

## **CORPORATE PARTICIPANTS**

### **Jason Combes**

*Director, Investor Relations*

### **Kay Priestly**

*Chief Executive Officer*

### **Chris Bateman**

*Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good day, ladies and gentlemen. Thank you for joining us today. Welcome to the Turquoise Hill Conference Call on the Second Quarter Financial Results held on August 13, 2013. I would now like to turn the call over to Mr. Jason Combes, Director of Investor Relations. Please go ahead.

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### **Jason Combes, Director, Investor Relations**

Thank you. I want welcome you to our second quarter 2013 financial results conference call.

Yesterday we released our second quarter results press release, MD&A, and financial statements. These items are available on SEDAR and we have also posted them on our website. The call is being recorded and will be available later today for replay.

On the call today are Kay Priestly, our CEO, and Chris Bateman, our CFO. We will take questions after the 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, Jason, and good morning, everyone. I'm speaking to you today from Ulaanbaatar.

Over the past six to eight weeks there has been quite a bit of activity for Turquoise Hill related to funding, project financing, and discussions with the Mongolian Government. I want to start today's call by giving you my perspective on the latest lay of the land and then turn to operational progress at Oyu Tolgoi. Chris will discuss our

cash utilization plans for the balance of 2013 as well as covering more detailed financial information.

Last week we announced that we had received proceeds from our Altynalmas transaction and that these funds had been used to repay our short-term bridge facility with Rio Tinto, which was fully drawn. We also announced that we had signed a binding term sheet with Rio Tinto for a new funding plan. The funding plan is designed to meet our cash needs for the balance of the year and allow for the continued operational ramp-up of Oyu Tolgoi. As part of that agreement, the short-term bridge facility has been extended and is available to us until we finalize the new funding plan, which should occur by the end of this month. The new funding plan includes a new \$600 million bridge facility that matures on December 31, 2013. Importantly, Rio Tinto has waived the conversion feature of the short-term bridge facility and the new bridge facility does not include any conversion provision.

We are in ongoing discussions with the Mongolian Government and are working very hard to have project financing in place and able to draw down funds by the end of 2013. The proposed package supports repayment of the new bridge facility and the \$1.8 billion interim funding facility, both of which are due at the end of 2013. The interim funding facility was agreed with Rio Tinto in December of 2010. If project financing funds are not available by the end of 2013, Turquoise Hill will launch and complete a rights offering with a standby commitment from Rio Tinto before the end of the year.

In discussions with many of our institutional investors over the last few weeks you've said clearly you prefer us to use debt versus equity for funding until project financing can be completed. Our first priority for funding Oyu Tolgoi is using debt with the completion of project financing. In the event equity is needed before the end of 2013 because project financing isn't available, all investors will be given the opportunity to participate in the rights offering. That said, we are working hard at having project financing in place by the end of the year.

On the subject of project financing, I want to provide some more clarity on events that have unfolded over the past couple of weeks. Following the receipt of a letter from the CEO of Erdenes Oyu Tolgoi, the company that holds the Mongolian Government's 34 percent stake in Oyu Tolgoi and the appointed leader of the Government of Mongolia working group, we worked with Rio Tinto to confirm that the contents of that letter were the formal position of the government and to properly understand its implications. Once we had that confirmation we promptly disclosed the new requirement for project financing. I

**Turquoise Hill Resources Second Quarter 2013 Financial Results Conference Call**  
**Tuesday, August 13, 2013 – 11:00 AM ET**

recognize the recent comments by the Prime Minister and the Minister of Mining.

This is a long-term development and we are working constructively with the government on how we move forward for the benefit of Mongolia and all stakeholders. This process will address both project finance progress and resolution of other outstanding matters that have been raised. Given the likely time needed to gain the consent for project financing, funding for further underground construction has been deferred. As a result, the underground development will transition into care and maintenance until the substantive issues associated with the investment agreement can be concluded with the government.

