

TURQUOISE HILL RESOURCES LTD.

*Third Quarter Report – September 30, 2016
Financial Statements and MD&A*





Condensed interim consolidated financial statements

September 30, 2016

(unaudited)

TURQUOISE HILL RESOURCES LTD.

Consolidated Statements of Income (Loss)

(Stated in thousands of U.S. dollars)

(Unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Continuing operations					
Revenue	4	\$ 226,341	\$ 431,701	\$ 978,739	\$ 1,279,119
Cost of sales	5	(232,490)	(252,172)	(677,533)	(735,701)
Gross margin		(6,149)	179,529	301,206	543,418
Operating expenses	6	(75,871)	(151,721)	(243,202)	(339,330)
Corporate administration expenses		(4,836)	(2,899)	(13,495)	(12,198)
Other income (expenses)	7	10,811	271	4,046	(44,278)
Income (loss) before finance items and taxes		(76,045)	25,180	48,555	147,612
Finance items					
Finance income	8	38,132	1,003	54,906	2,214
Finance costs	8	(45,493)	(2,249)	(72,836)	(4,609)
		(7,361)	(1,246)	(17,930)	(2,395)
Income (loss) from continuing operations before taxes		(83,406)	23,934	30,625	145,217
Income and other taxes		5,611	(11,298)	(10,830)	(35,949)
Income (loss) from continuing operations		(77,795)	12,636	19,795	109,268
Discontinued operations					
Income (loss) after tax from discontinued operations		-	(22,784)	-	10,866
Income (loss) for the period		\$ (77,795)	\$ (10,148)	\$ 19,795	\$ 120,134
Attributable to owners of Turquoise Hill Resources Ltd.		(31,401)	21,184	117,293	142,229
Attributable to owners of non-controlling interests		(46,394)	(31,332)	(97,498)	(22,095)
Income (loss) for the period		\$ (77,795)	\$ (10,148)	\$ 19,795	\$ 120,134
Income (loss) attributable to owners of Turquoise Hill Resources Ltd.					
Continuing operations		\$ (31,401)	\$ 43,968	\$ 117,293	\$ 160,998
Discontinued operations		-	(22,784)	-	(18,769)
		\$ (31,401)	\$ 21,184	\$ 117,293	\$ 142,229
Basic and diluted earnings (loss) per share attributable to Turquoise Hill Resources Ltd.					
Continuing operations	22	\$ (0.02)	\$ 0.02	\$ 0.06	\$ 0.08
Discontinued operations		-	(0.01)	-	(0.01)
Income (loss) for the period		\$ (0.02)	\$ 0.01	\$ 0.06	\$ 0.07
Basic weighted average number of shares outstanding (000's)		2,012,314	2,012,309	2,012,314	2,012,306

The accompanying notes are an integral part of these consolidated financial statements.

TURQUOISE HILL RESOURCES LTD.

Consolidated Statements of Comprehensive Income (Loss)

(Stated in thousands of U.S. dollars)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Income (loss) for the period	\$ (77,795)	\$ (10,148)	\$ 19,795	\$ 120,134
Other comprehensive income (loss):				
Items that have been / may be classified subsequently to income or loss:				
Fair value movements:				
Gains (losses) on revaluation of available for sale investments (Note 19)	3,533	(2,114)	(182)	(8,932)
Losses on revaluation of available for sale investments transferred to the statement of income (Note 19)	257	140	2,369	9,136
Other comprehensive income (loss) for the period	\$ 3,790	\$ (1,974)	\$ 2,187	\$ 204
Total comprehensive income (loss) for the period	\$ (74,005)	\$ (12,122)	\$ 21,982	\$ 120,338
Attributable to owners of Turquoise Hill	\$ (27,611)	\$ 19,210	\$ 119,480	\$ 142,433
Attributable to owners of non-controlling interests	(46,394)	(31,332)	(97,498)	(22,095)
Total comprehensive income (loss) for the period	\$ (74,005)	\$ (12,122)	\$ 21,982	\$ 120,338

The accompanying notes are an integral part of these consolidated financial statements.

TURQUOISE HILL RESOURCES LTD.

Consolidated Statements of Cash Flows

(Stated in thousands of U.S. dollars)

(Unaudited)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Cash generated from operating activities					
before interest and tax	21	\$ 23,953	\$ 171,741	\$ 381,009	\$ 512,394
Interest received		5,887	816	9,281	1,461
Interest paid		-	(1,161)	(16,161)	(1,161)
Income and other taxes paid		(257)	(6,138)	(67,983)	(15,606)
Net cash generated from operating activities		29,583	165,258	306,146	497,088
Cash flows from investing activities					
Loans to related party	13	-	-	(4,156,284)	-
Expenditures on property, plant and equipment		(74,380)	(29,231)	(183,602)	(88,678)
Proceeds from sale of discontinued operations		-	6,514	-	11,867
Proceeds from sale and redemption of financial assets		2,746	223	6,802	17,005
Proceeds from sales of mineral property rights and other assets		-	-	2,800	1,237
Other investing cash flows		149	656	222	1,645
Cash used in investing activities of continuing operations		(71,485)	(21,838)	(4,330,062)	(56,924)
Cash used in investing activities of discontinued operations		-	-	-	(114)
Cash used in investing activities		(71,485)	(21,838)	(4,330,062)	(57,038)
Cash flows from financing activities					
Net proceeds from project finance facility	16	-	-	4,274,321	-
Payment of project finance fees		-	-	(158,999)	-
Issue of share capital	18	-	-	-	20
Cash from financing activities of continuing operations		-	-	4,115,322	20
Cash from financing activities of discontinued operations		-	-	-	3,500
Cash from financing activities		-	-	4,115,322	3,520
Effects of exchange rates on cash and cash equivalents		(57)	73	1,227	247
Net increase (decrease) in cash and cash equivalents		(41,959)	143,493	92,633	443,817
Cash and cash equivalents - beginning of period		\$ 1,478,470	\$ 1,166,867	\$ 1,343,878	\$ 866,543
Cash and cash equivalents - end of period		1,436,511	1,310,360	1,436,511	1,310,360
Cash and cash equivalents as presented on the statement of financial position		\$ 1,436,511	\$ 1,310,360	\$ 1,436,511	\$ 1,310,360

The accompanying notes are an integral part of these consolidated financial statements.

TURQUOISE HILL RESOURCES LTD.
Consolidated Statements of Financial Position
(Stated in thousands of U.S. dollars)
(Unaudited)

	Note	September 30, 2016	December 31, 2015
Current assets			
Cash and cash equivalents	9	\$ 1,436,511	\$ 1,343,878
Inventories	10	240,361	321,409
Trade and other receivables	11	16,775	15,833
Prepaid expenses and other assets	12	9,692	53,375
Loans due from related party	13	849,247	-
		2,552,586	1,734,495
Non-current assets			
Property, plant and equipment	14	6,312,066	6,319,983
Inventories	10	-	539
Deferred income tax assets		174,309	165,000
Loans due from related party, and other financial assets	13	3,319,737	20,078
		9,806,112	6,505,600
Total assets		\$12,358,698	\$ 8,240,095
Current liabilities			
Trade and other payables	15	\$ 269,335	\$ 201,567
Deferred revenue		54,682	72,004
		324,017	273,571
Non-current liabilities			
Borrowings and other financial liabilities	16	4,111,980	13,574
Deferred income tax liabilities		3,335	52,916
Decommissioning obligations	17	101,771	104,421
		4,217,086	170,911
Total liabilities		\$ 4,541,103	\$ 444,482
Equity			
Share capital	18	11,432,122	11,432,122
Contributed surplus		1,555,774	1,555,774
Accumulated other comprehensive income (loss)	19	2,173	(14)
Deficit		(4,356,067)	(4,473,360)
Equity attributable to owners of Turquoise Hill		8,634,002	8,514,522
Attributable to non-controlling interests	20	(816,407)	(718,909)
Total equity		7,817,595	7,795,613
Total liabilities and equity		\$12,358,698	\$ 8,240,095

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the directors on November 2, 2016 and signed on their behalf by:

/s/ P. Gillin
P. Gillin, Director

/s/ R. Robertson
R. Robertson, Director

TURQUOISE HILL RESOURCES LTD.

Consolidated Statements of Equity

(Stated in thousands of U.S. dollars)

(Unaudited)

	Attributable to owners of Turquoise Hill							
	Share capital (Note 18)	Contributed surplus	Accumulated other comprehensive income (loss) (Note 19)	Deficit	Total	Non-controlling Interests (Note 20)	Total equity	
Nine Months Ended September 30, 2016								
Opening balance	\$11,432,122	\$ 1,555,774	\$ (14)	\$ (4,473,360)	\$ 8,514,522	\$ (718,909)	\$ 7,795,613	
Income (loss) for the period	-	-	-	117,293	117,293	(97,498)	19,795	
Other comprehensive income for the period	-	-	2,187	-	2,187	-	2,187	
Closing balance	\$11,432,122	\$ 1,555,774	\$ 2,173	\$ (4,356,067)	\$ 8,634,002	\$ (816,407)	\$ 7,817,595	
Nine Months Ended September 30, 2015								
Opening balance	\$11,432,060	\$ 1,555,721	\$ (4,505)	\$ (4,788,340)	\$ 8,194,936	\$ (626,471)	\$ 7,568,465	
Income (loss) for the period	-	-	-	142,229	142,229	(22,095)	120,134	
Other comprehensive income for the period	-	-	204	-	204	-	204	
Equity issued to holders of non-controlling interests	-	-	-	1,677	1,677	1,823	3,500	
Employee share options	24	69	-	-	93	-	93	
Other decrease in non-controlling interests (Note 20)	-	-	-	-	-	(88,048)	(88,048)	
Closing balance	\$11,432,084	\$ 1,555,790	\$ (4,301)	\$ (4,644,434)	\$ 8,339,139	\$ (734,791)	\$ 7,604,348	

The accompanying notes are an integral part of these consolidated financial statements.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

1. Nature of operations

The condensed interim consolidated financial statements of Turquoise Hill Resources Ltd. (“Turquoise Hill”) were authorized for issue in accordance with a directors’ resolution on November 2, 2016. Rio Tinto plc is the ultimate parent company and indirectly owns a 50.8% majority interest in Turquoise Hill as at September 30, 2016.

Turquoise Hill, together with its subsidiaries (collectively referred to as “the Company”), is an international mining company focused principally on the operation and further development of the Oyu Tolgoi copper-gold mine in Southern Mongolia. Turquoise Hill’s head office is located at 354-200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4. Turquoise Hill’s registered office is located at 300-204 Black Street, Whitehorse, Yukon, Canada, Y1A 2M9.

Turquoise Hill has its primary listing in Canada on the Toronto Stock Exchange and secondary listings in the U.S. on the New York Stock Exchange and the NASDAQ.

2. Summary of significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* (“IAS 34”). These condensed interim consolidated financial statements are compliant with IAS 34 and do not include all of the information required for full annual financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2015, prepared in accordance with IFRS.

(b) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2016, and have not been applied in preparing these condensed interim consolidated financial statements. The following standards may have a potential effect on the condensed interim consolidated financial statements of the Company:

- (i) IFRS 9, *Financial Instruments*, is mandatorily effective for the Company’s condensed interim consolidated financial statements for the year ending December 31, 2018. IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost; fair value through profit and loss; and fair value through other comprehensive income. IFRS 9 also amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The extent of the impact of adoption has not yet been determined.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

2. Summary of significant accounting policies (continued)

(b) New standards and interpretations not yet adopted (continued)

(ii) IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*, is effective for the Company's fiscal year ending December 31, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers. Revenue is recognized as control is passed to the customer, either at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The extent of the impact of adoption of the standard has not yet been determined.

