

Turquoise Hill
Resources Ltd.

SECOND QUARTER REPORT

JUNE 30, 2014

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

TURQUOISE HILL RESOURCES LTD.
Consolidated Balance Sheets
(Stated in thousands of U.S. dollars)

	June 30, 2014	December 31, 2013
(Unaudited)		
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 201,214	\$ 78,112
Accounts receivable	20,762	4,853
Due from related parties	3,686	5,070
Inventories (Note 4)	788,113	851,414
Prepaid expenses	29,839	33,378
TOTAL CURRENT ASSETS	1,043,614	972,827
LONG-TERM INVESTMENTS (Note 5)	71,978	79,730
OTHER LONG-TERM INVESTMENTS (Note 6)	215,474	254,253
INVENTORIES (Note 4)	149,559	130,342
PROPERTY, PLANT AND EQUIPMENT (Note 7)	6,972,176	7,075,636
OTHER ASSETS	14,255	82,903
TOTAL ASSETS	\$ 8,467,056	\$ 8,595,691
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 320,641	\$ 386,340
Payable to related parties	106,668	247,692
Deferred revenue	137,107	107,796
Credit facilities (Note 8)	48,099	-
Interest payable on long-term debt (Note 9 and 10)	4,285	15,831
Interim and bridge funding facilities (Note 10)	-	2,129,262
TOTAL CURRENT LIABILITIES	616,800	2,886,921
CONVERTIBLE CREDIT FACILITY (Note 9)	96,037	97,096
RIGHTS OFFERING DERIVATIVE LIABILITIES (Note 11 (c))	-	928,280
DEFERRED INCOME TAXES	1,464	4,547
ASSET RETIREMENT OBLIGATIONS	102,211	100,761
TOTAL LIABILITIES	816,512	4,017,605
CONTINGENCIES (Note 21)		
EQUITY		
SHARE CAPITAL (Note 11)		
Authorized		
Unlimited number of preferred shares without par value		
Unlimited number of common shares without par value		
Issued and outstanding		
2,012,298,797 (2013 - 1,006,116,602) common shares	12,394,183	9,150,621
ADDITIONAL PAID-IN CAPITAL	1,553,275	1,548,287
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Note 12)	(368)	2,519
DEFICIT	(5,777,764)	(5,736,763)
TOTAL TURQUOISE HILL RESOURCES LTD. SHAREHOLDERS' EQUITY	8,169,326	4,964,664
NONCONTROLLING INTERESTS (Note 13)	(518,782)	(386,578)
TOTAL EQUITY	7,650,544	4,578,086
TOTAL LIABILITIES AND EQUITY	\$ 8,467,056	\$ 8,595,691

APPROVED BY THE BOARD:

/s/ J. Gardiner

J. Gardiner, Director

/s/ R. Robertson

R. Robertson, Director

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

TURQUOISE HILL RESOURCES LTD.
Consolidated Statements of Operations
(Stated in thousands of U.S. dollars, except for share and per share amounts)

(Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Restated Note 2)		(Restated Note 2)	
REVENUE (Note 14)	\$ 442,717	\$ 6,129	\$ 555,858	\$ 10,527
COST OF SALES (Note 15)	(400,403)	(31,707)	(521,319)	(55,158)
EXPENSES				
Other operating expenses	(65,011)	(57,993)	(117,381)	(69,685)
General and administrative	(8,906)	(16,978)	(15,351)	(32,823)
Exploration and evaluation	(2,601)	(6,878)	(5,966)	(16,684)
Depreciation	(1,634)	(1,217)	(4,141)	(1,505)
Accretion of asset retirement obligations	(1,816)	(1,697)	(3,630)	(3,393)
Gain on sale of other mineral property rights	15,837	-	15,837	-
Write-down of carrying value of accounts receivable and other current assets	(3,405)	-	(3,405)	-
Write-down of carrying value of materials and supplies inventory	(1,822)	(6,930)	(1,822)	(6,930)
Write-down of carrying value of property, plant and equipment	(8,447)	(4,922)	(8,447)	(4,922)
TOTAL EXPENSES	(478,208)	(128,322)	(665,625)	(191,100)
OPERATING LOSS	(35,491)	(122,193)	(109,767)	(180,573)
OTHER INCOME (EXPENSES)				
Interest income	1,389	4,051	2,997	11,758
Interest expense	(5,393)	(7,650)	(16,935)	(12,617)
Foreign exchange (losses) gains	(1,192)	(1,969)	3,994	(3,632)
Change in fair value of derivatives (Note 11 (c))	-	-	(32,970)	-
Change in fair value of embedded derivatives (Note 9)	120	3,343	1,120	4,091
Other (expenses) income (Note 16)	(13)	(3,236)	753	(2,970)
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(40,580)	(127,654)	(150,808)	(183,943)
Provision for income and other taxes	(13,123)	(4,652)	(19,908)	(10,942)
Share of loss of significantly influenced investees	(2)	(1,276)	(28)	(2,551)
NET LOSS FROM CONTINUING OPERATIONS	(53,705)	(133,582)	(170,744)	(197,436)
LOSS FROM DISCONTINUED OPERATIONS (Note 3)	-	(48,918)	-	(67,205)
NET LOSS	(53,705)	(182,500)	(170,744)	(264,641)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS (Note 13)	63,266	77,052	129,743	108,333
NET INCOME (LOSS) ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.	\$ 9,561	\$ (105,448)	\$ (41,001)	\$ (156,308)
NET INCOME (LOSS) ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.				
CONTINUING OPERATIONS	\$ 9,561	\$ (77,823)	\$ (41,001)	\$ (118,203)
DISCONTINUED OPERATIONS	-	(27,625)	-	(38,105)
	\$ 9,561	\$ (105,448)	\$ (41,001)	\$ (156,308)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.				
CONTINUING OPERATIONS	\$ -	\$ (0.06)	\$ (0.02)	\$ (0.09)
DISCONTINUED OPERATIONS	-	(0.02)	-	(0.03)
	\$ -	\$ (0.08)	\$ (0.02)	\$ (0.12)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (000's) (Note 1 (c))	2,012,249	1,297,523	1,939,982	1,297,607

