



# **Turquoise Hill Resources Ltd.**

**Condensed Interim Consolidated Financial Statements**

**June 30, 2019**

(Unaudited)

**TURQUOISE HILL RESOURCES LTD.**  
**Consolidated Statements of Income (Loss)**

(Stated in thousands of U.S. dollars)

(Unaudited)

	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
Revenue	4	\$ 382,748	\$ 341,743	\$ 735,428	\$ 587,335
Cost of sales	5	(224,656)	(239,622)	(393,790)	(408,491)
<b>Gross margin</b>		<b>158,092</b>	102,121	<b>341,638</b>	178,844
Operating expenses	6	(57,897)	(56,079)	(128,243)	(86,364)
Corporate administration expenses		(5,759)	(7,372)	(10,303)	(12,265)
Other income		1,279	3,012	2,522	334
Impairment charges	11	(596,906)	-	(596,906)	-
<b>Income (loss) before finance items and taxes</b>		<b>(501,191)</b>	41,682	<b>(391,292)</b>	80,549
<b>Finance items</b>					
Finance income	7	29,062	41,395	61,891	80,290
Finance costs	7	(1,709)	(16,816)	(3,727)	(40,802)
		27,353	24,579	58,164	39,488
<b>Income (loss) from operations before taxes</b>		<b>\$ (473,838)</b>	\$ 66,261	<b>\$ (333,128)</b>	\$ 120,037
Income and other taxes	14	(262,844)	138,185	(298,354)	164,113
<b>Income (loss) for the period</b>		<b>\$ (736,682)</b>	\$ 204,446	<b>\$ (631,482)</b>	\$ 284,150
Attributable to owners of Turquoise Hill Resources Ltd.		(446,515)	171,295	(335,278)	256,987
Attributable to owner of non-controlling interest		(290,167)	33,151	(296,204)	27,163
<b>Income (loss) for the period</b>		<b>\$ (736,682)</b>	\$ 204,446	<b>\$ (631,482)</b>	\$ 284,150

**Basic and diluted earnings (loss) per share attributable to Turquoise Hill Resources Ltd.**

	\$ (0.22)	\$ 0.09	\$ (0.17)	\$ 0.13
Basic weighted average number of shares outstanding (000's)	2,012,314	2,012,314	2,012,314	2,012,314

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Income (loss) for the period</b>	\$ (736,682)	\$ 204,446	\$ (631,482)	\$ 284,150
<b>Other comprehensive income (loss):</b>				
Items that will not be reclassified to income:				
Changes in the fair value of marketable securities at FVOCI	(74)	902	(609)	(2,298)
<b>Other comprehensive income (loss) for the period (a)</b>	\$ (74)	\$ 902	\$ (609)	\$ (2,298)
<b>Total comprehensive income (loss) for the period</b>	\$ (736,756)	\$ 205,348	\$ (632,091)	\$ 281,852
Attributable to owners of Turquoise Hill	(446,589)	172,197	(335,887)	254,689
Attributable to owner of non-controlling interest	(290,167)	33,151	(296,204)	27,163
<b>Total comprehensive income (loss) for the period</b>	\$ (736,756)	\$ 205,348	\$ (632,091)	\$ 281,852

(a) No tax charges and credits arose on items recognized as other comprehensive income or loss in 2019 (2018: nil).

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 June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
<b>Cash generated from operating activities</b>					
before interest and tax	17	\$ 262,568	\$ 149,647	\$ 312,406	\$ 164,327
Interest received		22,353	20,949	46,110	39,968
Interest paid		(139,751)	(118,586)	(218,325)	(130,807)
Income and other taxes paid		(3,643)	(3,634)	(4,353)	(5,702)
<b>Net cash generated from operating activities</b>		<b>\$ 141,527</b>	<b>\$ 48,376</b>	<b>\$ 135,838</b>	<b>\$ 67,786</b>
<b>Cash flows from investing activities</b>					
Receivable from related party: amounts withdrawn	18	255,000	230,000	530,000	550,000
Expenditures on property, plant and equipment		(334,989)	(318,048)	(660,283)	(603,764)
Other investing cash flows		-	616	-	616
<b>Cash used in investing activities</b>		<b>\$ (79,989)</b>	<b>\$ (87,432)</b>	<b>\$ (130,283)</b>	<b>\$ (53,148)</b>
<b>Cash flows from financing activities</b>					
Net proceeds from project finance facility		1,511	4,158	1,511	4,158
Payment of project finance fees		(107)	(192)	(107)	(192)
Payment of lease liability		(1,405)	-	(3,813)	-
<b>Cash generated from (used in) financing activities</b>		<b>\$ (1)</b>	<b>\$ 3,966</b>	<b>\$ (2,409)</b>	<b>\$ 3,966</b>
Effects of exchange rates on cash and cash equivalents		(111)	(69)	8	(113)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>\$ 61,426</b>	<b>\$ (35,159)</b>	<b>\$ 3,154</b>	<b>\$ 18,491</b>
Cash and cash equivalents - beginning of period		\$ 1,544,795	\$ 1,498,433	\$ 1,603,067	\$ 1,444,783
Cash and cash equivalents - end of period		1,606,221	1,463,274	1,606,221	1,463,274
<b>Cash and cash equivalents as presented on the balance sheets</b>		<b>\$ 1,606,221</b>	<b>\$ 1,463,274</b>	<b>\$ 1,606,221</b>	<b>\$ 1,463,274</b>