(iii) IFRS 16, *Leases*, which will replace IAS 17, *Leases*, is effective for the Company's fiscal year ending December 31, 2019 and is available for early adoption. The objective of the new standard is to report all leases on the consolidated statement of financial position and to define how leases and liabilities are measured. Under the new standard, a lessee is in essence required to:

- a. Recognize all lease assets and liabilities (including those currently classed as operating leases) on the statement of financial position, initially measured at the present value of unavoidable lease payments;
- b. Recognize amortization of lease assets and interest on lease liabilities in the statement of income over the lease term; and
- c. Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which companies can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the statement of cash flows.

The Company is currently evaluating the impact of IFRS 16. Generally, it is expected that under IFRS 16, the present value of most lease commitments will be shown as a liability on the statement of financial position together with an asset representing the right of use, including those classified as operating leases under the existing standard. Information on the undiscounted amount of the Company's operating lease commitments at December 31, 2015 under IAS 17, the current lease standard, is disclosed within Note 24 to the Company's annual financial statements for the year ended December 31, 2015.

None of the remaining standards and amendments to standards and interpretations are expected to have a significant effect on the consolidated financial statements of the Company.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

3. Operating segment - continuing operations

	Three Months Ended September 30, 2016		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 226,341	\$ -	\$ 226,341
Cost of sales	(232,490)	-	(232,490)
Gross margin	(6,149)	-	(6,149)
Operating expenses	(84,374)	8,503	(75,871)
Corporate administration expenses	-	(4,836)	(4,836)
Other income (expenses)	11,369	(558)	10,811
Income (loss) before finance items and taxes	(79,154)	3,109	(76,045)
Finance items			
Finance income	21,716	16,416	38,132
Finance costs	(88,320)	42,827	(45,493)
Income (loss) from continuing operations before taxes	\$ (145,758)	\$ 62,352	\$ (83,406)
Income and other taxes	9,305	(3,694)	5,611
Income (loss) from continuing operations	\$ (136,453)	\$ 58,658	\$ (77,795)
Depreciation and depletion	\$ 89,049	\$ 17	\$ 89,066
Capital expenditures	\$ 151,886	\$ -	\$ 151,886
Total assets	\$ 6,868,024	\$ 5,490,674	\$12,358,698

- (a) During the three months ended September 30, 2016, all of Oyu Tolgoi's revenue arose from copper-gold concentrate sales to customers in China and revenue from individual customers in excess of 10% of Oyu Tolgoi's revenue was \$62.2 million, \$49.5 million, \$35.3 million and \$26.1 million (September 30, 2015 - \$114.4 million, \$102.1 million and \$52.3 million) respectively. Revenue by geographic destination is based on the ultimate country of destination, if known. If the destination of the copper concentrate sold through traders is not known, then revenue is allocated to the location of the copper concentrate at the time when revenue is recognized.

All long-lived assets of the Oyu Tolgoi segment, other than financial instruments, are located in Mongolia.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

3. Operating segment - continuing operations (continued)

	Three Months Ended September 30, 2015		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 431,701	\$ -	\$ 431,701
Cost of sales	(252,172)	-	(252,172)
Gross margin	179,529	-	179,529
Operating expenses	(159,294)	7,573	(151,721)
Corporate administration expenses	-	(2,899)	(2,899)
Other income (expenses)	557	(286)	271
Income (loss) before finance items and taxes	20,792	4,388	25,180
Finance items			
Finance income	196	807	1,003
Finance costs	(113,140)	110,891	(2,249)
Income (loss) from continuing operations before taxes	\$ (92,152)	\$ 116,086	\$ 23,934
Income and other taxes	-	(11,298)	(11,298)
Income (loss) from continuing operations	\$ (92,152)	\$ 104,788	\$ 12,636
Depreciation and depletion	\$ 95,381	\$ 26	\$ 95,407
Capital expenditures	\$ 40,803	\$ -	\$ 40,803
Total assets	\$ 6,513,843	\$ 1,606,196	\$ 8,120,039

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

3. Operating segment - continuing operations (continued)

	Nine Months Ended September 30, 2016		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 978,739	\$ -	\$ 978,739
Cost of sales	(677,533)	-	(677,533)
Gross margin	301,206	-	301,206
Operating expenses	(272,987)	29,785	(243,202)
Corporate administration expenses	-	(13,495)	(13,495)
Other income (expenses)	6,118	(2,072)	4,046
Income (loss) before finance items and taxes	34,337	14,218	48,555
Finance items			
Finance income	30,142	24,764	54,906
Finance costs	(360,525)	287,689	(72,836)
Income (loss) from continuing operations before taxes	\$ (296,046)	\$ 326,671	\$ 30,625
Income and other taxes	9,289	(20,119)	(10,830)
Income (loss) from continuing operations	\$ (286,757)	\$ 306,552	\$ 19,795
Depreciation and depletion	\$ 270,363	\$ 360	\$ 270,723
Capital expenditures	\$ 288,152	\$ -	\$ 288,152
Total assets	\$ 6,868,024	\$ 5,490,674	\$12,358,698

(b) During the nine months ended September 30, 2016, all of Oyu Tolgoi's revenue arose from copper-gold concentrate sales to customers in China and revenue from individual customers in excess of 10% of Oyu Tolgoi's revenue was \$239.7 million, \$227.3 million, \$183.7 million and \$154.6 million (September 30, 2015 - \$285.9 million, \$275.6 million and \$152.2 million) respectively. Revenue by geographic destination is based on the ultimate country of destination, if known. If the destination of the copper concentrate sold through traders is not known, then revenue is allocated to the location of the copper concentrate at the time when revenue is recognized.

All long-lived assets of the Oyu Tolgoi segment, other than financial instruments, are located in Mongolia.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

3. Operating segment - continuing operations (continued)

	Nine Months Ended September 30, 2015		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 1,279,119	\$ -	\$ 1,279,119
Cost of sales	(735,701)	-	(735,701)
Gross margin	543,418	-	543,418
Operating expenses	(323,342)	(15,988)	(339,330)
Corporate administration expenses	-	(12,198)	(12,198)
Other income (expenses)	2,163	(46,441)	(44,278)
Income (loss) before finance items and taxes	222,239	(74,627)	147,612
Finance items			
Finance income	776	1,438	2,214
Finance costs	(340,981)	336,372	(4,609)
Income (loss) from continuing operations before taxes	\$ (117,966)	\$ 263,183	\$ 145,217
Income and other taxes	(111)	(35,838)	(35,949)
Income (loss) from continuing operations	\$ (118,077)	\$ 227,345	\$ 109,268
Depreciation and depletion	\$ 263,779	\$ 75	\$ 263,854
Capital expenditures	\$ 107,557	\$ -	\$ 107,557
Total assets	\$ 6,513,843	\$ 1,606,196	\$ 8,120,039

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

4. Revenue

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Copper-gold concentrate				
Copper	\$ 174,178	\$ 224,502	\$ 584,056	\$ 635,006
Gold	45,825	202,803	377,092	632,533
Silver	6,338	4,396	17,591	11,580
	\$ 226,341	\$ 431,701	\$ 978,739	\$ 1,279,119

5. Cost of sales

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Production and delivery	\$ 134,279	\$ 159,375	\$ 401,466	\$ 480,765
Depreciation and depletion	88,505	92,797	266,361	254,936
Provision against carrying value of copper-gold concentrate (Note 10)	9,706	-	9,706	-
	\$ 232,490	\$ 252,172	\$ 677,533	\$ 735,701

6. Operating expenses by nature

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Oyu Tolgoi administration expenses	\$ 45,662	\$ 33,925	\$ 122,890	\$ 132,370
Royalty expenses	13,887	24,126	55,083	95,781
Impairment and write downs (a)	1,512	76,447	23,420	67,202
Selling expenses	8,486	4,346	23,725	19,248
Care and maintenance costs	3,174	10,283	8,540	14,280
Depreciation	561	2,610	4,362	8,918
Other	2,589	(16)	5,182	1,531
	\$ 75,871	\$ 151,721	\$ 243,202	\$ 339,330

(a) Write downs include adjustments to the carrying value of non-current copper-gold stockpile inventories, and materials and supplies; refer to Note 10.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

7. Other income (expenses)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Realized losses on disposal of available for sale investments (Note 19)	\$ (257)	\$ (140)	\$ (2,369)	\$ (9,136)
Foreign exchange gains	11,250	1,542	6,888	4,124
Write off of property, plant and equipment	-	-	-	(36,794)
Other, including exploration and evaluation	(182)	(1,131)	(473)	(2,472)
	\$ 10,811	\$ 271	\$ 4,046	\$ (44,278)

8. Finance income and finance costs

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Finance income:				
Interest income on bank deposits, short-term investments and loans due from related party	\$ 38,132	\$ 1,003	\$ 54,906	\$ 2,214
	\$ 38,132	\$ 1,003	\$ 54,906	\$ 2,214
Finance costs:				
Interest expense and similar charges	\$ (86,376)	\$ (1,393)	\$ (120,671)	\$ (1,867)
Amounts capitalized	41,853	-	50,895	-
Accretion of decommissioning obligations (Note 17)	(970)	(856)	(3,060)	(2,742)
	\$ (45,493)	\$ (2,249)	\$ (72,836)	\$ (4,609)

9. Cash and cash equivalents

	September 30,	December 31,
	2016	2015
Cash at bank and on hand	\$ 146,787	\$ 123,557
Money market funds and other cash equivalents(a)	1,289,724	1,220,321
	\$ 1,436,511	\$ 1,343,878

(a) At September 30, 2016, short-term liquid investments of \$741.7 million (December 31, 2015 - \$740.5 million) have been placed with Rio Tinto (refer to Note 23).

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

10. Inventories

	September 30, 2016	December 31, 2015
<i>Current</i>		
Copper-gold concentrate	\$ 66,725	\$ 66,716
Provision against carrying value of copper-gold concentrate	(12,865)	-
Copper-gold stockpiles	17,018	38,905
Materials and supplies	223,405	259,521
Provision against carrying value of materials and supplies	(53,922)	(43,733)
	<u>\$ 240,361</u>	<u>\$ 321,409</u>
<i>Non-current</i>		
Copper-gold stockpiles	\$ 133,571	\$ 124,621
Provision against carrying value	(133,571)	(124,082)
	<u>\$ -</u>	<u>\$ 539</u>

During the three and nine months ended September 30, 2016, net charges of \$11.2 million (2015 - \$76.4 million) and \$33.1 million (2015 - \$67.2 million) relating to inventory write off and increase in provision against carrying value were recognized in the consolidated statement of income. During the three and nine months ended September 30, 2016, inventory on which there was a provision against carrying value of \$0.6 million (2015 – nil) was sold and recognized in cost of sales for the period.

11. Trade and other receivables

	September 30, 2016	December 31, 2015
Trade receivables and other	\$ 8,641	\$ 12,210
Due from related parties (Note 23)	8,134	3,623
	<u>\$ 16,775</u>	<u>\$ 15,833</u>

12. Prepaid expenses and other assets

	September 30, 2016	December 31, 2015
Mongolian tax prepayments (a)	\$ -	\$ 20,758
Prepaid expenses (b)	6,535	32,617
Amounts prepaid to related parties (Note 23)	3,157	-
	<u>\$ 9,692</u>	<u>\$ 53,375</u>

(a) During the three and nine months ended September 30, 2016, the Company offset nil (2015 - \$15.0 million) and \$20.8 million (2015 - \$45.0 million) of tax prepayments against Mongolian taxes and recognized nil (2015 - \$0.2 million) and \$0.1 million (2015 - \$0.8 million) of interest income.

(b) At December 31, 2015, prepaid expenses included \$26.3 million fees paid in relation to the Oyu Tolgoi project finance facility signed on December 14, 2015 (refer to Note 16).

