet to help for sales and discontinued operations in the income statement and cash flow. During the quarter we recorded an impairment of \$125 million related to the reclassification of SouthGobi. After non-controlling interest, a \$70 million impairment is included in the \$79.5 million net loss related to discontinued operations.

Other operating expenses for the quarter at \$52.5 million is mainly Oyu Tolgoi G&A, including the Ulaanbaatar office and operation support team, warehousing cost for content (inaudible) located at the Chinese border, and management services payment.

This concludes my comments. I'm going to turn the call over to Stewart to discussion operations.

Stewart Beckman, Senior Vice President, Operations & Technical

Thanks, Steeve.

Third quarter production was impacted by the September failure of the rake arms in one of Oyu Tolgoi's two thickeners. It's worth noting that the failure of the rake arms was different to that of the rake blades that was experienced earlier in the year. Metal production remained in line with the second quarter as the higher grades offset the impact of the rake failure. Repair of the rake arms was completed at the end of September in the concentrator was gradually brought back into normal operations.

As a result of slower mining rates, we did not access the high grade zone of the open pit as early in the third quarter as we'd originally expected; however, by September we were consistently mining in the high grade zone. We will continue to mine through the high grade zone in the fourth quarter and early in the first quarter of 2015. Copper grades are expected to reach about 0.6 to 0.7 gram percent and gold grades are expected to average above 1 gram per tonne. Given the delayed mine advancement rate Oyu Tolgoi experienced in the third quarter and earlier in the year, as previously reported we slightly revised production guidance for 2014.

Oyu Tolgoi has structured programs in place looking to remove as much cost out of the business as possible and concurrently stabilizing production with a view to eventually creeping production. Part of this includes working with marketing and logistics to increase efficiencies and reduce costs in the supply chain. Importantly, with the underground delay, Oyu Tolgoi is looking at how to best reschedule the open-pit mine to maximize value and to reduce the risk. These initiatives have started to produce results and has allowed us to lower our operating cash cost guidance for the year by about \$130 million, of which about \$55 million is due to volume change.

The 2014 feasibility study was disclosed to the Oyu Tolgoi board but has not yet been approved by the board for submission to the Mongolian Minerals Council. The new reserve and resource report was submitted to the Minerals Council. This is a requirement ahead of the feasibility study submission, which is based on the new resource work. The Minerals Council voted to approve the acceptance of the resource submission pending some minor changes. We are awaiting written confirmation ahead of final submission. We released the new technical report that evaluates the development of the Hugo North Lift 1 underground mine and the processing of the Oyu Tolgoi reserves. The technical report again demonstrates what an outstanding asset Oyu Tolgoi is.

That concludes my comments. Back to you, Kay.

Kay Priestly, Chief Executive Officer

Thanks, Stewart.

I wanted to now take this opportunity to welcome Jeff Tygesen, the newly named Turquoise Hill CEO, to the company. Jeff is a mining engineer and his operational background will be extremely valuable to Turquoise Hill with Oyu Tolgoi being in production and the underground set to move forward, once matters with the government are resolved. He was on the Oyu Tolgoi technical committee from 2010 to 2011 and has been a Turquoise Hill director since 2012. Jeff knows Oyu Tolgoi and Turquoise Hill very well. When the board succession planning process started several months ago, my retirement was planned for the end of the year to allow for a logical transition period. I've known Jeff for many years and I'm confident that he is the right leader for Turquoise Hill, particularly in this space of Oyu Tolgoi's development. Jeff and I will work together through the end of the year to ensure a smooth transition.

Before we finish, I want to discuss the status of our discussions with the government. We all continue to be committed to resolving the shareholder matters and restarting underground development. We have presented an offer to the government proposing resolution on these matters and we believe this offer is beneficial to all stakeholders. We continue to work with the government to resolve and clarify remaining tax issues, including principals associated with the tax stabilization provisions and the investment agreement and their practical application to Oyu Tolgoi's business operations. It is important that the tax situation is clear to support further investment.

We continue to apprise the project finance lending group on the status of our discussions with the government of Mongolia. The lender group remains supportive of the Oyu Tolgoi project financing and current indications suggest a suitable package will be available in the future. The timing of any extension request on the formal lender commitment, which expired on September 30th, will be determined when definite progress or resolution of shareholder matters has been achieved.

In summary, I could not be more pleased with the sales from Oyu Tolgoi in the third quarter and the mine's cost and productivity improvements are starting to deliver real results. These two achievements are the main drivers of our enhanced financial performance and stronger cash position. The cash that is starting to build up is

earmarked for underground development and we have a strategy in place to protect those funds. We have also presented the Mongolian government with an offer to resolve outstanding matters that is beneficial to all stakeholders and we are ready to continue to engage, but we need to wait to see how the political situation unfolds.