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

# TURQUOISE HILL RESOURCES LTD.

## Consolidated Balance Sheets

(Stated in thousands of U.S. dollars)

(Unaudited)

	Note	June 30, 2019	December 31, 2018
<b>Current assets</b>			
Cash and cash equivalents	8	\$ 1,606,221	\$ 1,603,067
Inventories	9	208,430	242,970
Trade and other receivables		38,486	30,264
Prepaid expenses and other assets		68,901	30,213
Receivable from related party	10	1,356,284	1,620,073
		<b>3,278,322</b>	<b>3,526,587</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	9,040,377	8,838,305
Inventories	9	3,832	18,655
Deferred income tax assets	14	370,915	649,421
Receivable from related party and other financial assets	10	11,573	279,019
		<b>9,426,697</b>	<b>9,785,400</b>
<b>Total assets</b>		<b>\$12,705,019</b>	<b>\$ 13,311,987</b>
<b>Current liabilities</b>			
Borrowings and other financial liabilities	13	\$ 7,643	\$ -
Trade and other payables	12	483,939	459,244
Deferred revenue		37,252	75,162
		<b>528,834</b>	<b>534,406</b>
<b>Non-current liabilities</b>			
Borrowings and other financial liabilities	13	4,202,417	4,187,297
Deferred income tax liabilities	14	63,132	47,934
Decommissioning obligations	15	133,656	131,565
		<b>4,399,205</b>	<b>4,366,796</b>
<b>Total liabilities</b>		<b>\$ 4,928,039</b>	<b>\$ 4,901,202</b>
<b>Equity</b>			
Share capital		\$11,432,122	\$ 11,432,122
Contributed surplus		1,558,251	1,558,264
Accumulated other comprehensive income		235	844
Deficit		(4,006,710)	(3,670,310)
<b>Equity attributable to owners of Turquoise Hill</b>		<b>8,983,898</b>	<b>9,320,920</b>
Attributable to non-controlling interest	16	(1,206,918)	(910,135)
<b>Total equity</b>		<b>\$ 7,776,980</b>	<b>\$ 8,410,785</b>
<b>Total liabilities and equity</b>		<b>\$12,705,019</b>	<b>\$ 13,311,987</b>

Commitments and contingencies (Note 19)

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

The financial statements were approved by the directors on July 31, 2019 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)

Six Months Ended June 30, 2019	Attributable to owners of Turquoise Hill					Non-controlling Interest (Note 16)	Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total		
<b>Opening balance</b>	\$11,432,122	\$ 1,558,264	\$ 844	\$ (3,670,310)	\$ 9,320,920	\$ (910,135)	\$ 8,410,785
<b>Impact of change in accounting policy (Note 2)</b>	-	-	-	(1,122)	(1,122)	(579)	(1,701)
<b>Restated opening balance</b>	\$11,432,122	\$ 1,558,264	\$ 844	\$ (3,671,432)	\$ 9,319,798	\$ (910,714)	\$ 8,409,084
Income (loss) for the period	-	-	-	(335,278)	(335,278)	(296,204)	(631,482)
Other comprehensive loss for the period	-	-	(609)	-	(609)	-	(609)
Employee share plans	-	(13)	-	-	(13)	-	(13)
<b>Closing balance</b>	\$11,432,122	\$ 1,558,251	\$ 235	\$ (4,006,710)	\$ 8,983,898	\$ (1,206,918)	\$ 7,776,980

Six Months Ended June 30, 2018	Attributable to owners of Turquoise Hill					Non-controlling Interest (Note 16)	Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total		
<b>Opening balance</b>	\$11,432,122	\$ 1,558,102	\$ 3,719	\$ (4,081,508)	\$ 8,912,435	\$ (893,211)	\$ 8,019,224
Income for the period	-	-	-	256,987	256,987	27,163	284,150
Other comprehensive loss for the period	-	-	(2,298)	-	(2,298)	-	(2,298)
Employee share plans	-	232	-	-	232	-	232
<b>Closing balance</b>	\$11,432,122	\$ 1,558,334	\$ 1,421	\$ (3,824,521)	\$ 9,167,356	\$ (866,048)	\$ 8,301,308

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)

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(Unaudited)

### 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 July 31, 2019. Rio Tinto plc is the ultimate parent company and indirectly owned a 50.8% majority interest in Turquoise Hill as at June 30, 2019.

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*. 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 consolidated financial statements for the year ended December 31, 2018, and in conjunction with the Company’s condensed interim consolidated financial statements for the three months ended March 31, 2019, which include the adoption of the accounting policies applied with regards to IFRS 16, *Leases*, and IFRIC 23, *Uncertainty Over Income Tax Treatments*.

#### (b) Changes in accounting policies

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2018, except for the adoption of IFRS 16, *Leases* and IFRIC 23, *Uncertainty Over Income Tax Treatments*, both of which were effective and have been applied from January 1, 2019.