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

13. Loans due from related party, and other non-current financial assets

	September 30, 2016	December 31, 2015
Current assets:		
Loans due from related party (Note 23)	\$ 849,247	\$ -
	\$ 849,247	\$ -
	September 30, 2016	December 31, 2015
Loans due from related party, and other non-current financial assets:		
Loans due from related party (Note 23)	\$ 3,307,037	\$ -
Available for sale investments (a)	11,918	18,902
Other	782	1,176
	\$ 3,319,737	\$ 20,078

(a) Available for sale equity securities

	September 30, 2016				December 31, 2015			
	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value
SouthGobi Resources (i)	8.8%	\$ 4,972	\$ 3,171	\$ 8,143	19.2%	\$ 11,059	\$ 3,398	\$ 14,457
Entrée Gold Inc.	9.0%	4,723	(981)	3,742	9.4%	4,723	(1,840)	2,883
Other	-	50	(17)	33	-	50	(18)	32
Ivanhoe Mines Ltd. (ii)	-	-	-	-	0.5%	3,191	(1,661)	1,530
		\$ 9,745	\$ 2,173	\$ 11,918		\$ 19,023	\$ (121)	\$ 18,902

- (i) At September 30, 2016, the Company held 22.7 million (December 31, 2015 – 49.3 million) Class A common shares of SouthGobi Resources Ltd. (“SouthGobi”). In the three and nine months ended September 30, 2016, Turquoise Hill disposed of 13.4 million and 26.6 million shares in SouthGobi at a weighted average price of Cdn\$0.27 per share and Cdn\$0.26 per share resulting in a realized loss on disposal of \$0.3 million and \$0.8 million respectively.

Turquoise Hill disposed of the remaining 22.7 million Class A common shares of SouthGobi during October 2016.

- (ii) In the nine months ended September 30, 2016, Turquoise Hill disposed of 3.5 million shares in Ivanhoe Mines Ltd. at a weighted average price of Cdn\$0.63 per share resulting in a realized loss on disposal of \$1.6 million.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

14. Property, plant and equipment

Nine Months Ended September 30, 2016	Oyu Tolgoi			Other capital assets	Total
	Mineral property interests	Plant and equipment	Capital works in progress		
Net book value:					
January 1, 2016	\$ 848,753	\$ 3,493,017	\$ 1,977,997	\$ 216	\$ 6,319,983
Additions	43,666	-	193,591	-	237,257
Interest capitalized (Note 8)	-	-	50,895	-	50,895
Depreciation for the period	(71,146)	(219,352)	-	(167)	(290,665)
Disposals and write offs	-	(3,177)	(2,227)	-	(5,404)
Transfers and other movements	-	23,448	(23,448)	-	-
September 30, 2016	\$ 821,273	\$ 3,293,936	\$ 2,196,808	\$ 49	\$ 6,312,066
Cost	1,123,225	4,285,058	2,196,808	3,783	7,608,874
Accumulated depreciation / impairment	(301,952)	(991,122)	-	(3,734)	(1,296,808)
September 30, 2016	\$ 821,273	\$ 3,293,936	\$ 2,196,808	\$ 49	\$ 6,312,066

Nine Months Ended September 30, 2015	Oyu Tolgoi			Other capital assets	Total
	Mineral property interests	Plant and equipment	Capital works in progress		
Net book value:					
January 1, 2015	\$ 948,372	\$ 3,695,939	\$ 1,952,772	\$ 312	\$ 6,597,395
Additions	51,938	78	55,541	-	107,557
Depreciation for the period	(85,275)	(193,133)	-	(70)	(278,478)
Disposals and write offs	(36,794)	(1,958)	-	-	(38,752)
Transfers and other movements	-	1,410	(1,410)	(4)	(4)
September 30, 2015	\$ 878,241	\$ 3,502,336	\$ 2,006,903	\$ 238	\$ 6,387,718
Cost	1,081,936	4,214,422	2,006,903	3,783	7,307,044
Accumulated depreciation / impairment	(203,695)	(712,086)	-	(3,545)	(919,326)
September 30, 2015	\$ 878,241	\$ 3,502,336	\$ 2,006,903	\$ 238	\$ 6,387,718

15. Trade and other payables

	September 30, 2016	December 31, 2015
Trade payables and accrued liabilities	\$ 184,033	\$ 165,393
Interest payable on long-term borrowings	56,838	-
Payable to related parties (Note 23)	26,683	34,801
Other	1,781	1,373
	\$ 269,335	\$ 201,567

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

16. Borrowings and other financial liabilities

	September 30, 2016	December 31, 2015
Project finance facility (a)	\$ 4,098,814	\$ -
Capital lease payable	13,166	13,574
	\$ 4,111,980	\$ 13,574

(a) Project finance facility

On December 14, 2015, Oyu Tolgoi signed a \$4.4 billion project finance facility. The facility is provided by a syndicate of international financial institutions and export credit agencies representing the governments of Canada, the United States and Australia, along with 15 commercial banks.

At September 30, 2016, Oyu Tolgoi has drawn down \$4.3 billion of the project finance facility:

Facility	September 30, 2016		Term (ii)	Annual interest rate	
	Carrying Value (i)	Fair Value (i)		Pre-completion	Post-completion
Commercial Banks					
- A Loan	\$ 698,813	\$ 846,002	15 years	LIBOR + 3.78%	LIBOR + 4.78%
Export Credit Agencies	864,813	958,476	14 years	LIBOR + 3.65%	LIBOR + 4.65%
Loan	232,160	276,255	13 years	2.3%	2.3%
MIGA Insured Loan	666,815	737,894	12 years	LIBOR + 2.65%	LIBOR + 3.65%
Commercial Banks	1,636,213	1,730,088	12 years	LIBOR + 3.4%	LIBOR + 4.4%
- B Loan				Includes \$50 million 15-year loan at A Loan rate	
	\$ 4,098,814	\$ 4,548,715			

(i) The carrying value of borrowings under the project finance facility differs from fair value due to amortized transaction costs, and changes in the estimate of fair value between initial recognition and the reporting date. Project finance borrowings were initially recognized at fair value on the relevant draw down date(s), with aggregate initial value being \$4,307.3 million (before transaction costs). At September 30, 2016, these borrowings are stated net of \$208.5 million amortized transaction costs. At September 30, 2016, the fair value of the Company's borrowings has been estimated with reference to a market yield, the variability of which is considered a reasonable indicator, over the pre-completion period, of movements in the fair value of amounts drawn under the project finance facility. Refer to Note 23 (a) (v) for a description of Rio Tinto guarantee arrangements with respect to project finance borrowings.

(ii) The project finance facility provides for interest only payments for the first five years and is then structured as a stepped amortization schedule for the remaining life of the facility.

(b) Revolving credit facility

In March 2016, Oyu Tolgoi signed an amendment to extend the existing secured \$200.0 million revolving credit facility with five banks that was scheduled to mature on March 19, 2016.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

16. Borrowings and other financial liabilities (continued)

(b) Revolving credit facility (continued)

Amounts under the credit facility were required to be used by Oyu Tolgoi for working capital purposes. The credit facility expired on draw down under the project finance facility described in (a) above.

17. Decommissioning obligations

	September 30, 2016	December 31, 2015
Oyu Tolgoi	\$ 101,771	\$ 104,421
	\$ 101,771	\$ 104,421
		Nine Months Ended September 30,
	2016	2015
Opening carrying amount	\$ 104,421	\$ 93,004
Changes in estimates and new estimated cash flows	(5,710)	9,651
Accretion of present value discount	3,060	2,742
	\$ 101,771	\$ 105,397

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and other commitments made to stakeholders, and are measured as the net present value of future cash expenditures upon reclamation and closure.

Estimated future cash expenditures of \$221.4 million have been discounted from an anticipated closure date of 2055 to their present value at a real rate of 2.0% (December 31, 2015 – 2.0%).

18. Share capital

	Nine Months Ended September 30,			
	2016		2015	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Balances, January 1	2,012,314,469	\$ 11,432,122	2,012,298,797	\$ 11,432,060
Shares issued for:				
Exercise of stock options (a)	-	-	10,222	24
Balances, September 30	2,012,314,469	\$ 11,432,122	2,012,309,019	\$ 11,432,084

(a) Share Options

During the nine month period ended September 30, 2016, no options were exercised, 485,116 options expired, no options were cancelled and no options were granted.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

19. Accumulated other comprehensive income (loss)

	Nine Months Ended September 30,	
	2016	2015
	Unrealized Gain (Loss) on Available For Sale Equity Securities	Unrealized Gain (Loss) on Available For Sale Equity Securities
Balance, January 1	\$ (14)	\$ (4,505)
Change in other comprehensive loss before reclassifications	(182)	(8,932)
Reclassifications from accumulated other comprehensive income (Note 13 (a))	2,369	9,136
Net other comprehensive income	2,187	204
Balance, September 30	\$ 2,173	\$ (4,301)

20. Non-controlling interests

At September 30, 2016, there were non-controlling interests in subsidiaries as follows:

	Non-controlling Interests	
	<u>Oyu Tolgoi (a)</u>	<u>Total</u>
Balance, January 1, 2016	\$ (718,909)	\$ (718,909)
Non-controlling interests' share of loss	(97,498)	(97,498)
Balance, September 30, 2016	\$ (816,407)	\$ (816,407)

	Non-controlling Interests		
	<u>SouthGobi</u>	<u>Oyu Tolgoi (a)</u>	<u>Total</u>
Balance, January 1, 2015	\$ 56,590	\$ (683,061)	\$ (626,471)
Non-controlling interests' share of income (loss)	29,635	(51,730)	(22,095)
Changes in equity interests held by Turquoise Hill	1,823	-	1,823
Disposal of noncontrolling interest in subsidiary	(88,048)	-	(88,048)
Balance, September 30, 2015	\$ -	\$ (734,791)	\$ (734,791)

(a) Common share investments funded on behalf of non-controlling interests

Since 2011, the Company has funded common share investments in Oyu Tolgoi on behalf of Erdenes Oyu Tolgoi LLC (“Erdenes”). In accordance with the Amended and Restated Shareholders Agreement dated June 8, 2011, such funded amounts earn interest at an effective annual rate of LIBOR plus 6.5% and are repayable to the Company via a pledge over Erdenes’ share of future Oyu Tolgoi common share dividends. Erdenes also has the right to reduce the outstanding balance by making payments directly to the Company.

Common share investments funded on behalf of Erdenes are recorded as a reduction to the net carrying value of non-controlling interest. As at September 30, 2016, the cumulative amount of such funding was \$751.1 million (December 31, 2015 - \$751.1 million). Accrued interest of \$284.0 million (December 31, 2015 - \$231.1 million), has not been recognized in these condensed interim consolidated financial statements, as payment will be triggered on common share dividend distribution by Oyu Tolgoi, the timing of which cannot currently be reliably determined.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

21. Cash flow information

(a) Reconciliation of net income (loss) to net cash flow generated from operating activities

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Income (loss) from continuing operations	\$ (77,795)	\$ 12,636	\$ 19,795	\$ 109,268
Adjustments for:				
Depreciation and amortization	89,066	95,407	270,723	263,854
Finance items:				
Interest income	(38,132)	(1,003)	(54,906)	(2,214)
Interest and accretion expense	45,493	2,249	72,836	4,609
Realized and unrealized losses on financial instruments	257	140	2,369	9,136
Unrealized foreign exchange gains (losses)	57	(92)	(1,227)	(222)
Inventory write downs	11,218	76,447	33,126	67,202
Write down of carrying value of property, plant and equipment	2,589	-	5,182	38,341
Tax prepayment offset	-	15,000	20,802	45,000
Income and other taxes	(5,611)	11,298	10,830	35,949
Other items	371	(337)	1,125	453
Net change in non-cash operating working capital items:				
(Increase) decrease in:				
Inventories	27,584	17,075	45,891	36,626
Trade, other receivables and prepaid expenses	9,137	4,554	2,549	23,490
(Decrease) increase in:				
Trade and other payables	(44,182)	13,597	(30,764)	(24,235)
Deferred revenue	3,901	(75,230)	(17,322)	(88,952)
Cash generated from operating activities of continuing operations before interest and tax	23,953	171,741	381,009	518,305
Cash used in operating activities of discontinued operations before interest and tax	-	-	-	(5,911)
Cash generated from operating activities before interest and tax	\$ 23,953	\$ 171,741	\$ 381,009	\$ 512,394

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

21. Cash flow information (continued)

(b) *Supplementary information regarding other non-cash transactions*

The non-cash investing and financing activities relating to continuing operations not already disclosed in the consolidated statements of cash flows were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Investing activities				
Tax prepayment (Note 12)	\$ -	\$ 15,000	\$ 20,802	\$ 45,000
Change in accounts payable and accrued liabilities related to property, plant and equipment (Note 14)	26,611	11,572	53,655	18,879

22. Earnings per share

The basic earnings per share is computed by dividing the net income attributable to common stock by the weighted average number of common shares outstanding during the period. All stock options and share purchase warrants outstanding at each period end have been excluded from the weighted average share calculation.

