



# **Turquoise Hill Resources Ltd.**

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

September 30, 2017

**TURQUOISE HILL**

**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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**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, 2017. 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](http://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 18.

**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 14.**

The effective date of this MD&A is November 2, 2017.

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### **1. OVERVIEW**

#### **Financial results and review of operations for the third quarter 2017**

- Oyu Tolgoi achieved an All Injury Frequency Rate of 0.25 per 200,000 hours worked for the nine months ended September 30, 2017.
- During Q3'17, underground lateral development made good progress and since the re-start of development a total of 5.4 equivalent kilometres has been completed.
- Shaft 2 sinking was at 1,249 metres at the end of Q3'17 and sinking is expected to be complete by the end of 2017 with fit out occurring over 2018.
- During September 2017, the underground development team achieved the best sinking rate for Shaft 5 since project restart averaging 2.6 metres per day.
- At the end of Q3'17, total underground project spend since re-start and capital commitments totaled \$1.9 billion.
- First draw bell is planned for mid-2020 and sustainable first production in 2021.
- Oyu Tolgoi set three operational records during Q3'17 for total material mined, ore treated and average daily concentrator throughput.
- Revenue of \$246.9 million in Q3'17 increased 21.2% over Q2'17 reflecting higher copper and gold prices partly offset by lower concentrate sales.
- Cash generated from operating activities before interest and taxes in Q3'17 was \$94.7 million and \$234.7 million year-to-date at the end of Q3'17.
- In Q3'17, the Company recorded net income attributable to owners of Turquoise Hill of \$65.3 million or \$0.03 per share.
- Copper production in Q3'17 was essentially flat compared to Q2'17 while gold production increased 29.2% over Q2'17 due to higher head grades from the medium-grade stockpile and Phase 4A.
- For Q3'17, Oyu Tolgoi's cost of sales was \$2.43 per pound of copper sold; C1 cash costs were \$1.83 per pound of copper produced and all-in sustaining costs were \$2.76 per pound of copper produced<sup>1</sup>.
- Operating cash costs<sup>1</sup> of \$161.9 million for Q3'17 were relatively flat over Q2'17 while year-to-date operating cash costs of \$494.0 million at the end of Q3'17 declined 17.7% over year-to-date Q3'16.
- Turquoise Hill's cash and cash equivalents at September 30, 2017 were approximately \$1.5 billion.

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<sup>1</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

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**2. SELECTED QUARTERLY DATA**

The Company's interim financial statements are reported under International Financial Reporting Standards (IFRS) applicable to interim financial statements, including International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The following tables set forth select unaudited quarterly financial information for each of the eight most recent quarters.

(\$ in millions, except per share information)

	Quarter Ended			
	Sep-30 2017	Jun-30 2017	Mar-31 2017	Dec-31 2016
Revenue				
Copper-gold concentrate	\$ 246.9	\$ 203.7	\$ 237.5	\$ 224.6
Total revenue	\$ 246.9	\$ 203.7	\$ 237.5	\$ 224.6
Net income from continuing operations attributable to owners	\$ 65.3	\$ 23.8	\$ 41.0	\$ 93.3
Loss from discontinued operations attributable to owners	-	-	-	-
Net income attributable to owners of Turquoise Hill	\$ 65.3	\$ 23.8	\$ 41.0	\$ 93.3
Basic income per share attributable to owners of Turquoise Hill				
Continuing operations	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.05
Discontinued operations	-	-	-	-
Total	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.05
Diluted income per share attributable to owners of Turquoise Hill				
Continuing operations	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.05
Discontinued operations	-	-	-	-
Total	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.05

	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

Factors necessary to understand general trends in the select unaudited quarterly financial information are summarized below.

Volatility in revenue over the periods presented has generally resulted from variable metal prices combined with changes in sales volume and fluctuating grades and recoveries. The higher revenue in Q3'17 versus Q2'17 was mainly due to higher copper and gold prices. Revenue in the previous three quarters remained relatively consistent. Revenue for the three quarters prior to and including the quarter ended June 30, 2016 was notably higher than the five quarters prior to and including the quarter ended

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September 30, 2017. The difference between these two groups of periods is primarily a result of reduced gold sales due to the final processing of Phase 2 high-grade ore from the open pit. Revenue in the quarter ended December 31, 2015 was negatively impacted by weaker metal prices.

Net income from continuing operations attributable to owners of Turquoise Hill in each of the quarters ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016 and December 31, 2015 was positively impacted by adjustments relating to the recognition of deferred tax assets of \$77.8 million, \$28.5 million, \$43.0 million, \$131.4 million and \$165.0 million, respectively. Excluding the effect of deferred tax recognition, net income (loss) from continuing operations attributable to owners of Turquoise Hill followed a similar trend to revenue as described previously.

Loss from discontinued operations attributable to owners of Turquoise Hill in Q4'15 relates to the Company's previous interest in SouthGobi. During 2015, the Company was in the process of divesting its holding in SouthGobi. Reporting of amounts within discontinued operations ended on November 30, 2015 when the Company's interest in SouthGobi fell below 20%.

