

THE
FUTURE
IS
UNDERGROUND

Turquoise Hill Resources Ltd.

Annual Report to Shareholders
December 31, 2015



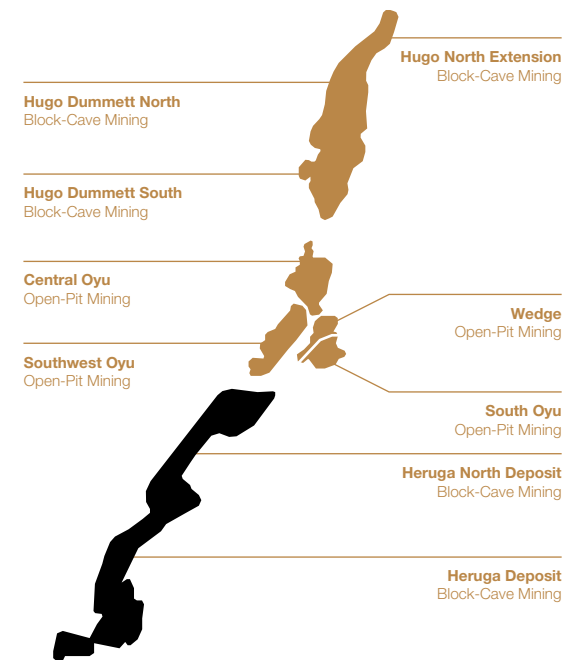
In 2015, over \$3.2 million was invested into education and training programs in Mongolia with a strong focus on technical and vocational training for students and teachers.



2015 GOES DOWN AS ONE OF THE MOST SUCCESSFUL YEARS IN OUR HISTORY AND USHERS IN OUR FUTURE — WHICH IS UNDERGROUND.

OYU TOLGOI DEPOSITS

MINERALIZATION AT OYU TOLGOI CONSISTS OF PORPHYRY-STYLE COPPER, GOLD, SILVER AND MOLYBDENUM CONTAINED IN A LINEAR STRUCTURAL TREND (THE OYU TOLGOI TREND) THAT HAS A STRIKE LENGTH EXTENDING OVER 26 KILOMETRES. MINERAL RESOURCES HAVE BEEN IDENTIFIED IN A SERIES OF DEPOSITS THROUGHOUT THIS TREND. THEY INCLUDE, FROM SOUTH TO NORTH, THE HERUGA DEPOSIT, THE SOUTHERN OYU DEPOSITS (SOUTHWEST OYU, SOUTH OYU, WEDGE AND CENTRAL OYU) AND THE HUGO DUMMETT DEPOSITS (HUGO SOUTH, HUGO NORTH AND HUGO NORTH EXTENSION).



2015 LAID THE FOUNDATION FOR OYU TOLGOI TO RECOGNIZE ITS FULL POTENTIAL. NOW THE STORY GETS REALLY INTERESTING.

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

On May 18, 2015, Turquoise Hill, the Government of Mongolia and Rio Tinto signed the Oyu Tolgoi Underground Mine Development and Financing Plan (Underground Plan), which addressed key outstanding shareholder matters and set out an agreed basis for the funding of the project. The Underground Plan confirmed the project cost for Oyu Tolgoi's initial construction and development and reinforced the principles set out in the Investment Agreement and the Amended and Restated Shareholders Agreement.

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

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

On December 14, 2015, Oyu Tolgoi signed a \$4.4 billion project finance facility, one of the largest in the mining industry. The facility is being provided by a syndicate of international financial institutions and export credit agencies representing the governments of Canada, the United States and Australia, along with 15 commercial banks. The signing of project finance was an enormous vote of confidence in Oyu Tolgoi and Mongolia by a number of the world's leading financial institutions.

