The Future is Underground

Turquoise Hill Resources Ltd.

Annual Report to Shareholders
December 31, 2015
In 2015, over $3.2 million was invested into education and training programs in Mongolia with a strong focus on technical and vocational training for students and teachers.
2015 GOES DOWN AS ONE OF THE MOST SUCCESSFUL YEARS IN OUR HISTORY AND USHERS IN OUR FUTURE – WHICH IS UNDERGROUND.

Given the significant milestones Turquoise Hill, Oyu Tolgoi and its partners achieved in 2015, the year will undoubtedly be one of the most important in the Company’s history. In addition, the mine operated at record production levels with excellent health and safety performance.

On May 18, 2015, Turquoise Hill, the Government of Mongolia and Rio Tinto signed the Oyu Tolgoi Underground Mine Development and Financing Plan (Underground Plan), which addressed key outstanding shareholder matters and set out an agreed basis for the funding of the project.

The Underground Plan confirmed the project cost for Oyu Tolgoi’s initial construction and development and reinforced the principles set out in the Investment Agreement and the Amended and Restated Shareholders Agreement.

The agreements addressed key matters including the following specific items: tax matters, the historical 2% net smelter royalty, sales royalty calculations and management services payments. The agreements also addressed the future sourcing of power for Oyu Tolgoi from within Mongolia. The overall value impact for the Company in connection with the agreements was less than 2% of the value of the reserve case of $7.4 billion presented in the 2014 Oyu Tolgoi Technical Report.

In August, underground development pre-start activities began in an effort to position the mine for the start of construction following the notice to proceed decision, which is expected in Q2’16.

On December 14, 2015, Oyu Tolgoi signed a $4.4 billion project finance facility, one of the largest in the mining industry. The facility is being 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. The signing of project finance was an enormous vote of confidence in Oyu Tolgoi and Mongolia by a number of the world’s leading financial institutions.

Following these major accomplishments, work continues toward completing the 2016 feasibility study and decisions on the formal notice to proceed. Subject to these approvals, the full project financing facility will be drawn down in Q2’16 and underground construction is expected to begin in mid-2016.

Oyu Tolgoi operated at record levels during 2015. The mine’s dedicated workforce implemented a number of productivity improvements throughout the year that led to average throughput in Q4’15 exceeding nameplate capacity. By year end, the mine had produced 202,200 tonnes of copper and 653,000 ounces of gold, exceeding guidance on copper and meeting the gold target.

One of the most impressive achievements of the Oyu Tolgoi workforce for 2015 was an All Injury Frequency Rate of 0.33 per 200,000 hours worked. This industry-leading metric is particularly remarkable given Oyu Tolgoi completed its second full year of production in 2015.

Turquoise Hill is proud of what was achieved in 2015 and anticipates 2016 will be another exciting year as underground development begins, preparing Oyu Tolgoi to recognize its full potential.
“HUO DUMMETT IS THE FUTURE OF OYU TOLGOI. THE SIGNING OF PROJECT FINANCE IS AN UNPRECEDENTED MILESTONE FOR TURQUOISE HILL AND OYU TOLGOI AS WELL AS A HISTORIC VOTE OF CONFIDENCE IN BOTH THE PROJECT AND MONGOLIA. WE LOOK FORWARD TO WORKING WITH THE MONGOLIAN GOVERNMENT AND RIO TINTO TO COMPLETE THE REMAINING STEPS LEADING TO THE RESTART OF UNDERGROUND DEVELOPMENT.”

Jeff Tygesen, Chief Executive Officer
Oyu Tolgoi consists of a series of deposits containing copper, gold and silver. The deposits include the Hugo Dummett North Zone, the Hugo Dummett South Zone, the Southern Oyu Open-Pit Deposit and the Heruga Deposit. Over 80% of Oyu Tolgoi's value resides underground due to higher copper grades.

The first stage of underground development will take place at Hugo North Deposit Lift 1. Construction is expected to take approximately five years.

### UNDERGROUND FACTS

**MINING METHOD**
- Block-Caving

**OPERATIONS**
- The mine will operate 365 days a year with two 12-hour shifts.

**AT PEAK OPERATIONS**
- 50 drilling machines
- 25 loaders
- 10 haulage trucks
- 230 other pieces of equipment

**FUTURE UNDERGROUND INFRASTRUCTURE**
- 3 maintenance shops
- 2 drilling machine shops
- 2 fuel stations
- 1 explosives storage
- 2 crushers
- 1 shotcrete station
- 10 km of conveyors

**ILLUSTRATION NOTES**
- At 1,300 metres deep, Shaft 1 is the deepest shaft in Mongolia and is more than three times the height of the Empire State Building.
- The total length of tunnels over the life of Hugo North Lift 1 – 200 km (height 5.5m, width 5m).
- The crusher is as high as a seven-storey building.
- The total conveyor length is 10 km (6.2 miles) with a capacity of approximately 130,000 tonnes of ore per day.

