

Frontier's Strategy Note: 03/25/2016



"Oyu Tolgoi 4Q2014 and 2015 Full-Year Update"

Oyu Tolgoi's production of gold and copper decreased to some extent, as the open-pit goes deeper and the grades decrease. But once the underground mine is in operation, the production will increase along with the revenue. Underground operation delay by the Government of Mongolia had some hurdles for the Company with a long-term effect.

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Oyu Tolgoi today announced an update on its performance for the fourth quarter and full year 2015.

- Oyu Tolgoi achieved an excellent safety performance for 2015 with an All Injury Frequency Rate of 0.33 per 200,000 hours worked.
- For 2015, Oyu Tolgoi’s second full year of production, the mine operated at record levels.
- Oyu Tolgoi recorded revenue of USD 1.6 billion in 2015 on record concentrate sales of 819,800 tonnes reflecting higher concentrate sales volumes partially offset by lower copper and gold prices.
- In the fourth quarter of 2015, Oyu Tolgoi recorded revenue of USD 355.6 million on concentrate sales of 236,200 tonnes reflecting lower copper and gold prices combined with lower sales of metal in concentrate.
- Underground pre-start activities are underway in parallel with an update to the feasibility study capital estimate, which is expected to be complete in 1st quarter of 2016.
- Turquoise Hill continues to expect approval of the updated 2016 feasibility study and notice to proceed decisions by the various boards for underground construction in 2nd quarter of 2016.
- In 2015, copper production of 202,200 tonnes exceeded Turquoise Hill Resources guidance and annual gold production of 653,000 ounces met guidance.

Oyu Tolgoi is expected to produce 175,000 to 195,000 tonnes of copper and 210,000 to 260,000 ounces of gold in concentrates for 2016.

Safety continued to be a major focus throughout Oyu Tolgoi’s operations and the mine’s management is committed to reducing risk and injury. Oyu Tolgoi achieved an excellent safety performance for 2015 with an All Injury Frequency Rate of 0.33 per 200,000 hours worked.

Oyu Tolgoi President and CEO Andrew Woodley said, “The entire mining industry faced a difficult year in 2015, with significant market pressures and declines in commodity prices. Oyu Tolgoi has responded by maintaining focus on delivering a safe and globally competitive copper business – driving efficiency, reducing costs and improving productivity – proved by our strong performance across all key indicators.

“Our performance extended to our contribution to Mongolia, and the communities we live and work in. Oyu Tolgoi contributed USD 315 million in taxes, fees and other payments to the Government of Mongolia, worked with approximately 989 Mongolian suppliers, and continued investment into sustainable development initiatives in the community.”

Revenue of USD 1.6 billion in 2015 decreased 5.8% over 2014 reflecting lower copper and gold prices partially offset by higher volumes of copper-gold concentrate sales. Concentrate sales of 2015 of 819,800 tonnes increased 11.7% over 2014 reaching an all-time annual high.

Oyu Tolgoi recorded revenues of USD 355.6 million in the 4th quarter of 2015, a 17.6% decrease on a quarter-on-quarter basis reflecting lower copper and gold prices combined with lower metals in concentrate sales. Fourth quarter concentrate sold of 236,200 tonnes increased 4.5% over 3rd quarter of 2015.

For 2015, Oyu Tolgoi’s second full year of production, the mine operated at record levels. Productivity improvements in the concentrator implemented throughout the year led to throughput exceeding nameplate capacity by year end. Copper production for 2015 of 202,200 tonnes exceeded the Turquoise Hill Resources guidance of 175,000 to 195,000 tonnes and annual gold production of 653,000 ounces met 2015 guidance of 600,000 to 700,000 ounces. Compared to 2014 results, 2015 mined production increased 19.3%, concentrator throughput increased 23.9%, concentrate production increased 39.9%, copper production increased 36.3% and gold production increased 10.9%.



For the 4th quarter of 2015, throughput increased 8.5% on a quarter-on-quarter basis reaching an all-time high. Copper production for the quarter increased 2.3% on a quarter-on-quarter basis due to higher volumes offset by lower grades. As a result of mining higher grades from Phase 2 and higher volumes, gold production in the 4th quarter of 2015 increased 68.3% over the 3rd quarter of 2015.

Operational outlook

Oyu Tolgoi is expected to produce 175,000 to 195,000 tonnes of copper and 210,000 to 260,000 ounces of gold in concentrates for 2016. Open-pit operations are expected to mine in phases 2, 3 and 6 during the year as well as begin stripping for phase 4. In addition, stockpiled ore is anticipated to be processed during the year. The reduction in gold compared to 2015 is expected to result from mining in lower-grade gold areas and processing lower-grade stockpiled ore. The majority of 2016 gold production is expected in the first half of the year. Sales contracts have been signed for approximately 90% of Oyu Tolgoi's expected 2016 concentrate production.

Turquoise Hill expects Oyu Tolgoi operating cash costs for 2016 to be approximately USD 800 million. The reduction compared to 2015 operating cash costs is mainly related to cost reduction initiatives, and additional capitalization of phase 4 stripping costs. Capital expenditures for 2016 on a cash-basis, excluding underground development, are expected to be approximately USD 300 million, of which approximately USD 280 million relates to sustaining capital. Sustaining capital reflects increased capitalization of phase 4 deferred stripping costs.

For underground development, Turquoise Hill will provide capital guidance for 2016 once a final notice to proceed decision is confirmed.