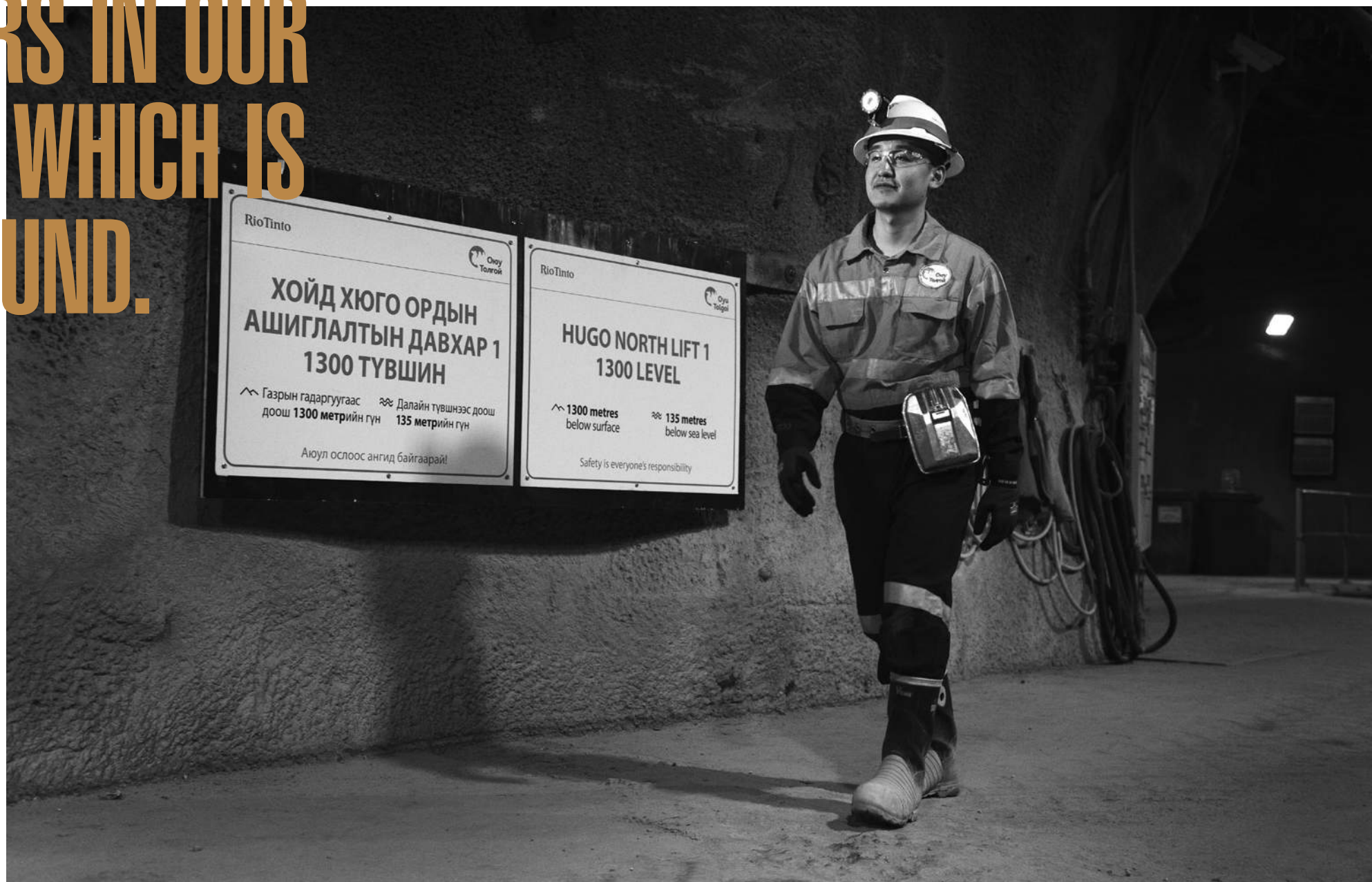
Following these major accomplishments, work continues toward completing the 2016 feasibility study and decisions on the formal notice to proceed. Subject to these approvals, the full project financing facility will be drawn down in Q2'16 and underground construction is expected to begin in mid-2016.

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

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

Turquoise Hill is proud of what was achieved in 2015 and anticipates 2016 will be another exciting year as underground development begins, preparing Oyu Tolgoi to recognize its full potential.

At 1,300 metres (4,265 feet) below the surface of the Gobi, the first shaft to access the underground deposits at Oyu Tolgoi is the deepest ever sunk in Mongolia. Over the life of the underground mine 200 kilometres (124 miles) of tunnels are expected to be completed.