#### (c) 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, 2019. None of these 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)

(Unaudited)

### 3. Operating segment

	Three Months Ended June 30, 2019		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 382,748	\$ -	\$ 382,748
Cost of sales	(224,656)	-	(224,656)
<b>Gross margin</b>	158,092	-	<b>158,092</b>
Operating income	(69,932)	12,035	(57,897)
Corporate administration expenses	-	(5,759)	(5,759)
Other income	1,101	178	1,279
Impairment charges	(596,906)	-	(596,906)
<b>Income (loss) before finance items and taxes</b>	(507,645)	6,454	<b>(501,191)</b>
<b>Finance items</b>			
Finance income	7,295	21,767	29,062
Finance costs	(111,229)	109,520	(1,709)
<b>Income (loss) from operations before taxes</b>	\$ (611,579)	\$ 137,741	<b>\$ (473,838)</b>
Income and other taxes	(241,856)	(20,988)	(262,844)
<b>Income (loss) for the period</b>	\$ (853,435)	\$ 116,753	<b>\$ (736,682)</b>
Depreciation and depletion	57,867	-	57,867
Capital additions	438,090	-	438,090
Total assets	9,751,788	2,953,231	12,705,019

- (a) Revenue by geographic destination is based on the ultimate country of destination, if known. If the destination of the concentrate sold through traders is not known, then revenue is allocated to the location of the concentrate at the time when revenue is recognized. During the three months ended June 30, 2019, principally all of Oyu Tolgoi's revenue arose from concentrate sales to customers in China and revenue from individual customers in excess of 10% of Oyu Tolgoi's revenue was \$67.4 million, \$63.3 million, and \$42.1 million (June 30, 2018 - \$52.5 million, \$34.7 million, and \$34.2 million).

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)

(Unaudited)

### 3. Operating segment (continued)

	Three Months Ended June 30, 2018		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 341,743	\$ -	\$ 341,743
Cost of sales	(239,622)	-	(239,622)
<b>Gross margin</b>	102,121	-	<b>102,121</b>
Operating expenses	(68,771)	12,692	(56,079)
Corporate administration expenses	-	(7,372)	(7,372)
Other income	2,752	260	3,012
<b>Income before finance items and taxes</b>	36,102	5,580	<b>41,682</b>
<b>Finance items</b>			
Finance income	12,754	28,641	41,395
Finance costs	(97,943)	81,127	(16,816)
<b>Income (loss) from operations before taxes</b>	\$ (49,087)	\$ 115,348	\$ 66,261
Income and other taxes	146,590	(8,405)	138,185
<b>Income for the period</b>	\$ 97,503	\$ 106,943	\$ 204,446
Depreciation and depletion	64,625	-	64,625
Capital additions	434,540	-	434,540
Total assets	9,051,012	4,119,279	13,170,291

# 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)

(Unaudited)

### 3. Operating segment (continued)

	Six Months Ended June 30, 2019		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 735,428	\$ -	\$ 735,428
Cost of sales	(393,790)	-	(393,790)
<b>Gross margin</b>	341,638	-	<b>341,638</b>
Operating (expenses) income	(153,261)	25,018	(128,243)
Corporate administration expenses	-	(10,303)	(10,303)
Other income (expenses)	1,899	623	2,522
Impairment charges	(596,906)	-	(596,906)
<b>Income (loss) before finance items and taxes</b>	(406,630)	15,338	<b>(391,292)</b>
<b>Finance items</b>			
Finance income	15,347	46,544	61,891
Finance costs	(219,433)	215,706	(3,727)
<b>Income (loss) from operations before taxes</b>	\$ (610,716)	\$ 277,588	<b>\$ (333,128)</b>
Income and other taxes	(260,473)	(37,881)	(298,354)
<b>Income (loss) for the period</b>	\$ (871,189)	\$ 239,707	<b>\$ (631,482)</b>
Depreciation and depletion	102,806	-	102,806
Capital additions	880,709	-	880,709
Total assets	9,751,788	2,953,231	12,705,019

- (b) Revenue by geographic destination is based on the ultimate country of destination, if known. If the destination of the concentrate sold through traders is not known, then revenue is allocated to the location of the concentrate at the time when revenue is recognized. During the six months ended June 30, 2019, principally all of Oyu Tolgoi's revenue arose from concentrate sales to customers in China and revenue from individual customers in excess of 10% of Oyu Tolgoi's revenue was \$146.1 million, \$89.5 million, \$82.7 million, \$77.5 million, and \$71.8 million (June 30, 2018 - \$87.7 million, \$67.0 million, and \$67.5 million and \$59.2 million).

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)

(Unaudited)

### 3. Operating segment (continued)

	Six Months Ended June 30, 2018		
	Oyu Tolgoi	Corporate and other eliminations	Consolidated
Revenue	\$ 587,335	\$ -	\$ 587,335
Cost of sales	(408,491)	-	(408,491)
<b>Gross margin</b>	178,844	-	<b>178,844</b>
Operating expenses	(110,499)	24,135	(86,364)
Corporate administration expenses	-	(12,265)	(12,265)
Other income (expenses)	350	(16)	334
<b>Income before finance items and taxes</b>	68,695	11,854	<b>80,549</b>
<b>Finance items</b>			
Finance income	26,523	53,767	80,290
Finance costs	(192,181)	151,379	(40,802)
<b>Income (loss) from operations before taxes</b>	\$ (96,963)	\$ 217,000	\$ 120,037
Income and other taxes	176,854	(12,741)	164,113
<b>Income for the period</b>	\$ 79,891	\$ 204,259	\$ 284,150
Depreciation and depletion	120,954	-	120,954
Capital additions	804,768	-	804,768
Total assets	9,051,012	4,119,279	13,170,291

# 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)

(Unaudited)