That concludes our prepared remarks, operator. We are now ready for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the 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 for questions. Thank you for your patience.

Once again, please press star one on your telephone keypad if you have a question.

The first question is from Terence Ortslan from TSO & Associates. Please go ahead.

Terence Ortslan, TSO & Associates

Good morning, Kay, and thanks for all your assistance for the shareholders and to the company over the period of time. From what we understand, the prime minister has resigned, hasn't really resigned, it's been postponed until December, and there is more of an issue to us is the coalition possibility with other parties. First, maybe new cabinet will be formed after that, so I expect nothing is going to happen between now and December. Am I right?

Kay Priestly, Chief Executive Officer

Terence, thank you for your comments. We really are not in a position to speculate or predict the political situation right now. We would be speculating to do that and it would not be very productive. We are, of course, monitoring the situation and we just need to let the political process play out.

Terence Ortslan, TSO & Associates

No, I was commenting from the point of view what you said. You said the prime minister has resigned and a new cabinet will be formed and so what I'm saying is that from what we understand there will be no new cabinet for a while, until December, with the coalition happening. Our concern is that the new coalition will have more horse trading to do and compromise to do than the present government cabinet. Does that mean—to us it basically means that there could be more delays in this agreement. So question number one: Is that a possibility? And, number two is that with respect to the financing, the project financing, could there be maybe more delays into next year?

Kay Priestly, Chief Executive Officer

Terence, yes, to answer your question, the political situation certainly could result in a possible delay because of all the things you said and the uncertainty of the process right now. As far as project finance, we've been working with the lenders, both the banks, the commercial banks and the IFIs, and they have all been very supportive. We continue to engage and keep them informed. And, as I mentioned earlier, I'm confident that once matters are resolved and once we're ready to go forward with the underground that we will be able to have a funding solution.

Terence Ortslan, TSO & Associates

Okay. That doesn't really shed too much light about what I'm expected to hear from the company as a shareholder and also as all the shareholders, including Rio Tinto and the government, with respect to their shareholding in the industry, in the organization. Can we talk about the TC/RCs for next year? I know you forward sell your, ah, you commit your volumes. What change should we expect for TC/RC as an average next year versus this year?

Stewart Beckman, Senior Vice President, Operations & Technical

The TC/RCs will be industry standard.

Kay Priestly, Chief Executive Officer

Yeah, Terence, and we don't, we don't really provide that detail, but I can assure you that the sales and marketing

team worked very hard on getting industry standards and benchmarking to market terms.

Operator

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

Craig Hutchison, TD Securities

Thanks for taking my call. Can you tell me what level of government the offer was made to? Was this made to the board of OT or...? Any other levels?

Kay Priestly, Chief Executive Officer

Craig, this offer was made, clearly it was discussed with the board of OT but was also discussed with several representatives in government at various levels.

Craig Hutchison, TD Securities

Was it before or after the departure of the PM?

Kay Priestly, Chief Executive Officer

It was before.

Craig Hutchison, TD Securities

Okay. All right. Thank you. Those were my questions.

Operator

Thank you. The following question is from Daniel McConvey from Rosspport Investments. Please go ahead.

Daniel McConvey, Rosspport Investments

Yes, good morning, Kay, everyone. Just on that, Kay, can you give us a rough timing when was the offer made? In the last three months?

Kay Priestly, Chief Executive Officer

It's difficult to say. We've been engaged with the government for some time, quit some time and, as you may recall, there were many, many issues initially and we narrowed it down considerably and we've been working on a potential agreement and refining it. So it's hard to ballpark a specific time but recently we have presented an offer that we think is very beneficial and that incorporates a lot of the discussions we've had over this period.

Daniel McConvey, Rosspart Investments

Okay, thanks. With the open pit, if we do get delayed a lot longer, can you kind of give us the dynamics of what has to go in the pit in terms of the—I think I was hearing that you needed a blend, you're hoping to blend the open pit with the underground for arsenic or impurities, etcetera. What kind of difficulties is that (inaudible)...?

Stewart Beckman, Senior Vice President, Operations & Technical

You're breaking up quite badly. I believe you were asking what we will do with the open pit with the delay. So clearly the original scheduling for the open pit didn't contemplate a very long delay and you would have seen in the previous technical reports and this technical report that we have periods of lower production and cash flow as a result of staging of the pit and really what we were doing was developing the pit quickly to get to the gold zone quickly, then again another trench before the underground came on. Given that it's moving out, the team has been on site looking at how we best redo their schedule.