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

TURQUOISE HILL RESOURCES LTD.
Consolidated Statements of Comprehensive Loss
(Stated in thousands of U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
		(Restated Note 2)		(Restated Note 2)
(Unaudited)				
NET LOSS	\$ (53,705)	\$ (182,500)	\$ (170,744)	\$ (264,641)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAXES				
Unrealized (losses) gains on available-for-sale equity securities, net of tax expense of \$54, \$nil, \$5,593, \$nil (Note 5 (a))	(4,751)	3,348	(11,760)	(284)
Unrealized gains (losses) on available-for-sale debt securities, net of tax of \$nil, \$nil, \$nil, \$nil (Note 6)	4,820	(1,588)	8,570	(12,213)
Currency translation adjustments, net of tax of \$nil, \$nil, \$nil, \$nil	-	(25,968)	-	(25,296)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	69	(24,208)	(3,190)	(37,793)
TOTAL COMPREHENSIVE LOSS	\$ (53,636)	\$ (206,708)	\$ (173,934)	\$ (302,434)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Turquoise Hill Resources Ltd.	\$ 8,285	\$ (118,080)	\$ (43,888)	\$ (179,495)
Noncontrolling interests	(61,921)	(88,628)	(130,046)	(122,939)
	\$ (53,636)	\$ (206,708)	\$ (173,934)	\$ (302,434)

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

TURQUOISE HILL RESOURCES LTD.
Consolidated Statements of Equity
(Stated in thousands of U.S. dollars, except for share amounts)
(Unaudited)

	Share Capital		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Deficit	Noncontrolling Interests	Total
	Number of Common Shares	Amount					
Balances, December 31, 2013	1,006,116,602	\$ 9,150,621	\$ 1,548,287	\$ 2,519	\$ (5,736,763)	\$ (386,578)	\$ 4,578,086
Net loss	-	-	-	-	(41,001)	(129,743)	(170,744)
Other comprehensive loss	-	-	-	(2,887)	-	(303)	(3,190)
Shares issued for:							
Rights offering (Note 11 (c)), net of issue costs of \$79,875	1,006,116,602	3,243,145	-	-	-	-	3,243,145
Exercise of stock options	59,840	398	(265)	-	-	-	133
Share purchase plan	5,753	19	-	-	-	-	19
Other increase (decrease) in noncontrolling interests (Note 13)	-	-	2,165	-	-	(2,158)	7
Stock-based compensation	-	-	3,088	-	-	-	3,088
Balances, June 30, 2014	2,012,298,797	\$ 12,394,183	\$ 1,553,275	\$ (368)	\$ (5,777,764)	\$ (518,782)	\$ 7,650,544

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Unaudited)	(Restated Note 2)		(Restated Note 2)	
OPERATING ACTIVITIES				
Cash provided by (used in) operating activities (Note 17)	\$ 147,144	\$ (197,889)	\$ (1,072)	\$ (315,921)
INVESTING ACTIVITIES				
Purchase of long-term investments	-	(164)	-	(1,579)
Proceeds from redemption of short-term investments	-	-	-	15,000
Proceeds from sale of long-term investments	69	226	74	226
Proceeds from redemption of other long-term investments	-	5,992	-	6,048
Proceeds from sale of other mineral property rights	5,818	-	5,818	-
Expenditures on property, plant and equipment	(62,618)	(287,000)	(124,926)	(756,096)
Proceeds from sale of property, plant and equipment	-	717	-	717
Expenditures on other assets	-	8,139	168	7,961
Cash used in investing activities of continuing operations	(56,731)	(272,090)	(118,866)	(727,723)
Cash used in investing activities of discontinued operations (Note 3)	-	(5,399)	-	(18,819)
Cash used in investing activities	(56,731)	(277,489)	(118,866)	(746,542)
FINANCING ACTIVITIES				
Issue of share capital	25	1,047	2,288,473	1,378
Proceeds from bridge funding facility (Note 10)	-	-	62,373	-
Repayment of interim and bridge funding facilities (Note 10)	-	-	(2,191,635)	-
Proceeds from credit facilities (Note 8)	30,000	-	143,826	-
Repayment of credit facilities (Note 8)	(60,000)	-	(60,000)	-
Noncontrolling interests' investment in subsidiaries	3	40	7	80
Cash (used in) provided by financing activities of continuing operations	(29,972)	1,087	243,044	1,458
Cash (used in) provided by financing activities of discontinued operations (Note 3)	-	(17)	-	4,474
Cash (used in) provided by financing activities	(29,972)	1,070	243,044	5,932
EFFECT OF EXCHANGE RATE CHANGES ON CASH	61	(3,028)	(4)	(3,042)
NET CASH INFLOW (OUTFLOW)	60,502	(477,336)	123,102	(1,059,573)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	140,712	580,647	78,112	1,162,884
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 201,214	\$ 103,311	\$ 201,214	\$ 103,311
LESS CASH AND CASH EQUIVALENTS CLASSIFIED IN				
CURRENT ASSETS HELD FOR SALE	-	(29,975)	-	(29,975)
CASH AND CASH EQUIVALENTS AS PRESENTED ON CONSOLIDATED BALANCE SHEETS	\$ 201,214	\$ 73,336	\$ 201,214	\$ 73,336
CASH AND CASH EQUIVALENTS IS COMPRISED OF:				
Cash on hand and demand deposits	\$ 151,198	\$ 63,319	\$ 151,198	\$ 63,319
Short-term money market instruments	50,016	10,017	50,016	10,017
	\$ 201,214	\$ 73,336	\$ 201,214	\$ 73,336

Supplementary cash flow information (Note 17)

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

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accounting policies followed in preparing these consolidated financial statements are the same as those set out in the audited consolidated financial statements of Turquoise Hill Resources Ltd. (the “Company”) for the year ended December 31, 2013.

Certain information and note disclosures normally included for annual consolidated financial statements prepared in accordance with U.S. GAAP have been omitted. These interim consolidated financial statements should be read together with the audited consolidated financial statements of the Company for the year ended December 31, 2013.

In the opinion of management, all adjustments considered necessary (including reclassifications and normal recurring adjustments) to present fairly the financial position, results of operations and cash flows at June 30, 2014 and for all periods presented, have been included in these financial statements. The interim results are not necessarily indicative of results for the full year ending December 31, 2014, or future operating periods. For further information, see the Company’s annual consolidated financial statements for the year ended December 31, 2013, including the accounting policies and notes thereto.

The Company has four segments: Oyu Tolgoi LLC (66.0% owned) (“Oyu Tolgoi”) with its copper-gold mine in southern Mongolia; SouthGobi Resources Ltd. (56.0% owned - see Note 22) (“SouthGobi”) with its coal operations and exploration activities in Mongolia; other exploration with projects primarily in Mongolia and Indonesia; and the Company’s corporate division.

References to “Cdn\$” refer to Canadian currency, “Aud\$” to Australian currency, and “\$” to United States currency.

(b) Basis of presentation

For purposes of these consolidated financial statements, the Company, subsidiaries of the Company, and variable interest entities for which the Company is the primary beneficiary, are collectively referred to as “Turquoise Hill”.