### **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 and only material mineral resource property. Turquoise Hill's ownership of 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), a Mongolian state-owned entity.

In Q3'17, the Company recorded net income attributable to owners of Turquoise Hill of \$65.3 million (\$0.03 per share) compared with net loss attributable to owners of Turquoise Hill of \$31.4 million (\$0.02 loss per share) in Q3'16, an increase of \$96.7 million as the result of adjustments to recognize additional deferred tax assets and higher copper and gold prices.

Cost of sales for Q3'17 was \$197.8 million compared with \$232.5 million in Q3'16 reflecting lower volumes of concentrates sold, partly offset by an increased cost of production due to grade reductions.

Cash generated from operating activities before interest and taxes in Q3'17 was \$94.7 million compared with \$24.0 million in Q3'16, mainly reflecting the impact of higher copper and gold prices.

Capital expenditure on property, plant and equipment was \$234.0 million on a cash basis in Q3'17 compared to \$74.4 million in Q3'16, attributed principally to underground and a lesser amount for open-pit capital activities.

Turquoise Hill's cash and cash equivalents at September 30, 2017 were approximately \$1.5 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) 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 was initially developed as an open-pit operation. The copper concentrator plant, with related facilities and necessary infrastructure, was originally designed to process approximately 100,000 tonnes of ore per day from the Oyut open pit. However since 2014, the concentrator has improved operating practices and gained experience, which has helped achieve a consistent throughput of over 110,000 tonnes per day. This is expected to continue through 2017 with softer ores from the Central zone.

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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 in May 2016, which was the final requirement for the re-start of underground development. Underground construction recommenced in May 2016.

Oyu Tolgoi is expected to be the world's third-largest copper mine at peak production in 2025. Copper production is expected to increase by more than 300% between 2017 and 2025 when Hugo North Lift 1 reaches peak production. Average production from 2025 to 2030 is expected to be more than 550,000 tonnes of copper per year.

**Underground development progress**

The main focus of underground development programs during Q3'17 continued to be underground lateral development, sinking of Shafts 2 and 5, support infrastructure and the convey-to-surface system, which all progressed during the quarter. Approximately 89% of the underground workforce are Mongolian nationals. After more than a year of construction progress, Rio Tinto is currently undertaking a schedule and cost review, which is common with large-scale, complex development project such as Hugo North Lift 1. The Company continues to expect the first draw bell in mid-2020 and sustainable first production in 2021.

Oyu Tolgoi spent \$205.6 million on underground expansion during Q3'17. As of September 30, 2017, total underground project spend since January 1, 2016 was \$753.5 million. In addition, Oyu Tolgoi had further capital commitments<sup>2</sup> of \$1.1 billion as of September 30, 2017.

During Q3'17, underground lateral development made good progress with approximately 1.4 equivalent kilometres completed. Since the re-start of development, a total of 5.4 equivalent kilometres of lateral development has been completed. During Q3'17, the third development crew was deployed. Crews four and five were in training during the quarter and are expected to be deployed during Q4'17. Also during Q3'17, commissioning of the new 3,500 tonne per day development crusher was completed. With the deployment of crews four and five, a step up in lateral development rates is expected to begin in Q4'17. At the end of Q3'17, lateral development was in-line with the development timeline in the 2016 Oyu Tolgoi Technical Report.

At the end of Q3'17, Shaft 2 sinking was at 1,249 metres and work had commenced on the service-level excavation that has a floor at 1,256 metres. Shaft 2 sinking is expected to be complete in 2017 at a final depth of 1,284 metres with fit out occurring over 2018. Shaft 2 is key to future increases in lateral development activity.

Shaft 5 sinking progressed approximately 214 metres during Q3'17. During September, the underground team achieved the best sinking rate for Shaft 5 since project re-start averaging 2.6 metres per day. Sinking of Shaft 5 began slower than expected due to an extended construction re-start period and lower productivity with completion now likely in early 2018. When completed, Shaft 5 will be dedicated to ventilation thereby increasing the capacity for underground activities; however, with good early progress and continued on-plan lateral development, the completion of Shaft 5 sinking in early 2018 is not expected to materially impact the lateral development plan.

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<sup>2</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

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The following table outlines the status of shafts for underground development as of September 30, 2017.

	Shaft 1 (early development and ventilation)	Shaft 2 (production and ventilation)	Shaft 5 (ventilation)	Shaft 3 (ventilation)	Shaft 4 (ventilation)
<b>Total Depth</b>	1,385 metres	1,284 metres	1,178 metres	1,148 metres	1,149 metres
<b>Diameter</b>	6.7 metres	10 metres	6.7 metres	10 metres	11 metres
<b>Completion</b>	2008	Expected 2017	Expected 2018	Expected 2021	Expected 2021
<b>Remaining</b>	Complete	~35 metres	~300 metres	Not started	Not started

Supporting infrastructure progressed during Q3'17. The first two buildings of the new camp are expected to commence occupancy in Q4'17.