The potentially dilutive shares excluded from the earnings per share calculation due to anti-dilution are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Options	1,741,281	1,707,792	1,741,281	1,707,792
	<u>1,741,281</u>	<u>1,707,792</u>	<u>1,741,281</u>	<u>1,707,792</u>

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

23. Related parties

(a) Related party transactions with Rio Tinto

As at September 30, 2016, Rio Tinto plc's indirect equity ownership in the Company was 50.8% (December 31, 2015: 50.8%). The following table presents the consolidated statement of financial position line items which include deposits with, amounts due from, and amounts payable to a Rio Tinto entity or entities ("Rio Tinto"). Rio Tinto entities comprise Rio Tinto plc, Rio Tinto Limited and their respective subsidiaries other than Turquoise Hill Resources and its subsidiaries.

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Cash and cash equivalents (i)	\$ 741,711	\$ 740,537
Trade and other receivables (Note 11)	8,134	3,623
Prepaid expenses and other assets (Note 12)	3,157	-
Loans due from related party, and other non-current financial assets (Note 13)		
Loans due from related party (ii)	4,156,284	-
Trade and other payables (Note 15)		
Management service payments (iii)	(8,504)	(5,972)
Cost recoveries (iv)	(18,179)	(28,829)
	<u>\$ 4,882,603</u>	<u>\$ 709,359</u>

The following table summarizes transactions with Rio Tinto by their nature:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Interest income on demand deposits (i)	\$ 2,519	\$ 554	\$ 4,697	\$ 1,109
Interest income on loans (ii)	32,718	-	45,992	-
Cost recoveries - Turquoise Hill	741	536	2,680	2,917
Finance costs:				
Guarantee fee (v)	(27,934)	-	(39,263)	-
Management services payment (iii)	(7,335)	(7,572)	(28,894)	(18,727)
Cost recoveries - Rio Tinto (iv)	(22,296)	(13,755)	(36,050)	(38,482)
	<u>\$ (21,587)</u>	<u>\$ (20,237)</u>	<u>\$ (50,838)</u>	<u>\$ (53,183)</u>

(i) In addition to placing cash and cash equivalents on deposit with banks or investing funds with other financial institutions, Turquoise Hill may deposit cash and cash equivalents or invest funds with Rio Tinto in accordance with an agreed upon policy and strategy for the management of liquid resources. At September 30, 2016, cash equivalents deposited with wholly owned subsidiaries of Rio Tinto totalled \$741.7 million, earning interest at rates equivalent to those offered by financial institutions.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

23. Related parties (continued)

(a) *Related party transactions with Rio Tinto (continued)*

- (ii) As part of project finance (Note 16), Turquoise Hill appointed 9539549 Canada Inc., a wholly owned subsidiary of Rio Tinto, as service provider to provide post-drawdown cash management services in connection with net proceeds from the project finance facility, which shall be placed with 9539549 Canada Inc. and returned to Turquoise Hill as required for purposes of Oyu Tolgoi underground mine development and financing. Rio Tinto International Holdings Limited, a wholly owned subsidiary of Rio Tinto, has guaranteed the obligations of the service provider under this agreement. At September 30, 2016, amounts due from 9539549 Canada Inc. totalled \$4,156.3 million, earning interest at an effective annual rate of LIBOR plus 2.45%. The interest rate reflects: interest receivable at LIBOR minus 0.05%; plus a benefit of 2.5% arising on amounts deposited with 9539549 Canada Inc. under the cash management services agreement, which are net settled with the 2.5% completion support fee described in (v) below.
- (iii) In accordance with the Amended and Restated Shareholders Agreement, which was signed on June 8, 2011, and other related agreements, Turquoise Hill is required to pay a management services payment to Rio Tinto equal to a percentage of all capital costs and operating costs incurred by Oyu Tolgoi from March 31, 2010 onwards. Until the Oyu Tolgoi open pit mine achieved Commencement of Production, as defined in the Investment Agreement, on September 1, 2013, the percentage of costs used to calculate the management services payment was 1.5%. Thereafter, the percentage increased to 3.0% for open pit operations and, in accordance with the Oyu Tolgoi Underground Mine Development and Financing Plan (“UDP”) signed on May 18, 2015, is 1.5% for Underground capital costs.
- (iv) Rio Tinto recovers the costs of providing general corporate support services and mine management services to Turquoise Hill. Mine management services are provided by Rio Tinto in its capacity as the manager of the Oyu Tolgoi mine.
- (v) As part of the project finance agreements (Note 16), Rio Tinto provided a guarantee, known as the completion support undertaking (“CSU”) in favour of the Commercial Banks and the Export Credit Agencies. In consideration for providing the CSU, Oyu Tolgoi and Turquoise Hill are required to pay Rio Tinto a fee equal to 2.5% of the amounts drawn under the facility, of which 1.9% is payable by Oyu Tolgoi and 0.6% is payable by Turquoise Hill. The annual completion support fee of 2.5% on amounts drawn under the facility is accounted for as a borrowing cost and included within interest expense and similar charges (refer to Note 8). The fee is settled net of a benefit arising on amounts deposited with 9539549 Canada Inc. under the cash management services agreement described in (ii) above. The fee payment obligation will terminate on the date Rio Tinto’s CSU obligations to the project lenders terminate.

The above noted transactions were carried out in the normal course of operations and were measured at the transaction amount, which is the amount of consideration established and agreed to by the related parties.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

23. Related parties (continued)

(b) Related party transactions with SouthGobi

The following table summarizes transactions with SouthGobi which were primarily incurred on a cost-recovery basis with companies related by way of directors, officers or shareholders in common:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
SouthGobi - from April 23, 2015	\$ -	\$ 206	\$ -	\$ 404
	\$ -	\$ 206	\$ -	\$ 404

The above noted transactions were carried out in the normal course of operations and were measured at the transaction amount, which is the amount of consideration established and agreed to by the related parties.

24. Contingencies

Due to the size, complexity and nature of Turquoise Hill's operations, various legal and tax matters arise in the ordinary course of business. Turquoise Hill recognizes a liability with respect to such matters when an outflow of economic resources is assessed as probable and the amount can be reliably estimated. In the opinion of management, these matters will not have a material effect on the condensed interim consolidated financial statements of the Company.

25. Financial instruments and fair value measurements

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis.

The fair value of financial assets and financial liabilities measured at amortized cost is determined in accordance with accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. Except as otherwise specified, the Company considers that the carrying amount of trade and other receivables, trade payables and other financial assets measured at amortized cost approximates their fair value because of the demand nature or short-term maturity of these instruments.

The following tables provide an analysis of the Company's financial assets that are measured subsequent to initial recognition at fair value on a recurring basis, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

TURQUOISE HILL RESOURCES LTD.

Notes to the Condensed interim consolidated financial statements

(Stated in U.S. dollars unless otherwise noted; tabular amounts in thousands unless otherwise noted)

25. Financial instruments and fair value measurements (continued)

	Fair Value at September 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Provisional pricing embedded derivatives (a)	\$ 3,290	\$ -	\$ 3,290	\$ -
Available for sale investments (b)	11,918	11,918	-	-
	\$ 15,208	\$ 11,918	\$ 3,290	\$ -

	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Available for sale investments (b)	\$ 18,902	\$ 17,579	\$ 1,323	\$ -
	\$ 18,902	\$ 17,579	\$ 1,323	\$ -

Liabilities:				
Provisional pricing embedded derivatives (a)	\$ 15,587	\$ -	\$ 15,587	\$ -
	\$ 15,587	\$ -	\$ 15,587	\$ -

(a) Trade and other receivables and trade and other payables include provisionally priced receivables and payables relating to sales contracts where selling price is determined after delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract. Revenue is recognized on provisionally priced sales based on the forward selling price for the period in the contract and also includes changes in the fair value of the provisional pricing embedded derivatives.

(b) The Company's freely tradable available for sale investments are classified within level 1 of the fair value hierarchy as they are valued using quoted market prices.



Turquoise Hill Resources Ltd.

Management's Discussion and Analysis of Financial Condition and
Results of Operations

September 30, 2016

Turquoise Hill Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(Stated in U.S. dollars, except where noted)

INTRODUCTION

This management discussion and analysis of the financial condition and results of operations (MD&A) of Turquoise Hill Resources Ltd. should be read in conjunction with the unaudited condensed interim consolidated financial statements of Turquoise Hill Resources Ltd. and the notes thereto for the nine months ended September 30, 2016. In this MD&A, unless the context otherwise dictates, a reference to the Company refers to Turquoise Hill Resources Ltd. and a reference to Turquoise Hill refers to Turquoise Hill Resources Ltd. together with its subsidiaries. Additional information about the Company, including its Annual Information Form (AIF), is available under the Company's profile on SEDAR at www.sedar.com.

References to "C\$" refer to Canadian dollars and "\$" to United States dollars.

This MD&A contains certain forward-looking statements and certain forward-looking information. Please refer to the cautionary language commencing on page 19.

All readers of this MD&A are advised to review and consider the risk factors discussed under the heading "Risk and Uncertainties" in this MD&A commencing on page 16.

The effective date of this MD&A is November 3, 2016.

Turquoise Hill Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(Stated in U.S. dollars, except where noted)

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1. OVERVIEW

Financial Results and Review of Operations for the Third Quarter 2016

- Oyu Tolgoi achieved an excellent safety performance with an All Injury Frequency Rate of 0.12 for open-pit operations and 0.26 for the underground project per 200,000 hours worked for the nine months ended September 30, 2016.
- Good progress continued during Q3'16 on underground development, including ongoing contractor mobilization and the signing of an additional contract for the sinking of Shafts 2 and 5.
- At the end of Q3'16, Oyu Tolgoi had spent \$105.8 million on underground expansion capital and had commitments of more than \$750 million.
- On October 21, 2016, Turquoise Hill filed the updated Oyu Tolgoi Technical Report.
- Oyu Tolgoi recorded revenue of \$226.3 million in Q3'16, a decrease of 31.4% over Q2'16, primarily reflecting reduced gold sales as a result of lower gold production.
- Turquoise Hill generated operating cash flow before interest and taxes of \$24.0 million in Q3'16 reflecting the impact of reduced gold production and sales in concentrates.
- For Q3'16, Turquoise Hill reported a net loss from continuing operations attributable to shareholders of \$31.4 million.
- In Q3'16, concentrator throughput declined 4.0% over Q2'16 due to planned maintenance and conveyor belt repairs.
- Copper production in Q3'16 declined 9.9% over Q2'16, as a result of lower recovery from Phase 6 ore.
- As expected, gold production in Q3'16 declined 47.1% over Q2'16 due to lower grades from the completion of mining Phase 2.
- For Q3'16, Oyu Tolgoi's C1 cash costs were \$1.56 per pound of copper and all-in sustaining costs were \$2.00 per pound of copper.
- Turquoise Hill's cash and cash equivalents at September 30, 2016 were approximately \$1.4 billion.
- Turquoise Hill Chair Jill Gardiner has decided to retire from the Company's Board effective December 31, 2016. Independent director Peter Gillin has been appointed as Chair of the Board of Directors effective January 1, 2017.