The issue, you broke up quite badly when you were talking about the arsenic. The area with the high arsenic is an area of the pit called central and we are, in fact, looking at the possibility of pulling some of that material forward. There are some areas of higher grade in there but probably and more importantly for us is that the ore in central is substantially softer than the ore in the rest of the open pit. And we're looking at whether we can advance the development of that and increase the production to the volumetric limit of the processing plant and overall increase the production through the concentrator to the extent that we are actually drilling a couple of metallurgical test holes in there and looking at what it does to reschedule. It is higher in arsenic, and you can see that in the technical report, but it's always been within the blending limits that we've got, and certainly

we're looking at how we would blend that, and bringing it forward will help us both increase production through volume increase and also blend out any of that arsenic.

Daniel McConvey, Rosspart Investments

It's not a stopper. It's not something you have to blend. It's within the limits you can sell.

Stewart Beckman, Senior Vice President, Operations & Technical

Yes.

Daniel McConvey, Rosspart Investments

Okay. Thanks. Final question: the 150 million received from the government, just looking at the statements, I see it's in long term and I was looking hard, um, that is now, I'm assuming that's going to show up and your cash balance has been benefited by that in the last month. I'm just wondering why it was long term.

Steeve Thibeault, Chief Financial Officer

It was in the, ah, yeah, because that was another asset. I mean it's just that's the way it was classified. So, yeah, we got it this month and that will be an increase of cash that we will have in the first quarter.

Daniel McConvey, Rosspart Investments

Okay, but if it was maturing on October 14th, or whatever day, unless I'm looking at it wrong, I'm just wondering why—I know there's a reason I'm just wondering why it was classified as long term.

Steeve Thibeault, Chief Financial Officer

Yes, we left it there historically to, ah, we left it there historically.

Daniel McConvey, Rosspart Investments

Okay, okay. Well great to see it in liquidity.

Steeve Thibeault, Chief Financial Officer

It was an investment as available for sale, so that's the way we classified it.

Daniel McConvey, Rossport Investments

Okay. Thank you very much. And all the best, Kay.

Kay Priestly, Chief Executive Officer

Thank you.

Operator

Thank you. Once again, please press star one on your telephone keypad if you have a question. The next question is from Ralph Profiti from Credit Suisse. Please go ahead.

Ralph Profiti, Credit Suisse

Good morning and thank you for taking my question. Kay, I'm wondering if there's a risk of the tax dispute resolution getting revisited. Is there a potential for jurisdictional overhang with the government changeover?

Kay Priestly, Chief Executive Officer

Well, Ralph, we've been working with representatives from the Mongolian tax authority during this period and continue to do so. As you know, we were very pleased with the reduction but there are still some matters that we are looking at for clarification, and we're working through that process with the local, um, through the local process. So we've been very confident and pleased with how that process is going.

Ralph Profiti, Credit Suisse

Okay. Thanks for that. And there was a previous commentary about the volumetric limits about the concentrator. Should we be still thinking about that as a 100,000 tonnes per day given the bottlenecking? And maybe you could talk about sort of ore hardness or quality. Is there a capacity to operate at or above design going forward? Thanks very much.

Stewart Beckman, Senior Vice President, Operations & Technical

Yes, thanks for that. So, just to recap, the 100,000 tonnes is a nominal, so, in fact, we're scheduled to do of the order of 95,000 tonnes on the hard ore that we're in now. And when we move to the softer ore, either the cobaltite ore or in central in the pit area or in the underground, and you can see in the schedules that the throughput actually increases to of the order of 115,000 tonnes. Additionally to that, we are looking at what options we've got to creep the plant and there are very focused projects on site, mine to mill, working with Metso working the broader Rio Tinto group to look at what sort of creep that we can get out of the plant. So both from a financial and from a cost basis and from a production throughput basis there is upside relative to what was put into the technical report. In the technical report we haven't included either of those creeps in the base case. Although we believe that they're a probability we have not demonstrated those yet. So the only cost reductions that we included with the demonstrated ones. And we haven't included any potential upside; however, of course, it exists and we're very focused on trying to deliver it.

Ralph Profiti, Credit Suisse

That's great, very helpful. Thank you.

Operator

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

Kay Priestly, Chief Executive Officer

Thank you, operator. Why don't we wait a minute more to see if we have any further questions?

Operator

Thank you. As a reminder, once again, please press star one on your telephone keypad if you have a question.

Kay Priestly, Chief Executive Officer

Okay, well, operator, hearing none, this concludes our call today. I'd like to thank everyone for joining and also

just want to remind everyone that Oyu Tolgoi is a world-class asset and clearly a priority right now is operating the open pit as efficiently as possible, and we've been real pleased with how sales and production and operations have been going. We also though recognize the value in the underground, we're preserving the option, and we are poised and ready to continue to engage once the political situation in Mongolia is resolved. Thank you all.

Operator

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