(c) Comparative figures

In January 2014, the Company completed a rights offering which was open to all shareholders on a dilution free, equal participation basis at a subscription price less than the fair value of a common share of the Company (Note 11 (c)). In accordance with the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) guidance for earnings per share, basic and diluted loss per share for all periods prior to the rights offering have been adjusted retroactively for a bonus element contained in the rights offering. Specifically, the weighted average number of common shares outstanding used to compute basic and diluted loss per share for the three and six months ended June 30, 2013 have been multiplied by a factor of 1.29.

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Accounting changes

- In July 2013, ASC guidance was updated to clarify the presentation of unrecognized tax benefits when a net operating loss carryforward exists. The updated guidance provides that an unrecognized tax benefit should generally be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or similar tax losses or tax credit carryforwards. The updated guidance was effective for the Company's fiscal year beginning January 1, 2014.
- In April 2014, ASC guidance was updated related to discontinued operations which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. The updated guidance requires an entity to only classify discontinued operations due to a major strategic shift or a major effect on an entity's operations in the financial statements. The updated guidance will also require additional disclosures relating to discontinued operations. The updated guidance was adopted for the Company's interim period beginning April 1, 2014 and will be applied prospectively to all disposals or classifications as held for sale that occur on or after that date.

The adoption of the updated guidance had no impact on the Company's consolidated balance sheet or results of operations.

(e) Recent accounting pronouncements

- In January 2014, ASC guidance was issued relating to service concession arrangements. This guidance states that certain service concession arrangements with public-sector grantors are not within the scope of lease accounting. Operating entities entering into these arrangements should not recognize the related infrastructure as its property, plant and equipment and should apply other accounting guidance. The updated guidance becomes effective for the Company beginning January 1, 2015.
- In May 2014, ASC guidance was issued related to revenue recognition from contracts with customers. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The updated guidance becomes effective for the Company beginning January 1, 2017.

The Company has not assessed the impact, if any, of the standards that become effective January 1, 2015 or later.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2013 have been restated to correct errors identified subsequent to the original issuance of the financial statements for those periods, as more fully described below.

(a) Correction of errors related to SouthGobi revenue recognition

The Company has determined that certain revenue transactions of SouthGobi were previously recognized in the Company's consolidated financial statements prior to meeting relevant revenue

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

recognition criteria. The restatement is due to a change in the determination of when revenue should be recognized from its sales of coal previously recognized in the quarter ended December 31, 2010, the full year ended December 31, 2011 and the six months ended June 30, 2012. The affected transactions relate to sales contracts which specify the location of title transfer as the customer's stockpile, which is located in a yard within the Ovoot Tolgoi mine's mining license area. During the affected periods, revenue for such sales was recognized upon delivery of coal to the customer's stockpile. The restatement reflects a correction in the point of revenue recognition from the delivery of coal to the customer's stockpile to loading the coal onto the customer's trucks at the time of collection.

The following tables represent the impact of this matter on the previously issued financial statements for the three and six month periods ended June 30, 2013, as well as the reclassification of the operations of Inova Resources Limited ("Inova") as discontinued operations as discussed in Note 3.

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

Effect on Consolidated Statements of Operations:

	Three Months Ended June 30, 2013				Six Months Ended June 30, 2013			
	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated
REVENUE	\$ 46,922	\$ 5,755	\$ (46,548)	\$ 6,129	\$ 90,882	\$ 6,894	\$ (87,249)	\$ 10,527
COST OF SALES	(82,500)	(6,044)	56,837	(31,707)	(151,258)	(7,410)	103,510	(55,158)
EXPENSES								
Other operating expenses	(60,807)	-	2,814	(57,993)	(75,377)	-	5,692	(69,685)
General and administrative	(16,978)	-	-	(16,978)	(32,823)	-	-	(32,823)
Exploration and evaluation	(13,148)	-	6,270	(6,878)	(31,289)	-	14,605	(16,684)
Depreciation	(1,750)	-	533	(1,217)	(2,628)	-	1,123	(1,505)
Accretion of asset retirement obligations	(2,263)	-	566	(1,697)	(4,604)	-	1,211	(3,393)
Write-down of carrying value of materials and supplies inventory	(6,930)	-	-	(6,930)	(6,930)	-	-	(6,930)
Write-down of carrying value of property, plant and equipment	(31,621)	-	26,699	(4,922)	(31,621)	-	26,699	(4,922)
TOTAL EXPENSES	(215,997)	(6,044)	93,719	(128,322)	(336,530)	(7,410)	152,840	(191,100)
OPERATING LOSS	(169,075)	(289)	47,171	(122,193)	(245,648)	(516)	65,591	(180,573)
OTHER INCOME (EXPENSES)								
Interest income	4,406	-	(355)	4,051	12,558	-	(800)	11,758
Interest expense	(7,650)	-	-	(7,650)	(12,617)	-	-	(12,617)
Foreign exchange (losses) gains	(2,060)	(48)	139	(1,969)	(3,987)	(96)	451	(3,632)
Change in fair value of embedded derivatives	3,343	-	-	3,343	4,091	-	-	4,091
Other income	(5,199)	-	1,963	(3,236)	(4,933)	-	1,963	(2,970)
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(176,235)	(337)	48,918	(127,654)	(250,536)	(612)	67,205	(183,943)
Provision for income and other taxes	(4,736)	84	-	(4,652)	(11,095)	153	-	(10,942)
Share of loss of significantly influenced investees	(1,276)	-	-	(1,276)	(2,551)	-	-	(2,551)
NET LOSS FROM CONTINUING OPERATIONS	(182,247)	(253)	48,918	(133,582)	(264,182)	(459)	67,205	(197,436)
LOSS FROM DISCONTINUED OPERATIONS	-	-	(48,918)	(48,918)	-	-	(67,205)	(67,205)
NET LOSS	(182,247)	(253)	-	(182,500)	(264,182)	(459)	-	(264,641)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	76,946	106	-	77,052	108,140	193	-	108,333
NET LOSS ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.	\$ (105,301)	\$ (147)	\$ -	\$ (105,448)	\$ (156,042)	\$ (266)	\$ -	\$ (156,308)
NET LOSS ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.								
CONTINUING OPERATIONS	\$ (105,301)	\$ (147)	\$ 27,625	\$ (77,823)	\$ (156,042)	\$ (266)	\$ 38,105	\$ (118,203)
DISCONTINUED OPERATIONS	-	-	(27,625)	(27,625)	-	-	(38,105)	(38,105)
	\$ (105,301)	\$ (147)	\$ -	\$ (105,448)	\$ (156,042)	\$ (266)	\$ -	\$ (156,308)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO TURQUOISE HILL RESOURCES LTD.								
CONTINUING OPERATIONS	\$ (0.08)	\$ -	\$ 0.02	\$ (0.06)	\$ (0.12)	\$ -	\$ 0.03	\$ (0.09)
DISCONTINUED OPERATIONS	-	-	(0.02)	(0.02)	-	-	(0.03)	(0.03)
	\$ (0.08)	\$ -	\$ -	\$ (0.08)	\$ (0.12)	\$ -	\$ -	\$ (0.12)