We continue to engage with the government on a range of issues. Progress has been made on a number of issues, including receipt of all permits and support for concentrate shipments, resolving marketing and sales agreement concerns, use of international bank accounts, and increasing Mongolian representation in the Oyu Tolgoi management team. This progress allowed concentrate shipments to commence and supports ongoing cash generation from the mine.

As noted, engagement with the government on the matters associated with the investment agreement and project financing will continue with the aim to resolve uncertainty and support further development. With respect to project finance, we're in close contact with the international financial institutions and commercial banks. All the commercial banks have extended their commitment letters to December 12, 2013.

Moving to Oyu Tolgoi operations, I am pleased to say that Oyu Tolgoi continues to ramp up production. The concentrator is consistently producing at over 80 percent of capacity and has completed all commercial production tests. We expect to reach full production in the second half of 2013 and are focused on maximizing production.

I'm now going to turn it over to Chris.

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**Chris Bateman, Chief Financial Officer**

Thanks, Kay.

Oyu Tolgoi began shipping concentrate in early July and the mine is currently delivering product under the long-term sales contracts and spot market sales. We've been shipping for about five weeks now and we will continue to ramp up logistics. Oyu Tolgoi is working with its shipping vendors and fine-tuning the process on both sides of the

Mongolian/Chinese border to ramp up concentrate shipments. We expect shipments to continue to grow for the remainder of the year and anticipate sales will align with production by the end of 2013.

On a weekly basis we expect up to 36 truck convoys to leave the mine. A convoy includes 16 trucks together carrying about 575 tonnes of concentrate. We expect Oyu Tolgoi to produce between 75,000 tonnes and 85,000 tonnes of copper in concentrate for 2013. At the end of the second quarter there was slightly more than 50,000 tonnes of concentrate in inventory containing 13,100 tonnes of copper and 21,000 ounces of gold. By the end of the year we expect to build a concentrate inventory equivalent to four to eight weeks of production. From a cash flow perspective, concentrate will be sold on a provisional basis with the majority of the sales proceeds being received by Oyu Tolgoi about two weeks after shipment. The balance of the transaction is settled roughly two to three months after the shipment and takes into account prices at that time.

Moving now to our funding requirements for the remainder of the year, with regard to the use of funds, as Kay mentioned, we entered into a new funding agreement with Rio Tinto that is designed to meet our cash needs for the remainder of 2013. There are some remaining costs related to the new road to the border, which is expected to be completed in January 2014; the Undai River diversion; and final payments to suppliers and contractors. With the decision to put the underground on care and maintenance, demobilization will occur over the next couple of months, which will result in cash outflows through November. From a cash flow perspective, it should be December when the impact of the delay in underground development will be noticeable in the cash flows. I mentioned earlier sales are ramping up to align with production and we expect Oyu Tolgoi to be operating cash flow positive by the end of the year.

Kay, back to you.

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**Kay Priestly, Chief Executive Officer**

Thanks, Chris.

I wanted to briefly mention SouthGobi and Inova. During the second quarter SouthGobi produced about 170,000 tonnes of coal and their operations have been negatively impacted by the continued softness in the Chinese coking coal market. SouthGobi has responded by continuing to focus on cost and cash management. Production at Inova's Starra 276 mine continues ramp up during the

second quarter. In June they produced over 59,000 tonnes of ore, which is the expected monthly mining rate.

In summary, the production ramp-up at Oyu Tolgoi continues and we are expecting the mine to reach full production by the end of 2013. We are engaged with the Mongolian Government to clarify the situation with project financing and we're working very hard at having project financing in place by the end of this year. In addition to project financing, we're discussing a range of other matters with the government. We have agreed to a funding plan with Rio Tinto that is designed to cover our cash needs for the remainder of 2013.

With that, I would like to now open the call up to questions.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. We will now take questions from the telephone lines. If 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 pause while participants register for questions. Thank you for your patience. The first question is from Ralph Profiti from Credit Suisse. Please go ahead.

