FINAL TRANSCRIPT

Turquoise Hill Resources Ltd.

Q2 2019 Production and Underground Development Update

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Turquoise Hill Q2 2019 Production and Underground Development Update. At this time, all lines are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. If at any time during this call you require assistance, please press star zero for the operator. This call is being recorded on Tuesday, July 16, 2019 and I would now like to turn the conference over to Roy McDowall, Head of IR and Communications. Please go ahead.

Roy McDowall – Head, Investor Relations & Communications, Turquoise Hill Resources Ltd.

Thank you, Joanna. Good morning. I'm Roy McDowall, Head of Investor Relations and Communications. With me on the call are Ulf Quellmann, CEO, Turquoise Hill; Luke Colton, CFO; and Jo-Anne Dudley, COO.

The purpose of this morning's call is to provide an opportunity for you to hear from the senior management at Turquoise Hill to discuss the information we provided via press release issued yesterday evening. Please note that Turquoise Hill is currently in a quiet period and questions on matters that would be reported in Turquoise Hill's Q2 earnings release and filings will not be addressed.

This call 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 March 31, 2019.

And now let me hand you over to Ulf Quellmann.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Thank you, Roy, and good morning to everyone. I am very pleased this morning to have the opportunity to speak to you to provide some additional colour and context around yesterday's release. And I'd also like to formally welcome Jo-Anne on this morning's call. For many of you, this is the first time that you hear from Jo-Anne, our new COO, on this call. Jo-Anne is joining us from Brisbane this morning, late this evening her time, and she will be available later for comments and certainly happy to answer any questions.

Let me just briefly start with just a few comments on Turquoise Hill's operational performance in the second quarter and then we'll come on to the update on the underground development. In the second quarter we've delivered copper production of 39,156 tonnes and gold production of 71,825 ounces. That's in line with our guidance, which we maintain unchanged for the year. The sequential decline quarter on quarter in both grade as well as production is simply a function of transitioning from mining harder Phase 4A ore to softer Phase 4B and Phase 6 ore.

If we move on to the underground project, everyone on the call will know that it is one of the most technically complex underground mine constructions in the world in one of the most remote locations. We did flag last year that given challenging ground conditions, delays in commissioning some of the critical underground infrastructure such as shaft 2, there would be a further delay in sustainable first production and likely impacts to costs. We then further signalled this in our February update earlier this year.

Our team continues to explore a number of mine design options to complete the project based on the new geo-tech data and information, as well as the ground conditions we have encountered. As a result, we can only provide a range of potential impacts on schedule and cost. We plan to move to a definitive estimate stage by the second half of next year, which is when we'll have a more accurate readout.

The project budget reforecast indicates capital costs are now $1.2 billion to $1.9 billion over the FS 16 estimate of $5.3 billion. Sustainable first production is now forecast to occur between May 2022 and June 2023, a 9 to 21 month delay compared with what we indicated this last February when we had signalled that sustainable first production would be beyond October 2021. It's also worth noting that we do have up to eight months of schedule contingency in this estimate.

We remain committed to finding pathways to reduce the impacts to schedule and cost. Teams will continue to work hard on this over the coming months. Work continues to move forward on the critical underground infrastructure and shaft construction.

So, in summary, the purpose of this morning's call is really to highlight and explain that, A, since the discovery of the geotechnical issues the team has continued to develop a mine design that would best retain the economics of the ore body; B, at this point in time we still have not determined the final design but we've developed a number of alternatives; C, the ranges of CAPEX and schedule we've just provided encapsulate these options we continue to develop; and D, going forward, we'll continue to work towards progressing the work on the definitive estimate and as we do so we will of course update the markets.

It's no question that OT remains a long life, low cost, tier one ore body that'll generate attractive return for its shareholders.

With that, I'd like to end our short prepared remarks and we'd be happy to take questions. So, operator, with that, if we can turn 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. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question is from Orest Wowkodaw from Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Good morning. Ulf, I was wondering if you can give us a bit more colour on what exactly is driving the pretty significant CAPEX increase here, the $1.2 billion to $1.9 billion estimate. It doesn't look like you're really making scope changes. Is that just a reflection—like how much of that is just a reflection that you need an extra two years' development time versus actual changes to the mine design?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, thanks for the question, Orest. Let me maybe try and address it the following way. So, if we look at what the issues are, we have distinguished in the past really between some of the items that are on the critical path, and we've talked a lot about shaft 2 in the past, and then the issues related to what we call geo-tech challenges in relation to really Panel 0. I think, first of all, it's worth highlighting that if we look at the ore body, so there's no issues from a grade perspective. They are aligned with our expectations to date. Really what we found is, looking at the geo-tech conditions, they have been slightly worse than anticipated, requiring heavier ground support in some areas than were anticipated in the original feasibility study, and that of course adds cost as well as reduces productivity in those areas.