HUGO

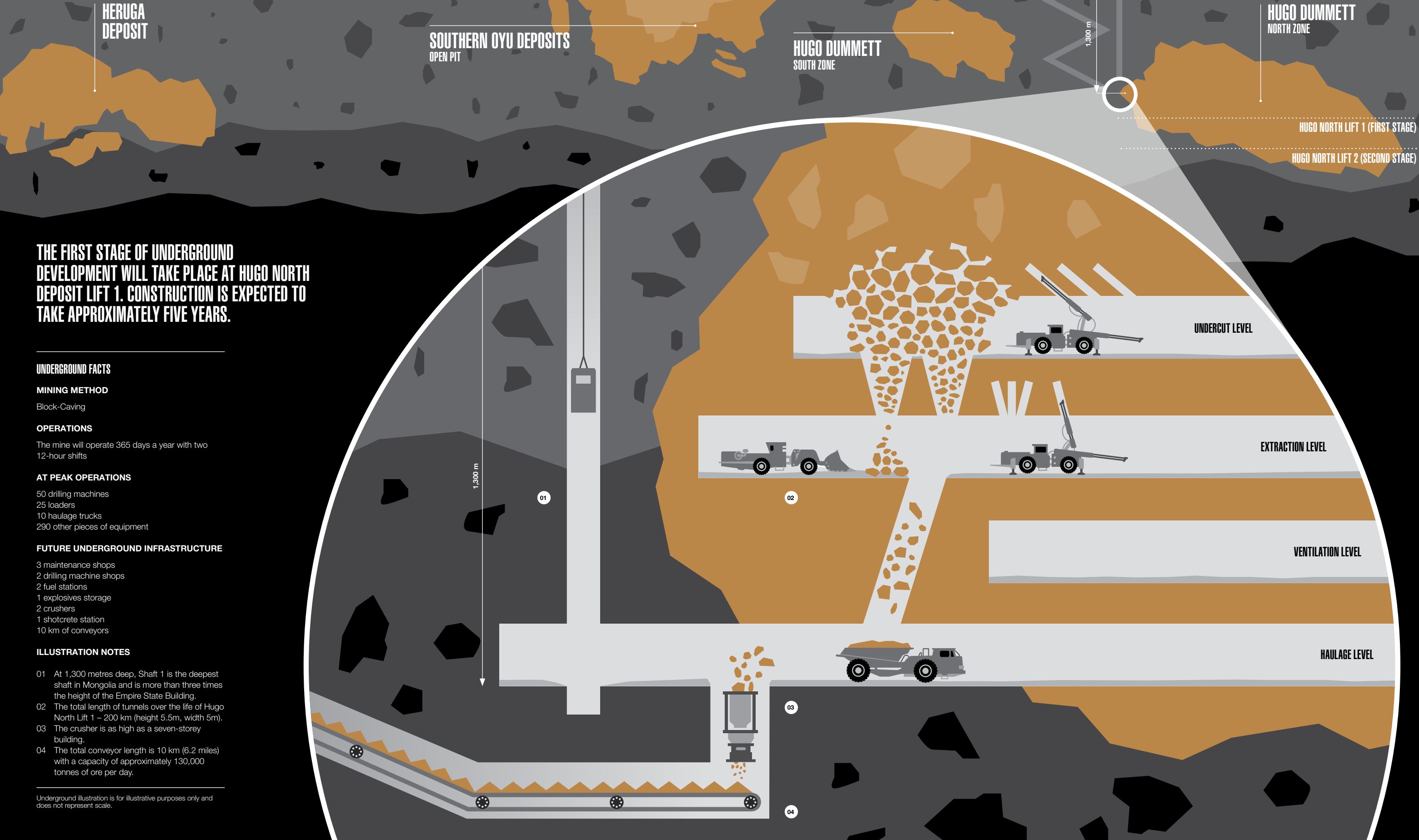
DEPOST

"HUGO DUMMETT IS THE FUTURE OF OYU TOLGOI. THE SIGNING OF PROJECT FINANCE IS AN UNPRECEDENTED MILESTONE FOR TURQUOISE HILL AND OYU TOLGOI AS WELL AS A HISTORIC VOTE OF CONFIDENCE IN BOTH THE PROJECT AND MONGOLIA. WE LOOK FORWARD TO WORKING WITH THE MONGOLIAN GOVERNMENT AND RIO TINTO TO COMPLETE THE REMAINING STEPS LEADING TO THE RESTART OF UNDERGROUND DEVELOPMENT."