### 4. Revenue

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	Revenue from contracts with customers	Other revenue (a)	Total revenue	Revenue from contracts with customers	Other revenue (a)	Total revenue
Total revenue:						
Copper	\$ 251,999	\$ (19,629)	\$ 232,370	\$ 462,878	\$ (6,574)	\$ 456,304
Gold	146,223	578	146,801	268,725	3,755	272,480
Silver	3,466	111	3,577	6,390	254	6,644
	<b>\$ 401,688</b>	<b>\$ (18,940)</b>	<b>\$ 382,748</b>	<b>\$ 737,993</b>	<b>\$ (2,565)</b>	<b>\$ 735,428</b>

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Revenue from contracts with customers	Other revenue (a)	Total revenue	Revenue from contracts with customers	Other revenue (a)	Total revenue
Total revenue:						
Copper	\$ 281,554	\$ (7,839)	\$ 273,715	\$ 489,042	\$ (13,261)	\$ 475,781
Gold	64,047	7	64,054	103,048	1,288	104,336
Silver	3,882	92	3,974	7,091	127	7,218
	<b>\$ 349,483</b>	<b>\$ (7,740)</b>	<b>\$ 341,743</b>	<b>\$ 599,181</b>	<b>\$ (11,846)</b>	<b>\$ 587,335</b>

(a) Other revenue relates to gains (losses) on the revaluation of trade receivables.

### 5. Cost of sales

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Production and delivery	\$ 170,196	\$ 174,170	\$ 296,148	\$ 288,795
Depreciation and depletion	54,546	64,086	99,175	119,696
Provision (reversal) against carrying value of inventories (Note 9)	(86)	1,366	(1,533)	-
	<b>\$ 224,656</b>	<b>\$ 239,622</b>	<b>\$ 393,790</b>	<b>\$ 408,491</b>

# 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)

(Unaudited)

### 6. Operating expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Oyu Tolgoi administration expenses	\$ 34,743	\$ 22,885	\$ 65,927	\$ 41,092
Royalty expenses	20,722	20,261	40,461	35,174
Inventory write downs (reversals) (a)	(8,126)	4,693	4,432	(5,301)
Selling expenses	7,088	7,845	13,643	14,285
Depreciation	3,321	539	3,631	1,258
Other	149	(144)	149	(144)
	\$ 57,897	\$ 56,079	\$ 128,243	\$ 86,364

(a) Inventory write downs (reversals) include net adjustments to the carrying value of ore stockpile inventories and materials and supplies; refer to Note 9.

### 7. Finance Items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Finance income:				
Interest income (a)	\$ 29,062	\$ 41,395	\$ 61,891	\$ 80,290
	\$ 29,062	\$ 41,395	\$ 61,891	\$ 80,290
Finance costs:				
Interest expense and similar charges	\$ (102,256)	\$ (91,962)	\$ (204,529)	\$ (182,285)
Amounts capitalized to property, plant and equipment (b)	101,882	76,427	203,472	144,045
Accretion of decommissioning obligations (Note 15)	(1,335)	(1,281)	(2,670)	(2,562)
	\$ (1,709)	\$ (16,816)	\$ (3,727)	\$ (40,802)

(a) Finance income on the related party receivable relates to amounts placed with Rio Tinto under an agreement for cash management services in connection with net proceeds from the project finance facility (refer to Note 18).

(b) The majority of the costs capitalized to property, plant and equipment were capitalized at the weighted average rate of the Company's general borrowings of 8.4%.

# 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)

(Unaudited)

### 8. Cash and cash equivalents

	<b>June 30, 2019</b>	December 31, 2018
Cash at bank and on hand	\$ 106,515	\$ 148,040
Money market funds and other cash equivalents (a)	1,499,706	1,455,027
	<b>\$ 1,606,221</b>	<b>\$ 1,603,067</b>

(a) At June 30, 2019, short-term liquid investments of \$741.7 million (December 31, 2018 - \$741.7 million) were placed with Rio Tinto (refer to Note 18).

### 9. Inventories

	<b>June 30, 2019</b>	December 31, 2018
<i>Current</i>		
Concentrate	\$ 44,908	\$ 69,691
Ore stockpiles	66,833	76,512
Provision against carrying value of ore stockpiles	(5,703)	(15,636)
Materials and supplies	177,261	185,994
Provision against carrying value of materials and supplies	(74,869)	(73,591)
	<b>\$ 208,430</b>	<b>\$ 242,970</b>
<i>Non-current</i>		
Ore stockpiles	\$ 9,484	\$ 25,005
Provision against carrying value of ore stockpiles	(5,652)	(6,350)
	<b>\$ 3,832</b>	<b>\$ 18,655</b>

During the three and six months ended June 30, 2019, \$224.7 million (2018 - \$239.6 million) and \$393.8 million (2018 - \$408.5 million) of inventory was charged to cost of sales (Note 5).

During the three and six months ended June 30, 2019, net write down charges of 8.3 million (2018 – net write down charges of \$6.1 million) and net write down charges of \$2.8 million (2018 – net write down reversals of \$5.3 million) were recognized in the consolidated statement of income relating to inventory write off and movement in provisions against carrying value. During the three and six months ended June 30, 2019, inventory on which there was a provision against carrying value of \$9.5 million (2018 - \$1.4 million) and \$12.3 million (2018 - \$4.0 million) was sold and recognized in cost of sales for the period.