During Q3'17, development of the convey-to-surface decline continued to progress with month-on-month improvement resulting from the use of project-wide process optimization techniques. The convey-to-surface system is the eventual route of the full 95,000 tonne per day underground ore delivery system to the concentrator; however, it is not a critical path item for first draw bell planned in mid-2020. Expected completion of the convey-to-surface system is 2022, which will facilitate the ramp up to full production by 2027.

**Q3'17 operational performance**

Safety is a major focus throughout Oyu Tolgoi's operations and the mine's management is committed to reducing risk and injury. Oyu Tolgoi achieved a strong All Injury Frequency Rate of 0.25 per 200,000 hours worked for the nine months ended September 30, 2017.

Key financial metrics for Q3'17 are as follows:

**Oyu Tolgoi Key Financial Metrics<sup>(1)</sup>**

(\$ in millions, unless otherwise noted)	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	9 months 2016	9 months 2017	Full Year 2016
Revenue	226.3	224.6	237.5	203.7	<b>246.9</b>	978.7	688.1	1,203.3
Concentrates sold ('000 tonnes)	206.2	181.9	190.2	182.0	<b>176.6</b>	646.6	548.8	828.6
Revenue by metals in concentrates								
Copper	174.2	178.5	196.6	173.7	<b>209.2</b>	584.1	579.5	762.6
Gold	45.8	42.8	37.5	26.6	<b>34.2</b>	377.1	98.3	419.9
Silver	6.3	3.3	3.4	3.3	<b>3.5</b>	17.6	10.3	20.8
Cost of sales	232.5	184.3	194.4	188.9	<b>197.8</b>	677.5	581.0	861.8
Production and delivery costs	134.3	112.5	120.7	117.7	<b>123.4</b>	401.4	361.8	513.9
Depreciation and depletion	88.5	79.5	78.3	75.0	<b>77.4</b>	266.4	230.7	345.9
Capital expenditure on cash basis	74.4	142.7	147.9	205.2	<b>234.0</b>	183.6	587.1	326.3
Underground	46.7	121.0	136.4	184.7	<b>205.6</b>	105.8	526.7	226.8
Open pit <sup>(2)</sup>	27.7	21.7	11.5	20.5	<b>28.4</b>	77.8	60.4	99.5
Royalties	13.9	13.0	14.3	12.5	<b>14.5</b>	55.1	41.4	68.1
Operating cash costs <sup>(3)</sup>	187.8	175.4	168.4	163.6	<b>161.9</b>	599.9	494.0	775.3
Unit costs (\$)								
Cost of sales (per pound of copper sold)	2.31	2.22	2.23	2.30	<b>2.43</b>	2.03	2.32	2.07
C1 (per pound of copper produced) <sup>(3)</sup>	1.56	1.57	1.85	1.92	<b>1.83</b>	0.86	1.87	1.02
All-in sustaining (per pound of copper produced) <sup>(3)</sup>	2.00	1.90	2.15	2.27	<b>2.76</b>	1.36	2.39	1.48

<sup>(1)</sup> Any financial information in this MD&A should be reviewed in conjunction with the Company's consolidated financial statements or condensed interim consolidated financial statements for the reporting periods indicated.

<sup>(2)</sup> Open-pit capital expenditure includes both sustaining and non-underground development activities.

<sup>(3)</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

Revenue of \$246.9 million in Q3'17 increased 21.2% over Q2'17 reflecting higher copper and gold prices partly offset by lower volumes of concentrate sales.

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Q3'17 cost of sales was \$197.8 million compared to \$188.9 million in Q2'17 reflecting increased cost of production due to increased ore treated at lower copper grade.

Capital expenditure on a cash basis for Q3'17 was \$234.0 million compared to \$205.2 million in Q2'17, comprising amounts attributed to the underground project and open pit activities of \$205.6 million and \$28.4 million respectively. Open-pit capital expenditure includes deferred stripping of \$17.2 million and tailings storage facility spending of \$2.8 million.

Total operating cash costs<sup>3</sup> at Oyu Tolgoi were relatively flat at \$161.9 million in Q3'17 compared to \$163.6 million in Q2'17. Operating cash costs include the 5% royalty payable to the Government of Mongolia and exclude deferred stripping costs.

Cost of sales was \$2.43 per pound of copper sold in Q3'17, compared with \$2.30 per pound of copper sold in Q2'17 resulting from increased cost of production due to copper grade reductions.

Oyu Tolgoi's C1 cash costs<sup>3</sup> in Q3'17 were \$1.83 per pound of copper produced, a decrease from \$1.92 per pound of copper produced in Q2'17, mainly due to higher gold sales revenues resulting from higher gold prices.

All-in sustaining costs<sup>3</sup> in Q3'17 were \$2.76 per pound of copper produced, compared with \$2.27 per pound of copper produced in Q2'17, with the increase mainly due to inventory write offs and an increase in sustaining capital in Q3'17.