Jeff Tygesen, Chief Executive Officer

OYU TOLGOI
UNDERGROUND DEVELOPMENT

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



THE FIRST STAGE OF UNDERGROUND DEVELOPMENT WILL TAKE PLACE AT HUGO NORTH DEPOSIT LIFT 1. CONSTRUCTION IS EXPECTED TO TAKE APPROXIMATELY FIVE YEARS.

UNDERGROUND FACTS

MINING METHOD

Block-Caving

OPERATIONS

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

AT PEAK OPERATIONS

- 50 drilling machines
- 25 loaders
- 10 haulage trucks
- 290 other pieces of equipment

FUTURE UNDERGROUND INFRASTRUCTURE

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

ILLUSTRATION NOTES

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

Underground illustration is for illustrative purposes only and does not represent scale.

WE EXPECT TO RE-START UNDERGROUND CONSTRUCTION IN MID-2016 AND I AM EXCITED TO EMBARK ON OYU TOLGOI'S NEXT PHASE OF GROWTH LEADING TO THE REALIZATION OF ITS FULL POTENTIAL.

SENIOR OFFICERS

- Jeff Tygesen

Chief Executive Officer
- Steeve Thibault

Chief Financial Officer
- Dustin Isaacs

General Counsel and Corporate Secretary
- Brendan Lane

Vice President, Operations and Development

DIRECTORS

- Jill Gardiner, Chair

^{2, 4, 5}

Director
- Jeff Tygesen

⁷

Chief Executive Officer
Turquoise Hill Resources
- Rowena Albones

⁶

Chief Financial Officer, Copper
Rio Tinto
- Dr. James W. Gill

^{5, 8}

Mining Consultant
- R. Peter Gillin

^{2, 3}

Director
- Russel C. Robertson

^{1, 4}

Executive Vice President and Head, Anti-Money
Laundering
BMO Financial Group
- Dr. Craig Stegman

⁶

Vice President, Copper Development
Rio Tinto

1 Chair of Audit Committee
2 Member of Audit Committee
3 Chair of Compensation and Benefits Committee
4 Member of Compensation and Benefits Committee
5 Chair of Nominating and Corporate Governance Committee
6 Member of Nominating and Corporate Governance Committee
7 Chair of Health, Safety and Environment Committee
8 Member of Health, Safety and Environment Committee



01

LETTER FROM THE CEO

Dear shareholders,

I am extremely proud of all that Turquoise Hill accomplished in 2015, including advancement toward Oyu Tolgoi's underground development as well as progress of open-pit operations. I know for many in the mining sector, 2015 was quite a challenging year; however, given the major milestone we achieved during the year, 2015 was a tremendous year for the Company.

ACHIEVING MAJOR MILESTONES

In May, Turquoise Hill, Rio Tinto and the Mongolian Government signed the Underground Development and Financing Plan resolving shareholder matters and providing a path forward for development of Oyu Tolgoi's underground. I was pleased with the outcome and happy the agreement reinforced the principles of the Investment and Shareholders' Agreements. After extensive discussions, I thought the outcome was fair and equitable for all parties.

Shortly after the signing of the underground agreement, Prime Minister Ch. Saikhanbileg visited the US and UK to meet with government and business leaders. I attended a dinner in the Prime Minister's honour in Washington, DC and was delighted to introduce him. It was wonderful to hear so many members of the business community praise the signing of the underground agreement and of its anticipated importance in advancing the Mongolian economy.