# 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)

(Unaudited)

### 10. Receivable from related party and other non-current financial assets

	June 30, 2019	December 31, 2018
Current assets:		
Receivable from related party (Note 18)	\$ 1,356,284	\$ 1,620,073
	<b>\$ 1,356,284</b>	<b>\$ 1,620,073</b>

	June 30, 2019	December 31, 2018
Receivable from related party and other non-current financial assets:		
Receivable from related party (Note 18)	\$ -	\$ 266,211
Marketable securities	4,959	5,566
Other	6,614	7,242
	<b>\$ 11,573</b>	<b>\$ 279,019</b>

### 11. Property, plant and equipment

Six Months Ended June 30, 2019	Oyu Tolgoi			Other capital assets	Total
	Mineral property interests	Plant and equipment	Capital works in progress		
Net book value:					
January 1, 2019 as previously reported	\$ 799,113	\$ 3,263,447	\$ 4,775,745	\$ -	\$ 8,838,305
Impact of change in accounting policy (Note 2)	-	14,429	-	-	14,429
January 1, 2019 restated	\$ 799,113	\$ 3,277,876	\$ 4,775,745	\$ -	\$ 8,852,734
Additions	26,241	1,561	649,435	-	677,237
Interest capitalized (Note 7)	-	-	203,472	-	203,472
Depreciation for the period	(26,035)	(69,977)	-	-	(96,012)
Impairment charges (a)	(52,007)	(180,192)	(364,707)	-	(596,906)
Disposals and write offs	-	-	(148)	-	(148)
Transfers and other movements	(581)	27,821	(27,240)	-	-
<b>June 30, 2019</b>	<b>\$ 746,731</b>	<b>\$ 3,057,089</b>	<b>\$ 5,236,557</b>	<b>\$ -</b>	<b>\$ 9,040,377</b>
Cost	1,272,906	4,766,150	5,601,264	-	11,640,320
Accumulated depreciation / impairment	(526,175)	(1,709,061)	(364,707)	-	(2,599,943)
<b>June 30, 2019</b>	<b>\$ 746,731</b>	<b>\$ 3,057,089</b>	<b>\$ 5,236,557</b>	<b>\$ -</b>	<b>\$ 9,040,377</b>

# 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)

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(Unaudited)

### 11. Property, plant and equipment (continued)

#### (a) Impairment charges

On July 15, 2019, the Company provided an update on the Oyu Tolgoi underground project summarizing preliminary estimates for increased capital for project development and schedule delay to first sustainable production. These preliminary estimates indicated that sustainable first production could be delayed by 16 to 30 months compared to the original feasibility study guidance in 2016 and that development capital spend for the project may increase by \$1.2 billion to \$1.9 billion over the \$5.3 billion previously disclosed. Together these matters have been identified as an indicator of impairment at the Oyu Tolgoi cash-generating unit level. Additionally, completion of the definitive estimate review is now expected in the second half of 2020.

The recoverable amount was assessed as the higher of Oyu Tolgoi's value in use and its fair value less costs of disposal (FVLCD). The recoverable amount was determined by reference to a FVLCD model using discounted post-tax cash flows in line with the Company's accounting policy for impairment of non-current assets set out in Note 2 (k) to the Company's annual consolidated financial statements for the year ended December 31, 2018.

The recoverable amount of the Oyu Tolgoi cash generating unit is classified as level 3 under the fair value hierarchy. In arriving at FVLCD, post-tax cash flows expressed in real terms have been estimated based on detailed life-of-mine plans and discounted using a post-tax real discount rate of 8.3%, and incorporate the range of additional project development capital and schedule delay estimates disclosed above. Long-term forecast copper price of \$3.13 per pound and gold price of \$1,320 per ounce were estimated using industry analyst consensus forecasts. The cash flows reflected in the FVLCD modelling incorporate a portion of material classified as mineral resources, which contribute approximately 20% of the total recoverable amount.

The recoverable amount has been calculated taking into account a number of mine design options. As studies progress, this will lead to the selection of a preferred development option with detailed cost, scheduling, and production assumptions, which may lead to a change in recoverable amount. The recoverable amount also includes high-level risk adjustments to net cash flows to reflect the inherent uncertainty of assumptions for development capital, schedule and mineral resources.

The Company's assessment of FVLCD resulted in a recoverable amount of \$8.7 billion compared to a carrying value of \$9.3 billion at June 30, 2019 resulting in a \$0.6 billion impairment charge.

Together with development capital, scheduling and production, other key assumptions in the determination of recoverable amount include the discount rate and long-term commodity prices and the inclusion of mineral resources (in addition to ore reserves). Reasonably possible movements in these assumptions could reduce the calculated recoverable amount and increase the impairment charge. An increase in the post-tax real discount rate by 1.0% to 9.3%, with all other inputs remaining constant, would reduce the recoverable amount by \$1.5 billion. A 5% decrease to the long-term copper and gold prices, with all other inputs remaining constant, would reduce the recoverable amount by \$1.3 billion. A 5% increase to the long-term copper and gold prices, with all other inputs remaining constant, would increase the recoverable amount by \$1.2 billion.

