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“Oyu Tolgoi obtains all necessary permits from GoM”

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Government agencies have agreed to accept a feasibility study on proposals to develop an underground mine at the site, one of the world’s largest copper deposits, and provided guarantees to the World Bank’s Multilateral Investment Guarantee Agency, state-owned Erdenes Oyu Tolgoi LLC said Monday in a statement.

Turquoise Hill Resources announced on September 14 that the Government of Mongolia signed a request with Multilateral Investment Guarantee Agency for host country approval with the Oyu Tolgoi project financing. TRQ continues to advance the additional steps required to signing of project financing expected to be by the end of 2015.

The approvals show Mongolia’s “resolve to rapidly bring this world-class resource into production and on a broader level further demonstrates that Mongolia is open for business” said Davaadorj Ganbold, executive director of Erdenes Oyu Tolgoi. It holds Mongolia’s 34 percent stake in the mine and Rio-controlled Turquoise Hill Resources Ltd. holds the remaining 66 percent.

The partners will seek to raise as much as \$6 billion of external funding for the underground mine, including third-party project financing and sales accords, according to a development plan published by Turquoise Hill in May. Rio Tinto is seeking to target 15 to 20 banks to raise more than \$4 billion, Jean- Sebastien Jacques, head of its copper and coal business, said in May.



Disputes Resolved



Two years of stop-start talks on the mine's future were ended in May, when Rio and Mongolia's government settled disputes that had halted the expansion and acted as a deterrent to foreign investors in the Asian nation. Oyu Tolgoi, located 80 kilometers (50 miles) north of the Chinese border, is forecast to account for about a third of Mongolia's economy in full operation.

Copper for delivery in three months on the London Metal Exchange was little changed at \$5,312 a metric ton at 11:13 a.m. in Sydney. Rio sees the metal poised for longer-term gains, Chief Executive Officer Sam Walsh said Aug. 6.

As output declines at aging mines, producers are encountering difficulties in discovering and developing viable new projects and in securing approvals, which “means that we will see copper moving into short supply going forward,” he told investors in London.

Expansion of Oyu Tolgoi is scheduled to restart in mid-2016, Turquoise Hill said last month. It may take as many as seven years to complete, according to global miner Rio Tinto.



Milestones



- Acceptance of the OT Feasibility Study by the Mongolian Minerals Council that aligns with the underground mine development plan
- Confirmation provided to World Bank's Multilateral Investment Guarantee Agency, stating that the Government has no objections to issuing a guarantee pursuant to the requirements of the international lending institutions
- The above steps have been approved by the Government in accordance with the OT Underground Mine Development and Financing Plan (Underground Development Plan) that was approved on 18 May 2015. These actions allow the OT LLC joint venture partners to progress their discussions with the international banks and multi-lateral lending institutions to rapidly advance the Underground Project Agreements in order for the underground stage of the world-class Oyu Tolgoi Project, which comprises over 80% of the Project's total resources, continues on its positive path towards production.
- Davaadorj Ganbold, chief executive of Erdenes Oyu Tolgoi LLC said: “The decisive actions and expeditious approvals secured by Government of Mongolia in relation to its commitments under the Underground Development Plan again confirms the Government's resolve to rapidly bring this world-class resource into production and on a broader level further demonstrates that Mongolia is open for business.”



PwC analysis on Oyu Tolgoi



In the case of Vancouver-headquartered Turquoise Hill Resources (Nasdaq:TRQ), which operates the Oyu Tolgoi mine in Mongolia and tops Business in Vancouver’s list of B.C.’s fastest-growing companies, a key to staying financially healthy is to have a long international reach.

When the Oyu Tolgoi mine reaches full production, it is expected to be the third-largest copper-gold mine in the world. Chief executive officer Jeff Tygesen noted his company’s revenue was US\$1.7 billion last year and that being successful in a volatile market means going where the money is.

“The mine’s location is strategically important because China is the world’s largest consumer of copper,” Tygesen said. “Production from the open pit started in 2013. We expect to begin construction of the underground mine, which is where approximately 80% of Oyu Tolgoi’s value resides, in 2016.”

In 2014, Oyu Tolgoi mined approximately 77 million tonnes of material and treated approximately 28 million tonnes of ore in the concentrator. The mine also produced 148,400 tonnes of copper and 589,000 ounces of gold in concentrates last year alone. Tygesen said when first production from the underground portion of the mine starts in 2021, Oyu Tolgoi will assume colossal stature within Mongolia’s economy.

“Oyu Tolgoi is expected to represent about 30% of Mongolia’s GDP when the mine is fully developed,” he said. “Over 95% of the mine’s employees are Mongolian.”

Originally founded in 1994 as Indochina Goldfields, in June 1999 the company changed its name to Ivanhoe Mines. After Rio Tinto (Nasdaq:RIO) became a majority owner of Ivanhoe Mines in 2012, the company changed its name to Turquoise Hill Resources in August 2012. It owns 66% of the shares in the Oyu Tolgoi project; the remaining shares are owned by Erdenes Oyu Tolgoi LLC, representing the government of Mongolia.

Tygesen said that through all the name and leadership changes, one thing has remained constant – a commitment to safety in an industry that regularly ranks as one of the deadliest in the world.

“In terms of employee culture, safety is the foundation of all the work we do. We want the mine’s workforce to return from work safely each and every day. Sustainability is also a key part of our culture – be it the environment or business practices. We strive to be a good neighbour and member of the communities where we operate.”



Tygesen said Turquoise Hill Resources also pays careful attention to management of one of nature’s most critical resources, and one also generating a lot of headlines as of late.

“With Oyu Tolgoi’s location in the Gobi Desert, water is a critical factor,” he said. “The mine has an extensive recycling program and in 2014 recycled approximately 85% of the water used in operations. Oyu Tolgoi’s main water source is from a deep aquifer that does not meet drinking-quality water standards. The mine also has an official well restoration and monitoring program that is conducted in partnership with local herders.”

Oyu Tolgoi was named the country’s “best responsible mine” by the Mongolian Mining Journal last year. The award recognized Oyu Tolgoi’s transition from construction to full-capacity operations by “placing safety above all else,” Tygesen said.

Conclusion

As the Government is in support of Oyu Tolgoi mine and all the necessary permits are given, the mine will advance its second phase of Underground Mine project in our opinion. Amid the global financial and economic crisis happening at the same time of China’s economic slowdown, Mongolia has been experiencing a serious crisis since 2012.

As the politicians do not want to move forward Tavan Tolgoi coking coal deposit, Oyu Tolgoi will be the main driver for the Mongolian economy in the coming years. Even though the minerals sector will not recover until 2020 according to some experts, Mongolia has no other potential sectors that can help the economy to overcome the crisis. Finally, the Oyu Tolgoi project should not be delayed any longer.

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