With the underground agreement behind us, work began on finalizing project finance. After months of non-stop work, Oyu Tolgoi signed a \$4.4 billion project finance facility in December. The signing ceremony was a wonderful way to conclude one of the most important years in our Company's history. As I said in my remarks at the ceremony, project finance was a vote of confidence in Oyu Tolgoi by 20 of the world's leading financial institutions; however, more importantly, is was a vote of confidence in Mongolia.

In August, early works funding was approved in anticipation of the commencement of underground development. The idea was to lay the groundwork for a very smooth transition once the final decisions are made to begin construction. The underground team has done an excellent job putting the initial pieces in place and preparing for the re-start of development.

At the present moment, the capital re-estimate of the feasibility study is in the final stages. We expect that to be complete by the end of the first quarter of 2016 and the boards of Turquoise Hill, Rio Tinto and Oyu Tolgoi to make their notice to proceed decisions in the second quarter of 2016. Once we have the green light to proceed, the project finance facility will be fully drawn down and construction should begin shortly afterwards.

Despite the significant milestones achieved in 2015, it's just the beginning of an exciting and lengthy journey of developing what is expected to be the world's third largest copper mine. We expect it to take approximately six years to develop Hugo North Lift 1 and roughly five additional years to ramp up to full production. Following Hugo North

Lift 1, next on the development schedule is Hugo North Lift 2 and Hugo South. Oyu Tolgoi truly is a world-class asset with tremendous expansion potential.

STRONG OPERATING RESULTS

One of the other highlights of 2015 was Oyu Tolgoi's strong operating results. The mine performed at record levels for the year and benefitted from productivity improvements that were initiated in 2014 and implemented during 2015.

A specific operating metric that I am most proud of was Oyu Tolgoi's safety performance, which was excellent. The mine's All Injury Frequent Rate for the year was 0.33 per 200,000 hours worked. The team at Oyu Tolgoi is to be commended for this industry-leading result. What impresses me most is their safety performance is at an operation only in its second full year of production.

The team at Oyu Tolgoi worked hard throughout the year to increase the productivity of the concentrator. By year end, the mill's throughput was 2 – 3% above nameplate capacity and had increased almost 25% over 2014.

I was thrilled that we were able to exceed our copper guidance for 2015 and met our gold target. Strong results like this come from a very dedicated mine team that stays focused each and every work day.

During 2015, Oyu Tolgoi focused on driving down operating cash costs. When adjusted for one-off items, 2015 operating cash costs were flat compared to 2014; however copper production increased more than 35% over 2014 and gold production increased more than 10%. This is an area Oyu Tolgoi will continue to focus on in order to operate as efficiently as possible.

Financially 2015 was also strong, with operating cash flows of approximately \$625 million and a cash balance of approximately \$1.3 billion by year end. In a sector that's struggling with high levels of leverage, I think the Turquoise Hill balance sheet is quite strong.

Looking forward, 2016 is the start of several challenging years of production at Oyu Tolgoi. It is grade related and was anticipated in our 2014 Technical Report. The open-pit areas we expect to mine in 2016 have good copper grades but very little gold. For 2016, we expect copper production similar to 2015 but we anticipate a drop in gold. The expected commodity price outlook for the year only adds to the challenges of 2016.

Given the low copper prices, I'm often asked what impact they play in our decision to move forward with Oyu Tolgoi's underground. We are long-term believers in copper and don't expect prices to permanently remain at present levels. The current price impacts open-pit operations; however 80% of Oyu Tolgoi's value resides underground. First production from the underground is about five years away, so current prices don't impact our decision to re-start development. If Oyu Tolgoi didn't have an open-pit mine, we would still want to move forward with underground development.

OYU TOLGOI'S NEXT PHASE OF GROWTH

I am proud of what Turquoise Hill accomplished in 2015 and am very optimistic about what we are positioned to achieve in 2016. Current operations are performing well and the mine team is determined to deliver a cost structure to withstand the challenges of the next few years. We expect to re-start underground construction in mid-2016 and I am excited to embark on Oyu Tolgoi's next phase of growth leading to the realization of its full potential.