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2. SELECTED QUARTERLY DATA

(\$ in millions of dollars, except per share information)

	Quarter Ended			
	Sep-30 2016	Jun-30 2016	Mar-31 2016	Dec-31 2015
Revenue				
Copper-gold concentrate	\$ 226.3	\$ 329.7	\$ 422.7	\$ 355.6
Total revenue	\$ 226.3	\$ 329.7	\$ 422.7	\$ 355.6
Net income (loss) from continuing operations attributable to owners	\$ (31.4)	\$ 29.8	\$ 118.9	\$ 179.7
Loss from discontinued operations attributable to owners	-	-	-	(8.7)
Net income (loss) attributable to owners of Turquoise Hill	\$ (31.4)	\$ 29.8	\$ 118.9	\$ 171.0
Basic income (loss) per share attributable to owners of Turquoise Hill				
Continuing operations	\$ (0.02)	\$ 0.01	\$ 0.06	\$ 0.09
Discontinued operations	-	-	-	-
Total	\$ (0.02)	\$ 0.01	\$ 0.06	\$ 0.09
Diluted income (loss) per share attributable to owners of Turquoise Hill				
Continuing operations	\$ (0.02)	\$ 0.01	\$ 0.06	\$ 0.09
Discontinued operations	-	-	-	-
Total	\$ (0.02)	\$ 0.01	\$ 0.06	\$ 0.09
	Sep-30 2015	Jun-30 2015	Mar-31 2015	Dec-31 2014
Revenue				
Copper-gold concentrate	\$ 431.7	\$ 421.3	\$ 426.2	\$ 670.6
Total revenue	\$ 431.7	\$ 421.3	\$ 426.2	\$ 670.6
Net income from continuing operations attributable to owners	\$ 44.0	\$ 49.9	\$ 67.1	\$ 144.2
Income (loss) from discontinued operations attributable to owners	(22.8)	(25.0)	29.1	(9.6)
Net income attributable to owners of Turquoise Hill	\$ 21.2	\$ 24.9	\$ 96.2	\$ 134.6
Basic income (loss) per share attributable to owners of Turquoise Hill				
Continuing operations	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.07
Discontinued operations	(0.01)	(0.01)	0.01	-
Total	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.07
Diluted income (loss) per share attributable to owners of Turquoise Hill				
Continuing operations	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.07
Discontinued operations	(0.01)	(0.01)	0.01	-
Total	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.07

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3. REVIEW OF OPERATIONS

Turquoise Hill is an international mining company focused on the operation and further development of the Oyu Tolgoi copper-gold mine in southern Mongolia, which is the Company's principal material mineral resource property. The Oyu Tolgoi mine is held through a 66% interest in Oyu Tolgoi LLC (Oyu Tolgoi); the remaining 34% interest is held by Erdenes Oyu Tolgoi LLC (Erdenes).

In Q3'16, the Company recorded net loss attributable to owners of Turquoise Hill of \$31.4 million (\$0.02 loss per share) compared with net income of \$21.2 million (\$0.01 earnings per share) in Q3'15, a decrease of \$52.6 million.

Operating cash flows before interest and taxes in Q3'16 were \$24.0 million compared with \$171.7 million in Q3'15, primarily reflecting the impact of reduced gold production and sales in concentrates.

Capital expenditure on property, plant and equipment was \$74.4 million on a cash basis in Q3'16, attributed to both underground project and open-pit capital activities.

Turquoise Hill's cash and cash equivalents at September 30, 2016 were approximately \$1.4 billion.

A. OYU TOLGOI

The Oyu Tolgoi mine is approximately 550 kilometres south of Ulaanbaatar, Mongolia's capital city, and 80 kilometres north of the Mongolia-China border. Mineralization on the property consists of porphyry-style copper, gold, silver and molybdenum contained in a linear structural trend (the Oyu Tolgoi Trend) that has a strike length extending over 26 kilometres. Mineral resources have been identified in a series of deposits throughout this trend. They include, from south to north, the Heruga Deposit, the Oyut deposit and the Hugo Dummett deposits (Hugo South, Hugo North and Hugo North Extension).

The Oyu Tolgoi mine has initially been developed as an open-pit operation. A copper concentrator plant, with related facilities and necessary infrastructure to support a nominal throughput of 100,000 tonnes of ore per day, was constructed to process ore mined from the Oyut open pit. Long-term development plans for Oyu Tolgoi are based on a 95,000-tonne-per-day underground block-cave mine. In August 2013, development of the underground mine was suspended pending resolution of matters with the Government of Mongolia. Following signing of the Oyu Tolgoi Underground Mine Development and Financing Plan (Underground Plan) in May 2015 and the signing of a \$4.4 billion project finance facility in December 2015, Oyu Tolgoi received the formal notice to proceed approval by the boards of Turquoise Hill, Rio Tinto and Oyu Tolgoi LLC on May 5, 2016.

During Q3'16, the Oyu Tolgoi LLC Board of Directors appointed Armando Torres as Managing Director Oyu Tolgoi and Stephen Jones as Acting CEO Oyu Tolgoi. Mr. Torres will provide strategic management to Oyu Tolgoi.

Underground development progress

Prior to suspending underground construction in August 2013, underground lateral development at Hugo North Lift 1 had advanced approximately 16 kilometres off Shaft 1. Approximately 65 kilometres of lateral development is expected to be complete by the first draw bell in mid-2020. A total of approximately 200 kilometres of lateral development are planned over the life of Hugo North Lift 1. The following table outlines the shafts planned for underground development.

	Shaft 1 (early development and ventilation)	Shaft 2 (production and ventilation)	Shaft 5 (ventilation)	Shaft 3 (ventilation)	Shaft 4 (ventilation)
Total Depth	1,385 metres	1,284 metres	1,178 metres	1,148 metres	1,149 metres
Diameter	6.7 metres	10 metres	6.7 metres	10 metres	11 metres
Completion	2008	Expected 2016	Expected 2017	Expected 2021	Expected 2021
Remaining	Complete	~100 metres	~1,000 metres	Not started	Not started

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Good progress continued during Q3'16 on underground development, including ongoing contractor mobilization. At the end of Q3'16, Oyu Tolgoi had spent \$105.8 million on underground expansion capital and had commitments of more than \$750 million. For 2016, Oyu Tolgoi is expected to spend approximately \$200 million on underground expansion capital. During Q3'16, work began for Shaft 5 sinking and the convey-to-surface box cut excavation while construction of critical on-site facilities continued. Oyu Tolgoi recently signed an additional underground mining and support services contract with Dayan Contract Mining, a joint venture between Hasu Megawatt and Redpath, for the sinking of Shafts 2 and 5. At the end of Q3'16, the underground workforce was approximately 1,600 people and is expected to reach 2,400 people by the end of 2016.

Funding of Oyu Tolgoi by Turquoise Hill

In accordance with the Amended and Restated Shareholders' Agreement (ARSHA) dated June 8, 2011, Turquoise Hill has funded Oyu Tolgoi's cash requirements beyond internally generated cash flows by a combination of equity investment and shareholder debt.

For amounts funded by debt, Oyu Tolgoi must repay such amounts, including accrued interest, before it can pay common share dividends. At September 30, 2016, the aggregate outstanding balance of shareholder loans extended by subsidiaries of the Company to Oyu Tolgoi was \$2.9 billion, including accrued interest of \$50.5 million. These loans bear interest at an effective annual rate of LIBOR plus 6.5%.

In accordance with the ARSHA, a subsidiary of the Company has funded the common share investments in Oyu Tolgoi on behalf of Erdenes. These funded amounts earn interest at an effective annual rate of LIBOR plus 6.5% and are repayable, by Erdenes to a subsidiary of the Company, via a pledge over Erdenes' share of Oyu Tolgoi common share dividends. Erdenes also has the right to reduce the outstanding balance by making cash payments at any time. As of September 30, 2016, the cumulative amount of such funding was \$751.1 million, representing 34% of invested common share equity; unrecognized interest on the funding amounted to \$284.0 million.

Q3'16 performance

Safety continues 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 with an All Injury Frequency Rate of 0.12 for open-pit operations and 0.26 for the underground project per 200,000 hours worked for the nine months ended September 30, 2016.

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Key financial metrics for Q3'16 are as follows:

Oyu Tolgoi Key Financial Metrics¹

(\$ in millions, unless otherwise noted)	3Q 2015	4Q 2015	1Q ⁴ 2016	2Q 2016	3Q 2016	9 Months 2015	9 Months 2016	Full Year 2015
Revenue	431.7	355.6	422.7	329.7	226.3	1,279.2	978.7	1,634.8
Concentrates sold ('000 tonnes)	226.0	236.2	213.1	227.4	206.2	583.5	646.7	819.8
Revenue by metals in concentrates								
Copper	224.5	194.6	202.0	207.9	174.2	635.0	584.1	829.6
Gold	202.8	156.4	216.2	115.1	45.8	632.5	377.1	788.9
Silver	4.4	4.6	4.5	6.7	6.3	11.6	17.6	16.2
Cost of sales ²	252.2	239.2	207.9	237.1	232.5	735.8	677.5	975.0
Production and delivery costs	159.4	149.7	125.9	141.2	134.3	480.7	401.4	630.4
Depreciation and depletion	92.8	89.6	82.0	95.9	88.5	254.9	266.4	344.5
Capital expenditure on cash basis	29.3	27.5	55.9	53.3	74.4	88.7	183.6	116.2
Royalties	24.1	25.0	22.7	18.5	13.9	95.8	55.1	120.8
Operating cash costs ³	222.5	236.6	196.6	215.5	187.8	726.1	599.9	962.6
Unit costs (\$ per pound of copper) ³								
C1	0.40	0.88	0.06	1.12	1.56	0.45	0.86	0.57
All-in sustaining	1.52	1.56	0.66	1.55	2.00	1.29	1.36	1.37

¹ Any financial information in this MD&A should be reviewed in consultation with the Company's unaudited condensed interim consolidated financial statements.

² Cost of sales for Q3'16 includes a \$9.7 million charge against the carrying value of copper-gold concentrate.

³ Please refer to Section 13 – NON-GAAP MEASURES – on page 17 of this MD&A for reconciliation of these metrics, including total operating cash costs, to the financial statements.

⁴ Operating cash costs, C1 and all-in sustaining unit costs for the three months ended March 31, 2016 have been revised to correctly reflect the change in inventory as reported in the Company's reconciliation of net income (loss) to net cash flow generated from operating activities.

Revenue of \$226.3 million in Q3'16 decreased 31.4% over Q2'16 primarily reflecting reduced gold sales as a result of lower gold production.

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. Q3'16 cost of sales were \$232.5 million (Q3'15: \$252.2 million) reflecting lower production volumes partially offset by higher unit cost of production due to lower gold head grades and lower recovery as expected from the completion of mining Phase 2.

Capital expenditure, on a cash basis, for Q3'16 was \$74.4 million (Q3'15: \$29.3 million), comprising amounts attributed to the underground project and open-pit activities of \$46.7 million and \$27.7 million, respectively. Open-pit capital expenditure includes the tailings storage facility and deferred stripping.

Total operating cash costs at Oyu Tolgoi in Q3'16 were \$187.8 million. The 5% royalty payable to the Government of Mongolia is reflected as a cash operating expense; deferred stripping costs are not included in operating cash costs.

Oyu Tolgoi's C1 costs in Q3'16 were \$1.56 per pound, compared with \$1.12 per pound in Q2'16. The increase was mainly due to lower gold sales, combined with lower production reflecting lower grades from reduced mining in Phase 2.