*Underground illustration is for illustrative purposes only and does not represent scale.*
THE TURQUOISE HILL BOARD BELIEVES THAT GOOD GOVERNANCE IMPACTS CORPORATE PERFORMANCE BY ESTABLISHING STANDARDS AND PROCESSES THAT DRIVE ACHIEVEMENT OF THE COMPANY’S STRATEGIC OBJECTIVES AS WELL AS THE LONG-TERM SUSTAINABILITY OF THE BUSINESS.

STRENGTHENING OPERATIONS

Commodity prices were under significant pressure through the third quarter of 2015, experiencing record declines and forcing a rethink of the project’s financial strategy, which in turn led to a decision to delay underground development. Oyu Tolgoi is a long-lived mine with a proven resource base and large reserves, and the mine team is determined to deliver a cost structure to definitively establish the value of underground mining. The underground plan is currently undergoing a technical review and we are committed to re-start development when market conditions permit.

Oyu Tolgoi’s NEXT PHASE OF GROWTH

Our focus at Turquoise Hill is to significantly advance our development plans in the coming year, and we are optimistic about the long-term outlook for the commodity market. We will work closely with our shareholders to ensure that our decision-making reflects the current environment and provides for the proper consideration of management and the delivery of our future potential.

Oyu Tolgoi was named Asia Pacific Mining Deal of the Year at the 2015 Project Finance International Awards. In May, the Underground Mined Development and Financing Plan (UDP) was signed by Turquoise Hill, Rio Tinto and the Government of Mongolia. The agreement addressed all outstanding shareholder matters and provides for the restart of the underground development at the Oyu Tolgoi mine. One of the most important aspects of the UDP was the Government of Mongolia’s commitment to the rapid acceleration of permitting and the rapid completion of the underground development. The underlying premise of the UDP was to provide the global financial markets with the required time and certainty to fully fund the development of Oyu Tolgoi. The agreement addressed the key outstanding shareholder matters and provides for the restart of the underground development to the satisfaction of all parties.

The signing of the UDP was initiated to update the cost schedules in the feasibility study and would allow approved requirements and expenditures for underground construction to proceed. We expect to achieve this in the first half of 2016, allowing the underground development to proceed.

Looking forward, 2016 is the start of several challenging years of production at Oyu Tolgoi. As in 2015, we remain focused on sustainability of the business. We continually review our governance policies and practices to ensure that they reflect the current environment and provide for the proper consideration of management and the delivery of our future potential.

Oyu Tolgoi is truly a world class asset. In addition, our major partners – Rio Tinto and the Government of Mongolia – have shown a strong commitment to the development of Oyu Tolgoi. The mine’s safety performance is at an all-time high with 11.1 million man hours worked with no lost-time injuries. The team at Oyu Tolgoi is highly skilled and has demonstrated its ability to operate in a challenging environment.

In 2015, we adopted a number of new policies including a corporate governance policy with increased focus on internal controls and risk management. The policies include a code of ethics, a whistle-blowing policy, a code of conduct, a procurement policy and a conflict of interest policy. The policies are designed to ensure that we maintain and continue to improve our corporate governance standards and practices.

We believe that strong, effective corporate governance is essential to the success of Turquoise Hill and our ability to deliver on our commitments to our shareholders, employees, partners and communities.

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Oyu Tolgoi’s open pit operated at record levels in 2015 producing 202,200 tonnes of copper and 653,000 ounces of gold. The results exceeded our copper guidance and met our gold target.

In the second half of 2014, Oyu Tolgoi began implementing productivity improvements designed to strengthen operations of the open pit and the concentrator. As those improvements took hold in 2015, we saw the benefits throughout the year. In 2016, we start several challenging years of production for Oyu Tolgoi due to grades – particularly for gold – which has been anticipated. The bulk of 2016’s gold production is expected in the first half of the year. The open-pit team is very focused of making sure they have a cost structure that is cash flow positive during these challenging years. Construction of the underground mine is expected to begin in mid-2016 following approval of the 2016 feasibility study and the board to proceed decision by the boards of Turquoise Hill, Rio Tinto and Oyu Tolgoi.