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### **Ralph Profiti, Credit Suisse**

Good morning and thank you for taking my question. Kay, in previous presentations it was a TR2 condition that declaration of commercial production was subject to resolution of the government talks. I'm just wondering is this still the case or is the case simply by definition that we could still see commercial production announced on September first even without a resolution?

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

Thanks, Ralph. Commercial production is defined in the current investment agreement and that is defined to be met when the concentrator has produced that 70 percent capacity for 30 straight days. That has occurred and the first day of the month following when that occurs is September 1, so we will absolutely meet the definition of commercial production as defined in the investment agreement on September 1.

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### **Ralph Profiti, Credit Suisse**

Great. Thank you for that clarity. I do have a follow up with respect to grades. Both the copper and the gold grades in the second quarter production report were below sort of the first five-year plan according to the 2013 technical report. Would you consider these lower grades normal during the commissioning phase and could we still expect to see these grades trend upwards to what I guess is 0.57 percent copper and about 0.6 grams per tonne gold as we sort of move forward latter part of 2013 and early 2014? Thank you.

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

The grades are lower in the start up and this was expected. It's been a combination of early lower-grade quality feed and also the fact that the team has been stabilizing and learning how to tune the plant. We expect the recoveries to improve over the coming months and we see no reason at this stage to think that we won't achieve design that we expect to be there this year.

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### **Ralph Profiti, Credit Suisse**

Thank you for taking my questions. Thank you.

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### **Operator**

Thank you. The next question is from Oscar Cabrera from Bank of America. Please go ahead.

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### **Oscar Cabrera, Bank of America**

Thank you. Good evening, Kay, and good morning, everyone. Just wanted to, if you could, clarify your statement with regards to the letter sent to you by (inaudible). Do you need parliamentary approval from the Government of Mongolia to proceed with the project financing?

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

Thank you, Oscar. As I mentioned earlier, we did receive that letter officially from a representative from the Government of Mongolia and prior to our disclosure we did in fact confirm that it was the formal position and it was an understanding that based on the current terms of

**Turquoise Hill Resources Second Quarter 2013 Financial Results Conference Call  
Tuesday, August 13, 2013 – 11:00 AM ET**

the project finance package and all the issues related to that there would be many levels of approval needed in the government. And the key thing we need to focus on right now is what happens next and we are working with the government to address those issues and move the project forward. The government and we are completely aligned to keep these discussions going and to continue to progress the project. It's in everyone's best interest to have certainty and stability and the issues surrounding the investment agreement and the ARSHA, which are the fundamental cornerstone to our investment, are very important, and we need to get those issues resolved as part of the current project financing package.

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**Oscar Cabrera, Bank of America**

Thank you very much for that, Kay. That makes it very clear. Now, if I may, in Jason's comments with regards to putting the underground on care and maintenance, can you let us know or give us a little bit more colour in terms of what capital do you expect on a yearly basis, assuming that this goes on, or on a quarterly basis, I don't know what the best way to put into context is, but what kind of capital are we talking about for that care and maintenance exercise and when should we see this CapEx starting? I believe he mentioned December.

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**Kay Priestly, Chief Executive Officer**

Yes, Oscar, we are not putting out right now any detailed guidance on CapEx. We are working right now through the implementation plan for the care and maintenance. As Chris mentioned earlier, from a cash flow perspective, we won't see any significant changes in cash flows until the end of the year, as a result of continuing to pay amounts that are currently due. There's a 30 to 60 day lag after amounts are incurred and when they are due there will be some demobilization costs but by the end of the year we'll be, as Chris mentioned, seeing the results in our cash flows from these adjustments.

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**Oscar Cabrera, Bank of America**

Yeah, I apologize, I believe I changed your CFO's name. Apologies, Chris. Could you then tell us what CapEx do you expect? What's the CapEx for the second half of this year please?

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**Kay Priestly, Chief Executive Officer**

As I mentioned, Oscar, we really haven't firmed up those numbers yet and aren't in a position to disclose those at this point.