# 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)

(Unaudited)

### 11. Property, plant and equipment (continued)

Six Months Ended June 30, 2018	Oyu Tolgoi			Other capital assets	Total
	Mineral property interests	Plant and equipment	Capital works in progress		
Net book value:					
January 1, 2018	\$ 834,310	\$ 3,197,491	\$ 3,315,171	\$ -	\$ 7,346,972
Additions	8,142	-	652,581	-	660,723
Interest capitalized (Note 7)	-	-	144,045	-	144,045
Depreciation for the period	(24,663)	(73,995)	-	-	(98,658)
Disposals and write offs	-	(472)	-	-	(472)
Transfers and other movements	-	9,041	(9,041)	-	-
<b>June 30, 2018</b>	<b>\$ 817,789</b>	<b>\$ 3,132,065</b>	<b>\$ 4,102,756</b>	<b>\$ -</b>	<b>\$ 8,052,610</b>
Cost	1,234,251	4,549,260	4,102,756	1,152	9,887,419
Accumulated depreciation / impairment	(416,462)	(1,417,195)	-	(1,152)	(1,834,809)
<b>June 30, 2018</b>	<b>\$ 817,789</b>	<b>\$ 3,132,065</b>	<b>\$ 4,102,756</b>	<b>\$ -</b>	<b>\$ 8,052,610</b>

### 12. Trade and other payables

	June 30, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 414,667	\$ 395,883
Interest payable on long-term borrowings	9,268	10,906
Payable to related parties (Note 18)	58,536	51,490
Other	1,468	965
	<b>\$ 483,939</b>	<b>\$ 459,244</b>

### 13. Borrowings and other financial liabilities

	June 30, 2019	December 31, 2018
Non-current liabilities:		
Project finance facility (a)	\$ 4,184,208	\$ 4,175,240
Lease liabilities (b)	18,209	12,057
	<b>\$ 4,202,417</b>	<b>\$ 4,187,297</b>
Current liabilities:		
Lease liabilities (b)	\$ 7,643	\$ -
	<b>\$ 7,643</b>	<b>\$ -</b>

# 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)

(Unaudited)

### 13. Borrowings and other financial liabilities (continued)

#### (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. The project finance lenders have agreed a debt cap of \$6.0 billion. In addition to the funding drawn down to date there is an additional \$0.1 billion available, subject to certain conditions, under the Company's facility with the Export-Import Bank of the United States, and the potential for an additional \$1.6 billion of supplemental debt in the future. Under the terms of the project finance facility held by Oyu Tolgoi, there are certain restrictions on the ability of Oyu Tolgoi to make shareholder distributions.

At June 30, 2019, Oyu Tolgoi has drawn down \$4.3 billion of the project finance facility:

Facility	June 30, 2019		Original Term	Annual interest rate	
	Carrying Value (i)	Fair Value (i)		Pre-completion	Post-completion
International Financial Institutions - A Loan	\$ 771,402	\$ 921,124	15 years	LIBOR + 3.78%	LIBOR + 4.78%
Export Credit Agencies Loan	872,781 274,600	972,594 322,078	14 years 13 years	LIBOR + 3.65% 2.3%	LIBOR + 4.65% 2.3%
MIGA Insured Loan	677,408	751,958	12 years	LIBOR + 2.65%	LIBOR + 3.65%
Commercial Banks - B Loan	1,588,017	1,711,923	12 years	LIBOR + 3.4%	LIBOR + 4.4%
				Includes \$50 million 15-year loan at A Loan rate	
	<b>\$ 4,184,208</b>	<b>\$ 4,679,677</b>			

(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 the initial recognition date and the balance sheet date. Project finance borrowings were initially recognized at fair value on the relevant draw down dates, with aggregate initial fair value being \$4,348.9 million before transaction costs. At June 30, 2019, these borrowings are stated net of \$164.7 million amortized transaction costs.

(b) Lease liabilities are discounted at the weighted average incremental borrowing rate of 9.13% at June 30, 2019.

# 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)

(Unaudited)

### 14. Deferred income taxes

	June 30, 2019	December 31, 2018
Deferred tax assets		
Non-capital losses	\$ 149,428	\$ 345,368
Other temporary differences including accrued interest	221,487	304,053
	<u>\$ 370,915</u>	<u>\$ 649,421</u>
Deferred tax liabilities		
Withholding tax	(63,132)	(47,934)
	<u>\$ (63,132)</u>	<u>\$ (47,934)</u>

*(a) Adjustments to deferred tax assets:*

During the three months ended June 30, 2019, the Company recorded an income statement charge of \$252.8 million to reduce the amount of Mongolian deferred tax assets recognized by \$241.8 million, and the amount of Canadian deferred tax assets recognized by \$11.0 million. These Deferred tax assets relate to tax operating losses, accrued but unpaid interest expense on shareholder loans and other temporary differences. Recoverability of these losses were assessed against an estimate of future taxable profits. Movements in the deferred tax assets result from period end reassessments of recoverability and include adjustments to record potential deferred tax assets not recognized in previous periods.

The adjustment was primarily due to updated operating assumptions in mine planning during the period. This principally included the revised estimation of achievement of sustainable first production now being projected between May 2022 and June 2023, as well as the revised estimate of development capital spend for the underground project being increased by \$1.2 billion to \$1.9 billion over the \$5.3 billion previously disclosed. The updated mine planning assumptions led to an increase in the amount of loss carry forwards and temporary differences estimated to expire unutilized.

# 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)

(Unaudited)

### 15. Decommissioning obligations

	Six Months Ended June 30,	
	2019	2018
Opening carrying amount	\$ 131,565	\$ 125,721
Changes in estimates and new estimated cash flows	(579)	(641)
Accretion of present value discount	2,670	2,562
	<u>\$ 133,656</u>	<u>\$ 127,642</u>

All decommissioning obligations relate to Oyu Tolgoi. 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 \$275.3 million (December 31, 2018 - \$273.7 million) have been discounted from an anticipated closure date of 2055 to their present value at a real rate of 2.0% (December 31, 2018 - 2.0%).

