

## **CORPORATE PARTICIPANTS**

**Jessica Largent**  
*Investor Relations*

**Kay Priestly**  
*Chief Executive Officer*

**Chris Bateman**  
*Chief Financial Officer*

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

## **PRESENTATION**

### **Operator**

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Resources Q1 Results held on May 13, 2014. This call is being recorded and will be available later today for replay. I would now like to turn the call over to Jessica Largent. Please go ahead.

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### **Jessica Largent, Investor Relations**

Thank you, operator. I want to welcome you to our First Quarter 2014 Financial Results Conference Call. Yesterday we released our fourth 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; Chris Bateman, 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.

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### **Kay Priestly, Chief Executive Officer**

Thank you, Jess.

It's been about six weeks since we reported fourth quarter results.

At that time we provided fairly robust comments on first quarter performance. In light of the short timeframe between the two reports, I'm going to keep my remarks today fairly brief.

During the first quarter we continued to fine-tune operations at Oyu Tolgoi. After challenges with both sales and production, we ended the quarter on a positive note with stronger sales in March than those in January and February, and we returned to full production.

There are three key points I want to highlight: Number one, despite first quarter being very tough, we are getting both sales and production on track. Even with these challenges Oyu Tolgoi produced its first month of positive operating cash flow in March, which is a major accomplishment. Sales are increasing and in April we were able to begin drawing down inventory. The second point I want to make is that engagement with the Mongolian government continues and we are making progress. Numerous discussions, both at the working group level as well as with government representatives, continue on a regular basis. And thirdly, extensions from the project finance lenders are in place until September 30, 2014. The requests were made jointly with the government and I think this is a sign of how dedicated all parties are to resolving the outstanding issues. There is more work to be done but we are moving in the right direction.

Before I move to operations and financial performance I want to speak to safety, which is a critical part of our operations. Oyu Tolgoi had a strong safety performance during the first quarter.

Turning to sales, Oyu Tolgoi's first quarter revenue was \$108 million from approximately 48,200 tonnes of concentrate. The latter part of the quarter was quite pivotal for Oyu Tolgoi. Sales were slower than expected during January and February; however, during March revenue began to increase. March sales, which matched production, were stronger than expected and accounted for approximately 66 percent of the quarter's revenue. In April, approximately 68,000 tonnes of concentrate were sold, greater than the sales for the entire first quarter. April sales exceeded production and inventory was being drawn down as a result. The team continues to work with customers to streamline their supply chain models. Oyu Tolgoi's goal is to return to four to eight weeks of inventory by the end of 2014. I acknowledge that one month doesn't constitute a trend but I am pleased with the direction that sales have moved over the last six weeks. We are very focused on ramping up both sales and logistics and I think we are starting to see positive results.

I thought I'd provide some context on the sales process. A full lot of concentrate contains 576 tonnes, which is comprised of 288 bags on a convoy of 16 trucks. As I indicated, January and February sales were slower than expected with February sales consisting of 22 lots. As March sales improved there were 61 lots sold and April sales grew to 131 lots. Again, a lot is 576 tonnes. The team is working hard and positive sales momentum is beginning to build and we are tracking the lots sold on a daily basis. Sales contacts have been signed for 94 percent of Oyu Tolgoi's expected 2014 production and 91 percent of 2015 planned production. Discussions are well advanced with potential customers to place remaining tonnage under long-term agreements.

Moving to production, first quarter production was heavily impacted by post commissioning issues, including the failure of rake blades in the tailings thickeners. This failure resulted in the shutdown of one production line for seven weeks. In late March, repairs to the rakes were completed and full production recommenced. During the quarter, a number of planned shutdowns took place at the concentrator, including a ball mill reline and the first concave change in the primary crusher. Following the restart of both lines late in the first quarter, production rates have returned to normal and the concentrator is operating at close to nameplate capacity.