All-in sustaining costs in Q3'16 were \$2.00 per pound, compared with \$1.55 per pound in Q2'16. The increase was mainly due to lower gold revenues and the impact of reduced copper production.

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Key operational metrics for Q3'16 are as follows:

Oyu Tolgoi Production Data

All data represents full production and sales on a 100% basis

	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	9 months 2015	9 months 2016	Full Year 2015
Open pit material mined ('000 tonnes)	23,969	23,708	22,867	22,716	25,739	68,063	71,322	91,771
Ore treated ('000 tonnes)	8,632	9,369	9,662	9,525	9,146	25,168	28,333	34,537
Average mill head grades:								
Copper (%)	0.75	0.69	0.70	0.64	0.66	0.66	0.67	0.67
Gold (g/t)	0.56	0.92	0.63	0.33	0.21	0.73	0.39	0.78
Silver (g/t)	1.90	1.67	1.92	1.92	1.99	1.52	1.95	1.56
Concentrates produced ('000 tonnes)	210.3	231.8	229.5	207.1	203.2	556.7	639.8	788.5
Average concentrate grade (% Cu)	26.6	24.7	25.1	24.9	22.9	26.0	24.4	25.6
Production of metals in concentrates:								
Copper ('000 tonnes)	56.0	57.3	57.6	51.7	46.6	144.9	155.9	202.2
Gold ('000 ounces)	123	207	144	70	37	446	251	653
Silver ('000 ounces)	388	355	395	391	361	869	1,147	1,223
Sales of metals in concentrates:								
Copper ('000 tonnes)	58.2	54.7	51.2	54.4	45.7	146.5	151.3	201.3
Gold ('000 ounces)	200	160	175	95	38	577	307	737
Silver ('000 ounces)	334	360	305	395	341	798	1,041	1,158
Metal recovery (%)								
Copper	86.4	88.4	85.6	83.3	78.0	87.3	82.4	87.6
Gold	76.4	74.2	72.2	69.3	62.0	74.4	69.7	74.4
Silver	73.0	70.8	66.4	65.9	61.7	69.6	64.7	69.9

Oyu Tolgoi performed as expected during Q3'16 as open-pit operations focused on Phases 3 and 6 after the high-gold Phase 2 was nearly complete in Q2'16. Oyu Tolgoi set an all-time high in Q3'16 for quarterly material mined of more than 25 million tonnes. This record includes stripping for Phase 4, which is the next area of high-grade ore. In Q3'16, concentrator throughput declined 4.0% over Q2'16 due to planned maintenance and conveyor belt repairs. Copper production in Q3'16 declined 9.9% over Q2'16, as a result of lower recovery from Phase 6 ore. As expected, gold production in Q3'16 declined 47.1% over Q2'16 due to lower grades from the completion of mining Phase 2.

In Q3'16, Oyu Tolgoi completed trial deliveries to a new Chinese smelter and agreed a Memorandum of Understanding with Japanese smelters to cooperate further on concentrate supply.

Operational outlook

The Company expects to achieve the higher end of its annual guidance, which anticipates Oyu Tolgoi to produce 175,000 to 195,000 tonnes of copper in concentrates and 255,000 to 285,000 ounces of gold in concentrates for 2016.

Sales contracts have been agreed for 100% of Oyu Tolgoi's expected 2016 and 2017 concentrate production.

Updated technical report

On October 21, 2016, Turquoise Hill filed an updated compliant independently-prepared technical report under National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") relating to the Oyu Tolgoi Project (the "Project"). Prepared by OreWin Pty Ltd, the 2016 Oyu Tolgoi Technical Report (2016 OTTR), updates the Oyu Tolgoi Technical Report dated September 20, 2014 (2014 OTTR). On May 5, 2016, Turquoise Hill announced that the 2016 Oyu Tolgoi Feasibility Study (OTFS16) had been finalized and presented to the Board of Directors of Oyu Tolgoi LLC. The 2016 OTTR updates the 2014

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Reserve Case to the 2016 Reserves Case based on OTFS16 and includes four Preliminary Economic Assessments with regard to the Oyu Tolgoi resources.

Highlights of the 2016 OTTR Reserves Case compared to the 2014 OTTR are as follows:

- Reserves and resources have only changed to the extent of mining depletion from open-pit operations.
- Assumes a January 1, 2017 start date for production schedules and accommodates for the delayed mid-2016 underground project restart.
- Assumes processing of 1.4 billion tonnes of ore, mined from the Oyut open pit and the first lift in the Hugo North underground block cave.
- Plant capacity remains at an average production rate of 40 million tonnes per annum (Mt/a).
- Underground mine remains at targeted full production rate of 95,000 tonnes per day.
- Updates to expansion capital and Net Present Value (NPV) range analysis.

For a more complete summary of production and financial results for the 2016 Reserves Case and a description of the Alternative Production Cases, please refer to the 2016 OTTR filed on October 21, 2016 under the Company's profile on SEDAR at www.sedar.com.

The 2016 OTTR updated mineral reserves are provided in Table 1.

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Table 1: Oyu Tolgoi Mineral Reserves 2016

Deposit by Classification	Ore (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Recovered Metal		
					Cu (Mlb)	Au (koz)	Ag (koz)
Oyut Mineral Reserve							
Proven	353	0.54	0.35	1.40	3,266	2,775	11,837
Probable	598	0.39	0.23	1.11	4,058	3,103	15,977
Oyut Total (Proven and Probable) Mineral Reserve	951	0.45	0.28	1.22	7,325	5,878	27,814
Hugo North Mineral Reserve							
Probable (Hugo North – OT LLC)	464	1.66	0.34	3.37	15,592	4,199	43,479
Probable (Hugo North – EJV)	35	1.59	0.55	3.72	1,121	519	3,591
Hugo North Total (Probable) Mineral Reserve	499	1.66	0.35	3.40	16,713	4,717	47,070
Oyu Tolgoi Mineral Reserve							
Proven	353	0.54	0.35	1.40	3,266	2,775	11,837
Probable	1,097	0.97	0.29	2.15	20,771	7,820	63,047
Total Mineral Reserve	1,450	0.86	0.30	1.97	24,037	10,595	74,884

Notes:

- Metal prices used for calculating the financial analysis are as follows: long-term copper at \$3.00/lb; gold at \$1,300/oz; and silver at \$19.00/oz. The analysis has been calculated with assumptions for smelter refining and treatment charges, deductions and payment terms, concentrate transport, metallurgical recoveries and royalties.
- For mine planning the metal prices used to calculate block model NSR were copper at \$3.01/lb; gold at \$1,250/oz; and silver at \$20.37/oz.
- The Net Smelter Return (NSR) is used to define the Mineral Reserve cut-offs at Oyu Tolgoi, therefore cut-off is denominated in \$/t. By definition the cut-off is the point at which the costs are equal to the NSR. For the open pit processing and general administration, the following operating costs have been used to determine cut-off grades: Southwest at \$8.37/t, Central Chalcocite, Central Covellite, and Central Chalcopyrite at \$7.25/t and the underground (including some mining costs) costs were based on \$15.34/t.
- For the underground block cave, all Mineral Resources within the shell have been converted to Mineral Reserves. This includes Indicated Mineral Resources below the resource cut-off grade. It also includes Inferred Mineral Resources, which have been assigned a zero grade and treated as dilution.
- The Oyut open pit Mineral Reserves are the Mineral Reserves in the pit at the effective date of December 31, 2015. The Mineral Reserves do not include stockpiles as at that date.
- For Oyut, only Measured Mineral Resources were used to report Proven Mineral Reserves and only Indicated Mineral Resources were used to report Probable Mineral Reserves.
- For Hugo North, Measured and Indicated Mineral Resources were used to report Probable Mineral Reserves.
- EJV is the Entrée-OT LLC Joint Venture. The Shivee Tolgoi and Javkhant licenses are held by Entrée. The Shivee Tolgoi and Javkhant licenses are planned to be operated by OT LLC. OT LLC will receive 80% of cash flows after capital and operating costs for material originating below 560 m, and 70% above this depth.
- The Mineral Reserves reported above were not additive to the Mineral Resources.
- Totals may not match due to rounding.
- The Oyut deposit was formerly known as Southern Oyu Tolgoi (SOT).

Disclosure of a scientific or technical nature in respect of the 2016 Oyu Tolgoi Technical Report was prepared by the following qualified persons: Bernard Peters, B. Eng. (Mining), FAusIMM of OreWin, who was responsible for the overall preparation of the report and the mineral reserves estimate of the report, as well as the preparation of the geotechnical sections and the sections related to and including processing, and Sharron Sylvester, B.Sc Geology, MAIG (RPGeo), of OreWin, who was responsible for preparation of the mineral resources estimate of the report, both of whom are "qualified persons" for the purposes of NI 43-101.

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B. CORPORATE ACTIVITIES

Disposal of SouthGobi Resources shares

On September 22, 2016, the Company announced it had disposed of 375,000 common shares of SouthGobi Resources Ltd. (SouthGobi) and beneficially owned or controlled less than 10% of SouthGobi's issued and outstanding common shares. On October 12, 2016, the Company completed the sale of its remaining stake in SouthGobi.

Board changes

Jill Gardiner has decided to retire from the Board of Directors of the Company effective December 31, 2016. Ms. Gardiner joined the Board in May 2012 and was appointed Chair January 1, 2015. During her tenure as Chair, a number of significant milestones in unlocking the value of the Oyu Tolgoi mine were achieved including the signing of the Underground Development Plan with the Government of Mongolia, the signing and drawdown of the \$4.4 billion project finance facility and recommencement of the underground development. The Board would like to thank Ms. Gardiner for her focus, dedication and commitment.

Independent director Peter Gillin, who has served as a director of Turquoise Hill since May 2012, has been appointed Chair effective January 1, 2017. Mr. Gillin has extensive experience both in the resources sector and as a corporate director.

The Board of Directors will commence a process to appoint a suitable replacement to fill the vacancy created by Ms. Gardiner's departure.

C. CORPORATE ADMINISTRATIVE EXPENSES

Corporate administrative expenses. Corporate administrative costs in Q3'16 were \$4.8 million, an increase of \$1.9 million from Q3'15, mainly due to higher consulting costs.

4. LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2016, Turquoise Hill held consolidated cash and cash equivalents of approximately \$1.4 billion, consolidated working capital (inclusive of cash and cash equivalents) of \$2.2 billion and an accumulated deficit of \$4.4 billion. Loans due from a related party of \$4.2 billion were recorded during Q2'16, following the deposit of net proceeds (after settlement of withholding taxes and transaction costs) from project finance drawdown with a subsidiary of Rio Tinto in accordance with a cash management services agreement signed on December 15, 2015.

Cash flow

Operating activities. A total of \$24.0 million of cash was generated from operating activities before interest and tax in Q3'16 compared with \$161.6 million in Q2'16, reflecting primarily the impact of lower gold revenues.

Investing activities. Cash used in investing activities totalled \$71.5 million in Q3'16, compared with \$4.2 billion in Q2'16. Under the Cash Management Services Agreement entered into as part of project finance, deposits of \$4.2 billion were made, during Q2'16, with 9539549 Canada Inc., a wholly owned subsidiary of Rio Tinto. These deposits will be returned to Turquoise Hill as required for purposes of Oyu Tolgoi underground mine development and financing. In Q3'16, property, plant and equipment purchases of \$74.4 million related to both the Oyu Tolgoi project and open pit activities (including deferred stripping and construction of tailings storage facility).

Financing activities. No cash was generated from or used in financing activities in Q3'16, compared with cash generated from financing activities of \$4.1 billion in Q2'16. In Q2'16, net proceeds from the project

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finance facility of \$4.3 billion were partly offset by the payment of \$152.3 million project finance fees with Oyu Tolgoi cash.