And then on the shaft 2 side, which remains one of our key deliverables for this year, as you know, Orest, you know it's an enormously complex project and that complexity really has made it difficult to accurately forecast the progress. But we did see in our release yesterday that we remain close to completion and that the October timeframe is expected to hold, so we remain on track for that.

Orest Wowkodaw, Scotiabank

Okay. And as a follow-up, I mean with the capital increase, and I assume there's still incremental capital for the power plant, what's the financing plan here? Can you please give us some colour on how this overrun is going to be financed?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yes, absolutely, Orest. So, first of all, you're right, the power plant will have to be funded and that's a separate topic. So nothing changes as far as our current liquidity position is concerned. We've said in the past that we've got strong liquidity, both from a cash-on-hand perspective as well as still having access to unused proceeds from the initial project financing, and all of that together, those two combined, will take us well through the end of next year.

We do have various options for us to raise more financing. We talked in the past about supplemental debt but there are other options available as well. And what we are doing is obviously working, you know, as a matter of priority, through these various options to make sure that we can exercise them. And one thing we clearly need to make sure is as the timing for the delivery of the definitive estimate has been pushed out now into next year, we'll need to make sure that that timing aligns well with our next stage of raising additional financing, whether it's for the underground or whether it's for the power.

Orest Wowkodaw, Scotiabank – Analyst And just as a follow-up, do you anticipate that all of the incremental financing will be debt based?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

No, I didn't say that, Orest. I mean we've obviously got various options that we're looking at. We talked about various debt-based options, but we need to complete the work really. You see the ranges that we're giving today, both from a timing perspective as well as from a magnitude perspective, they are relatively broad and so we'll need, you know, depending on where we will end up, both from a schedule as well as a cost perspective, will clearly have an impact as to what sources of financing we want to and we need to access. There are sources of debt financing that are available but we'll need to really look at the whole range of options that are there to make sure that ultimately we're able to fund the strategic agenda of the business.

Orest Wowkodaw, Scotiabank

Okay. Thank you.

Operator

Thank you. Your next question is from Craig Hutchinson from TD Bank. Craig, please go ahead.

Craig Hutchison, TD Securities Inc.

Good morning. In terms of the CapEx overrun, do you expect most of that to sort of come in in 2021 and 2022? Or should we expect some incremental increases in the back half of this year and 2020 as well?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Most of it would be expected, Craig, to be in the outer year, so we've haven't—you will have noticed we haven't changed our CAPEX guidance for this year so far, so we need to clearly work through that. But at this stage, a little as my response to Orest's question just now, the range is still relatively broad. It's broad because we're looking at a number of options and each one of the options has a different profile from a schedule, from a CAPEX, also from a ramp-up perspective. And so at this stage where we are, we've really got to work through these options to get a bit more specificity around that before we then really can give you a more and narrower and more specific range on, you know, amount as well as timing of CAPEX.

Craig Hutchison, TD Securities Inc.

Okay. In terms of the financing part, I mean you discussed it with Orest, but does this potentially put you in a situation where you could have to do a rights issue with Rio Tinto? My understanding is just based on the delay to possibly mid-2023, you have some large bulk payments that start occurring in 2022 and then step up even further in 2023. Are you sort of in potential breach right now in terms of making those debt payments and are you potentially in a situation where you have to do a rights offering with Rio?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, thanks, Craig. I mean look, as I said in my response to Orest's question, Craig, so we obviously need to do the work. We cannot rule any sources of financing out at this stage, because we need to make sure we are in a position where we can fund the strategic agenda of the business. We do have some options under the existing project financing. We talked about that on previous calls. A, there's $1.6 billion of supplemental debt capacity that's available. It does have certain conditions, obviously. We'd need support of a variety of stakeholders and shareholders. There is the potential to increase the debt cap that's in the facility. It does provide for an expansion facility which would cover things like the power plant. So there's a variety of levers there and what we need to do and what we are doing is just to work through them as we consider the various options to see where are we likely to come out.

So we're certainly not in a position where we want to rule anything out but, at the same time, there's also a number of options there, and luckily we do have strong cash and liquidity on hand so that there is some time for us to work that through. So, in other words, there isn't an immediate emergency where we would need to raise cash any time soon. So we have some flexibility to work through that, the various ramifications and optionality that's available to us.

Craig Hutchison, TD Securities Inc.

When do you think you would have to have the additional financing lined up?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Well, as I said before, Craig, I mean at the moment the existing liquidity that we have takes us to the end of next year. So, if you were to be very mechanical, you'd say that's when the financing needs to be there. At the same time, we don't want to be in a position where we leave it to the last minute and have therefore funding uncertainty and so it clearly takes us into next year, 2020, to raise whatever then the amount of financing is that is required. It's really a 2020 issue for us.

