Turquoise Hill Resources

Second Quarter 2019 Results Conference Call

Event Date/Time: August 1, 2019 — 8:00 a.m. E.T.

CORPORATE PARTICIPANTS

Roy McDowell
Turquoise Hill Resources — Head, Investor Relations and Communications

Ulf Quellmann
Turquoise Hill Resources — Chief Executive Officer

Luke Colton
Turquoise Hill Resources — Chief Financial Officer

Jo-Anne Dudley
Turquoise Hill Resources — Chief Operating Officer

PRESENTATION

Operator

Good morning, my name is Jessica and I will be your conference Operator today. At this time, I would like to welcome everyone to the Turquoise Hill Resources Q2 2019 Financial Results and Review of Operations Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. Thank you.

Roy McDowell, you may begin your conference.

Roy McDowell — Head, Investor Relations and Communications, Turquoise Hill Resources

Thank you, Jessica. Good morning. I'm Roy McDowell, Head of Investor Relations and Communications. Welcome to our Second Quarter 2019 Financial Results Conference Call. Yesterday, we released our second quarter 2019 results press release, MD&A, and financial statements. These items are available on our website and SEDAR.

With me on the call are Ulf Quellmann, our CEO, Luke Colton, our CFO, and Jo-Anne Dudley, our COO. This call and presentation includes certain forward-looking statements and information. We refer you to the forward-looking statements section of the Annual Information Form dated March 13, 2019, as supplemented by our MD&A for the three months ended June 30, 2019.

Now I'd like to turn the call over to our Chief Executive Officer, Ulf Quellmann.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thank you, Roy, and good morning to everyone. Thank you for joining us this morning on our 2019 financial earnings call for the second quarter. Today we'll provide you with both colour on our second quarter 2019 operational and financial results, which we released yesterday, as well as additional clarity and context regarding the revised capital expenditure and expected production date range for the underground mine at Oyu Tolgoi. These updates reconfirm that Oyu Tolgoi remains a world class mine that'll generate billions of dollars of free cash flow per year.

If we turn to Slide 4, operationally, the second quarter of 2019 was another strong quarter for the Company, both from a production, as well as a safety perspective. We continue to build on our excellent safety track record, as Oyu Tolgoi achieved another strong all-injury frequency rate of 0.12 for 200,000 hours worked during the six months ended June 30. As you know, safety is a top priority for us, and it is at the heart of everything that we do. Safely mining this deposit is central to who we are, and it's critical to our continued success.

During the second quarter of 2019, Oyu Tolgoi produced 39,156 tonnes of copper, and 71,825 ounces of gold. The six month production totals of 85,000 tonnes of copper, and 192,000 ounces of gold have kept Oyu Tolgoi on track to achieve its four-year 2019 operational guidance of 125,000 to 155,000 tonnes of copper, while allowing us to increase the upper end of the gold production target from 220,000 to 230,000 ounces.

Open pit operations are expected to continue transitioning from the higher grade Phase 4 ore to the lower grade Phase 6 ore through the remainder of the year, but the mill throughput for 2019 is expected to remain in the 40 million tonnes range. Revenue in the second quarter of 2019 was $382.7 million, an increase of 12 percent compared to the second quarter of 2018, primarily reflecting the large increase in gold production.

Turning to the underground development, we completed a number of final construction activities in the second quarter of 2019, including the central heating plant upgrade, offices, and control room facility. The Shaft 2 Jaw Crusher has been no-load commissioned, and rope up preparation for Shaft 2 was also well advanced in the second quarter, with related work expected to continue through the third quarter. It's important to note that the underground development completed to-date has not been affected by pending changes to our mine design. All infrastructure developed to-date remains useable and in the appropriate locations for all of the mine design options under review.

I'd also like to note that Turquoise Hill is heading into the second half of 2019 on a solid financial footing with a strong balance sheet. At the end of June, Turquoise Hill had approximately $3 billion of available liquidity, which is expected to fund our operations and underground development through the end of 2020.

Breaking down our operating performance during the second quarter of 2019, copper production remained steady, compared to the year-ago period, while second quarter of 2019 gold production increased by 43.7 percent year-over-year. The higher gold production is attributable to a 19 percent boost in head grades, resulting from the higher grade Phase 4A ore.