Liquidity and capital resources

As of December 31, 2015, Oyu Tolgoi had signed a \$4.4 billion project finance facility for the purposes of developing the underground mine. Following drawdown under the facility, Turquoise Hill has recorded approximately \$4.2 billion of loans receivable from Rio Tinto arising from net proceeds deposited in accordance with the Cash Management Services Agreement. Turquoise Hill intends to re-draw these amounts as required in order to fund future development and financing of the underground mine. Please refer to Section 3.A – OYU TOLGOI – on page 6 and to Section 12 – RELATED-PARTY TRANSACTIONS – on page 16 of this MD&A.

In March 2016, Oyu Tolgoi signed an amendment to extend the secured \$200.0 million revolving credit facility with five banks that was scheduled to mature on March 19, 2016. Amounts under the credit facility were required to be used by Oyu Tolgoi for working capital purposes. The credit facility expired on drawdown under the project finance facility.

Turquoise Hill believes that, based on its current cash position and amounts available from the project finance facility, it will have sufficient funds to meet its minimum obligations, including general corporate activities, for at least the next 12 months.

Financial instruments

The carrying value of Turquoise Hill's financial instruments was as follows:

(Stated in \$000's of dollars)	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Financial Assets		
Cash and cash equivalents	\$ 1,436,511	\$ 1,343,878
Available for sale: Long-term investments	11,918	18,902
Cost method: Long-term investments	115	115
Loans and receivables:		
Trade and other receivables	8,641	12,210
Due from related parties	8,134	3,623
Loans due from related party	4,156,284	-
Financial Liabilities		
Trade and other payables	185,814	166,766
Payable to related parties	26,683	34,801
Project finance facility	4,098,814	-
Interest payable on long-term borrowings	56,838	-

Certain of the above financial instruments are carried at fair value. Their fair values were determined as follows:

- Long-term investments – Fair values of freely tradable long-term investments were determined by reference to published market quotations, which may not be reflective of future values. Fair values of long-term investments with trading restrictions have been determined by applying a liquidity discount to published market quotations, which may not be reflective of future values.

Turquoise Hill is exposed to credit risk with respect to its loans receivable, accounts receivable, other long-term investments and cash and cash equivalents, including related party balances. The significant concentrations of credit risk are with counterparties situated in Mongolia, China, Canada and Europe.

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Turquoise Hill is exposed to United States and LIBOR interest-rate risk with respect to the variable rates of interest on cash and cash equivalents and loans receivable respectively.

5. SHARE CAPITAL

As at November 3, 2016, the Company had a total of:

- 2,012,314,469 common shares outstanding;
- 1,541,895 incentive stock options outstanding, with a weighted average exercise price of C\$15.02 per share. Each option is exercisable to purchase a common share of the Company at prices ranging from C\$6.83 to C\$23.75 per share.

6. OUTLOOK

The information below is in addition to disclosures already contained in this report regarding the Company's operations and activities.

Turquoise Hill's financial performance and its ability to advance its future operations and development plans are heavily dependent on the availability of funding, base and precious metal prices and foreign-exchange rates. Volatility in these markets continues to be high.

For further details on the Company's financing plans, please refer to Section 4 – LIQUIDITY AND CAPITAL RESOURCES – on page 12 of this MD&A.

Copper and gold markets

Commodity prices are a key driver of Turquoise Hill's earnings. Copper prices fluctuated between \$2.09 and \$2.20 per pound during September 2016 and continued to be driven by U.S. interest rate expectations as well as the U.S. dollar. The announcement by the U.S. Federal Reserve to leave interest rates unchanged in September supported prices; however an interest rate increase is expected in December 2016. Demand conditions were generally positive during September. The manufacturing Purchasing Managers' Index pointed to moderate growth in industrial activity in September. Chinese wire and cable mills reported that production was up 5-10% year-over-year in September as grid investment accelerated ahead of the year end. Reported cathode stocks remain balanced at approximately 1.0 million tonnes.

Gold prices averaged \$1,327 per ounce in September. Prices fell to approximately \$1,260 per ounce in mid-October as risk aversion has declined amid expectations of less accommodative monetary policy.

Exchange Rates

Oyu Tolgoi's sales are settled in U.S. dollars, and a portion of its expenses are incurred in local currencies. Short-term foreign exchange fluctuations could have an effect on Turquoise Hill's operating margins; however in view of the proportion of locally incurred expenditures, such fluctuations are not expected to have a significant impact on Turquoise Hill's long-term financial performance.

7. OFF-BALANCE SHEET ARRANGEMENTS

During the nine months ended September 30, 2016, Turquoise Hill was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a significant current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of the Company.

8. CONTRACTUAL OBLIGATIONS

As at September 30, 2016, there were no significant changes in Turquoise Hill's non-cancellable contractual obligations and commercial commitments from those disclosed in its MD&A for the year ended December 31, 2015.

9. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Turquoise Hill to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

The Company's significant accounting policies and the estimates derived therefrom identified as being critical are substantially unchanged from those disclosed in the MD&A for the year ended December 31, 2015.

10. RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments to standards and interpretations are not yet effective, or are not mandatory for adoption, for the year ending December 31, 2016 and have therefore not been applied in preparing the condensed interim consolidated financial statements. The following standards may have a potential effect on the condensed interim consolidated financial statements of the Company:

- (i) IFRS 9, *Financial Instruments*, is mandatorily effective for the Company's condensed interim consolidated financial statements for the year ending December 31, 2018. IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost; fair value through profit and loss; and fair value through other comprehensive income. IFRS 9 also amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The extent of the impact of adoption has not yet been determined.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*, is effective for the Company's fiscal year ending December 31, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers. Revenue is recognized as control is passed to the customer, either at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The extent of the impact of adoption of the standard has not yet been determined.
- (iii) IFRS 16, *Leases*, which will replace IAS 17, *Leases*, is effective for the Company's fiscal year ending December 31, 2019 and is available for early adoption. The objective of the new standard is to report all leases on the consolidated statement of financial position and to define how leases and liabilities are measured. Under the new standard, a lessee is in essence required to:
 - a. Recognize all lease assets and liabilities (including those currently classed as operating leases) on the statement of financial position, initially measured at the present value of unavoidable lease payments;

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- b. Recognize amortization of lease assets and interest on lease liabilities in the statement of income over the lease term; and
- c. Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which companies can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the statement of cash flows.

The Company is currently evaluating the impact of IFRS 16. Generally, it is expected that under IFRS 16, the present value of most lease commitments will be shown as a liability on the statement of financial position together with an asset representing the right of use, including those classified as operating leases under the existing standard. Information on the undiscounted amount of the Company's operating lease commitments at December 31, 2015 under IAS 17, the current lease standard, is disclosed within Note 24 to the Company's annual financial statements for the year ended December 31, 2015. None of the remaining standards and amendments to standards and interpretations are expected to have a significant effect on the consolidated financial statements of the Company.

11. RISK AND UNCERTAINTIES

Turquoise Hill is subject to a number of risks due to the nature of the industry in which it operates and the present state of development of its business and the foreign jurisdictions in which it carries on business. The material risks and uncertainties affecting Turquoise Hill, their potential impact, and the Company's principal risk-management strategies are substantially unchanged from those disclosed in its MD&A for the year ended December 31, 2015 and in its Annual Information Form (AIF) dated March 15, 2016 in respect of such period.

12. RELATED-PARTY TRANSACTIONS

As at September 30, 2016, Rio Tinto's equity ownership in the Company was 50.8% (December 31, 2015: 50.8%).

The following table presents the consolidated balance sheet line items which include amounts due from or payable to Rio Tinto:

(Stated in \$000's of dollars)	September 30 2016	December 31, 2015
Cash and cash equivalents (i)	\$ 741,711	\$ 740,537
Trade and other receivables	8,134	3,623
Prepaid expenses and other assets	3,157	-
Loans due from related party, and other non-current financial assets		
Loans due from related party (ii)	4,156,284	-
Trade and other payables:		
Management services payment (iii)	(8,504)	(5,972)
Cost recoveries (iv)	(18,179)	(28,829)
	4,882,603	709,359

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The following table summarizes transactions with Rio Tinto by their nature:

(Stated in \$000's of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income on demand deposits (i)	\$ 2,519	\$ 554	\$ 4,697	\$ 1,109
Interest income on loans (ii)	32,718	-	45,992	-
Costs recoveries - Turquoise Hill	741	536	2,680	2,917
Financing costs:				
Guarantee fee (v)	(27,934)	-	(39,263)	-
Management services payment (iii)	(7,335)	(7,572)	(28,894)	(18,727)
Costs recoveries - Rio Tinto (iv)	(22,296)	(13,755)	(36,050)	(38,482)
	\$ (21,587)	\$ (20,237)	\$ (50,838)	\$ (53,183)

- (i) In addition to placing cash and cash equivalents on deposit with banks or investing funds with other financial institutions, Turquoise Hill may deposit cash and cash equivalents or invest funds with Rio Tinto in accordance with an agreed upon policy and strategy for the management of liquid resources. At September 30, 2016, cash equivalents deposited with wholly owned subsidiaries of Rio Tinto totalled \$741.7 million, earning interest at rates equivalent to those offered by financial institutions.
- (ii) As part of project finance, Turquoise Hill appointed 9539549 Canada Inc., a wholly owned subsidiary of Rio Tinto, as service provider to provide post-drawdown cash management services in connection with net proceeds from the project finance facility, which shall be placed with 9539549 Canada Inc. and returned to Turquoise Hill as required for purposes of Oyu Tolgoi underground mine development and funding. Rio Tinto International Holdings Limited, a wholly owned subsidiary of Rio Tinto, agreed to guarantee the obligations of the service provider under this agreement. At September 30, 2016, amounts due from 9539549 Canada Inc. totalled \$4,156.3 million, earning interest at an effective annual rate of LIBOR plus 2.45%. The interest rate reflects: interest receivable at LIBOR minus 0.05%; and a benefit of 2.5% arising on amounts deposited with 9539549 Canada Inc. under the Cash Management Services Agreement, which are net settled with the 2.5% completion support fee described in (v) below.
- (iii) In accordance with the ARSHA, which was signed on June 8, 2011, and other related agreements, Turquoise Hill is required to pay a management services payment (MSP) to Rio Tinto equal to a percentage of all capital costs and operating costs incurred by Oyu Tolgoi from March 31, 2010 onwards. After signing of the Underground Plan on May 18, 2015, the percentage applied to capital costs of the underground development is 1.5%, and the percentage applied to operating costs and capital related to current operations is 3%.
- (iv) Rio Tinto recovers the costs of providing general corporate support services and mine management services to Turquoise Hill. Mine management services are provided by Rio Tinto in its capacity as the manager of Oyu Tolgoi.
- (v) As part of the project finance agreements, Rio Tinto agreed to provide a guarantee, known as the completion support undertaking ("CSU") in favour of the Commercial Banks and the Export Credit Agencies. In consideration for providing the CSU, Oyu Tolgoi and Turquoise Hill are required to pay Rio Tinto a fee equal to 2.5% of the amounts drawn under the facility, of which 1.9% is payable by Oyu Tolgoi and 0.6% is payable by Turquoise Hill. The annual completion support fee of 2.5% on amounts drawn under the facility is accounted for as a borrowing cost and included within interest expense and similar charges. The fee is settled net of a benefit arising on amounts deposited with 9539549 Canada Inc. under the Cash Management Services Agreement described in (ii) above. The fee payment obligation will terminate on the date Rio Tinto's CSU obligations to the project lenders terminate.

13. NON-GAAP MEASURES

The Company presents and refers to the following measures (non-GAAP measures) which are not defined in IFRS. A description and calculation of these measures is given below, and may differ from equivalent measures provided by other issuers. These measures are presented in order to provide investors and other stakeholders with a greater understanding of performance and operations at Oyu Tolgoi.