Key operational metrics for Q3'17 are as follows:

**Oyu Tolgoi Production Data**

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

	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	9 months 2016	9 months 2017	Full Year 2016
Open pit material mined ('000 tonnes)	25,739	25,615	24,333	25,193	<b>27,466</b>	71,322	76,992	96,938
Ore treated ('000 tonnes)	9,146	9,819	10,087	9,637	<b>10,615</b>	28,333	30,339	38,152
Average mill head grades:								
Copper (%)	0.66	0.61	0.51	0.51	<b>0.48</b>	0.67	0.50	0.65
Gold (g/t)	0.21	0.25	0.15	0.16	<b>0.18</b>	0.39	0.16	0.36
Silver (g/t)	1.99	1.50	1.30	1.38	<b>1.34</b>	1.95	1.34	1.83
Concentrates produced ('000 tonnes)	203.2	206.7	176.0	171.0	<b>170.0</b>	639.8	517.0	846.6
Average concentrate grade (% Cu)	22.9	22.0	21.6	21.8	<b>21.7</b>	24.4	21.7	23.8
Production of metals in concentrates:								
Copper ('000 tonnes)	46.6	45.5	38.1	37.2	<b>36.9</b>	155.9	112.1	201.3
Gold ('000 ounces)	37	49	25	24	<b>31</b>	251	80	300
Silver ('000 ounces)	361	273	215	236	<b>239</b>	1,147	689	1,420
Sales of metals in concentrates:								
Copper ('000 tonnes)	45.7	37.6	39.5	37.3	<b>36.9</b>	151.3	113.6	188.9
Gold ('000 ounces)	38	39	32	23	<b>29</b>	307	84	347
Silver ('000 ounces)	341	239	205	222	<b>229</b>	1,041	656	1,280
Metal recovery (%)								
Copper	78.0	76.6	74.9	74.6	<b>73.5</b>	82.4	74.3	81.0
Gold	62.0	63.4	48.8	47.7	<b>51.2</b>	69.7	49.4	68.5
Silver	61.7	57.2	51.8	53.9	<b>52.8</b>	64.7	51.8	63.1

During Q3'17, Oyu Tolgoi set three operational records for total material mined, ore treated and average daily concentrator throughput. Copper production in Q3'17 was essentially flat compared to Q2'17 while Q3'17 gold production increased 29.2% over Q2'17 due to higher head grades from the medium-grade

<sup>3</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

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stockpile and Phase 4A. In Q3'17, open pit material mined increased 9.0% over Q2'17 and ore treated increased 10.1% over Q2'17. During Q2'17, the concentrator underwent a scheduled maintenance shutdown. Average daily concentrator throughput for Q3'17 of 115,400 tonnes per day increased 8.9% over Q2'17. Higher gold grades during Q3'17 resulted in a 26.1% increase in gold sales volumes compared to Q2'17.

**Operational outlook**

Oyu Tolgoi is expected to produce 130,000 to 160,000 tonnes of copper and 100,000 to 140,000 ounces of gold in concentrates for 2017. Open-pit operations are expected to mine in Phases 4 and 6 during the year. In addition, stockpiled ore will continue to be processed during the year.

**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. As of September 30, 2017, the aggregate outstanding balance of shareholder loans extended by subsidiaries of the Company to Oyu Tolgoi was \$3.6 billion, including accrued interest of \$0.3 billion. 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, 2017, the cumulative amount of such funding was \$0.8 billion, representing 34% of invested common share equity; unrecognized interest on the funding amounted to \$0.4 billion.

**B. CORPORATE ACTIVITIES****Director Resignation**

The Turquoise Hill Board of Directors accepted the resignation of director Craig Stegman effective September 13, 2017. Dr. Stegman resigned from the Turquoise Hill board as a result of relocating to Australia and increased professional responsibilities at Rio Tinto.

**New Chief Financial Officer**

Turquoise Hill appointed Luke Colton as Chief Financial Officer effective October 9, 2017. Mr. Colton has more than 15 years of financial experience and since 2013 served as Chief Financial Officer of Richards Bay Minerals in South Africa.

**4. INCOME AND OTHER TAXES**

The Company recorded an income statement credit of \$71.1 million for income and other taxes during the three months ended September 30, 2017, compared with a credit of \$5.6 million during the three months ended September 30, 2016. Income and other taxes include adjustments to deferred tax assets in Mongolia and Canada, in addition to withholding taxes accrued and current tax payable.

Adjustments to deferred tax assets resulted in income statement credits within income and other taxes for Q3'17 of \$77.8 million. Deferred tax assets relate to tax operating losses, accrued but unpaid interest expense and other temporary differences. Movements in the deferred tax assets result from period end reassessments of recoverability, and include adjustments to record potential deferred tax assets not

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recognized in previous periods. In Q3'17, the Company recognized additional Mongolian deferred tax assets primarily as the result of operating losses and accrued but unpaid interest expense incurred by Oyu Tolgoi in the period. Recoverability of these losses were assessed against an estimate of future taxable profits.