Mill throughput increased by 2.3 percent in the second quarter of 2019 compared to the year-ago period due to increased mill availability. The improved gold grades, and resultant gold credits, resulted in significant improvements in our cash cost and all-in sustaining costs. Our second quarter C1 cash costs and all-in sustaining costs were $0.79, $1.54 versus $1.72 and $2.42 respectively.

If we turn to the next slide, we also continued to make significant progress in our underground development this past quarter. During the second quarter of 2019, we spent $292 million on underground expansion. The total underground expansion spend, from January 1, 2016 to June 30, 2019, was approximately $2.9 billion, with the Company executing effectively on a number of projects through the second quarter.

At Shaft 2, construction work is progressing well and holding to the October 2019 commissioning schedule. The auxiliary hoist and emergency hoist inspections have been conducted; regulatory approval has been received. These hoists are now in use for the final Shaft 2 installation and commissioning work. Turquoise Hill also completed an independent review of the construction and preparation for rope up in July, verifying the schedule and the associated risks.

Service hoist no-load commission commenced in June; rope up work commenced in late July of the first of the two remaining hoists to be commissioned in Shaft 2. The service cage is at the shaft collar ready for installation, and the service hoist counterweight has been installed in the shaft. The Shaft 2 Jaw Crusher has also been no-load commissioned and is ready for load commissioned once the production hoist rope up is completed.

In addition to the progress made on Shaft 2, Shaft 3 and Shaft 4 have reached depths of 52 meters and 80 meters respectively, and in June, the team achieved a record 1,000 meters of lateral underground development. We've also commissioned the surface discharge conveyor, which links Shaft 2 to the existing Overland conveyor.

Switching gears and turning to our relationship with our partners, to Government of Mongolia, on the third of May, 2019, a summary of the Working Group report was received by Oyu Tolgoi, and on May 6, Oyu Tolgoi provided the Economic Standing Committee of Parliament with a written response to the summary of the Working Group report. As an outcome of the hearing, a new Working Group of nine members of Parliament was established to draft a resolution directing Cabinet on recommendations related to Oyu Tolgoi. This newly-established Working Group is in the process of drafting the resolution, with the draft resolution expected to be discussed during an extraordinary session to be held by September 1.

In the interim, we continue to work with the government on multiple fronts, including, of course, moving the Tavan Tolgoi power plant project forward. Regarding the progression of the power plant, Oyu Tolgoi has developed the technical specifications for the plant, it has commenced a competitive tender process with a view to awarding a turnkey engineering procurement and construction, or EPC contract, for its construction, and it is progressing related commercial arrangements, including financing discussions. The power plant will be majority owned by Oyu Tolgoi and will be situated close to the Tavan Tolgoi coal fields.

I'd now like to turn the call over to our Chief Financial Officer, Luke Colton, to speak about Turquoise Hill's financial performance for the second quarter of 2019.

Luke Colton — Chief Financial Officer, Turquoise Hill Resources

Thank you, Ulf, and good morning to everyone on the call. If I could get you to please turn to Slide 10, and I'll give you a summary of our key financial metrics for Q2 of 2019.

Strong revenue in the quarter; it was $382.7 million, which represents an increase of 12 percent, compared to $341.7 million in the second quarter of 2018. This increase in revenue was largely attributable to an increase in gold revenue, driven by a significant increase in gold production as OT benefited from the processing of Phase 4 ore that contained higher gold head grades. This was partially offset by an 11 percent decrease in average copper prices in the second quarter of 2019 compared to the year-ago period.

Cash generated from operating activities in the second quarter of 2019 was $141.5 million compared to $48.4 million in the second quarter of 2018. Cash generated from operating activities before interest and tax was a healthy $262.6 million in the second quarter of 2019, compared to $149.6 million in the year-ago period, and that primarily reflects the impact of higher sales revenue and benefits incurred from movements in working capital.

The Company recorded a loss of $736.7 million for the second quarter of 2019, and a loss attributable to owners of Turquoise Hill of $446.5 million, or $0.22 per share. This is compared to income of $204.4 million and income attributable to owners of Turquoise Hill of $171.3 million or $0.09

per share in the second quarter of 2018. These results reflect the impact of a non-cash impairment charge of $0.6 billion, which was recorded in Q2 2019, resulting from the projected increase in development CAPEX and possible further delay for sustainable production.