**STRONG RESULTS IN 2015 CAME FROM A VERY DEDICATED MINE TEAM THAT REMAINED FOCUSED EACH AND EVERY WORK DAY.**

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**PRODUCTION HIGHLIGHTS**

**2015**

**OPEN PIT MATERIAL MINED (‘000 tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>91,177</td>
</tr>
<tr>
<td>2014</td>
<td>76,919</td>
</tr>
</tbody>
</table>

Productivity improvements led to a 12.3% increase in mined production over 2014.

**ORE TREATED (‘000 tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>34,537</td>
</tr>
<tr>
<td>2014</td>
<td>27,872</td>
</tr>
</tbody>
</table>

By Q4’15, concentrator throughput exceeded nameplate capacity ending 2015 with a 23.3% increase over 2014.

**WATER RECYCLING RATE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>85.5%</td>
</tr>
<tr>
<td>2014</td>
<td>94.7%</td>
</tr>
</tbody>
</table>

Oyu Tolgoi’s water recycling rate was strong for 2015 surpassing the mine’s target of 80%.

**CONCENTRATE PRODUCED (‘000 tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>798.5</td>
</tr>
<tr>
<td>2014</td>
<td>563.6</td>
</tr>
</tbody>
</table>

Concentrate production in 2015 increased 39.9% over 2014 benefiting from record operational levels.

**COPPER IN CONCENTRATES (1000 tonnes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>202.2</td>
</tr>
<tr>
<td>2014</td>
<td>149.4</td>
</tr>
</tbody>
</table>

Copper production in 2015 increased 36.3% over 2014, beating annual guidance.

**GOLD IN CONCENTRATES (1000 ounces)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>653</td>
</tr>
<tr>
<td>2014</td>
<td>569</td>
</tr>
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</table>

Gold production in 2015 met the Company’s target within the range of 13% over 2014.

**FINANCIAL HIGHLIGHTS**

**REVENUE ($’000,000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,634.8</td>
</tr>
<tr>
<td>2014</td>
<td>1,735.8</td>
</tr>
</tbody>
</table>

Revenue for 2015 reflects higher concentrate sales volumes offset by lower copper and gold prices.

**OPERATING CASH FLOW ($’000,000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>650.3</td>
</tr>
<tr>
<td>2014</td>
<td>718.5</td>
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</tbody>
</table>

Operating cash flow for 2015 was impacted by lower commodity prices offset by productivity improvements.

**CASH OPERATING COSTS ($’000,000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>900.7</td>
</tr>
<tr>
<td>2014</td>
<td>974.4</td>
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Cash operating costs for 2015 include $48.8 million of other items capitalized. May 18, 2015 underground agreement and early works expenses.

**C1 CASH COSTS ($/lb of copper produced)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>1.57</td>
</tr>
<tr>
<td>2014</td>
<td>1.14</td>
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C1 costs for 2015 decreased 29.7% over 2014 due to production increases and cost optimization offset by lower copper and gold credits.

**ALL-IN SUSTAINING COSTS (AISC) ($/lb of copper produced)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
<td>2015</td>
<td>1.37</td>
</tr>
<tr>
<td>2014</td>
<td>1.95</td>
</tr>
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AISC for 2015 decreased 29.7% over 2014 due to revenue increases and productivity improvements offset by lower copper and gold credits.

**CAPITAL EXPENDITURE – CASH BASIS ($’000,000)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
<td>2015</td>
<td>116.2</td>
</tr>
<tr>
<td>2014</td>
<td>242.2</td>
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Cash expenditure for 2015 is primarily attributed to sustaining activities.
Nearly 92 million tonnes of material was mined from Oyu Tolgoi’s open pit in 2015, producing 202,200 tonnes of copper, 653,000 ounces of gold and 1.2 million ounces of silver.

Mongolians now occupy 95% of Oyu Tolgoi roles since 2010, in-country spend of $5.1 billion (Mongolian suppliers, salaries, taxes and other government payments), partnered with more than 800 local suppliers in 2015, accounting for over 50% of procurement spend.

In April 2015, Oyu Tolgoi signed a cooperation agreement with local governments for community development.

Oyu Tolgoi recognized by Mongolian Business Council as Company of the Year for 2015.

Mongolian Mining Journal awarded Oyu Tolgoi ‘Best Responsible Mine of the Year’ in 2014.

Oyu Tolgoi is expected to represent about 30% of Mongolia’s GDP when fully developed.
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TRQ: TSX, NYSE & NASDAQ

Turquoise Hill is an international mining company focused on the operation and development of the Oyu Tolgoi copper-gold mine in southern Mongolia.

For more information please visit turquoisehill.com