Jeff Tygesen
March 17, 2016

THE TURQUOISE HILL BOARD BELIEVES THAT GOOD GOVERNANCE POSITIVELY IMPACTS CORPORATE PERFORMANCE BY ESTABLISHING STANDARDS AND PROCESSES THAT DRIVE ACHIEVEMENT OF THE COMPANY'S STRATEGIC OBJECTIVES AS WELL AS THE LONG-TERM SUSTAINABILITY OF THE BUSINESS.

01 CEO Jeff Tygesen with Prime Minister of Mongolia Ch. Saikhanbileg during the Prime Minister's 2015 visit to the United States.
02 Board Chair Jill Gardiner during the annual board visit to the Oyu Tolgoi mine.



02

LETTER FROM THE CHAIR

Dear shareholders,

In 2015, your Board maintained its focus on reaching agreement with the Government of Mongolia on the Company's long-term investment and funding strategy. And we are pleased to say, that it has been a historic year in the life of Turquoise Hill. Two major milestones were achieved positioning the Company to begin unlocking the real value of our principal asset, the Oyu Tolgoi mine.

DRIVING GROWTH THROUGH PROGRESSION OF THE UNDERGROUND MINE

In May, the Underground Mine Development and Financing Plan (UDP) was signed by Turquoise Hill, Rio Tinto and the Government of Mongolia. The agreement addressed key outstanding shareholder matters and provides for the restart of the underground development at the Oyu Tolgoi mine. One of the most important aspects of the UDP was its reinforcement of the principles of the Investment and Shareholders' Agreements, the two primary agreements that underpin the legal foundation of Oyu Tolgoi. Together, these agreements also address the sourcing of power for Oyu Tolgoi.

Following the signing of the UDP, work was initiated to update the cost schedules in the feasibility study and funding was approved for pre-start activities to ensure the underground project is ramped up in line with the final approvals that are expected in the first half of 2016 to fully restart underground development. Approximately 80% of Oyu Tolgoi's value resides underground – where the copper grade is almost four times that of the open pit.

SECURING FINANCIAL RESOURCES

One other key piece of the UDP was the confirmation of Oyu Tolgoi's long term financing structure. With the completion of the UDP, work on the cornerstone of the funding for the mine – project finance – was accelerated. After months of intense work, a \$4.4 billion project finance facility was signed in December with syndicate of 20 of the world's leading financial institutions. Completing one of the largest project finance facilities in the sector in a very challenging market was possible because Oyu Tolgoi is truly a world class asset. In addition, our major shareholder, Rio Tinto, provided a completion support undertaking in favour of the project finance lenders. Without this undertaking, we would not have been able to secure the quantum or the favourable terms of the project finance facility.

Recognition of this significant achievement came with the announcement that the Oyu Tolgoi project financing was named Asia Pacific Mining Deal of the Year by Project Finance International.

STRENGTHENING OPERATIONS

Commodity prices were under significant pressure throughout 2015, requiring increased discipline and accountability at the operations level. Programs were implemented to reduce costs, increase efficiencies and manage capital and the Company was able to meet or exceed the guidance provided to our shareholders. Both concentrate production and sales volumes were at record levels. We ended the year with a significant cash balance

and the Board worked closely with management to strengthen our cash investment policy.

In April 2015, Oyu Tolgoi signed a cooperation agreement with four local South Gobi governments. The agreement was a critical foundation for the future and outlines how the parties will work together towards sustainable development of water, environment, pastureland management, culture heritage, tourism, local business development and procurement.

FOCUSING OUR ASSET BASE

Our strategic focus remains on Oyu Tolgoi and during 2015 we continued to dispose of our non-core assets as markets allowed. Through a series of transactions and third-party financings that were challenging in such a difficult commodity market, the Company divested a substantial portion of our investment in SouthGobi Resources. Turquoise Hill now holds less than a 20% interest in SouthGobi. Other minor investments were also divested throughout the year.

MAINTAINING GOOD GOVERNANCE AND STRONG RISK MANAGEMENT

The Turquoise Hill board believes that good governance positively impacts corporate performance by establishing standards and processes that drive achievement of the Company's strategic objectives as well as the long-term sustainability of the business. We continually review our governance policies and practices to ensure that they reflect the current environment and provide for the proper oversight of management and the delivery of our strategy. In 2015, we adopted a number of new policies including a board and executive diversity policy, a tenure policy and a clawback policy. At the 2016 AGM, as we did at the 2015 AGM, we are asking shareholders to vote on the adoption of an advisory (non-binding) 'say on pay' resolution.