Craig Hutchison, TD Securities Inc.

Maybe one last question for me: Can you sort of define what you consider for sustainable production in terms of potential throughput or production?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, I think the way we tended to (inaudible) when the cave starts to self-propagate. Maybe I'll ask Jo-Anne to sort of help support me a little bit on that. I think in the past we talked about, was it 30 (inaudible)? Something like that? That was a term we used in the past. But it's really when the cave sort of starts to self-propagate.

Craig Hutchison, TD Securities Inc.

Okay. Thanks, guys.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press star one.

Your next question is from Dalton Baretto from Canaccord. Please go ahead.

Dalton Baretto, Canaccord Genuity Inc.

Thank you. Good morning, everyone. Ulf, can you quantify for me the level of accuracy associated with this new CAPEX range?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

I think the term that we used in the press release, Dalton, was sort of order of magnitude conceptual level.

Dalton Baretto, Canaccord Genuity Inc.

That's what I mean. So what's the percentage associated with that?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Jo-Anne, do you want to comment on the percentage?

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

Yes. Can you hear me?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yes we can, Jo-Anne

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

Okay. Hello, everybody. So I guess probably, you know, for something like conceptual or order of magnitude would generally have a fairly high range around it; however, what we need to remember is a lot of the work that the team is doing is based on real costs there at the moment and so the term conceptual and order of magnitude really is referencing the mine design and development uncertainty associated. So it probably would be an error to put a really large range around those numbers given the team is working with existing costs and understanding the scope that they're dealing with right now. So, although I can't put an absolute range around them right here for you tonight, I can certainly say that those costs are built off the existing agreements and scopes and physicals that they're dealing with at the moment at site.

Back over to you, Ulf.

Dalton Baretto, Canaccord Genuity Inc.

So, Jo-Anne, how comfortable are you that the top end of that range won't go up even further?

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

I think we probably need to wait until the management team has done a more detailed design to go with this estimate as the work progresses to really get comfortable with where that range is. Certainly, the team has been thinking about—the reason why there is a range is because there is a concern around capital and not wanting to place a stake in the ground based on one design or another. So, really they're looking at the mine design driving the capital cost.

Dalton Baretto, Canaccord Genuity Inc.

Okay. And then just maybe switching gears back to the funding question, Ulf, you know, I understand you guys are doing the work and need to do the work and the scope hasn't quite been defined yet and we, you know, in pervious answers you've talked about debt, we've talked about a potential rights issue. Can you maybe just at least highlight what other options you're looking at?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, Dalton, I think, I mean look, without going through a laundry list of options, I think there are options on the debt side, which is sort of variations of the existing project financing, i.e. debt at the asset level. Right? And it's not so much that it's different instruments necessarily, there's that too, but certainly there's different markets as well we could be going to. So that's a piece that we're looking at. So, for example, the existing, just to give you one example, the existing project financing that's been put in place a couple of years ago, we just went to the bank market, right? That's traditionally, when we talked about supplemental debt, the way we thought about that. You can think about other pockets of debt funding that you can go to that we might be looking at.

So it's variations of debt at the asset level and, as I said before, that has certain attractions. It does require the support of ultimately all the stakeholders to agree to that, along the lines it was done a couple of years ago, or three or four years ago. But really what we need to do is, given that there is, the ranges are relatively broad at this stage given the level of accuracy we're looking at, we just want to be in a position where we can say to our board and to our shareholders that we have multiple options of funding that we can access, that we can raise to make sure that access to financing is not a limiting factor to be able for us to develop the mine.

Dalton Baretto, Canaccord Genuity Inc.

Okay. Do you have the ability to fund the power plant outside of the accordion feature on the project financing facility? You know, maybe through some sort of infrastructure financing?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, so, just to clarify one comment you just made, it's not an accordion feature as such. What it is, is in the existing agreement there is a provision in there that allows for what's called expansion financing to be raised, and that is specifically in reference to a power plant because it was known at the time that Oyu Tolgoi has the obligation to source power from within Mongolia. It just provides, effectively, a provision whereby the existing lenders have agreed, subject to certain conditions of course, for that to be done and for some security package sharing to take place. But we can do it in other ways as well. This is just one very well described pathway to incorporate it in the existing project financing. It doesn't have to be done that way; it just makes it easier.

Dalton Baretto, Canaccord Genuity Inc.

Okay, great. That's all for me, guys. Thank you.