Operating cash costs

The measure of operating cash costs excludes: depreciation and depletion; exploration and evaluation; charges for asset write-down (including write-down of materials and supplies inventory), and includes management services payments to Rio Tinto, and management services payments to Turquoise Hill which are eliminated in the consolidated financial statements of the Company.

C1 cash costs

C1 cash costs is a metric representing the cash cost per unit of extracting and processing the Company's principal metal product to a condition in which it may be delivered to customers, net of gold and silver credits from concentrates sold. It is provided in order to support peer group comparability and to provide

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investors and other stakeholders with useful information about the underlying cash costs of Oyu Tolgoi and the impact of gold and silver credits on the operations' cost structure. C1 cash costs are relevant to understanding the Company's operating profitability and ability to generate cash flow. When calculating costs associated with producing a pound of copper, the Company includes gold and silver revenue credits as the production cost is reduced as a result of selling these products.

Turquoise Hill's principal metal product is copper and C1 cash costs are reported for Oyu Tolgoi only.

All-in sustaining costs

All-in sustaining costs (AISC) is an extended cash based cost metric, providing further information on the aggregate cash, capital and overhead outlay per unit, and is intended to reflect the costs of producing the Company's principal metal product in both the short term and over the life-cycle of its operations; as a result, sustaining capital expenditure on a cash basis is included rather than depreciation. As the measure seeks to present a full cost of copper production associated with sustaining current operations, development project capital is not included. AISC allows Turquoise Hill to assess the ability of Oyu Tolgoi to support sustaining capital expenditures for future production from the generation of operating cash flows.

A reconciliation of total operating cash costs, C1 cash costs and all-in sustaining costs is provided below.

<i>C1 costs (Stated in \$000's of dollars)</i>	Operating and unit costs			
	(Three Months Ended)		(Nine Months Ended)	
	September 30, 2016	June 30, 2016	September 30, 2016	September 30, 2015
Production and delivery	134,279	141,231	401,466	480,765
Change in inventory	(27,584)	(20,680)	(45,891)	(36,626)
Other operating expenses	75,871	90,454	243,202	339,330
Less:				
- Impairment / write-down of inventory	(1,512)	(8,431)	(23,420)	(67,203)
- Depreciation	(561)	(1,104)	(4,362)	(8,918)
Management services payment to Turquoise Hill	7,335	14,047	28,894	18,727
Operating cash costs	187,828	215,517	599,889	726,075
Operating cash costs: \$/lb of copper produced	1.83	1.89	1.75	2.27
Adjustments to operating cash costs*	24,180	33,491	89,712	62,616
Less: Gold and silver revenues	(52,163)	(121,819)	(394,683)	(644,113)
C1 costs (\$'000)	159,845	127,189	294,918	144,578
C1 costs: \$/lb of copper produced	1.56	1.12	0.86	0.45
All-in sustaining costs (Stated in \$000's of dollars)				
Corporate administration	4,836	4,095	13,495	12,198
Asset retirement expense	1,372	1,429	4,292	3,852
Royalty expenses	13,887	18,493	55,083	95,781
Non-current stockpile and stores write-down (reversal)	1,512	8,431	23,420	67,203
Other expenses	2,771	2,531	5,655	4,003
Sustaining cash capital including deferred stripping	21,454	14,061	68,892	85,573
All-in sustaining costs (\$'000)	205,677	176,229	465,755	413,188
All-in sustaining costs: \$/lb of copper produced	2.00	1.55	1.36	1.29

* Adjustments to operating cash costs include: treatment, refining and freight differential charges less the 5% Government of Mongolia royalty and other expenses not applicable to the definition of C1 cost.

14. INTERNAL CONTROL OVER FINANCIAL REPORTING

During the nine months ended September 30, 2016, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

15. QUALIFIED PERSON

Disclosure of a scientific or technical nature in this MD&A in respect of the Oyu Tolgoi mine was prepared under the supervision of Bernard Peters Technical Director – Mining OreWin Pty Ltd, B. Eng. (Mining), FAusIMM (201743), and Sharron Sylvester, Technical Director – Geology, OreWin Pty Ltd, BSc (Geol.), RGeo IG (10125). Each of these individuals is a "qualified person" as that term is defined in National Instrument Standards of Disclosure for Mineral Projects (NI 43-101).

16. CAUTIONARY STATEMENTS

Language Regarding Reserves and Resources

Readers are advised that NI 43-101 requires that each category of mineral reserves and mineral resources be reported separately. For detailed information related to Company resources and reserves, readers should refer to the AIF of the Company for the year ended December 31, 2015, and other continuous disclosure documents filed by the Company since January 1, 2016 under Turquoise Hill's profile on SEDAR at www.sedar.com.

Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources

This document has been prepared in accordance with the requirements of Canadian securities laws, which differ from the requirements of United States (U.S.) securities laws. Unless otherwise indicated, all reserve and resource estimates included in this document have been prepared in accordance with 43-101, and the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Definition Standards for mineral resources and mineral reserves (CIM Standards). NI 43-101 is a rule developed by the Canadian Securities Authorities that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including NI 43-101, differ significantly from the requirements of the SEC, and reserve and resource information contained in this document may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserve". Under U.S. standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. Among other things, all necessary permits would be required to be in hand or issuance imminent in order to classify mineralized material as reserves under the SEC standards. The SEC's disclosure standards normally do not permit the inclusion of information concerning "Measured mineral resources", "Indicated mineral resources" or "Inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the SEC. U.S. investors should also understand that "Inferred mineral resources" have an even greater amount of uncertainty as to their existence and an even greater uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "Inferred mineral resource" will ever be upgraded to a higher category. Under NI 43-101, estimated "Inferred mineral resources" generally may not form the basis of feasibility or pre-feasibility studies except in rare cases. Investors are cautioned not to assume that all or any part of an "Inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained pounds" or "contained ounces" of metal in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in-place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported by the Company in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by companies that report in accordance with U.S. standards.

17. FORWARD-LOOKING STATEMENTS AND FORWARD-LOOKING INFORMATION

Certain statements made herein, including statements relating to matters that are not historical facts and statements of the Company's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States *Private Securities Litigation Reform Act of 1995*. Forward-looking information and statements relate to future events or future performance, reflect current expectations or beliefs regarding future events and are typically identified by words such as "anticipate",

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"could", "should", "expect", "seek", "may", "intend", "likely", "plan", "estimate", "will", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting anticipated business activities, planned expenditures, corporate strategies, and other statements that are not historical facts.

Forward-looking statements and information are made based upon certain assumptions and other important factors that, if untrue, could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such statements or information. There can be no assurance that such statements or information will prove to be accurate. Such statements and information are based on numerous assumptions regarding present and future business strategies, local and global economic conditions, and the environment in which the Company will operate in the future, including the price of copper, gold and silver, anticipated capital and operating costs, anticipated future production and cash flows, and the status of the Company's relationship and interaction with the Government of Mongolia on the continued development Oyu Tolgoi and Oyu Tolgoi LLC internal governance. Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward-looking statements and information include, among others, copper, gold and silver price volatility, discrepancies between actual and estimated production, mineral reserves and resources and metallurgical recoveries, mining operational and development risks, litigation risks, regulatory restrictions (including environmental regulatory restrictions and liability), activities or assessments by governmental authorities, currency fluctuations, the speculative nature of mineral exploration, the global economic climate, dilution, share price volatility, competition, loss of key employees, additional funding requirements, capital and operating costs, including with respect to the development of additional deposits and processing facilities, and defective title to mineral claims or property. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements.

With respect to specific forward-looking information concerning the continued development of Oyu Tolgoi, the Company has based its assumptions and analyses on certain factors which are inherently uncertain. Uncertainties and assumptions include, among others: the timing and cost of the construction and expansion of mining and processing facilities; the timing and availability of a long-term power source for Oyu Tolgoi; the ability to draw down on the supplemental debt under the Oyu Tolgoi project financing facility and the availability of additional financing on terms reasonably acceptable to OT LLC, Rio Tinto and the Company to further develop Oyu Tolgoi; the impact of changes in, changes in interpretation to or changes in enforcement of, laws, regulations and government practices in Mongolia; the availability and cost of skilled labour and transportation; the obtaining of (and the terms and timing of obtaining) necessary environmental and other government approvals, consents and permits; delays, and the costs which would result from delays, in the development of the underground mine (which could significantly exceed the costs projected in the OTFS16 and the 2016 OTTR); projected copper, gold and silver prices and demand; and production estimates and the anticipated yearly production of copper, gold and silver at Oyu Tolgoi.

The cost, timing and complexities of mine construction and development are increased by the remote location of a property such as Oyu Tolgoi. It is common in mining operations and in the development or expansion of existing facilities to experience unexpected problems and delays during development, construction and mine start-up. Additionally, although Oyu Tolgoi has achieved commercial production, there is no assurance that future development activities will result in profitable mining operations.

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This MD&A also contains references to estimates of mineral reserves and mineral resources. The estimation of reserves and resources is inherently uncertain and involves subjective judgments about many relevant factors. The mineral resource estimates contained in this MD&A are inclusive of mineral reserves. Further, mineral resources that are not mineral reserves do not have demonstrated economic viability. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgments used in engineering and geological interpretation (including future production from Oyu Tolgoi, the anticipated tonnages and grades that will be achieved or the indicated level of recovery that will be realized), which may prove to be unreliable. There can be no assurance that these estimates will be accurate or that such mineral reserves and mineral resources can be mined or processed profitably. See the discussion under the headings "Language Regarding Reserves and Resources" and "Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Resources" in Section 16 of this MD&A. Such estimates and statements are, in large part, based on the following:

- Interpretations of geological data obtained from drill holes and other sampling techniques. Large scale continuity and character of the deposits will only be determined once significant additional drilling and sampling has been completed and analyzed. Actual mineralization or formations may be different from those predicted. It may also take many years from the initial phase of drilling before production is possible, and during that time the economic feasibility of exploiting a deposit may change. Reserve and resource estimates are materially dependent on prevailing metal prices and the cost of recovering and processing minerals at the individual mine sites. Market fluctuations in the price of metals or increases in the costs to recover metals from the Company's mining projects may render mining of ore reserves uneconomic and affect the Company's operations in a materially adverse manner. Moreover, various short-term operating factors may cause a mining operation to be unprofitable in any particular accounting period;
- Assumptions relating to commodity prices and exchange rates during the expected life of production, mineralization of the area to be mined, the projected cost of mining, and the results of additional planned development work. Actual future production rates and amounts, revenues, taxes, operating expenses, environmental and regulatory compliance expenditures, development expenditures, and recovery rates may vary substantially from those assumed in the estimates. Any significant change in these assumptions, including changes that result from variances between projected and actual results, could result in material downward revision to current estimates;
- Assumptions relating to projected future metal prices. The prices used reflect organizational consensus pricing views and opinions in the financial modeling for Oyu Tolgoi and are subjective in nature. It should be expected that actual prices will be different than the prices used for such modeling (either higher or lower), and the differences could be significant; and
- Assumptions relating to the costs and availability of treatment and refining services for the metals mined from Oyu Tolgoi, which require arrangements with third parties and involve the potential for fluctuating costs to transport the metals and fluctuating costs and availability of refining services. These costs can be significantly impacted by a variety of industry-specific and also regional and global economic factors (including, among others, those which affect commodity prices). Many of these factors are beyond the Company's control.

Readers are cautioned not to place undue reliance on forward-looking information or statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements are included in the "Risk Factors" section in the Company's Annual Information Form dated as of March 15, 2016 in respect of the year ended December 31, 2015 (the "AIF").

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Readers are further cautioned that the list of factors enumerated in the "Risk Factors" section of the AIF that may affect future results is not exhaustive. When relying on the Company's forward-looking information and statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Furthermore, the forward-looking information and statements contained in this MD&A are made as of the date of this document and the Company does not undertake any obligation to update or to revise any of the included forward-looking information or statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The forward-looking information and statements contained in this MD&A are expressly qualified by this cautionary statement.