Another key priority for the Board is the promotion of a strong risk management culture throughout the Company. We provide oversight of the Company's risk management practices to ensure that the appropriate frameworks and processes are in place for the effective identification, measurement, management and mitigation of the principal risks in our operations, capital deployment and strategies to deliver long-term shareholder value.

LOOKING AHEAD

While we expect continuing challenges in the global economy and the mining sector in 2016, the Board has great confidence that the Company will build on its strengths and further the underground development to progress the maximization of the long-term value of our world-class asset to the benefit of all shareholders.

It is a privilege to serve as your Chair and I would like to thank my fellow directors for their dedication and commitment. On behalf of the board, I would also like to thank Jeff Tygesen and his team for delivering a strong performance in 2015 and all of our stakeholders for their continuing support.

Jill Gardiner
March 17, 2016

2015

DELIVERING PRODUCTION GUIDANCE AND PREPARING FOR UNDERGROUND DEVELOPMENT

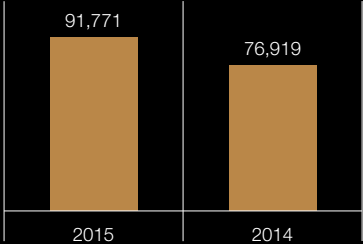
Oyu Tolgoi's open pit operated at record levels in 2015 producing 202,200 tonnes of copper and 653,000 ounces of gold. The results exceeded our copper guidance and met our gold target.

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

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

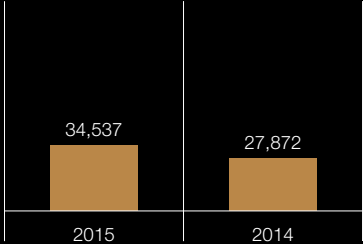
PRODUCTION HIGHLIGHTS

OPEN PIT MATERIAL MINED
('000 tonnes)



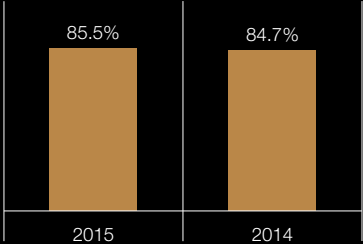
Productivity improvements led to a 19.3% increase in mined production over 2014

ORE TREATED
('000 tonnes)



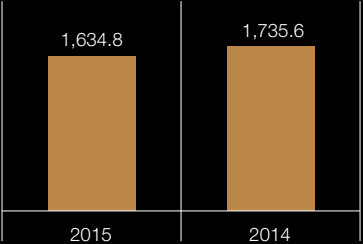
By Q4'15, concentrator throughput exceeded nameplate capacity ending 2015 with a 23.9% increase over 2014

WATER RECYCLING RATE



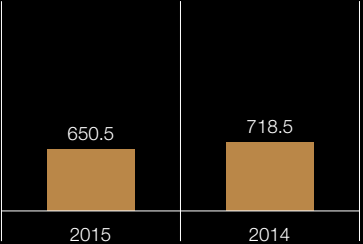
Oyu Tolgoi's water recycling rate was strong for 2015 surpassing the mine's target of 80%

REVENUE
(\$'000,000)



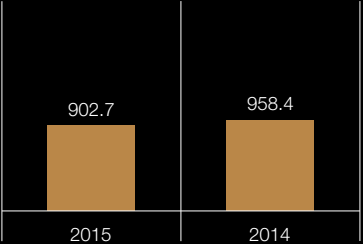
Revenue for 2015 reflects higher concentrate sales volumes offset by lower copper and gold prices

OPERATING CASH FLOW
(\$'000,000)



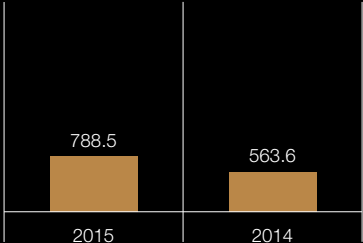
Operating cash flow for 2015 was impacted by lower commodity prices offset by productivity improvements