Operator

Thank you. Your next question is from Orest Wowkodaw, Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Thanks for taking my follow-up. Ulf, I'm just curious how this delay, the project delay and the capital overrun, how does this sort of work its way through what's happening with your partner there in terms of the Mongolian government and the parliamentary review? And does this, you know, the delay and capital overrun, does this now result in kind of a re-evaluation again by the government of the investment agreement? I'm just curious how this all works together now moving forward.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Well, all we can say—Orest, it's a fair question. All we can say is that obviously the various parties in country, so whether it is the, you know, Erdenes OT is a shareholder in Oyu Tolgoi itself as well as government as a broader stakeholder, are being advised, have been advised of the current status and they will need to review that and come to their own conclusions. Whether or not it's going to be a direct implication to things like the parliamentary working group, that's not for us to comment on, it's really a question for the Mongolian government. But certainly Erdenes OT, as a shareholder of Oyu Tolgoi, clearly is privy and has access to the information in their capacity as a shareholder.

Orest Wowkodaw, Scotiabank

Okay. And what is your expectation on when we could see some disclosure from the Mongolian parliamentary, I guess, committee with respect to their review of the investment agreement?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

I'm not trying to sidestep the question, Orest. It's difficult for us to comment because obviously the decision making doesn't lie with us. It really resides with the key decision makers at the parliamentary working group, at the various standing committees, and then ultimately the government. There is a process in place. I think we've updated you in the past as to where that sits. Last week was obviously a big holiday week in Mongolia. This week people are back, the parliamentary session has been extended until first of September, clearly not just because of Oyu Tolgoi but there are a number of items on the agenda, I think, that parliament tries to seek to progress.

We have, in our dialogue, always encouraged our partners to make progress as soon as practical. I think both sides have a similar view that if we can resolve uncertainty, that's helpful for both sides, and I think the intention to do so is there, but ultimately it's clearly not for us to comment. It's really in their capacity as a sovereign nation and country to decide if and how they would proceed. But certainly the nature of the dialogue, I think, between the investors and our various government partners and stakeholders has been very, I think, constructive, productive, respectful, and we're both trying to ultimately incentivise to have OT as successful as possible. That's in both of our benefit and that's what we're both driving towards.

Orest Wowkodaw, Scotiabank

Okay. Thank you very much.

Operator

Thank you. Your next question is from Sam Crittenden from RBC Capital Markets. Please go ahead.

Sam Crittenden, RBC Capital Markets

Thanks. Good morning, guys. Thanks for hosting the call. I'm just trying to better understand the tougher ground conditions. I'm just wondering if you could give us a bit more context. Have other block caves or mines experienced similar conditions or is there something unique about the OT ore body?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Thanks for the question, Sam, and, Jo-Anne, I might just ask you in a second to comment on that without maybe getting into too much detail but just maybe do you want to respond to Sam and provide a response to a clearly valuable question?

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

So, you know, in the ground conditions that we have at the Oyu Tolgoi Hugo North ore body, you know, it was well known that there would be fractured and faulted ground conditions; however, it's difficult to get a lot of data from surface drilling and so there's been some additional drilling done. And of course we're getting more experience as the development continues through the ore body. Some of what's driven the current challenges has been just things like having to put heavier ground support in, not so much that it wasn't anticipated but that ground support would be required, but there has been more of that heavier ground support required than was anticipated.

And I think you would probably say that around the world in similar conditions to what you would see at Hugo North, that there may be similar experience in that when you get to the ore body you always find some differences because you're actually accessing the rock. You're not relying on drill holes that are 60 millimetres in diameter drilled from 1,300 metres above to make assessments, you're really there in the rock. And, you know, safety is the first priority and being able to protect the long-term productivity and production profile of the mine and therefore additional ground support has been put in, in greater amounts, so that would be, as a proportion of development, there are greater amounts of heavier ground support than had been previously anticipated.

Does that answer the question?

Sam Crittenden, RBC Capital Markets

Yeah, that's helpful. So, just in terms of putting in that underground block caving infrastructure, you need more support, but it's still something that is manageable in your mind.

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

Yes. Absolutely. What is challenging in development is better for production in caving terms, you know, and so it's absolutely still a viable operation. This is about setting the operation up for a productive long life and doing it as well as can be done right at the beginning.

Sam Crittenden, RBC Capital Markets

Okay. Thank you.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Sam, I might just, and, Jo-Anne, if you allow me, maybe say obviously we don't really want to comment on mines, other companies, that's certainly not up for us to do that, but I think it is absolutely not uncommon that these kind of things are happening where you have to revise the mine plan. It's certainly not unique to Oyu Tolgoi at all.