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**Oscar Cabrera, Bank of America**

Okay. Understood. Thank you very much.

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**Chris Bateman, Chief Financial Officer**

Kay, maybe I'll jump in on that, but this general issue, Oscar, is as we de-mob, we're still looking through the treatment of demobilization costs, but we can't switch off the lights immediately. There'll be—we want to put it into a safe situation. Also there'll also some ongoing costs just to continue with the ventilation and keep the asset ready to be restarted. So from a book perspective we will see charges coming through in September and October related to the underground. Come November/December those charges will have been reduced dramatically and just reflect the care and maintenance. What we wanted to draw people's attention to is from a cash flow perspective you're looking at a 45 to 60 day lag between the work being done, you know, the following month the invoice coming in and then typically a 30-day payment term beyond the invoice coming in. So there is that two-month lag to the cash flow impact, hence the real cash impact will be in December as opposed to any time earlier in the year.

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**Oscar Cabrera, Bank of America**

Okay. Appreciate the colour, Chris. Thank you very much.

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**Operator**

Thank you. The next question is from Terence Ortslan from TSO & Associates. Please go ahead.

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**Terence Ortslan, TSO & Associates**

Thank you again for hosting the conference call. Very informative. If I may, I have two questions, one is operational. One is, um, and it goes back to the government issue, the operational question is that so far from what you've seen in the case of the mill, mill availability as per compared to feasibility study how would you rank it in that sense? And also the B part to that is underground suspension of the further

development, can we assume the exact mirror image whereby if you decide to go back into it again and the circumstances permit it will be another two, three months of incurred cost before you see and a lead time before you see underground development starting? That's the first question. Thank you very much.

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**Kay Priestly, Chief Executive Officer**

Thank you. I think the first question was on, ah, a question on operational and the performance of the mill. Is that right?

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**Terence Ortslan, TSO & Associates**

Mill availability, correct.

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**Kay Priestly, Chief Executive Officer**

Yes. No, we're very pleased with the performance of the mill. As I mentioned earlier, we're over 80 percent, and we expect to be at full capacity in the second half of this year with respect to the mill availability and performance.

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**Terence Ortslan, TSO & Associates**

Any bottlenecks anywhere, Kay, in the mill?

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**Kay Priestly, Chief Executive Officer**

We are right now focused on shipping and we had, as we said in our report, we had 50,000 tonnes of concentrates at the end of June and right now we are focused on the logistics, but from a bottleneck perspective we envision moving that forward and, again, ramping up and being in a positive cash flow, operating cash flow position by the end of the year.

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**Terence Ortslan, TSO & Associates**

And the underground?

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**Kay Priestly, Chief Executive Officer**

The underground, as Chris was mentioning, as part of our planning we're preparing for care and maintenance but we're also preparing for ramp-up at the same time

and start-up. So we're very carefully going through this process. It's not a complete shutdown of everything immediately. We will be de-mobing and reducing and stopping the expenditures on the lateral development and the sinking of shafts but we'll continue to have ventilation there. It's going to be a very careful, thoughtful way of putting the underground on care and maintenance and we also will have a team ready to remobilize. As I mentioned, the government and us are very much aligned and committed to progressing this and we want to work through these issues so we can go forward.

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**Terence Ortslan, TSO & Associates**

I think (Sam), in the Rio Tinto conference call, has said that the decision was made because the management should be more focused on what's happening with the operational sense, not on development sense, and that was the reason, and I think that's a clear message that the focus has shifted from underground to ongoing operating parameters and as well as the financial parameters of concluding this issue. Now just on that front, if you were to mobilize, would the extra two, three months to going get going, in other words, you would have lost altogether like assume six months if you start to mobilize in January, of underground development? Can we assume that?