Key financial metrics for 2015 and Q4'15 are as follows:

Notes to the Editor:

For the full text of the Turquoise Hill announcement, please visit: <http://goo.gl/wPZ1Wn>

- *Beginning on January 1, 2015, Turquoise Hill began preparing its financial statements in accordance with IFRS; all financial metrics included in the below table are prepared on the newly adopted IFRS basis.*

Oyu Tolgoi Key Financial Metrics (as disclosed by Turquoise Hill):



Oyu Tolgoi Key Financial Metrics*

	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	Full Year 2015	Full Year 2014
Revenue (\$ in millions of dollars)	670.6	426.2	421.3	431.7	355.6	1,634.8	1,735.6
Concentrates sold ('000 tonnes)	262.7	167.7	189.8	226.0	236.2	819.8	733.7
Revenue by metals in concentrates (\$ in millions of dollars)							
Copper	368.5	190.2	220.3	224.5	194.6	829.6	1,066.9
Gold	296.4	232.3	197.4	202.8	156.4	788.9	650.5
Silver	5.7	3.6	3.6	4.4	4.6	16.2	18.2
Cost of sales (\$ in millions of dollars)	402.8	257.9	225.7	252.2	239.2	975.0	1,235.1
Production and delivery costs	279.5	173.9	147.4	159.4	149.7	630.4	849.8
Depreciation and depletion	123.3	83.9	78.2	92.8	89.6	344.5	385.3
Capital expenditure on cash basis (cash flows \$ in millions of dollars)	18.5	24.3	35.1	29.3	27.5	116.2	242.2
Royalties	36.6	21.9	49.8	24.1	25.0	120.8	91.5
Cash operating costs (\$ in millions of dollars)		218.9	284.6	222.5	236.6	962.6	905.6
Unit costs (\$ per pound of copper)**							
C1		0.09	0.73	0.40	0.88	0.57	1.14
All-in sustaining		0.96	1.26	1.52	1.56	1.37	1.95

* Beginning on January 1, 2015, Turquoise Hill began preparing its financial statements in accordance with IFRS; all financial metrics included in the above table are prepared on the newly adopted IFRS basis. Any financial information in this MD&A should be reviewed in consultation with the Company's consolidated financial statements.

** Please refer to Section 15 – NON-GAAP MEASURES – on page 37 of the MD&A for reconciliation of these metrics, including total cash operating costs, to the financial statements.

Financial results

Revenue of USD 1.6 billion in 2015 decreased 5.8% over 2014 reflecting lower copper and gold prices partially offset by higher volumes of copper-gold concentrate sales. Concentrate sold in 2015 of 819,800 tonnes increased 11.7% over 2014 reaching an all-time annual high.

Revenue of USD 355.6 million in the 4th quarter of 2015 decreased 17.6% on a quarter-on-quarter basis reflecting lower copper and gold prices combined with lower metals in concentrate sales. Fourth quarter concentrate sold of 236,200 tonnes increased 4.5% over 3rd quarter of 2015.

Production and delivery costs include primarily the cash costs in inventory sold as well as allocated mine administration costs. Depreciation and depletion includes the depreciation and depletion in inventory sold as well as any depreciation of assets used in the selling and delivery process, including the depreciation of capitalized production phase stripping costs.



A charge of USD 90.9 million was recorded in 2015, within operating expenses, for provision against, and write-off of, non-current ore stockpiles. The charge followed a re-estimation of realizable value to reflect lower copper and gold prices and updated assumptions for timing of processing. Capital expenditure, on a cash basis, for 2015 was USD 116.2 million (2014: USD 242.2 million) primarily attributed to sustaining activities, including the tailings storage facility and deferred stripping (2014 included payments relating to 2013 underground development prior to suspension).

Total cash operating costs at Oyu Tolgoi in 2015 were USD 962.6 million inclusive of non-recurring charges following agreement of the Underground Plan (tax settlement: USD 22.1 million; recalculation of royalties: USD 14.5 million) and costs relating to underground remobilization and early works expensed (USD 23.3 million). Throughout 2015, Oyu Tolgoi improved and optimized operations in order to reduce costs across the mine’s operation. Following transition to IFRS, the 5% royalty payable to the Government of Mongolia, previously deducted from revenue, is reflected as a cash operating expense, and production phase stripping costs, previously included within cash operating expense, are capitalized where appropriate and depreciated.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Oyu Tolgoi’s C1 costs in 2015 were USD 0.57 per pound, compared with USD 1.14 per pound in 2014.

The decrease was mainly due to production volume increases and cost optimization, partly offset by reduced gold and silver credits per pound of copper produced. Oyu Tolgoi’s open-pit mine has a high-grade zone containing a large proportion of gold in addition to copper; Turquoise Hill anticipates quarterly fluctuation of C1 costs as the quantity of gold in concentrates sold varies.

Oyu Tolgoi’s C1 costs in the 4th quarter of 2015 were USD 0.88 per pound, compared with USD 0.40 per pound in the 3rd quarter of 2015.

The increase was mainly due to a drop in gold revenues and lower grades.

All-in sustaining costs in 2015 were USD 1.37 per pound, compared with USD 1.95 per pound in 2014. The decrease was mainly due to volume increases, cost optimization and operational efficiencies, partly offset by reduced gold and silver credits per pound of copper produced, combined with impact of non-recurring and non-cash items.

All-in sustaining costs in 4th quarter of 2015 were USD 1.56 per pound, compared with USD 1.52 per pound in the 3rd quarter of 2015. The increase was mainly due to a drop in gold revenues and lower grades.

Share Price





Conclusion

Oyu Tolgoi’s production of gold and copper decreased to some extent, as the open-pit goes deeper and the grades decrease. But once the underground mine is in operation, the production will increase along with the revenue. Underground operation delay by the Government of Mongolia had some hurdles for the Company with a long-term effect.

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