In addition, the Q2 2019 were affected by a further non-cash adjustment to reflect deferred tax asset de-recognition of about $300 million, which again resulted directly from the updated operating mine plan assumptions, which led to an overall weakening in future taxable income projections, against which carry-forward losses could be utilized.

Capital expenditure was $335 million in the second quarter, compared to $318 million in the first quarter of 2018. This includes $292 million in underground development spend, with the remainder related to our open pit activities. In addition, OT had further capital commitments of $0.9 billion as of the 30th of June, 2019.

The Company's operational unit costs were excellent in the second quarter of 2019. If you could turn to Slide 11, OT's C1 cash costs per pound of copper in the second quarter of 2019 decreased to $0.79 per pound, and that's a decrease of 54 percent compared to the $1.72 per pound in the year-ago quarter, and it's in line with the cash costs from Q1 of 2019. The primary reason for the significant decrease in C1 cash costs was due to the benefit incurred from additional gold credits arising from the $82.7 million increase in gold revenue, period-over-period. In addition, C1 cash costs benefited from a higher deferred stripping offset as a result of differences in mine sequencing in the periods.

Our all-in sustaining cost for the second quarter of 2019 also improved significantly when compared to the second quarter of 2018, going from $2.42 to $1.54 per pound of copper produced.

Consistent with our C1 cash costs, this decrease was primarily due to the impact of higher gold sales and higher deferred stripping offset in mining costs. This was partially offset by an increase in the amount of sustaining capital expenditure in the period, as well as increased royalty expenses associated with higher sales revenue, and increased power plant study costs.

Turquoise Hill's liquidity balance at the end of the second quarter of 2019 was approximately $3 billion, and we have $1.6 billion in cash on our balance sheet.

With that, I'll hand it back to you, Ulf.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thank you, Luke. As I mentioned earlier on the call, and Luke just touched on, Turquoise Hill is heading into the second half of 2019 with a strong balance sheet. The Company has approximately $3 billion of liquidity, which is expected to fund the operations as well as the underground development through the end of next year, 2020.

Taking into consideration the estimated impacts of the recently announced increases to the underground development capital, as well as delays to first sustainable production, the Company expects to need incremental financing to sustain its underground development beyond 2020. As has been previously noted, Turquoise Hill and Oyu Tolgoi have the option to raise additional external financing to assist in funding underground development going forward, including during commissioning and ramp-up.

Turquoise Hill has engaged the services of external financial advisors to consider all available funding alternatives. We've also had conversations with the existing lenders of the existing project finance facility in the context of the additional $1.6 billion of supplemental debt capacity that is available. With a project as robust as the Oyu Tolgoi underground mine, we are confident that we'll be able to secure funding on a timely basis.

Let me now turn the call over to Jo-Anne Dudley, our Chief Operating Officer, who will provide you with additional insights of the geotechnical issues and the potential solutions we are working through.

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Thank you, Ulf. Hello, everybody. I'll start on Slide 13, the underground development update. Improved rock mass information and geotechnical data modeling has confirmed that there is stability risk with components of the existing mine design. To address these risks, a number of mine design refinements are under consideration to determine the final design of Panel 0.

Information in hand indicates that the Oyu Tolgoi mineral reserve will not be materially impacted by the mine design alternatives being considered. However, ongoing reviews will be conducted as work progresses.

As many of you were saying, we announced on July 15 that we anticipate the updated mine design and schedule for the underground to result in an increase of $1.2 billion to $1.9 billion on the capital spend for the project, and a 16 to 30 month delay from the original feasibility study guidance in

2016. In addition to working closely with Rio Tinto, Turquoise Hill has engaged independent third-party consultants to provide the Company with insight and technical support into the planning and estimate process that is currently underway. Independent experts are also providing insight into progress of key construction work at the mine site.