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

Effect on Consolidated Statements of Comprehensive Loss:

	Three Months Ended June 30, 2013				Six Months Ended June 30, 2013			
	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated
NET LOSS	\$ (182,247)	\$ (253)	\$ -	\$ (182,500)	\$ (264,182)	\$ (459)	\$ -	\$ (264,641)
TOTAL COMPREHENSIVE LOSS	\$ (206,455)	\$ (253)	\$ -	\$ (206,708)	\$ (301,975)	\$ (459)	\$ -	\$ (302,434)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:								
Turquoise Hill Resources Ltd.	\$ (117,933)	\$ (147)	\$ -	\$ (118,080)	\$ (179,229)	\$ (266)	\$ -	\$ (179,495)
Noncontrolling interests	(88,522)	(106)	-	(88,628)	(122,746)	(193)	-	(122,939)
	\$ (206,455)	\$ (253)	\$ -	\$ (206,708)	\$ (301,975)	\$ (459)	\$ -	\$ (302,434)

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

Effect on Consolidated Statements of Cash Flows:

	Three Months Ended June 30, 2013				Six Months Ended June 30, 2013			
	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated	As previously reported	Correction of errors	Discontinued operations (Note 3)	As restated
OPERATING ACTIVITIES								
Cash used in operating activities	\$ (197,889)	\$ -	\$ -	\$ (197,889)	\$ (315,921)	\$ -	\$ -	\$ (315,921)
INVESTING ACTIVITIES								
Purchase of long-term investments	(164)	-	-	(164)	(1,579)	-	-	(1,579)
Proceeds from redemption of short-term investments	-	-	-	-	15,000	-	-	15,000
Proceeds from sale of long-term investments	226	-	-	226	226	-	-	226
Proceeds from redemption of other long-term investments	5,992	-	-	5,992	6,048	-	-	6,048
Expenditures on property, plant and equipment	(292,584)	-	5,584	(287,000)	(775,096)	-	19,000	(756,096)
Proceeds from sale of property, plant and equipment	717	-	-	717	717	-	-	717
Decrease in environmental bonds	182	-	(182)	-	182	-	(182)	-
Proceeds from other assets	8,142	-	(3)	8,139	7,960	-	1	7,961
Cash used in investing activities of continuing operations	(277,489)	-	5,399	(272,090)	(746,542)	-	18,819	(727,723)
Cash used in investing activities of discontinued operations	-	-	(5,399)	(5,399)	-	-	(18,819)	(18,819)
Cash used in investing activities	(277,489)	-	-	(277,489)	(746,542)	-	-	(746,542)
FINANCING ACTIVITIES								
Issue of share capital	1,047	-	-	1,047	1,378	-	-	1,378
Noncontrolling interests' investment in subsidiaries	23	-	17	40	4,554	-	(4,474)	80
Cash provided by financing activities of continuing operations	1,070	-	17	1,087	5,932	-	(4,474)	1,458
Cash provided by financing activities of discontinued operations	-	-	(17)	(17)	-	-	4,474	4,474
Cash provided by financing activities	1,070	-	-	1,070	5,932	-	-	5,932
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(3,028)	-	-	(3,028)	(3,042)	-	-	(3,042)
NET CASH OUTFLOW	(477,336)	-	-	(477,336)	(1,059,573)	-	-	(1,059,573)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	580,647	-	-	580,647	1,162,884	-	-	1,162,884
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 103,311	\$ -	\$ -	\$ 103,311	\$ 103,311	\$ -	\$ -	\$ 103,311
LESS CASH AND CASH EQUIVALENTS CLASSIFIED IN								
CURRENT ASSETS HELD FOR SALE	-	-	(29,975)	(29,975)	-	-	(29,975)	(29,975)
CASH AND CASH EQUIVALENTS AS PRESENTED ON CONSOLIDATED BALANCE SHEETS	\$ 103,311	\$ -	\$ (29,975)	\$ 73,336	\$ 103,311	\$ -	\$ (29,975)	\$ 73,336
CASH AND CASH EQUIVALENTS IS COMPRISED OF:								
Cash on hand and demand deposits	\$ 93,293	\$ -	\$ (29,974)	\$ 63,319	\$ 93,293	\$ -	\$ (29,974)	\$ 63,319
Short-term money market instruments	10,018	-	(1)	10,017	10,018	-	(1)	10,017
	\$ 103,311	\$ -	\$ (29,975)	\$ 73,336	\$ 103,311	\$ -	\$ (29,975)	\$ 73,336

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3. DISCONTINUED OPERATIONS

In August 2013, the Company's Board of Directors committed to a plan to sell its investment in Inova in conjunction with a proposed bid by the Shanxi Donghui Coal Coking & Chemicals Group Co., Ltd. ("Shanxi") to acquire the majority of shares of Inova for Aud\$0.22 cash per share. In November 2013, Turquoise Hill completed the sale of all of its shares of Inova to Shanxi for \$83.2 million (Aud\$90.1 million) in cash.

Inova's operations and cash flows for the three and six month periods ended June 30, 2013 are presented as discontinued operations in the consolidated statements of operations and the consolidated statements of cash flows respectively.

Revenue and pretax loss reported in discontinued operations for all periods presented are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue	\$ -	\$ 46,548	\$ -	\$ 87,249
Loss before income taxes	\$ -	\$ (48,918)	\$ -	\$ (67,205)

4. INVENTORIES

	June 30,	December 31,
	2014	2013
<i>Current</i>		
Copper-gold concentrate	\$ 475,780	\$ 544,183
Run-of-mine copper-gold stockpiles	3,026	5,206
Coal stockpiles	11,760	7,244
Materials and supplies	297,547	294,781
	\$ 788,113	\$ 851,414
<i>Noncurrent</i>		
Run-of-mine copper-gold stockpiles	\$ 149,559	\$ 130,342

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5. LONG-TERM INVESTMENTS

	June 30, 2014	December 31, 2013
Investment in company subject to significant influence:		
RDCC LLC	\$ 23,780	\$ 23,470
Available-for-sale equity securities (a)	43,637	48,831
Held-for-trading equity securities	94	222
Other equity securities, cost method (b)	4,467	7,207
	\$ 71,978	\$ 79,730