An effective tax rate of approximately 300% during Q3'17 arose as the Company reported a loss from continuing operations before tax of \$23.4 million, while recording in the same period a net income statement tax credit (inclusive of adjustments to deferred tax assets and accrued withholding taxes) of \$71.1 million.

In Q3'16, the Company recognized additional deferred tax assets of \$9.3 million. An effective tax rate of 7% during Q3'16 arose as the Company reported a loss from continuing operations before tax of \$83.4 million, while recording in the same period a net income statement tax credit (inclusive of adjustments to deferred tax assets and accrued withholding taxes) of \$5.6 million.

Turquoise Hill's effective tax rate represents the income statement charge or credit for income and other taxes as a percentage of income or loss from operations before taxes. It is possible for Turquoise Hill's effective tax rate to be in excess of 100%, primarily because of different tax jurisdictions applying different tax to intercompany loan interest, and/or previously unrecognized deferred tax assets being recorded in the current period.

Additional income statement information, including income and other taxes relating to Oyu Tolgoi and the Company's corporate operations is provided in Note 3 – Operating segment – to the condensed interim consolidated financial statements on page 9.

## 5. LIQUIDITY AND CAPITAL RESOURCES

### Cash flow

**Operating activities.** A total of \$94.7 million of cash was generated from operating activities before interest and tax in Q3'17 compared with \$51.5 million in Q2'17, reflecting a higher average selling price for copper and gold and a reduction in consolidated working capital<sup>4</sup>.

**Investing activities.** Cash used in investing activities totalled \$3.0 million in Q3'17, compared with \$35.0 million cash generated from investing activities in Q2'17. The variance is due to higher levels of underground cash capital expenditure together with higher cash generated from operating activities in the quarter which led to a lower amount of capital expenditure needing to be funded by amounts withdrawn from the Company's Cash Management Services Agreement (CMSA) in order to meet Oyu Tolgoi's underground mine development and financing requirements.

**Financing activities.** Cash generated from financing activities was \$0.7 million in Q3'17 compared to \$1.2 million in Q2'17.

### Liquidity

As of September 30, 2017, Turquoise Hill held consolidated cash and cash equivalents of approximately \$1.5 billion, compared with \$1.4 billion as of June 30, 2017, March 31, 2017 and December 31, 2016, and consolidated working capital<sup>4</sup> of negative \$79.9 million compared to negative \$60.6 million as of June 30, 2017, \$16.3 million as of March 31, 2017 and \$69.3 million as of December 31, 2016. Working capital fell during Q3'17 as a result of a rise in payables associated with underground development and reduced inventory levels.

A \$4.2 billion related-party receivable with a Rio Tinto subsidiary was recorded in 2016, representing net proceeds (after settlement of withholding taxes and transaction costs) from project finance tranches

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<sup>4</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

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drawn down before June 30, 2016 and placed with Rio Tinto subsidiary 9539549 Canada Inc. in accordance with the CMSA. Turquoise Hill draws upon this related-party receivable as required in order to fund development and financing of the underground mine. As of September 30, 2017, \$680 million had been re-drawn from this related-party receivable, leaving a balance of \$3.5 billion.

Turquoise Hill believes that, based on its current cash position and the net project finance proceeds available to be re-drawn from the related-party receivable, it will have sufficient funds to meet its minimum obligations, including general corporate activities, for at least the next 12 months. Consolidated working capital is expected to remain negative or below previously reported levels while expenditure on underground development continues and associated payables are recorded.

### Capital resources

The Company considers its capital to be share capital and third-party borrowings. To effectively manage capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating needs.

In December 2015, Oyu Tolgoi signed the \$4.4 billion project finance facility for the purposes of developing the underground mine, of which \$4.3 billion had been drawn down at September 30, 2017. The additional \$0.1 billion is available, subject to certain conditions, under the Company's facility with the Export-Import Bank of the United States. The project finance lenders have agreed a debt cap of \$6.0 billion thus allowing the potential for an additional \$1.6 billion of supplemental debt in the future.

The Company's accumulated deficit at September 30, 2017 was \$4.1 billion compared to \$4.3 billion at December 31, 2016.

### Financial instruments

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

(Stated in \$000's of dollars)	September 30, 2017	December 31, 2016
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 1,485,491	\$ 1,417,754
Available for sale: Long-term investments	6,103	4,344
Cost method: Long-term investments	-	115
Loans and receivables:		
Trade and other receivables	19,280	31,651
Due from related parties	13,260	10,906
Receivable from related party	3,476,285	3,976,284
<b>Financial Liabilities</b>		
Trade and other payables	297,757	206,878
Payable to related parties	45,078	37,248
Borrowings (project finance facility)	4,139,492	4,126,117
Interest payable on long-term borrowings	60,496	9,279

Turquoise Hill is exposed to credit risk with respect to its accounts receivable, other long-term investments and cash and cash equivalents, and other financial assets 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 U.S. and LIBOR interest-rate risk with respect to the variable rates of interest on its third-party project finance borrowings, receivable from related party, and cash equivalents, the majority of which are at variable rates.