Now if you would turn to Slide 14; following a period of additional data collection and model updates, two phases of due technical modeling work are planned to inform the staged mine design update. The geotechnical modeling is expected to continue into early 2020, with final design decisions to be made at that time. The Company will continue to focus on minimizing the impact of project schedule and cost as it works through the detailed analysis and testing of each mine design modification, and will update the market in conjunction with the progression of the definitive estimate review as appropriate.

As can be seen on Slide 14, the design modifications being considered are focused around the Panel 0 mining area and are limited to several refinements. All the other major infrastructure, such as shafts and primary crushers remain unchanged from the feasibility study plan. The mine design work that will form the basis for the definitive estimate mine plan focuses on several design alternatives. They're aimed at reducing risk to production ramp-up in light of additional geotechnical information we now have. Productivity rates are also under review as a result of experience to-date.

The feasibility study plan included mid access drives in Panel 0 development to reduce the lateral development requirements to get to first production. In other words, to reduce the number of meters being mined. Modeling has indicated that these drives may introduce geotechnical related risk into the ramp-up phase, and therefore, we're collecting additional data and analyzing it to ensure we understand the geotechnical risk before we make a final decision on the continued incorporation of mid access drives.

With almost 19,000 meters of lateral development complete, there's a need to update productivity assumptions and reforecast the time to first production by zone experience to-date. The manager has engaged a third-party expert consultant to understand productivity opportunities, as well as limitations. The intention is to update productivity assumptions to better reflect experience, as well as potential improvements in development rates that we'll use in the definitive estimate.

Geotechnical information gathered since mining recommenced has highlighted the need to review the planned location of all handling infrastructure, which supports Panel 0. It is important to take the opportunity to make decisions that minimize the long-term risk prior to the development of the area. The ore passes were designed to be mined in the central area of Panel 0, but a design modification to relocate this infrastructure to outside the panel area is being assessed to ensure that the best decision is made prior to commencing construction in those areas.

Should the ore pass locations be moved to outside Panel 0, then the panel boundary transition strategy requires an update. Therefore, this work will be completed in the final design modification phase of the definitive estimate.

I'll be available for questions, but in the meantime, Ulf, would you like to continue?

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thank you, Jo-Anne. If we turn to Slide 15, our priorities for the remainder of 2019 remain clear: safety, performance, progressing the underground development, and putting in place a financing plan for execution in 2020.

Oyu Tolgoi achieved an industry-leading all-injury frequency rate for the six months ended June 30. We continue to focus improving our safety standards.

Production through the first half of the year has been strong, and we remain on target to achieve our 2019 production guidance while retaining strong cost discipline. Shaft 2 is transitioning into the rope up phase and remains on-schedule for commissioning in October, and we've continued to progress on Shaft 3 and Shaft 4, and the key underground infrastructure.

In addition to the underground progression, the technical specifications for the Tavan Tolgoi power plant have been developed, and we've commenced a competitive tender process for the EPC contract.

To wrap up, Oyu Tolgoi remains one of the few low-cost, long life, tier one copper and gold deposits, capable of producing long-dated free cash flow throughout the cycle. Infrastructure is well-advanced, and the key components of our value proposition for shareholders remains in tact.

The updates and the proposed mine design options have been—we have reconfirmed that Oyu Tolgoi is a world class mine that will generate billions of dollars in free cash flow per year. In conjunction with our world class operator, Rio Tinto, Turquoise Hill is committed to working with the government and the people of Mongolia to bring the Oyu Tolgoi underground mine into production for the benefit of its stakeholders.

With that, I'd like now to turn the call over for questions. Operator, I return the call back to you, please.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star, followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press the star, followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Orest Wowkodaw of Scotiabank. Please go ahead.

Orest Wowkodaw — Analyst, Scotia Capital Inc.

Hi, good morning and thanks for the update. A couple questions on the financing. Ulf, you disclosed that you've got adequate liquidity until the end of 2020. When could we anticipate that you will engage with lenders and others to secure additional financing, and by that I mean, do you need to complete—does the project need to complete the definitive study in the back half of '20 before that financing can actually be finalized? Or, do you think we could see a scenario where you could raise additional capital much earlier than that?

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Yes, thanks for the question, Orest. Look, it's a good question. I think, as you say, we said it a few times on the call, I don't want to repeat it too many times, but yes, we do have a lot of liquidity. Until the end of next year, we do not need to raise any money to fund operations or underground, so we do have a little bit of time. That doesn't mean we're complacent, of course.