As operations at Oyu Tolgoi have been transitioning from post commissioning to steady state, we have been focusing on costs and productivity. Extensive work is well underway in a number of areas to improve operational performance. Our goal is to ensure that Oyu Tolgoi is operating as efficiently as possible. We are looking to get as much out of Oyu Tolgoi's assets without spending a lot of additional capital. We expect to commit capital on productivity improvements where there is a strong value case, but it's important that we first demonstrate the existing assets are fully utilized. The development of the Hugo North underground remains a priority and the project team is close to finalizing the feasibility study for shareholder review.

Now turning to discussions with the Mongolian government, Turquoise Hill, Rio Tinto, and representatives from the government are continuing with constructive discussions. All parties are committed to underground development at Oyu Tolgoi. Further development of the underground mine is expected to recommence once the following four conditions have been met: Number one, successful resolution of the outstanding shareholder issues; number two, agreement of a comprehensive funding plan including project finance; number three, completion and approval of the

underground feasibility study by the Oyu Tolgoi shareholders; and number four, obtaining all necessary permits for the mine's expansion. It is important that these four matters are agreed before we restart the underground.

In mid-April requests were sent to the project finance lenders to extend their commitment letters for the financing of the underground to September 30, 2014. Fourteen of the fifteen banks participating in the Oyu Tolgoi project financing have agreed to extend their respective commitment letters to September 30, 2014. With this we now have sufficient commitments to reach our funding goal of approximately a \$4 billion facility. And a response from the remaining bank is expected shortly. There were quite a few meetings, both in-country and by video conference, during the first quarter among the key stakeholders. I will be attending several meetings with the Oyu Tolgoi Board in the upcoming weeks. There is considerable engagement among the parties to resolve the outstanding issues. In addition, there is significant work ongoing to finalize the underground feasibility study by the end of this June. Once the study is complete it will go to Oyu Tolgoi shareholders and the Mongolian Minerals Council for approval. Our intent is to successfully resolve all the necessary conditions for restarting the underground by the time the lender commitment letters expire at the end of September.

Before I conclude I want to briefly mention SouthGobi. Oyu Tolgoi continues to be our material asset and our main focus. As such, there is consideration being given to divesting our stake in SouthGobi. Despite a challenging market, SouthGobi continues to focus on costs and productivity initiatives and they are actively seeking additional sources of financing.

In summary, I am encouraged by the increased sales we are seeing at Oyu Tolgoi and the inventory drawdown in April. Production rates have returned to close to normal and we are focused on cost and productivity improvements. Ongoing discussions with the government of Mongolia are constructive and the project finance lenders have extended their commitment letters until September 30, 2014. The completion and approval of the underground feasibility study as well as the finalization of long-term funding will be major steps in moving forward with the next phase of Oyu Tolgoi's development.

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

**QUESTION AND ANSWER SESSION**

**Operator**

Thank you, Ms. Priestly. 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 would like 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. The first question is from Craig Hutchison with TD Securities. Please go ahead.

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**Craig Hutchison, TD Securities**

Good morning. Thanks for taking my call. My question is with regards to revenues and operating costs. The revenues that you report, are they net of TC/RCs, treatment costs, offsite costs, or are they just simply net of the royalties?

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**Kay Priestly, Chief Executive Officer**

Good morning, Craig. They are net of the TC/RCs.

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**Craig Hutchison, TD Securities**

They are. Okay. Is there a sense of what those numbers are? We'd just go off the, ah, I think you said \$95 a tonne and \$0.095 a pound copper? Is that a good guidance for what those costs are?

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**Kay Priestly, Chief Executive Officer**

Craig, we have various contracts with our customers and they are all on international terms, which are tied to the Far East benchmark.

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**Craig Hutchison, TD Securities**

Okay. And then in terms of operating costs, there's another item, I believe it's \$52 million, which I think the vast majority is related to Oyu Tolgoi. Are those costs, do those include, I guess, expenses to Rio Tinto? Do they include any on-site costs at all?

**Kay Priestly, Chief Executive Officer**

I'll turn this over to Chris. Chris?