(a) *Available-for-sale equity securities*

	June 30, 2014				December 31, 2013			
	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value	Equity Interest	Cost Basis	Unrealized Gain (Loss)	Fair Value
Ivanhoe Mines Ltd. (i)	5.4%	\$ 29,705	\$ 5,440	\$ 35,145	6.4%	\$ 26,965	\$ 11,622	\$ 38,587
Aspire Mining Limited (ii)	18.8%	3,894	414	4,308	18.8%	5,661	514	6,175
Entrée Gold Inc. (iii)	9.4%	4,723	(584)	4,139	9.4%	4,723	(696)	4,027
Other	-	50	(5)	45	-	50	(8)	42
		\$ 38,372	\$ 5,265	\$ 43,637		\$ 37,399	\$ 11,432	\$ 48,831

- (i) At June 30, 2014, the Company held 17.1 million (December 31, 2013 – 11.7 million) freely tradeable Class A common shares of Ivanhoe Mines Ltd. (“Ivanhoe”) and a further 11.0 million (December 31, 2013 – 10.7 million) Class A common shares that are subject to certain trading restrictions that expire by June 30, 2015. The freely tradeable Class A common shares were valued based on their quoted market price. Whereas, a liquidity discount was applied to this quoted market price to value the Class A common shares that are subject to trading restrictions. The Company’s aggregate equity interest in Ivanhoe is 5.4%, including common shares accounted for using the cost method (Note 5 (b)(i)).
- (ii) During the three and six month periods ended June 30, 2014, Turquoise Hill recorded an other-than-temporary impairment of \$nil (2013 - \$3.1 million) and \$1.8 million (2013 - \$3.1 million) respectively against its investment in Aspire Mining Limited (“Aspire”) based on an assessment of the fair value of Aspire.
- (iii) During the three and six month periods ended June 30, 2014, Turquoise Hill recorded an other-than-temporary impairment of \$nil (2013 - \$1.5 million) and \$nil (2013 - \$1.5 million) respectively against its investment in Entrée Gold Inc. (“Entrée”) based on an assessment of the fair value of Entrée.

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5. LONG-TERM INVESTMENTS (Continued)

(b) *Other equity securities, cost method*

	June 30, 2014		December 31, 2013	
	Equity Interest	Cost Basis	Equity Interest	Cost Basis
Ivanhoe Mines Ltd. (i)	5.4%	\$ 4,352	6.4%	\$ 7,092
Other	-	115	-	115
		\$ 4,467		\$ 7,207

- (i) As at June 30, 2014, the Company held 9.0 million (December 31, 2013 – 14.7 million) Class A common shares of Ivanhoe with trading restrictions exceeding one year, which are classified as a cost method investment because they do not have a readily determinable fair value. In accordance with the Lock-up Agreement signed by the Company and Ivanhoe in April 2013, the trading restrictions are lifted on a portion of these common shares every three months, with all of the common shares being freely tradeable by January 23, 2016.

The Company's aggregate equity interest in Ivanhoe is 5.4%, including common shares classified as available-for-sale equity securities (Note 5 (a)(i)).

6. OTHER LONG-TERM INVESTMENTS

	June 30, 2014	December 31, 2013
Treasury Bill	\$ 112,953	\$ 109,294
Tax Prepayments	102,521	144,959
	\$ 215,474	\$ 254,253

On October 20, 2009, Turquoise Hill purchased a Treasury Bill ("T-Bill") from the Mongolian Government, having a face value of \$115.0 million, for \$100.0 million. The annual rate of interest on the T-Bill was set at 3.0%. The maturity date of the T-Bill is October 20, 2014.

Turquoise Hill made tax prepayments to the Mongolian Government of \$50.0 million and \$100.0 million on April 7, 2010 and June 7, 2011 respectively. The after-tax rate of interest on the tax prepayment balance is 1.59% compounding annually. Unless already offset fully against Mongolian taxes, the Mongolian Government is required to repay any remaining tax prepayment balance, including accrued interest, on the fifth anniversary of the date the tax prepayment was made.

During the three and six month periods ended June 30, 2014, Turquoise Hill offset \$21.1 million (2013 - \$nil) and \$50.0 million (2013 - \$nil) of the tax prepayment balance against Mongolian taxes.

Turquoise Hill designated the T-Bill and tax prepayments as available-for-sale investments because they were not purchased with the intent of selling them in the near term and Turquoise Hill's intention to hold them to maturity was uncertain. The fair values of the T-Bill and tax prepayments are estimated based on available public information regarding what market participants would consider for such investments.

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6. OTHER LONG-TERM INVESTMENTS (Continued)

Changes in the fair value of available-for-sale investments are recognized during the period in other comprehensive income.

Turquoise Hill has used a discounted cash flow approach to value the T-Bill and tax prepayments incorporating the following weighted average assumptions:

	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	T-Bill		Tax Prepayments	
T-Bill Face Value	\$ 115,000,000	\$ 115,000,000	-	-
Tax Prepayments Remaining	-	-	\$ 100,000,000	\$ 150,000,000
Discount Rate	6.2%	6.6%	6.2%	6.6%
Term	0.3 years	0.8 years	1.2 years	1.4 years

Based on the discounted cash flow models as at June 30, 2014, the fair values of the T-Bill and tax prepayments were estimated at \$113.0 million and \$102.5 million respectively. As a result of these valuations, Turquoise Hill recorded an unrealized gain of \$1.3 million (2013 - \$0.4 million unrealized loss) and \$2.1 million (2013 - \$0.7 million unrealized loss) on the T-Bill and an unrealized gain of \$3.5 million (2013 - \$1.1 million unrealized loss) and \$6.5 million (2013 - \$11.5 million unrealized loss) on the tax prepayments in other comprehensive income for the three and six month periods ended June 30, 2014.

7. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2014			December 31, 2013		
	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value	Cost	Accumulated Depletion and Depreciation, Including Write-downs	Net Book Value
Mining plant and equipment						
Oyu Tolgoi, Mongolia	\$ 4,104,748	\$ (362,549)	\$ 3,742,199	\$ 4,100,275	\$ (261,862)	\$ 3,838,413
Ovoot Tolgoi, Mongolia	463,059	(206,726)	256,333	462,155	(183,002)	279,153
	\$ 4,567,807	\$ (569,275)	\$ 3,998,532	\$ 4,562,430	\$ (444,864)	\$ 4,117,566
Mineral property interests						
Oyu Tolgoi, Mongolia	\$ 949,994	\$ (61,408)	\$ 888,586	\$ 952,171	\$ (44,804)	\$ 907,367
Ovoot Tolgoi, Mongolia	34,984	(12,126)	22,858	34,984	(11,836)	23,148
Other exploration projects	274	(266)	8	1,252	(1,244)	8
	\$ 985,252	\$ (73,800)	\$ 911,452	\$ 988,407	\$ (57,884)	\$ 930,523
Other capital assets						
Oyu Tolgoi, Mongolia	\$ 30,150	\$ (13,909)	\$ 16,241	\$ 30,423	\$ (12,049)	\$ 18,374
Ovoot Tolgoi, Mongolia	3,214	(1,729)	1,485	3,214	(1,425)	1,789
Other exploration projects	4,815	(4,214)	601	4,656	(3,872)	784
	\$ 38,179	\$ (19,852)	\$ 18,327	\$ 38,293	\$ (17,346)	\$ 20,947
Capital works in progress						
Oyu Tolgoi, Mongolia	\$ 2,046,037	\$ (8,170)	\$ 2,037,867	\$ 2,000,324	\$ -	\$ 2,000,324
Ovoot Tolgoi, Mongolia	55,321	(49,323)	5,998	55,323	(49,047)	6,276
	\$ 2,101,358	\$ (57,493)	\$ 2,043,865	\$ 2,055,647	\$ (49,047)	\$ 2,006,600
	\$ 7,692,596	\$ (720,420)	\$ 6,972,176	\$ 7,644,777	\$ (569,141)	\$ 7,075,636

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8. CREDIT FACILITIES

	June 30, 2014	December 31, 2013
Revolving credit facility (a)	\$ 30,157	\$ -
Concentrate prepayment facility (b)	17,942	-
	\$ 48,099	\$ -

(a) *Revolving Credit Facility*

On February 24, 2014, Oyu Tolgoi signed an unsecured \$200.0 million revolving credit facility with two banks. Amounts drawn under the credit facility are required to be used by Oyu Tolgoi for working capital purposes. The revolving credit facility bears interest at a fixed margin over LIBOR on any drawn amounts together with a utilization fee, which varies according to the utilized portion of the facility, and a commitment fee on undrawn amounts. The revolving credit facility matures on the earlier of February 24, 2015 and the incurrence of certain other indebtedness.

During the six months ended June 30, 2014, \$90.0 million had been drawn down on the revolving credit facility with \$0.7 million of interest being incurred and \$60.0 million of principal and \$0.5 million of interest had been repaid.

(b) *Concentrate Prepayment Facility*

On February 20, 2014, Oyu Tolgoi signed a \$126.0 million non-revolving copper-gold concentrate prepayment agreement with one of its customers whereby Oyu Tolgoi can request the customer to prepay up to 80% of the provisional value of copper-gold concentrate produced for that customer but not yet delivered pursuant to a sales contract. Amounts prepaid by the customer bear interest at a fixed margin over LIBOR and are required to be used for Oyu Tolgoi's working capital and general corporate purposes. The prepayment agreement matures on August 30, 2014.

During the six months ended June 30, 2014, a total of \$53.8 million had been prepaid by the customer to Oyu Tolgoi under the prepayment agreement with \$0.7 million of interest being incurred and \$35.9 million was offset against amounts invoiced to the customer.

9. CONVERTIBLE CREDIT FACILITY

On November 19, 2009, SouthGobi issued a convertible debenture to a wholly owned subsidiary of China Investment Corporation ("CIC") for \$500.0 million. The convertible debenture bears interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in shares of SouthGobi) and has a term of 30 years. A first charge over SouthGobi's assets, including the shares of its material subsidiaries, is pledged as collateral against the convertible debenture. An event of default on the convertible debenture can be triggered as a result of certain encumbrances on SouthGobi's assets (Note 21).

Pursuant to the convertible debentures' terms, SouthGobi had the right to call for the conversion of up to \$250.0 million of the convertible debenture upon SouthGobi achieving a public float of 25.0% of its common shares under certain agreed circumstances. On March 29, 2010, SouthGobi exercised this right and completed the conversion of \$250.0 million of the convertible debenture into 21.5 million shares at a conversion price of \$11.64 (Cdn\$11.88).

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9. CONVERTIBLE CREDIT FACILITY (Continued)

	June 30, 2014	December 31, 2013
Principal amount of convertible debenture	\$ 250,000	\$ 250,000
(Deduct) add:		
Bifurcation of embedded derivative liability	(156,646)	(156,646)
Accretion of discount	408	347
Carrying amount of debt host contract	93,762	93,701
Embedded derivative liability	2,275	3,395
Convertible credit facility	96,037	97,096
Accrued interest	4,285	2,301
Transaction costs allocated to deferred charges	(2,793)	(2,794)
Net carrying amount of convertible credit facility	\$ 97,529	\$ 96,603

CIC has the right to convert the debenture, in whole or in part, into common shares of SouthGobi from November 19, 2010 onwards. After November 19, 2014, SouthGobi is entitled to convert the debenture, in whole or in part, into its common shares at the conversion price if the conversion price is at least Cdn\$10.66. The conversion price is the lower of Cdn\$11.88 or the 50-day volume-weighted average price at the date of conversion, subject to a floor price of Cdn\$8.88 per share.

As at June 30, 2014, the fair value of the embedded derivative liability associated with the remaining \$250.0 million principal outstanding was determined to be \$2.3 million (December 31, 2013 - \$3.4 million). During the six month period ended June 30, 2014, Turquoise Hill recognized a gain of \$1.1 million (2013 - \$4.1 million) as a result of the change in the fair value of the embedded derivative liability.

During the six month period ended June 30, 2014, Turquoise Hill capitalized \$nil (2013 - \$nil) of interest expense incurred on the convertible credit facility.

The embedded derivative liability was valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement in the inputs can be independent of each other. Some of the key inputs used by the Monte Carlo simulation include: floor and ceiling conversion prices, SouthGobi's share price, expected volatility of SouthGobi's share price, risk-free rate of return, spot Cdn\$ exchange rates and forward Cdn\$ exchange rate curves.

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9. CONVERTIBLE CREDIT FACILITY (Continued)

Assumptions used in the Monte Carlo valuation model are as follows:

	June 30, 2014	December 31, 2013
Floor conversion price	Cdn\$8.88	Cdn\$8.88
Ceiling conversion price	Cdn\$11.88	Cdn\$11.88
Common share price	Cdn\$0.63	Cdn\$0.84
Expected volatility	70%	71%
Risk-free rate of return	2.68%	3.11%
Foreign exchange spot rate (U.S. Dollar equivalent to Cdn\$1)	0.94	0.94
Forward foreign exchange rate curve (U.S. Dollar equivalent to Cdn\$1)	0.92 - 0.94	0.92 - 0.94

10. INTERIM AND BRIDGE FUNDING FACILITIES

	June 30, 2014	December 31, 2013
Interim Funding Facility (a)	\$ -	\$ 1,789,787
New Bridge Facility (b)	-	339,475
	\$ -	\$ 2,129,262

(a) Interim Funding Facility

In December 2010, Rio Tinto provided the Company with an initial, non-revolving interim funding facility (“Interim Funding Facility”) of \$1.8 billion to assist in sustaining the development of the Oyu Tolgoi copper-gold mine. All amounts owing under the Interim Funding Facility were repaid by January 14, 2014 with the proceeds from the 2014 rights offering and the facility was then cancelled.