I think it's important for us to confirm as well that there are no concerns about the integrity of the ore body as such, if you like, it's just the ore body itself is quite soft and that leads to the ground support that Jo-Anne is talking about. But the copper is still there. The ore body, the integrity is not being questioned. It's really just making sure that we are managing safety, we are managing risk, and we really make the right trade-off between how do we make sure we put these multi-decade investments in the ground. We protect it so that there's no risk of collapse, so we protect the equipment, of course we protect people, and at the same time we preserve the business case. That is kind of the work that's going on and that is why the team is looking at a variety of options. Each one of them is viable but it is really what is the best trade-off in order to make sure that we strike the right balance between safety, integrity, long-term value creation, short-term cash flows, and so forth. That is really what the team is looking at and so in some respects you might say the fact that there are options out there is kind of, if you like, maybe not helpful for now, because we've given you lots of ranges, whereas it would be more helpful to pin down a specific number, but it is a faction that there are options and alternatives for the team to look at to come up with ultimately what's the best outcome.

I probably answered a question, Sam, you didn't really ask, but I hope that was for—

Sam Crittenden, RBC Capital Markets

No, I appreciate the colour. That's exactly what I was trying to get at. Thanks, Ulf.

Operator

Thank you. Your next question is from Oscar Cabrera from CIBC. Please go ahead.

Oscar Cabrera, CIBC World Markets Inc.

Thank you, operator, and good morning or evening, everyone. Ulf, I was wondering if you can put context around how the Mongolian government would participate in the cost overrun. Could you remind me, within the investment agreement, are there any clauses that limit their participation, i.e. do you have to carry them for any cost overruns?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, thanks, Oscar. Effectively, the principal funding mechanism for Oyu Tolgoi, the way it works is that the Erdenes Oyu Tolgoi, as, you know, the government-owned entity and 34% shareholder of Oyu Tolgoi, is a 34% shareholder. It has the choice but not the obligation to provide its share of the funding. And so what has happened so far is that really Turquoise Hill has provided any funding that the shareholders provide, so whether it's in the form of a shareholder loan or in terms of equity, it's a function then of things like local (inaudible) rules and so forth, or third party debt. So those are the kind of two sources. And because Erdenes Oyu Tolgoi has the option but not the obligation to inject or to fund capital, the cash flow waterfall then works accordingly. So, in other words, any debt that is being put into Oyu Tolgoi to fund the expansion has first call on being repaid before Oyu Tolgoi can then pay a dividend to its common equity holders, if you like.

Oscar Cabrera, CIBC World Markets Inc.

That's helpful. And so that means that probably one of the things that the Mongolian government has been after, which is, you know, getting an increased economics of the project, will delay that. And I know they're part of the board so I'm assuming that they were aware of the capital or the potential capital increase. Could you also perhaps comment on how the process evolved with your discussions with Rio Tinto? When did you find out about this? And also, within the same question, we've been talking about a range in CapEx. Can you perhaps talk about the range in production ramp up that you're looking at? I'm assuming that the scoping for both cases, you have an idea of what to expect in terms of the ramp up following the first sustainable production.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, so you're asking—lots of questions there, Oscar, which is fine, so let me just address them one by one and remind me if I forget any questions you've asked.

So, on when did we find out, if you like, what's the process where we are, I would just say we've obviously provided the initial, the most recent update to the markets as to the work that we are doing and the next steps. That was in February when we said that the definitive estimate was meant to be completed by the end of the year, the $5.3 billion CapEx number was under review and first sustainable production would be beyond October 2021. That's what we said in February. We also said at that time that we would aim to provide an update to the markets by mid-year. That's what we're doing now. We took the view that mid-year could have been either the earnings call or earlier than that. We took the view that we should do it earlier than that. Why? Simply because we know it's helpful for the markets to have more rather than less visibility. So that's why we certainly attempted to provide guidance and visibility to the markets sooner rather than later, so that's why we've put the disclosure out last night even though we recognize that you'd like to have more specificity because the ranges are relatively broad. But at the same time we felt we've done some work, we have some better understanding of some of the issues, and therefore it's appropriate for us to communicate it to the market, even though we haven't made a final decision as to which option it is yet, if you like. So that's sort of where we are in the process.

Sorry, remind me, Oscar. I lost track.

Oscar Cabrera, CIBC World Markets Inc.

Yeah, no, sorry, Ulf. And then could you perhaps talk about the, um, within those options that you're looking at, what does the ramp up look of the, um, of the underground, what does the ramp up look like with $1.2 billion or $1.9 billion? Is it slower? Faster? Can you provide—if you could quantify, it'd be great. If you could provide context it would be great too.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah. I think at this stage, Oscar, it's a little tricky for us to do that, because they are, you know, we really want to, I think, on this call, limit ourselves to what we said in the release yesterday. You're right to point out that depending on what the options are the ramp-up profile will be slightly different. It's not just the ramp-up profile though, it is obviously the overall cost as well, the schedule, and obviously that will have an impact on, ah, and that's why you asked the question, I think, on production and revenue as well. So, it is probably something that we want to come back to you another time but probably not on today's call to give you that degree of specificity. But it is something—we will provide an update going forward to the markets anyway, Oscar. We'll have to exactly define when that is and what the right time and frequency is, but maybe it's something we can do next time.