The question you're asking, Orest, is really, I think, do we need the completion of the definitive estimate in order to be able to go to market to raise financing.

Orest Wowkodaw — Analyst, Scotia Capital Inc.

Yes.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

That comes up because, up until the delay in definitive estimate, it wasn't relevant, if you like, because previously, we said the definitive estimate would be completed by the end of the year, which then would have given us sufficient time to wait for that and go to market post-completion of definitive estimate, to raise financing early next year. Now, that has changed.

What we're doing at the moment is to work through and understand whether we really do need the completion of the definitive estimate before we can go to market, or indeed, if we can go to market earlier. Jo-Anne, in her comments, has hinted a little bit on the fact that, between now and the completion of the definitive estimate, work is being done; the visibility of which mine modifications and which design decisions need to be taken is whittling down, if you like, the breadth of the range. Therefore, we would expect, as we progress, that we get more and more visibility, obviously.

What’s important for us, Orest, is to just come to a place where, hopefully, we may be in a position where we can go to the market before the definitive estimate is completed. I think it’s important for people to understand that the definitive estimate is important; it is the end date of the process, if you like, but it does not mean that nothing can be done until we get to that place. That is really the point in time when the cost and schedule estimate is definitive, but it doesn’t mean that, between now and then, we won’t have significant more visibility for us to be able to commence the financing progress.

What month exactly that is, we can’t tell you on this call, but we would certainly expect it to be well before the definitive estimate is complete.

Orest Wowkodaw — Analyst, Scotia Capital Inc.

Okay, no, I appreciate that colour. Can you give us a better sense of your liquidity beyond 2020? Can you tell us specifically how much debt matures, on the existing debt, how much matures in 2021, ’22 and ’23, on the existing tranche?

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Yes, I might ask—if you don’t mind, Orest, I might ask Luke to come in on that amortization schedule.

Luke Colton — Chief Financial Officer, Turquoise Hill Resources

Yes. I don't have the exact numbers in front of me, but there are relatively de minimis amounts in '20 and '21, and when you get into '22 and '23, it starts to ramp up. It does depend a little bit on some of the work that's being done at the moment around the different mine plans that are being looked at, etc., because you've got your sort of fixed principal repayments, and then you have the potential for additional principal repayments, if there are incremental cash flows above and beyond. That's a little bit of work that's still in process, but I'm comfortable saying that '20 and '21 are small numbers in the scheme of things, and then it starts to ramp up from '22, and it will grow a bit into 2023 as well.

Orest Wowkodaw — Analyst, Scotia Capital Inc.

Okay, perfect. Thank you so much.

Luke Colton — Chief Financial Officer, Turquoise Hill Resources

Thank you.

Operator

Your next question comes from Oscar Cabrera of CIBC. Please go ahead.

Oscar Cabrera — Analyst, CIBC World Markets

Thank you, Operator, and good morning or afternoon everyone. Ulf, if I may, just looking at the mine design refinement decision slide that you have, the range of $1.2 billion to $1.9 billion and the overrun, does that include the need for relocating current infrastructure?

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thanks for the question, Oscar. Maybe what I'll do is ask Jo-Anne, maybe, to respond to your question, if that's okay, Jo-Anne?

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Yes, thanks, Ulf, and thanks, Oscar. Yes, so the current mine design refinements that are under consideration do not require any relocation of infrastructure. Everything that is being mined to-date remains completely usable as per the original design intention. This is about some refinements to the infrastructure that fits very close to, or within the footprint itself, and it is about the location of those pieces of infrastructure to quite a fine degree of data. Everything that's being mined to-date remains usable.

Oscar Cabrera — Analyst, CIBC World Markets

The reason I'm asking you this is, I was intrigued by your comment on the reserve. I think, if I remember correctly, in the last call, we talked about not sterilizing any of the reserves, and in today's call, you're talking about not materially impacting the reserves. Was it me just misinterpreting your comments, or can you put more context around that, please?