Amounts advanced to the Company under the Interim Funding Facility bore interest at the weighted average rate of return earned by the Company on the aggregate Interim Funding Facility proceeds advanced to Oyu Tolgoi. During the six month period ended June 30, 2014, the Interim Funding Facility’s effective annual interest rate equaled 90% of the sum of the three-month LIBOR and 6.5%. Any interest and fees incurred under the Interim Funding Facility were subject to a gross-up for applicable withholding taxes.

During the six month period ended June 30, 2014, interest expense of \$4.2 million (2013 - \$61.5 million), including a gross-up for applicable withholding taxes, was incurred on the Interim Funding Facility, of which \$nil (2013 - \$58.9 million) was capitalized as Oyu Tolgoi mine development costs.

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10. INTERIM AND BRIDGE FUNDING FACILITIES (Continued)

(b) *New Bridge Facility*

In August 2013, Rio Tinto provided the Company with a secured \$600 million bridge funding facility (“New Bridge Facility”) that was subject to a front end fee of \$6.0 million, an interest rate of LIBOR plus 5.0% per annum on drawn amounts and a commitment fee of 2.0% per annum on undrawn amounts. Interest and fees incurred under the New Bridge Facility were subject to a gross-up for applicable withholding taxes. All amounts owing under the New Bridge Facility were repaid by January 13, 2014 with the proceeds from the 2014 rights offering and the facility was then cancelled.

During the six month period ended June 30, 2014, interest expense of \$0.8 million (2013 - \$nil) and commitment fees of \$0.2 million (2013 - \$nil), each inclusive of a gross-up for applicable withholding taxes, were incurred on the New Bridge Facility.

11. SHARE CAPITAL

(a) *Rio Tinto Holdings*

As at June 30, 2014, Rio Tinto’s equity ownership in the Company was 50.8% (December 31, 2013 – 50.8%). In addition, as at June 30, 2014, Rio Tinto held 74.2 million Series D Warrants (December 31, 2013 – 74.2 million) exercisable to purchase one common share of the Company at any time until May 22, 2015 at a price of \$8.20 and a further 74.2 million Anti-Dilution Series D Warrants (December 31, 2013 – nil) exercisable to purchase one common share of the Company at any time until May 22, 2015 at a price of \$4.31.

(b) *Share Options*

Stock-based compensation charged to operations was incurred by Turquoise Hill as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Turquoise Hill Resources Ltd. (i)	\$ 894	\$ 3,463	\$ 1,563	\$ 6,067
SouthGobi Resources Ltd.	162	455	334	1,264
	\$ 1,056	\$ 3,918	\$ 1,897	\$ 7,331

(i) During the six month period ended June 30, 2014, 59,840 options were exercised, 2,296,821 options were cancelled, no options expired and as a result of the 2014 rights offering 1,014,235 options were granted.

During the three and six month periods ended June 30, 2014, stock-based compensation of \$0.5 million (2013 - \$0.5 million) and \$1.2 million (2013 - \$1.5 million) relating to the development of the Oyu Tolgoi mine was capitalized as property, plant and equipment.

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11. SHARE CAPITAL (Continued)

(c) 2014 Rights Offering

In November 2013, the Company filed a final short form prospectus for a rights offering open to all shareholders on a dilution-free, equal participation basis. In accordance with the terms of the rights offering, each shareholder of record as at December 6, 2013 received one right for each common share held. Every right held entitled the holder thereof to purchase one common share of the Company at \$2.40 per share or Cdn\$2.53 per share, at the election of the holder. The rights traded on the TSX, NYSE and NASDAQ and expired on January 7, 2014.

Under the 2013 Memorandum of Agreement (“MOA”) and the November 14, 2013 amendment thereto, Rio Tinto agreed, subject to certain terms, conditions and limitations, to exercise its basic subscription privilege in full and to provide a standby commitment to acquire all common shares not otherwise taken up under the 2014 Rights Offering in exchange for a standby purchaser fee equal to 3% of the gross rights offering proceeds. Because the rights offering was oversubscribed, Rio Tinto did not purchase any shares under its standby commitment.

Upon the closing of the rights offering in January 2014, the Company issued a total of 1,006,116,602 common shares for gross proceeds of \$2.4 billion. Expenses and fees relating to the rights offering totalled approximately \$79.9 million, including the \$70.8 million standby purchaser fee paid to Rio Tinto, and reduced the gross proceeds recorded as share capital.

Under the terms of the rights offering, the monetary amount to be received by the Company upon the exercise of rights was not fixed. Each holder of rights could elect either the \$2.40 or Cdn\$2.53 subscription price. Furthermore, the Cdn\$2.53 subscription price was not denominated in the Company’s U.S. dollar functional currency. Therefore, the pro rata distribution of rights to the Company’s shareholders was accounted for as a derivative financial liability measured at fair value.

On December 3, 2013, rights to be issued under the rights offering began trading on a “when issued” basis. On this date, the Company recognized an aggregate derivative financial liability of \$1,016.2 million associated with the Company’s legal obligation to carry out the rights offering and deficit was adjusted by a corresponding amount. This derivative financial liability comprised \$500.1 million attributable to rights held by the Company’s noncontrolling shareholders and \$516.1 million attributable to rights held by Rio Tinto. At each reporting period, the derivative financial liability was remeasured at fair value with changes recognized in earnings. During the six month period ended June 30, 2014, the Company recognized a derivative loss of \$34.0 million (2013 - \$nil).

In January 2014, the derivative financial liability was settled as rights were exercised and a total of \$962.3 million was reclassified from the derivative financial liability to share capital.

Under the terms of the 2013 MOA, Rio Tinto confirmed that it would take up its full basic subscription privilege, with respect to its 51% shareholding, and provide a standby commitment to subscribe for the common shares not subscribed for under the basic subscription privilege and the additional subscription privilege under the rights offering, subject to certain conditions. Rio Tinto was committed to exercising its full basic subscription privilege regardless of whether or not the rights were in the money. Accordingly, the fair value of the derivative financial liability attributable to rights held by Rio Tinto was estimated using a forward contract pricing model, using the following assumptions:

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11. SHARE CAPITAL (Continued)

(c) 2014 Rights Offering (continued)

	<u>January 13, 2014</u>	<u>December 3, 2013</u>
Ex-rights share price	Cdn\$3.61	\$3.38
Risk-free rate of return	nil%	0.08%
Spot Cdn\$ exchange rate	0.92	0.94

The fair value of the derivative financial liability attributable to rights held by the Company's noncontrolling shareholders was determined by reference to published market quotations for the rights.