Oscar Cabrera, CIBC World Markets Inc.

Okay. No, I appreciate that, Ulf. Perhaps I can ask it this way: Are there any concerns with just having some parts of the deposit that cannot be mined in the worst case scenario?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

No. No concerns, Oscar. So we're not, if you like, there's no concerns at this stage that say we have either spent money on infrastructure that now proves to be redundant or superfluous. There are no concerns that we've done anything where we have, I don't know, sterilized ore bodies or things like that. So there are no concerns that all of a sudden parts of the ore body cannot be mined. There could be timing implications but not that we can't mine entire parts of the ore body.

Oscar Cabrera, CIBC World Markets Inc.

Okay. Thank you very much and best of luck.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Thanks, Oscar

Operator

Thank you. Your next question is from Ralph Profiti from Eight Capital. Please go ahead.

Ralph Profiti, Eight Capital

Thanks, Ulf. Most of my questions have been answered, so thank you for that. Is there ability to, based on what you see, increase the debt ceiling capacity of the project beyond the $6 billion? And could it potentially, and I'm talking specifically about the supplemental debt, could that be impacted by a change in the carrying value of the investment in OT that you're also looking at?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Thanks, Ralph. Maybe I can answer the first question and given that we've got Luke on the line, maybe Luke can maybe answer the second question.

On the first one, simply, Ralph, so the debt cap of $6 billion was obviously agreed with the lenders at the time. I don't think I'd be doing anyone any injustice if I said that it was a somewhat arbitrary number at the time and I think there was always an understanding that if there was some event, some trigger, progress with the mine, that that could be reviewed and looked at with the potential to increase that amount if, effectively, the business has the debt carrying capacity. Right? And so that means that really, specifically in response to your question, as and when we've got some more specificity, as and when we are either complete with the definitive estimate or certainly have more visibility and narrow down the option, that will be the right time for us to re-run the mine plan, re-run the numbers, and ascertain whether or not the business has more debt capacity. And, if yes, we could then go back to the lenders and ask for their consent. To do that we just need to do a bit more work to have a more specified model, if you like, to then do that.

So, hopefully that answered it. Luke, if you're on the line, do you want to answer Ralph's second question?

Luke Colton – Chief Financial Officer, Turquoise Hill Resources Ltd.

Yes, happy to. Can everyone hear me just fine, Ulf?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yes we can, Luke. Thanks.

Luke Colton – Chief Financial Officer, Turquoise Hill Resources Ltd.

Right. Yes. Hello, everyone. Thank you for that question. It's a good one. I'll maybe break it down slightly into two parts. I mean in terms of any impact on the PF lenders, rest assured that, from our perspective, the PF lenders, they're key stakeholders to the OT mine and we are in regular communication with them and that situation, that relationship is being well managed.

Specifically around the carrying value question, I think it's important to note that some of these schedule delays and cost increases that we've identified and that we've included in our press release of yesterday indicate the need for an impairment review, but we're not necessarily at the stage where we feel like we need to be adjusting carrying value or anything like that. That's a process that is still underway and will be undertaken over the course of the next few weeks. We will announce any results—as part of our half year financial statements and earnings release we will be in a position to provide a bit more disclosure around that as part of that process. But we certainly weren't saying in the press release yesterday that the things that we have identified so far will definitely result in an adjustment to carrying value, rather that we just need to do the work now and that we'll come back to you, obviously, as part of our half year reporting with the results of that.

Ralph Profiti, Eight Capital – Analyst

Got it. Thank you, Ulf. Thank you, Luke.

Operator

Thank you. Your next question is from Hayden Bairstow from Macquarie. Please go ahead.

Hayden Bairstow, Macquarie Group

Hi there. Thanks for all the detail so far. I just wanted to confirm a couple of things. Just from the CapEx guidance we've sort of been given at the moment, is that literally just the estimate so far of re-cutting the (inaudible) zero of ramp-up phase and getting into first product or sort of the work on where do you have to change the rest of the scale of the development through lift one and sort of work to be done in the future? I just wanted to confirm that that's what that CapEx is about. Or is more broader than that?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

I think, so I heard—the line wasn't great, Hayden, but I think I heard most of that, so I think that is a big chunk, a big part of that. I think what makes it a little bit more complex is as you review the various options and the various mine design plans you are starting to move some of your sort of critical path items around as well, and so one of the things that we've got to do as part of the next step of the work, if you like, is obviously to optimize not just the mine plan itself but also the CapEx spend. Because part of the reason we want to, part of the things we want to do clearly is to make sure we look at safety, integrity, valuation, but also cash flow and timing thereof, and in part some of the questions that some of your colleagues asked earlier about the funding. It's clearly another element we need to look at, right, to say if there are changes in the mine plan, does that provide an opportunity for us to look at some of the CapEx spend and re-timing.