CASH OPERATING COSTS
(\$'000,000)



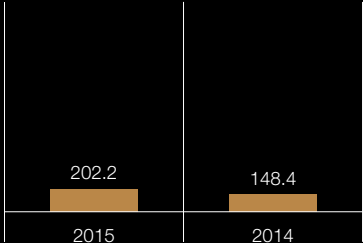
Cash operating costs for 2015 exclude \$59.9 million of one-time costs related to May 18, 2015 underground agreement and early works expenses

CONCENTRATE PRODUCED
('000 tonnes)



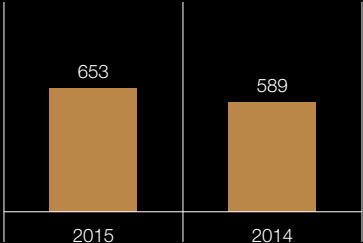
Concentrate production in 2015 increased 39.9% over 2014 benefitting from record operational levels

COPPER IN CONCENTRATES
('000 tonnes)



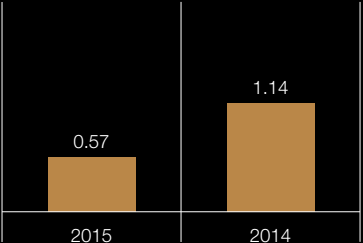
Copper production in 2015 increased 36.3% over 2014, beating annual guidance

GOLD IN CONCENTRATES
('000 ounces)



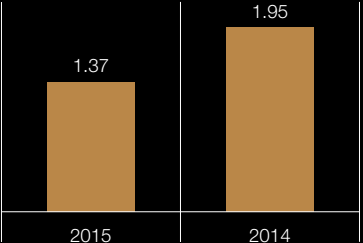
Gold production in 2015 met the Company's target while increasing 10.9% over 2014

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



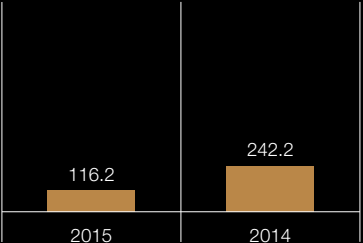
C1 costs for 2015 decreased 50.0% over 2014 due to production increases and cost optimization offset by lower copper and gold credits

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



AISC for 2015 decreased 29.7% over 2014 due to volume increases and productivity improvements offset by lower copper and gold credits

CAPITAL EXPENDITURE – CASH BASIS
(\$'000,000)



Cash expenditure for 2015 is primarily attributed to sustaining activities



Nearly 92 million tonnes of material was mined from Oyu Tolgoi's open pit in 2015, producing 202,200 tonnes of copper, 653,000 ounces of gold and 1.2 million ounces of silver.

MADE IN MONGOLIA

MONGOLIANS NOW OCCUPY 95% OF OYU TOLGOI ROLES

SINCE 2010, IN-COUNTRY SPEND OF \$5.1 BILLION (MONGOLIAN SUPPLIERS, SALARIES, TAXES AND OTHER GOVERNMENT PAYMENTS)

PARTNERED WITH MORE THAN 800 LOCAL SUPPLIERS IN 2015, ACCOUNTING FOR OVER 50% OF PROCUREMENT SPEND

IN APRIL 2015, OYU TOLGOI SIGNED A COOPERATION AGREEMENT WITH LOCAL GOVERNMENTS FOR COMMUNITY DEVELOPMENT

OYU TOLGOI RECOGNIZED BY MONGOLIAN BUSINESS COUNCIL AS 'COMPANY OF THE YEAR' FOR 2015

MONGOLIAN MINING JOURNAL AWARDED OYU TOLGOI 'BEST RESPONSIBLE MINE OF THE YEAR' IN 2014

OYU TOLGOI IS EXPECTED TO REPRESENT ABOUT 30% OF MONGOLIA'S GDP WHEN FULLY DEVELOPED



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TRQ: TSX, NYSE & NASDAQ

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

For more information please visit turquoisehill.com

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