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**Kay Priestly, Chief Executive Officer**

Well, they're still work—

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**Terence Ortslan, TSO & Associates**

(Inaudible) critical path is just shorter?  
**Kay Priestly, Chief Executive Officer**

You know, they're still working on those plans with respect to how much time to re-mob and, again, those detailed plans are still underway at this point. But it will take some months to remobilize, yes.

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**Terence Ortslan, TSO & Associates**

I want to come back to the issues with the government. Obviously this has become a very major political issue that is ongoing and too many people are making comments, very confusing from news releases all the way to press meetings and so on and so forth. Let's summarize and say what's on the table which they really require from you and you expect to be able to negotiate

in the short term and the medium term? And, two, are they going to be able to get any tax revenue this year with the plans that you have and the expectation of commercial production in September and also be cash flow positive towards the end of the year? Are there any income taxes coming through?

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**Kay Priestly, Chief Executive Officer**

Well, I'll answer that second question first and then go back to your first question. Clearly the government will get the 5 percent royalty on revenues this year. They'll continue to get that on any expenditures we have, and other taxes. So the government will receive revenues from us for the balance of the year. By the way, we have already spent over \$1 billion in taxes and other revenues to the government since the project started.

With respect to what issues are on the table, I'm sure you can recall back earlier in the year the government had publicly stated some issues and we've also disclosed some of the issues we've been discussing with the government. These issues are critical and important and they were an important component of getting project financing as currently planned and that's why we have this delay at this current time. However, the government is very much interested in progressing it. We have agreed with the government that these discussions are very sensitive and we've agreed to keep the detail of these discussions confidential as both parties progress with the aligned interest to resolve the matter as soon as we can.

What's important now in my perspective is how we move forward and how we work together going forward. And, again, the government understands our position and we've agreed to keep the details confidential, but you can go back and see the issues that have been raised. They've been in the press. And we'll continue to work through those issues.

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**Terence Ortslan, TSO & Associates**

Okay. In that context, Kay, there were, I think there was the auditor report, I can't remember if it was Ernst & Young or PwC. I can't remember. Has that report been completed with respect to assessing the capital expenditures? And, number two, is the banks and financial organizations, they extended it to December 31, 2013, as you mentioned, are there any conditions for the extension or the circumstances they will actually check it or X it?

**Kay Priestly, Chief Executive Officer**

Well, to answer your first question, the work is still in progress with respect to the audit. This is the audit that's underway on the capital cost for phase one. And that's still in progress with the government. And once we've received the initial findings from the government and work with that working group we'll discuss any outstanding issues concerned. It's important to note that all the financial statements have been audited and we have no reason to believe, based on where we are so far in this process, that there any concerns with respect to those numbers.

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**Terence Ortslan, TSO & Associates**

And the bank?

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**Kay Priestly, Chief Executive Officer**

Chris, I'll let you—yes, please.

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**Chris Bateman, Chief Financial Officer**

We've extended the commitment that is under the same terms and conditions, so it's just an extension of the commitment letter. No new terms, conditions, etcetera. But, as we've said previously, there's always been a condition precedent that we need approval at the OT LLC Board ultimately and once we get to that position we believe (inaudible) look through that everything else is being sorted at the higher levels.

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**Terence Ortslan, TSO & Associates**

Okay. Thank you very much for the answers.

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**Operator**

Thank you. The next question is from Tom Scarborough from GLS Capital. Please go ahead.

Mr. Scarborough, your line is open. If you're using a speakerphone could you pick up the handset?

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**Tom Scarborough, GLS Capital**

Hi. Thank you for taking the call, Kay and Chris, and congratulations on the recent package organized. It's certainly appreciated and well done.

The questions I had were two questions really, one was what, in your opinion, is the Mongolian objection to project financing at this stage and secondly is what options have you explored or are available in respect of just refinancing Rio's loans (inaudible) about \$2.4 billion at the end of the year from perhaps some alternative providers. Those are the two questions I've got. Thanks.