So therefore, what you are suggesting, Hayden, I think is correct in many respects, but not just that, if that's helpful.

Hayden Bairstow, Macquarie Group

Okay, great. And then on the underground itself, I mean you've said before that you're happy with cave ability and the ore is pretty soft, et cetera. Are you now sort of reassessing the throughput rates to try and sort of get some catch back up? Is that part of this study work? Or would that be once you start production and maybe a three- to five-year plan in terms of maybe changing things?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

No, it is part of that. It's all about, Jo-Anne touched on a little bit earlier, Hayden, whereby really what we're trying to do, and maybe we talk a little bit too much about safety, integrity of the infrastructure and so forth, but productivity is clearly key for us as well, right? And so a big part of the work as well is top optimize, of course, the CapEx spend, but also the productivity, and therefore that has to be part of that work as well.

Hayden Bairstow, Macquarie Group

Okay, great. And just one last one for me: Just on the power station, this study work, does it enable you to sort of delay any of the sort of build time and deliverability on that? Is that going to be part of it as well or is that a totally separate thing?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Well, I mean the timing of the power plant, Hayden, has been primarily driven by an obligation that Oyu Tolgoi has to procure power from within Mongolia, domestically, June 2023 as part of the power sector framework agreement that was signed, power source framework agreement that was designed in December of last year, and sort of that's the timetable that we are, jointly with the government and the various stakeholders, working towards. So it is a separate timetable, if you like.

Hayden Bairstow, Macquarie Group – Analyst Okay. That's terrific. I mean obviously there's plenty of questions we all have on funding, et cetera, but I guess you can't really answer those until you know what the numbers really are.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah. I think I would say, Hayden, we can do a lot of work and we are to look at options and make sure that we are ready when we have specificity around the numbers and you would expect us to do the work and that's clearly what we're doing. But pulling the trigger on that is, yeah, is kind of predicated upon some more clarity and specificity around the numbers and having a model. And that's why I think the fact that we've got a lot of cash liquidity is helpful, because not that we want to sail too close to the wind but it does give us a little bit of time to do more work before we can actually go to the market in a meaningful way.

Hayden Bairstow, Macquarie Group

Okay, terrific. Thanks very much.

Operator

Thank you. Your next question is from Jean Krautter from BMO. Please go ahead.

Jean-Baptiste Krautter, BMO Capital Markets

Hi. Most of my questions have been addressed, thank you, but I was wondering if you were also considering any other mining methods or adjustments to block caving.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, thanks for the question. Jo-Anne, that may be one that you want to address. Any other mining methods?

Jo-Anne Dudley – Chief Operating Officer, Turquoise Hill Resources Ltd.

Sure. So, the work to date underground has confirmed that caving, that it's amenable to the caving mining method and so we're continuing to work down towards the layout of a cave and we believe it's still the right mining method for the ore body that we have.

Jean-Baptiste Krautter, BMO Capital Markets

Okay. Thanks for that.

Operator

Thank you. Your next question is a follow-up from Orest Wowkodaw from Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Thanks for taking my follow up. Just two more quick ones for me. Can you give us a sense of—the $1.2 billion to $1.9 billion CAPEX overrun; can you give us a sense of how much of that is related to more ground support cost?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

I'd be a little reluctant, Orest. The reason I'm hesitating is simply because we haven't provided the specificity yesterday and there is some connection clearly to what the options are that we're pursuing here and so the answer is going to be, it's going to be different, right? We haven't described the options in a great deal of detail and what they entail, what they don't entail, and therefore there is an impact on the level of ground support required under the various options.

I'll tell you what—let us think about that and see if there's some visibility we can provide, Orest. It's a fair question. Let's see if we can give you some visibility on that. Maybe we can come back to that next time we speak. Is that okay?

Orest Wowkodaw, Scotiabank

Okay. Thank you. Yeah, because I'm really struggling with just how to think about the magnitude of this CAPEX overrun, to be honest. And then secondly, just quickly, can we assume with the pushback on the underground that you're going to revise the open pit mine plan so that that just continues to run in terms of current throughput while the underground gets pushed back?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Yeah, we'll certainly—you're right, Orest, certainly we will be looking at how do we optimize the overall mine plan, how do we optimize the mill throughput and so forth, so that's absolutely and exactly what we are doing to make sure that we... So that's part of, if you like, the mitigation measures to make sure we minimize the impact on cash flow at the Oyu Tolgoi level. You're absolutely right.