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Yes, no problem. Yes, and that's the typical way that we would talk about reserves in a mining sense, because we are always thinking about the potential for small changes to reserves that are non-material in any mining situation. There's no sterilization of reserves, and really, I would say that that is the same answer, that we're not expecting any material changes, that any changes will be quite minimal, and the result from the detailed design that we go through as we work through the mine planning work for the definitive estimate—because we haven't reached those final decisions and the detailed work hasn't been done.

But from the strategic work we've done, we don't see a red flag there.

Oscar Cabrera — Analyst, CIBC World Markets

Okay, no, that's helpful, thank you. Also, would you be able to comment on the range, like if I look at the four points that you have here, mid access drives, footprint development, productivity, etc., what—if you could comment on what's the bottom end of the range and the top end of the range; what are the things that are driving that $700 million difference?

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Right, okay. Good question. The capital increase largely falls into four areas: the impact to lateral development and mass excavation costs due to additional ground support requirements, as well as the associated productivity issues that come along with that additional support; additional scope for some of the underground facilities; and also, the Shaft 2 cost impact, that's really driving that range.

Oscar Cabrera — Analyst, CIBC World Markets

I think you got—just lastly, I think you got that question in the last call, the cost of the Shaft 2 delay. Would you be able to provide us with a figure, how much is that?

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Right. This is an area that we're still working to fully understand, and we have been provided with some initial information but we're in the process of reviewing that. It'd be premature right at this moment to get into that data on this call.

Oscar Cabrera — Analyst, CIBC World Markets

Okay, I appreciate all the context. Thank you.

Operator

Your next question comes from Hayden Bairstow of Macquarie. Please go ahead.

Hayden Bairstow — Analyst, Macquarie Group

Hi, thanks, guys. Just a couple for me. Firstly, just on the development work, and back to that reserve question. I mean, have you got any—or can you give us any colour on what the reserve, Panel 0, actually is, and is that—I'm assuming you start in the highest grade part of the ore body if you can, and if you don't have those mid access drives, does that mean you've got to push further out to make the footprint bigger, or does it slow the ramp-up? Just want to get a better indication of what all that means.

Just a financial one, I guess, on the capitalization of all the interest costs, does that keep happening on an ongoing basis now? What point does the cash paid interest payment actually start applying to the P&L? Thanks.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thanks, Hayden. Shall we just divide that up in two, and Luke, do you want to do the last one, the second question on financing, and then Jo-Anne, maybe you can go back to the first question from Hayden.

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

No problem.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Do you want to start, Luke, and do the second question first?

Luke Colton — Chief Financial Officer, Turquoise Hill Resources

Yes, no, I'm happy to do that. No, thanks for the question. Normally with capitalized interest under the accounting standards—and it does get a little bit technical, but at a high level, you would continue to capitalize your interest effectively up until the point that you're commissioning is substantially complete.

It kind of, once we get to critical hydraulic radius or we achieve for sustainable production, that's kind of the cut-off point when we would stop capitalizing our interest costs, and we would start to flow those interest costs through the P&L.

Does that answer your question?

Hayden Bairstow — Analyst, Macquarie Group

Yes, great, thanks for that.

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

Okay, so in terms of the reserve, the way that we describe the reserve is that we don't split up between the panels, so the Panel 0 forms a component of that 499 million tonnes of reserves as you go north. The figure that is on the slide shows you some idea of the style of the footprint. We don't anticipate any change to the reserve for Panel 0 as a result of this work. The mid access drives actually have nothing to do with the reserve; what they relate to is minimizing the time to first production by sub-setting the panel and allowing us to minimize the development to first build.

However, they do introduce some potential geotechnical risks on ramp-up. Really, what we're thinking to do is, before we commit to doing that, putting in those drives, is to understand what risks we're exposing ourselves to during ramp-up and making sure that the right decision is made to protect the long-term productivity and future of the panel.

Hayden Bairstow — Analyst, Macquarie Group

Okay, so is this just a Panel 0 issue, though, in that area, or do you think that the more work you do, that you might have to make the panels effectively a bit smaller so you don't have to put these mid access drives in at all going forward?

Jo-Anne Dudley — Chief Operating Officer, Turquoise Hill Resources

That is a possible solution. The mine design work will continue on until later in the year, and these things aren't all downside. There's some upside that comes with any kind of change, potentially, that we would look at in terms of the sizes of the panels. It isn't necessary a question of all being downside, and particularly, once we get into production, it's about sustaining production and getting ahead on development. That's a normal activity in a mine such as this.