## **6. SHARE CAPITAL**

As of November 2, 2017, the Company had a total of:

- 2,012,314,469 common shares outstanding;
- 401,771 incentive stock options outstanding, with a weighted average exercise price of C\$13.19 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.

## **7. 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 5 – LIQUIDITY AND CAPITAL RESOURCES – on page 11 of this MD&A.

### **Copper and gold markets**

Commodity prices are a key driver of Turquoise Hill's earnings. Copper prices reached a three-year high in early September 2017 at \$3.17 per pound and finished Q3'17 at \$2.94 per pound. The rally was supported by strong investor interest, while the price retreat followed a sharp rise in visible London Metal Exchange (LME) stocks and profit-taking following disappointing Chinese macroeconomic data in August. Cathode inventory stood at approximately 1.2 million tonnes at the end of Q3'17. LME warehouses gained approximately net 70,000 tonnes in another round of load-ins, while the Shanghai Futures Exchange was down approximately 80,000 tonnes at the end of Q3'17 as producers stocked up before Chinese holidays. The concentrate market eased in September, with spot treatment charges increasing to \$81.00 - \$89.00 per tonne. Higher concentrate availability appears to be the result of trader destocking and demand management by smelters in preparation for treatment charge negotiations. Gold prices averaged \$1,307 per ounce in September, the highest monthly average so far in 2017, due to the steady decline in the U.S. dollar, geopolitical tensions in Asia and benign market expectations over inflation.

### **Foreign 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.

## **8. OFF-BALANCE SHEET ARRANGEMENTS**

With the exception of the Company's operating lease commitments disclosed within Section 9 – CONTRACTUAL OBLIGATIONS, during the nine months ended September 30, 2017, 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.

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**9. CONTRACTUAL OBLIGATIONS**

The following table summarizes Turquoise Hill's contractual obligations as at September 30, 2017.<sup>5</sup>

(Stated in \$000's of dollars)

	Payments Due by Period				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Purchase obligations <sup>(1)</sup>	\$ 742,482	\$ 267,362	\$ 86,605	\$ 111	\$ 1,096,560
Operating leases	127,429	248,409	225,464	87,060	688,362
Finance leases	12,629	-	-	-	12,629
Decommissioning obligations	-	-	-	261,709	261,709
<b>Total</b>	<b>\$ 882,540</b>	<b>\$ 515,771</b>	<b>\$ 312,069</b>	<b>\$ 348,880</b>	<b>\$ 2,059,260</b>

<sup>(1)</sup> These amounts mainly represent various long-term contracts that include commitments for future development and operating payments for supply of engineering, equipment rentals and other arrangements.

**10. 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, 2016.

**11. 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, 2017 and have therefore not been applied in preparing the condensed interim consolidated financial statements. To date, work by the Company has focused on a review of contracts in order to assess the impact of IFRS 15 *Revenue from Contracts with Customers*, on a review of the Company's financial instruments to determine classification and measurement under IFRS 9 *Financial Instruments* and on identification of the provisions in IFRS 16 *Leases* which will mostly apply to the Company, together with a detailed review of contracts and financial reporting impacts. The result of assessments performed by the Company to date, of the impact of these standards and interpretations, are disclosed in its condensed interim consolidated financial statements for the nine months ended September 30, 2017.

**12. 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, 2016 and in its Annual Information Form (AIF) dated March 23, 2017 in respect of such period.

**13. RELATED-PARTY TRANSACTIONS**

As at September 30, 2017, Rio Tinto's equity ownership in the Company was 50.8%, which was unchanged from June 30, 2017.

<sup>5</sup> Please refer to Section 14 – NON-GAAP MEASURES – on page 16 of this MD&A for further information.

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The following tables present the consolidated financial statement line items within which transactions with Rio Tinto are reported.

<b>Statements of Income</b> (Stated in \$000's of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating and corporate administration expenses:				
Cost recoveries - Turquoise Hill	\$ 112	\$ 741	\$ 984	\$ 2,680
Management services payment (i)	(6,508)	(7,335)	(19,206)	(28,894)
Cost recoveries - Rio Tinto (ii)	(8,150)	(22,296)	(23,836)	(36,050)
Finance income:				
Cash and cash equivalents (iii)	3,489	2,519	9,563	4,697
Receivable from related party (iv)	33,477	32,718	102,192	45,992
Finance costs:				
Completion support fee (v)	(27,051)	(27,934)	(81,099)	(39,263)
<b>Total</b>	<b>\$ (4,631)</b>	<b>\$ (21,587)</b>	<b>\$ (11,402)</b>	<b>\$ (50,838)</b>