### 16. Non-Controlling interest

	Non-controlling Interest: Oyu Tolgoi (a)	
	Six Months Ended June 30,	
	2019	2018
Balance, January 1	\$ (910,135)	\$ (893,211)
Impact of change in accounting policy (Note 2)	(579)	-
Restated balance, January 1	\$ (910,714)	\$ (893,211)
Non-controlling interest's share of income (loss)	(296,204)	27,163
Common share investments funded on behalf of non-controlling interest (a)	102,000	120,700
Funded amounts repayable to the Company (a)	(102,000)	(120,700)
<b>Balance, June 30</b>	<b>\$ (1,206,918)</b>	<b>\$ (866,048)</b>

(a) 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 June 30, 2019, the cumulative amount of such funding was \$1,123.4 million (December 31, 2018 - \$1,021.4 million). Accrued interest of \$577.6 million (December 31, 2018 - \$505.6 million) relating to this funding, has not been recognized in these consolidated financial statements, as payment will be triggered on common share dividend distribution by Oyu Tolgoi, the certainty 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)

(Unaudited)

### 17. Cash flow information

(a) Reconciliation of net income (loss) to net cash flow generated from operating activities before interest and tax:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Income (loss) for the period	\$ (736,682)	\$ 204,446	\$ (631,482)	\$ 284,150
Adjustments for:				
Depreciation and amortization	57,867	64,625	102,806	120,954
Impairment charges	596,906	-	596,906	-
Finance items:				
Interest income	(29,062)	(41,395)	(61,891)	(80,290)
Interest and accretion expense	1,709	16,816	3,727	40,802
Unrealized foreign exchange losses	111	69	(8)	113
Inventory write downs (reversals)	(8,212)	6,059	2,899	(5,301)
Write off of property, plant and equipment	149	-	149	-
Income and other taxes	262,844	(138,185)	298,354	(164,113)
Other items	925	366	847	433
Net change in non-cash operating working capital items:				
(Increase) decrease in:				
Inventories	34,275	30,207	27,843	14,821
Trade, other receivables and prepaid expenses	10,891	(9,777)	(10,563)	(23,260)
(Decrease) increase in:				
Trade and other payables	46,722	10,733	20,729	(22,298)
Deferred revenue	24,125	5,683	(37,910)	(1,684)
<b>Cash generated from operating activities before interest and tax</b>	<b>\$ 262,568</b>	<b>\$ 149,647</b>	<b>\$ 312,406</b>	<b>\$ 164,327</b>

(b) Supplementary information regarding other non-cash transactions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Investing activities</b>				
Change in accounts payable and accrued liabilities related to purchase of property, plant and equipment	\$ (10,246)	\$ 38,231	\$ 1,623	\$ 52,652

# 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)

(Unaudited)

### 18. Related parties

As at June 30, 2019, Rio Tinto plc's indirect equity ownership in the Company was 50.8% (December 31, 2018: 50.8%). The following tables present the consolidated financial statements line items within which transactions with a Rio Tinto entity or entities ("Rio Tinto") are reported. Rio Tinto entities comprise Rio Tinto plc, Rio Tinto Limited and their respective subsidiaries other than Turquoise Hill Resources and its subsidiaries.

Statements of Income	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating and corporate administration expenses:				
Cost recoveries - Turquoise Hill	\$ 2	\$ 104	\$ 69	\$ 145
Management services payment (i)	(8,105)	(6,937)	(16,295)	(13,986)
Cost recoveries - Rio Tinto (ii)	(11,793)	(11,075)	(20,776)	(19,628)
Finance income:				
Cash and cash equivalents (iii)	5,069	5,121	10,935	9,024
Receivable from Rio Tinto (iv)	18,722	32,658	40,994	64,931
Finance costs:				
Completion support fee (v)	(27,170)	(27,087)	(54,340)	(54,162)
	\$ (23,275)	\$ (7,216)	\$ (39,413)	\$ (13,676)

Statements of Cash Flows	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>Cash generated from operating activities</i>				
Interest received (iii, iv)	\$ 17,002	\$ 16,654	\$ 35,495	\$ 32,631
Interest paid (v)	-	-	(78,395)	(11,918)
<i>Cash flows from investing activities</i>				
Receivable from related party: amounts withdrawn (iv)	255,000	230,000	530,000	550,000
Expenditures on property, plant and equipment:				
Management services payment and cost recoveries - Rio Tinto (i), (ii)	(13,743)	(16,060)	(30,335)	(35,872)

# 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)

(Unaudited)

### 18. Related parties (continued)

Balance Sheets	June 30, 2019	December 31, 2018
Cash and cash equivalents (iii)	\$ 741,711	\$ 741,711
Trade and other receivables	12,130	15,641
Prepaid expenses and other assets	46,823	2,928
Receivable from related party and other non-current financial assets (iv) (Note 10)	1,356,284	1,886,284
Trade and other payables (Note 12)		
Management services payment - Rio Tinto (i)	(15,282)	(15,700)
Cost recoveries - Rio Tinto (ii)	(43,254)	(35,790)
	<b>\$ 2,098,412</b>	<b>\$ 2,595,074</b>

- (i) 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 make a management services payment to Rio Tinto equal to a percentage of all capital costs and operating costs incurred by Oyu Tolgoi from June 30, 2010 onwards. After signing the Underground Mine Development and Financing 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.
- (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 June 30, 2019, 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 (Note 13), 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, agreed to guarantee the obligations of the service provider under this agreement. At June 30, 2019, the resulting receivable from 9539549 Canada Inc. totalled \$1,356.3 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 Cash Management Services Agreement, which are net settled with the 2.5% completion support fee described in (v) below.