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**Kay Priestly, Chief Executive Officer**

On your first question there, the concern with project financing was really related to all the issues, not just the project financing but all the issues that we've been discussing with the government over the last several months and the resolution of those issues. As I mentioned earlier, it's important that we resolve those issues. It was important to the banks and the lenders that those issues be resolved and those issues will take time and, as mentioned earlier, engagement with the government at many levels as we go through that process. So that was the concern with the project financing timing. The commitment letters with the banks originally expired on August 12 and therefore there was no way that we were going to get this done in time. Fortunately, we have extend those commitment letters, but we do need more time and we are just not sure right now what the timetable will be to conclude on all these issues. So that is the main issue with respect to the timing of the project finance.

With respect to your next question on refinancing the loan at the end of the year, our number-one priority, and Rio Tinto is 100 percent aligned with Turquoise Hill, is working with the government to progress project financing between now and the end of the year. So our intent is that, ah, that's our first objective and primary objective is to progress that, and that would then be available to support repayment of the IFS, the \$1.8 billion, and any bridge and the bridge amounts that we draw between now and then. However, we have agreed with Rio that by then, if we're not able to repay those debts, that we will undertake a rights offering, and all shareholders will be able to participate in that and Rio will back stop that rights offering.

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**Tom Scarborough, GLS Capital**

But, just to be clear, I think the project financing is sort of more than just the amount of the Rio debt, because it

includes sort of future CapEx, etcetera, and the ongoing project, but what about just refinancing just the Rio loans? So just roll them over for a year?

Let's say the situation is negotiations with Mongolian Government taking a little bit longer than you might hope, maybe they're looking to get concluded in February, maybe in the second half of next year, and they're getting dragged out, what about just refinancing the existing Rio debt, rolling it over, keeping the project on pause, that sort of thing, and then the project finance can (inaudible) organized in the second half of next year, should that be an issue, then that would certainly avoid a rights issue at the end of the year.

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**Chris Bateman, Chief Financial Officer**

As part of the short-term bridge facility that we put in place we looked at a number of other options. There are various contractual commitments between Turquoise Hill and Rio Tinto, including the provision of third-party debt, and with respect to the December 31st Rio has made it clear that, you know, they put this package together some time ago and they're expecting us to repay it at the end of the year.

Obviously anything is possible, depending on the circumstances that exist at the time, but what we have at this point in time is a guaranteed way to repay that and not default on the IFS with, as Kay mentioned, the standby commitment from Rio Tinto. We'll continue to talk about all the options, but we are very, very focused on the project financing number two and we have a backup plan should that not come to fruition in the timeframe that we're looking at. And we can continue to talk about options but that's the sort central case plan currently.

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**Tom Scarborough, GLS Capital**

(Inaudible) suggested, there isn't sort of a plan B other than what you stated and so the next sort of, when is the next, when would we get the next sort of update on how things are going? I guess that will be ad hoc? The Mongolian Government, when does it be reconvene, that sort of thing? What's a realistic timeframe for the next update?

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**Chris Bateman, Chief Financial Officer**

I think any material changes in the situation we'd obviously disclose immediately. The discussions are ongoing and will continue and that's our intent, so we will

just have to wait as those discussions go on and disclose appropriately, but what we've said is that the day-to-day negotiations and discussions with the government, in order to move them ahead proactively, we don't want to be discussing each and every conversation that we're having with the government as we feel that would be counterproductive. So in the coming weeks, months, as things change, as the situation changes, we'll come back and update everybody.

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**Tom Scarborough, GLS Capital**

Okay, thank you.

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**Operator**

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

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**Kay Priestly, Chief Executive Officer**

Thank you, Patrick. Thank you, everyone, for joining us today.

To sum things up, I'm very excited about Oyu Tolgoi and the way they're continuing to ramp up production and the operation of the concentrator and we're continuing to sell concentrate. We're also very much engaged with the Mongolian Government to clarify the situation with project financing and we're working very hard at having project financing in place by the end of this year. Thank you again for joining us today.

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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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