<b>Statement of Cash Flows</b> (Stated in \$000's of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>Cash generated from operating activities</i>				
Interest received (iii, iv)	\$ 14,048	\$ 5,096	\$ 37,420	\$ 5,860
Interest paid (v)	-	-	(12,646)	(5,063)
<i>Cash flows from investing activities</i>				
Receivable from related party: amounts deposited (iv)	-	-	-	(4,156,284)
Receivable from related party: amounts withdrawn (iv)	230,000	-	500,000	-
Expenditures on property, plant and equipment:				
Management services payment and cost recoveries - Rio Tinto (i),(ii)	(12,794)	(2,970)	(32,264)	(2,970)

<b>Balance sheets</b> (Stated in \$000's of dollars)	September 30, 2017	December 31, 2016
Cash and cash equivalents (iii)	\$ 741,711	\$ 741,711
Trade and other receivables	13,260	10,906
Prepaid expenses and other assets	13,602	11,153
Receivable from related party and other non-current financial assets (iv)	3,476,285	3,976,284
Trade and other payables:		
Management services payment (i)	(10,052)	(7,839)
Cost recoveries (ii)	(35,026)	(29,409)
<b>Total</b>	<b>\$ 4,199,780</b>	<b>\$ 4,702,806</b>

(i) In accordance with the ARSHA, which was signed on June 8, 2011, and other related agreements, Turquoise Hill is required to make 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. After signing of the Underground Plan on May 18, 2015, the management services payment to Rio Tinto is calculated as 1.5% applied to underground development capital costs, and 3% applied to operating costs and capital related to current operations.

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- (ii) 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.
- (iii) 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 with Rio Tinto in accordance with an agreed upon policy and strategy for the management of liquid resources. At September 30, 2017, 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 or short-term corporate debt.
- (iv) 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 were placed with 9539549 Canada Inc. and shall be 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, has guaranteed the obligations of the service provider under this agreement. At September 30, 2017, amounts due from 9539549 Canada Inc. totalled \$3,476.3 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 receivable from 9539549 Canada Inc. under the CMSA, which are net settled with the 2.5% completion support fee described in (v) below.
- (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, Turquoise Hill is required to pay Rio Tinto a fee equal to 2.5% of the amounts drawn under the facility. 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 receivable from 9539549 Canada Inc. under the CMSA described in (iv) above. The fee payment obligation will terminate on the date Rio Tinto's CSU obligations to the project lenders terminate.

## **14. NON-GAAP MEASURES**

The Company presents and refers to the following non-GAAP measures, which are not defined in IFRS. A description and calculation of each measure is given below and may differ from similarly named measures provided by other issuers. These measures are presented in order to provide investors and other stakeholders with additional understanding of performance and operations at Oyu Tolgoi and are not intended to be used in isolation from, or as a replacement for, measures prepared in accordance with IFRS.

### **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, copper, 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 investors and other stakeholders with additional 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 deducts gold and silver revenue credits as the production cost is reduced as a result of selling these products.

### **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, copper, 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.

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

	<b>Operating and unit costs</b>			
	<b>(Three Months Ended)</b>		<b>(Nine Months Ended)</b>	
	<b>September 30, 2017</b>	<b>June 30, 2017</b>	<b>September 30, 2017</b>	<b>September 30, 2016</b>
<b>C1 costs (Stated in \$000's of dollars)</b>				
Cost of sales	197,774	188,857	581,010	677,533
<b>Cost of sales: \$/lb of copper sold</b>	<b>2.43</b>	<b>2.30</b>	<b>2.32</b>	<b>2.03</b>
Depreciation and depletion	(77,355)	(75,010)	(230,653)	(266,361)
Provision against carrying value of copper-gold concentrate	2,967	3,807	11,429	(9,706)
Change in inventory	(16,579)	(9,397)	(30,144)	(45,891)
Other operating expenses	74,465	35,638	150,760	243,202
Less:				
- Inventory (write-down) reversal	(25,040)	13,908	(4,978)	(23,420)
- Depreciation	(797)	(829)	(2,656)	(4,362)
Management services payment to Turquoise Hill	6,508	6,615	19,206	28,894
<b>Operating cash costs</b>	<b>161,943</b>	<b>163,589</b>	<b>493,974</b>	<b>599,889</b>
<b>Operating cash costs: \$/lb of copper produced</b>	<b>1.99</b>	<b>1.99</b>	<b>2.00</b>	<b>1.75</b>
Adjustments to operating cash costs <sup>(1)</sup>	24,948	24,134	77,052	89,712
Less: Gold and silver revenues	(37,742)	(29,924)	(108,603)	(394,683)
<b>C1 costs (\$'000)</b>	<b>149,149</b>	<b>157,799</b>	<b>462,423</b>	<b>294,918</b>
<b>C1 costs: \$/lb of copper produced</b>	<b>1.83</b>	<b>1.92</b>	<b>1.87</b>	<b>0.86</b>
<b>All-in sustaining costs (Stated in \$000's of dollars)</b>				
Corporate administration	4,099	5,662	14,253	13,495
Asset retirement expense	1,771	1,467	4,914	4,292
Royalty expenses	14,532	12,547	41,428	55,083
Ore stockpile and stores write-down (reversal)	25,040	(13,908)	4,978	23,420
Other expenses	1,554	1,855	2,782	5,655
Sustaining cash capital including deferred stripping	28,331	20,337	60,342	68,892
<b>All-in sustaining costs (\$'000)</b>	<b>224,476</b>	<b>185,759</b>	<b>591,120</b>	<b>465,755</b>
<b>All-in sustaining costs: \$/lb of copper produced</b>	<b>2.76</b>	<b>2.27</b>	<b>2.39</b>	<b>1.36</b>

<sup>(1)</sup> 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.