At June 30, 2019, the fair value of the receivable approximates its carrying value. The fair value has been estimated with reference to a market yield, the variability of which is considered a reasonable indicator, over the projected timeframe for returning funds to Turquoise Hill, of movements in the fair value of the receivable. This is considered a level 3 fair value measurement.

# 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)

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(Unaudited)

### 18. Related parties (continued)

- (v) As part of the project finance agreements (Note 13), 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, the Company 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 (refer to Note 7). The fee is settled net of a benefit arising on amounts receivable from 9539549 Canada Inc. under the Cash Management Services Agreement described in (iv) 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.

### 19. Commitments and contingencies

#### (a) Capital commitments

At June 30, 2019, the Company had capital expenditure commitments at the balance sheet date of \$37.9 million. These commitments represent minimum non-cancellable obligations and exit costs for cancellable obligations.

#### (b) Other commitments

During 2017, Oyu Tolgoi signed a new power purchase agreement with the National Power Transmission Grid (“NPTG”) of Mongolia. The power purchase agreement was executed in connection with the power import arrangement between NPTG and the Inner Mongolia Power International Corporation (“IMPIC”).

The new arrangement took effect on July 4, 2017, subsequent to the expiry of the previous IMPIC agreement, for a term of up to six years, with possibility of early cancelation after the fourth year, if a domestic power plant is commissioned earlier.

At June 30, 2019, the Company had power purchase commitments of \$460.8 million. These commitments represent minimum non-cancellable obligations.

- (c) On January 16, 2018, the Company announced that Oyu Tolgoi received a tax assessment for approximately \$155 million from the Mongolian Tax Authority (the “MTA”) as a result of a general tax audit for the period covering 2013 through 2015. In January 2018 Oyu Tolgoi paid an amount of \$4.8 million to settle unpaid taxes, fines and penalties for accepted items.

The Company is of the opinion that Oyu Tolgoi has now paid all taxes and charges required under the 2009 Oyu Tolgoi Investment Agreement (“Investment Agreement”), the Amended and Restated Shareholders’ Agreement (“ARSHA”), the Underground Mine Development and Financing Plan and Mongolian law. Following engagement with the MTA, Oyu Tolgoi was advised that the MTA could not resolve Oyu Tolgoi’s objections to the tax assessment. Accordingly, on March 15, 2018, Oyu Tolgoi issued a notice of dispute to the Government of Mongolia under the Investment Agreement and on April 13, 2018, Oyu Tolgoi submitted a claim to the Mongolian Administrative Court. The Administrative Court has currently suspended the processing of the case for an indefinite period based on current procedural uncertainty in relation to the tax assessment disputes.

# 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)

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(Unaudited)

### 19. Commitments and contingencies (continued)

Chapter 14 of the Investment Agreement sets out a dispute resolution process. The issuance of a notice of dispute is the first step in the dispute resolution process and commenced a 60 working-day negotiation period. The parties were unable to reach a resolution during the 60 working-day period; however, the parties can continue discussions in an attempt to resolve the dispute in good faith. If unsuccessful, the next step would be dispute resolution through international arbitration.

The Company accrues for such matters when both a liability is probable and the amount can be reasonably estimated. The Company believes that Oyu Tolgoi has paid all taxes and charges as required under the Investment Agreement, ARSHA, the Underground Mine Development and Financing Plan and Mongolian law and in the opinion of the Company at June 30, 2019, a provision is not required for the amount of approximately \$150 million disputed by the Company relating to the years 2013 through 2015 or any additional amounts related to 2016 through June 30, 2019. The amounts that could arise related to 2016 through June 30, 2019 would be material. The final amount of taxes to be paid depends on a number of factors including the outcome of discussions with the government and possible international arbitration. Changes in management's assessment of the outcome of this matter could result in material adjustments to the Company's statements of income and financial position.

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 consolidated financial statements of the Company.

### 20. 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 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 significant 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 significant 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)

(Unaudited)

### 20. Financial instruments and fair value measurements (continued)

	Fair Value at June 30, 2019			
	Total	Level 1	Level 2	Level 3
Money market funds (a)	\$ 331,210	\$ 331,210	\$ -	\$ -
Marketable securities (a)	4,959	4,959	-	-
Trade receivables (b)	23,490	-	23,490	-
	<b>\$ 359,659</b>	<b>\$ 336,169</b>	<b>\$ 23,490</b>	<b>\$ -</b>

  

	Fair Value at December 31, 2018			
	Total	Level 1	Level 2	Level 3
Money market funds (a)	\$ 315,808	\$ 315,808	\$ -	\$ -
Marketable securities (a)	5,566	5,566	-	-
Trade receivables (b)	10,936	-	10,936	-
	<b>\$ 332,310</b>	<b>\$ 321,374</b>	<b>\$ 10,936</b>	<b>\$ -</b>

- (a) The Company's money market funds and marketable securities are classified within level 1 of the fair value hierarchy as they are valued using quoted market prices in active markets.
- (b) Trade receivables from provisionally priced concentrate sales are included in level 2 of the fair value hierarchy as the basis of valuation uses quoted commodity prices.