Hayden Bairstow — Analyst, Macquarie Group

Okay, great. Just a question for Ulf, just, obviously, the share price reaction's been pretty savage. I mean, what can you do beyond what you're doing now to sort of start unlocking, or sort of solving a lot of this uncertainty around the government and the funding issues. I mean, you've obviously got until the end of next year to fully solve the development plan. What are you thinking about in terms of trying to ease some market concerns about the rights issue (phon) risks and all those sorts of things?

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Yes, thanks for the question, Hayden. Look, I think we all watch the share price, we're all working for our shareholders to make sure that we deliver value, and the share price ultimately will be the ultimate yardstick for that.

The fact of the matter is, the Management team, as a Company, we can't manage the share price, really. What we need to do, what we believe we must do is really to deliver and execute on what we have described are the priorities for the business. The priorities for the business haven't changed, which is to deliver operational performance, to progress the underground, to make sure that we have an attractive and adequate financing package in place so that we can fund our strategic agenda, and that we deliver our power plant.

What can we do in the meantime? I think it is important for us, and we will try as much as we can to really provide visibility to the markets, both, I think, in relation to the underground development and some of the geotech related challenges that Jo-Anne has just covered, as well as on the financing. I think the objective and the answer has not changed. We know what we need to do, what we need to deliver. What we view as important for us to help the markets and our shareholders is to provide visibility to describe what some of the challenges are and how we work through them, and when we can deliver on certain milestones in order to address, maybe, the fear, in some areas, that it is a large unquantifiable, or not well understood, challenge. That's what Jo-Anne has, I think, tried to do on the call today, is to really break down that this is not an ill-defined or a not well understood challenge. It's the opposite, actually. It is something that—we recognize the challenge, we understand the problem, we've got the right people working on it, and we're sort of breaking it down into, if you like, digestible chunks, discrete pieces of work that we're working through in a systematic fashion. As Jo-Anne said, there's not just downside, there's some upside there as well.

But that's what we must do, and if we do that and provide as much visibility as we can to the markets, ultimately, we would be confident that they'll be reflected in the valuation as well.

Hayden Bairstow — Analyst, Macquarie Group

Okay, terrific, thanks. Thanks for your help on all those. Thanks.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thanks, Hayden.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the star, followed by the one.

There are no further questions at this time. Please proceed.

Ulf Quellmann — Chief Executive Officer, Turquoise Hill Resources

Thank you very much, Operator. Look, let me just wrap up the call. Thank you everyone for joining this morning. Thank you for the questions, really appreciate them. Also, thanks to Luke and Jo-Anne to provide some colour to all of you on the call.

The way I would summarize it is that we've had, operationally, a strong second quarter, I think you've seen the results. They've been very, very solid, very strong, both from an operational, as well as from a safety perspective.

We are pushing ahead with the development of the underground. Yes, we've encountered some challenges; they are not uncommon. We understand what they are. We've got the right people working on it. We're doing the right thing to make sure we maximize long-term productivity for long-term value creation, and we will provide you, the market, with more visibility as we go along. You will not have to wait until the second half of next year before you get more visibility on that piece.

On the financing side, we have a strong balance sheet, we have $3 billion of liquidity. We have a strong asset, we have a supportive lending group, and we are working on financing plans to allow us to raise the funding that we need next year, together with our partners. We have a strong asset; there will be options. We'll pursue these options, and ultimately, we are confident that we can put an attractive financing package in place.

Last but not least, we shouldn't forget that we are operating in Mongolia. Our partnership with OT, which is the 34 percent shareholder with the government at large, remains strong, remains productive. Ultimately, our interests are aligned and we are all working together, ultimately for the interests of our stakeholders, and the best way for us to do that is to maximize value in Oyu Tolgoi. Ultimately, that is in the best interest for all of us.

Oyu Tolgoi is, and remains, a low-cost long life tier one asset, and it'll continue to generate long-term value for its shareholders.

With that, I think we'll like to wrap up the call. Thanks again for joining this morning. Operator, we'll close out the call with that. Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.