Orest Wowkodaw, Scotiabank

Okay. And just finally, will you have to wait until the definitive review in the back half of 2020 to actually see what kind of a new mine plan looks like with respect to production?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

It's a bit, Orest, I think like where, well, so... The correct answer today would be that's sort of what the current timetable envisages in terms of having landed on a final set of numbers. What we need to do is a bit like, similar to what we did in February, is we sort of need to find out how much visibility can we provide to the markets in the meantime so that you're not in a vacuum for the next, call it, 12 months or so. How and when we best do that, we'll need to land on, but clearly that will be the intent.

Orest Wowkodaw, Scotiabank

Okay. Thank you. That'd be very helpful. Thank you very much for all the questions.

Operator

Thank you. Your next question is from Dalton Baretto from Canaccord. Please go ahead.

Dalton Baretto, Canaccord Genuity Inc.

Hi. Thanks again. Two very specific questions for me on the project financing facility. First of all, does the Rio guarantee automatically attach should you exercise the $1.6 billion supplemental?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Okay. That's your first question. So, look, if you look at the existing project financing that was put in place, Dalton, it needed, at the time, and this was a specific requirement by the markets that we went to, so by the specific lending group that we went to, they had certain requirements what they were looking for. One was the Rio completion support guarantee backstopping the TRQ guarantee. The other one is a requirement to have various forms of support by the government, if you like.

Now it's a little bit a function as to what markets we are going to and what the requirements that the financiers might have. It might be different to what the previous lenders or the existing lenders have and so therefore it depends a little bit where we're going and what the requirements are. And that's what we're looking at as a part of our review, to make sure we know what the options are, what the requirements are, what the capacity is, what the terms are, so that we can then make a recommendation to our board at the end of the day to say these are the options that we have and this is what we recommend we would proceed with and the completion guarantee is just one component of that.

Dalton Baretto, Canaccord Genuity Inc.

Sure, but if you do require it, for whatever reason, do you anticipate any issues with getting it?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

So, that's a hypothetical question at the moment, Dalton, so we'll... That discussion will need to be had at the right time when we actually are in a position to go to the market.

Dalton Baretto, Canaccord Genuity Inc.

Okay. So my second question was is there a process to amend the amortization schedule with the lenders just given the delay to first production?

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

There's no process as such, if you like, Dalton. Again, it's something where we would need to look at the numbers to see how they pan out and whether or not it's necessary, it's desirable. It's certainly something, and I hope you can understand that it's not something we would want to announce or raise on a call like this, if this something that we would want to do, if we felt it was warranted, we should have a conversation with the lending consortium first to see if this is something that is appropriate, would be supported. That hasn't happened so far and, as I said, we would, out of respect, should have the discussions with the lending team first before we raise it on a call like this.

Dalton Baretto, Canaccord Genuity Inc.

Understood. So that's more of a conversation with the lenders and it's not something that's kind of to build into the current credit agreement.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

No. That's right. That's right.

Dalton Baretto, Canaccord Genuity Inc.

Understood. Thank you. Thank you. That's all for me.

Operator

Thank you. That concludes today's Q&A session. I will now turn the call back over for closing remarks.

Ulf Quellmann – Chief Executive Officer, Turquoise Hill Resources Ltd.

Thank you very much, operator, and look, thank you very much for all of you who have been on the call who've participated. We do appreciate that very much.

My short-level summary of the call would simply be to say I think we have said to you, when we first made the announcement in February that we would need to do the work, we need to conduct a review. That's what we're doing. We said at the time that we would provide an update by mid-year. That's what we're doing. I think it's clear that the work is far from finished. It continues. Today, in many respects, is, if you like, a progress report with the provision of some bookends in terms of both cost and schedule to allow really you to get a better sense as to where we are. We recognize that these ranges are relatively broad for the time being and we will obviously refine them as we do more work and proceed.

I would just reiterate maybe one of the comments we've made before, which is to say we clearly need to continue to observe the data that we are seeing, learn, and adjust. We've got to do, ultimately, the right thing, which is to make sure we mitigate the risk, whether it's safety or asset integrity, people risk, and we want to make sure we do everything we can to preserve the value creation for our shareholders going forward. That's what this is about and if we therefore do see there are some issues like now from a geo-tech perspective, we must do the right thing. We must stop and pause and take the appropriate action and that's what we're doing. There's no question that we are putting the right people, the best people and processes in place to manage this in a systematic and rigorous fashion and, last but not least, there's no question that Oyu Tolgoi remains a long life, low cost, tier one ore body that'll continue to generate attractive returns for our shareholders.

So, with that, thank you for joining us this morning and, operator, with that, we'd like to close the call. Thank you very much.

Operator

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