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**Chris Bateman, Chief Financial Officer**

Yeah. The other operating expense, the reason for the large increase, the main reason for the large increase in that relates to Oyu Tolgoi going into operations, so there are various costs associated with Ulaanbaatar ant not directly related to the production of materials that were previously being capitalized as part of the mine development costs that are now being expensed. So that's the largest reason for the increase. You'd sort of associate them with site general and administrative costs as opposed to Turquoise Hill corporate, general and administrative. It also includes the MSP, the half of the management services payment that's paid to Rio Tinto, which, again, during the construction phase was being capitalized and now is being expensed.

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**Craig Hutchison, TD Securities**

If you were, I guess, to just try and come with a cash cost per pound sold net of the gold and silver what would you—do you have a number for that at this point?

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**Chris Bateman, Chief Financial Officer**

We haven't broken that down at this point in time. We have higher cost sitting in inventory from 2013 due to the commissioning ramp up. We have a significant amount of that inventory at the year end that still has to flow through the financial statements. So from a cost of goods sold we'll see higher costs going in in the near term while as production rates increase to plan the immediate cash costs will be lower on a unit basis.

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**Craig Hutchison, TD Securities**

Okay. Then in terms of the feasibility study, there was a report I guess at Reuters saying that the feasibility study was complete. Is that report correct? Is there a copy with the Mongolian government now? Or is it still ongoing?

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**Kay Priestly, Chief Executive Officer**

No, Craig, the feasibility study is not complete. It's still ongoing. It's well advanced and we are engaging with the

government right now through this process but it is not complete yet. We still expect it to be completed by the end of June and from there we'll go through the various approval processes necessary. But I guess the point that we wanted to emphasize is that we have started engaging with the government as we work through the study.

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**Craig Hutchison, TD Securities**

When do you think it might be released to the public? Would it be a month or two delay from the end of June or would it be immediately?

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**Kay Priestly, Chief Executive Officer**

You know, that all depends, Craig, on when it's finalized and the approval process, but we do expect it to be released probably sometime in the third quarter.

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**Craig Hutchison, TD Securities**

Okay. Thank you very much.

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**Operator**

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

The next question is from Daniel McConvey with Rosspart Investments. Please go ahead.

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**Daniel McConvey, Rosspart Investments**

Hi, good morning. That was one of my questions, the feasibility. Just on the caving work for the deposit, for the underground deposit that you've done over the last four or five years, can you just maybe update me with, and maybe I have to wait for the feasibility study but is the caving qualities of the ore body, are they quite conducive to block caving in the latest work that you've done?

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**Kay Priestly, Chief Executive Officer**

Craig, it's Kay. Yes, this still is very conducive to block caving, but I'll turn this over to Stewart, who is on the line.

By the way, Stewart is in Mongolia at site right now and I'll turn it over to him. Stewart?

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

Thank you. Yes, the material is quite hard but it's very highly fractured so it's very conducive to block caving. And we won't have any issues with getting the material to cave.

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**Daniel McConvey, Rosspart Investments**

Okay, great. Thank you very much.

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**Operator**

Thank you. Our next question is from Tony Robson with Bank of Montreal. Please go ahead.

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**Tony Robson, Bank of Montreal**

Good morning, Kay and everybody, or good afternoon or good evening, depending on where you are. You've given us April sales, which are obviously encouraging; how was production during April? Did we still see the mill running at high levels and good results in terms of the metallurgical recoveries as improvements we saw in quarter one, were you still seeing them in the last months? Thanks.

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**Kay Priestly, Chief Executive Officer**

Good morning, Tony. Thanks for that. Yes, April sales have been very positive and production has also been very positive in April after, you know, the issues we had in the first quarter. In fact, we are operating close to nameplate capacity on a regular basis, Tony.

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**Tony Robson, Bank of Montreal**

Great.

**Kay Priestly, Chief Executive Officer**

And your third question was on the...? Tony, what was your third question again?