**Working capital**

Consolidated working capital comprises those components of current assets and liabilities which support and result from the Company's ongoing running of its current operations. It is provided in order to give a quantifiable indication of the Company's short-term cash generation ability and business efficiency. As a measure linked to current operations and the sustainability of the business, working capital excludes: non-trade receivables and payables; financing items; cash and cash equivalents; deferred revenue and non-current inventory.

A reconciliation of consolidated working capital to the financial statements and notes is provided below.

<b>Working capital</b> (Stated in \$000's of dollars)	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Inventories (current)	<b>\$ 217,560</b>	\$ 260,668
Trade and other receivables	<b>32,540</b>	42,557
Trade and other payables:		
- trade payables and accrued liabilities	<b>(284,967)</b>	(196,716)
- payable to related parties	<b>(45,078)</b>	(37,248)
<b>Consolidated working capital</b>	<b>\$ (79,945)</b>	\$ 69,261

**Contractual obligations**

Section 9 of this MD&A discloses contractual obligations in relation to the Company's lease, purchase and asset retirement obligations. Amounts relating to these obligations are calculated on the basis of the Company carrying out its future business activities and operations as planned at the period end. As such, contractual obligations presented in this MD&A will differ from amounts presented in the financial

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statements, which are prepared on the basis of minimum uncancellable commitments to pay in the event of contract termination. The MD&A presentation of contractual obligations is provided in order to give an indication of future expenditure, for the disclosed categories, arising from the Company's continuing operations and development projects.

A reconciliation of contractual obligations at September 30, 2017 to the financial statements and notes is provided below.

	Purchase obligations	Operating leases	Finance leases	Decommissioning obligations
<b>Commitments (MD&amp;A)</b>	<b>\$ 1,096,560</b>	<b>\$ 688,362</b>	<b>\$ 12,629</b>	<b>\$ 261,709</b>
Cancellable obligations (net of exit costs)	(906,921)	(167,383)	-	-
Accrued capital expenditure	(135,582)	-	-	-
Discounting and other adjustments	-	-	-	(139,004)
<b>Financial statement amount</b>	<b>\$ 54,057</b>	<b>\$ 520,979</b>	<b>\$ 12,629</b>	<b>\$ 122,705</b>

**15. INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**16. 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.), RPGeo AIG (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).

**17. 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 Mineral Resources and Mineral Reserves, readers should refer to the AIF of the Company for the year ended December 31, 2016, and other continuous disclosure documents filed by the Company since January 1, 2017 under Turquoise Hill's profile on SEDAR at [www.sedar.com](http://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 Definition Standards for mineral resources and mineral reserves. 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,

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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.

**18. 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 statements and information relate to future events or future performance, reflect current expectations or beliefs regarding future events and are typically identified by words such as "anticipate", "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 of 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; development plans for processing resources; matters relating to proposed exploration or expansion; mining operational and development risks; litigation risks; regulatory restrictions (including environmental regulatory restrictions and liability); communications with local stakeholders and community relations; activities, actions or assessments by governmental authorities; events or circumstances that may affect the Company's ability to deliver its products in a timely manner; currency fluctuations; the speculative nature of mineral exploration; the global economic climate; dilution; share price volatility; competition; loss

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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 statements and information 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 statements or information.

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 (or availability of finance for the Company to construct such a 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 Oyu Tolgoi 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 2016 Oyu Tolgoi Feasibility Study and the 2016 Oyu Tolgoi Technical Report); 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.

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 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

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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 Company uses prices reflecting market pricing projections in the financial modeling for Oyu Tolgoi which 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 as well as 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 and Uncertainties" section in the Company's MD&A dated March 23, 2017 for the year ended December 31, 2016 (the "Annual MD&A").

Readers are further cautioned that the list of factors enumerated in the "Risk and Uncertainties" section of the Annual MD&A that may affect future results is not exhaustive. When relying on the Company's forward-looking statements and information 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 statements and information 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 statements or information, whether as a result of new information, future events or otherwise, except as required by applicable law. The forward-looking statements and information contained in this MD&A are expressly qualified by this cautionary statement.

**turquoisehill.com**

**Turquoise Hill Resources Ltd.**  
Suite 354 – 200 Granville Street  
Vancouver, BC, Canada V6C 1S4

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