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**Tony Robson, Bank of Montreal**

Sorry, well actually recoveries, metallurgical recoveries. We obviously saw an improvement in quarter one compared to quarter four of last year and I was wondering whether still those improvements had been seen in the month of April.

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**Kay Priestly, Chief Executive Officer**

Yes. Stewart, why don't you address this.

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

I can answer. So, Tony, we are seeing better recoveries, particularly the gold, sorry, particularly the copper, and it's operating pretty much at where we expected it from the feasibility. We have been seeing the gold has more of a relationship to head grade than was predicted in the feasibility work so when we see higher grades coming through we're seeing higher recoveries and slightly lower recoveries when we have lower grades come through. But we are sustaining the improvements. But the gold is still (inaudible) below the feasibility.

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**Tony Robson, Bank of Montreal**

Thank you. A final question to you, Kay: You talked about spending some money on capital for improvements; would you expect by year end the plant will be running at capacity or do you think you think you can slightly go over that? Thank you.

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**Kay Priestly, Chief Executive Officer**

Well, we're always hoping we'll go slightly over that, Tony, and we also have seen some days where we have gone over nameplate capacity, so I know the team is very focused on operating as efficiently as possible and exceeding the nameplate capacity and I'm very pleased with the results in April and encouraged by what lies ahead for the rest of the year.

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**Tony Robson, Bank of Montreal**

Great. Thank you.

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**Operator**

We have a question from Angela Wannappa with Rossport Investments. Please go ahead.

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**Angela Wannappa, Rossport Investments**

Hi. I was just wondering with the feasibility study, when it's released to the public, would that mean that it's already been approved by the Mineral Council as well as the OT shareholders by the time the public sees it?

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**Kay Priestly, Chief Executive Officer**

Hi, Angela. Yes. Well, we're working on that timeline with the government and all the approvals necessary and we expect to release it in the third quarter. Whether we release it before or after all approvals depends on, ah, from a technical standpoint, once we have everything reviewed and signed off we will be required to release a study within 45 days, but the approval process is an integral part of the review process to finalize this report, Angela, so we are working through that process very carefully and working on a timeline to get that released at the appropriate time.

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**Angela Wannappa, Rossport Investments**

Okay, great. Thank you.

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**Operator**

Thank you. Our next question is from Matthew Fist with Macquarie Bank. Please go ahead.

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**Matthew Fist, Macquarie Bank**

Hi, Kay. Thanks so much for taking my call. I just wanted to pick up on a comment in the report just on the development and exploration drilling. It just says here that you're seeking low-cost development options with the potential to directly impact the value of the current operation and I'm just wondering if Hugo West open-

pittable reserves do have the potential to be fed to the concentrator prior to the start-up of the underground operations.

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**Kay Priestly, Chief Executive Officer**

Good morning, Matthew. Matthew, I'm going to turn this question over to Stewart too. Stewart, did you hear Matthew's question?

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

Yes, I did. So, Matthew, we've done some initial drilling. Certainly the focus of exploration has been to, mostly to do some data mining in the existing, because we've got quite extensive exploration data from the early days of exploration plus some new geophysical data and we've clearly been looking for material that will change the near-term mining schedule. So there won't be any deep drilling into targets such as Heruga in the foreseeable future; however, if we think that we've got a target that may impact on the near-term schedule, which West Hugo was possibly a target for, where we may have a lot of strip options, ore material that may allow us to change the (inaudible) schedule between Central or the other pits that we would investigate those. So we had a fairly modest drill program for the year, which we've completed, and we're still waiting for some of the results to come back from Hugo, but at this stage it's still conceptual and when we get that data back we'll reassess if we're going to continue to explore that or not.

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**Matthew Fist, Macquarie Bank**

Okay, great. Thank you very much.

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**Operator**

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

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**Kay Priestly, Chief Executive Officer**

Thank you, operator, and thank you, everyone, for joining us today. We are really looking forward to achieving some major milestones in the upcoming months. Thank you.

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**Operator**

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

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