Rio Tinto's standby commitment over rights held by the Company's noncontrolling shareholders was accounted for as a derivative financial asset. Its fair value was estimated as the difference between the estimated forward contract price, used to estimate the fair value of a right held by Rio Tinto, and the published market quotation for a right. During the rights offering period, there were no significant differences between these two prices, so no derivative financial asset was recognized.

The standby purchaser fee liability contained an embedded derivative as it was equal to 3% of the Canadian and U.S. dollar proceeds received upon the rights offering close. Therefore, the standby purchaser fee liability was accounted for as a derivative financial liability measured at fair value, which was estimated using the optimal currency of exercise for a right at each measurement date. On December 3, 2013, the Company recognized a standby purchaser fee liability of \$71.7 million and a deferred charge for the same amount, which was classified as other assets in the consolidated balance sheet. Upon closing the rights offering in January 2014, the deferred charge was reclassified from other assets to share capital to reflect a cost of the rights offering. During the three month period ended March 31, 2014, the Company recognized a derivative gain of \$1.1 million (2013 - \$nil) associated with remeasuring the standby purchaser fee liability.

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12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Unrealized Gain (Loss) on Available- For-Sale Equity Securities	Unrealized (Loss) Gain on Available- For-Sale Debt Securities	Noncontrolling Interests	Total Attributable to the Company
Balance, December 31, 2013	\$ 16,972	\$ (16,195)	\$ 1,742	\$ 2,519
Change in other comprehensive (loss) income before reclassifications	(13,526)	8,570	303	(4,653)
Reclassifications from accumulated other comprehensive income	1,766	-	-	1,766
Net current-period other comprehensive (loss) income	(11,760)	8,570	303	(2,887)
Balance, June 30, 2014	\$ 5,212	\$ (7,625)	\$ 2,045	\$ (368)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Operations
	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	
	Unrealized loss on available-for-sale equity securities: Other-than-temporary impairment charges	\$ -	

13. NONCONTROLLING INTERESTS

At June 30, 2014 there were noncontrolling interests in Oyu Tolgoi and SouthGobi:

	Noncontrolling Interests		
	Oyu Tolgoi (a)	SouthGobi	Total
Balance, December 31, 2013	\$ (512,974)	\$ 126,396	\$ (386,578)
Noncontrolling interests' share of loss	(112,213)	(17,530)	(129,743)
Noncontrolling interests' share of other comprehensive income (loss)	2,205	(2,508)	(303)
Changes in noncontrolling interests arising from changes in ownership interests	-	(2,158)	(2,158)
Balance, June 30, 2014	\$ (622,982)	\$ 104,200	\$ (518,782)

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13. NONCONTROLLING INTERESTS (Continued)

- (a) Since 2011, Turquoise Hill 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 Turquoise Hill 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 Turquoise Hill.

Common share investments funded on behalf of Erdenes are recorded as a reduction to the net carrying value of noncontrolling interest. As at June 30, 2014, the cumulative amounts of such funding and unrecognized interest were \$751.2 million (December 31, 2013 - \$751.2 million) and \$139.0 million (December 31, 2013 - \$110.5 million) respectively.

14. REVENUE

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
Copper-gold concentrate				
Copper	\$ 285,391	\$ -	\$ 359,885	\$ -
Gold	145,211	-	177,332	-
Silver	5,423	-	6,812	-
Coal	6,692	6,129	11,829	10,527
	<u>\$ 442,717</u>	<u>\$ 6,129</u>	<u>\$ 555,858</u>	<u>\$ 10,527</u>

Revenues for the three and six month periods ended June 30, 2014 are presented net of royalties of \$24.4 million (2013 - \$2.4 million) and \$32.4 million (2013 - \$4.1 million).

15. COST OF SALES

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
Production and delivery	\$ 272,206	\$ 7,265	\$ 344,351	\$ 10,690
Depreciation and depletion	115,838	1,627	147,163	2,525
Write-down of carrying value of inventory	7,461	17,061	21,880	19,775
Cost of sales during mine operations	395,505	25,953	513,394	32,990
Cost of sales related to idled mine assets (i)	4,898	5,754	7,925	22,168
	<u>\$ 400,403</u>	<u>\$ 31,707</u>	<u>\$ 521,319</u>	<u>\$ 55,158</u>

- (i) Cost of sales related to idled mine assets were a result of curtailed production of varying degree at the Ovoot Tolgoi coal mine in the three and six month periods ended June 30, 2013 and 2014. These costs include \$4.8 million (2013 - \$5.7 million) and \$7.8 million (2013 - \$16.9 million) of depreciation expense respectively.

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16. OTHER INCOME (EXPENSE)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Realized gains on foreign currency forward contracts	\$ -	\$ -	\$ 2,572	\$ -
Unrealized losses on long-term investments	(8)	(473)	(48)	(468)
Realized losses on long-term investments	(5)	(43)	(5)	(43)
Unrealized gains on other long-term investments	-	-	-	238
Realized gains on other long-term investments	-	1,929	-	1,952
Write-down of carrying value of long-term investments	-	(4,649)	(1,766)	(4,649)
	<u>\$ (13)</u>	<u>\$ (3,236)</u>	<u>\$ 753</u>	<u>\$ (2,970)</u>

TURQUOISE HILL RESOURCES LTD.
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17. CASH FLOW INFORMATION

(a) *Reconciliation of net loss to net cash flow provided by (used in) operating activities*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Restated Note 2)		(Restated Note 2)	
Net loss	\$ (53,705)	\$ (182,500)	\$ (170,744)	\$ (264,641)
Loss from discontinued operations	-	48,918	-	67,205
Items not involving use of cash				
Concentrate prepayment facility offsets	(26,913)	-	(26,913)	-
Stock-based compensation	1,895	4,558	2,834	7,971
Accretion expense	1,848	1,723	3,692	3,443
Depreciation	122,329	7,059	159,150	18,605
Accrued interest income	(1,173)	(2,719)	(2,616)	(5,413)
Gain on sale of other mineral property rights	(15,837)	-	(15,837)	-
Unrealized losses on long-term investments	8	473	48	468
Realized losses on sale of long-term investments	5	43	5	43
Unrealized gains on other long-term investments	-	-	-	(238)
Realized gains on other long-term investments	-	(1,929)	-	(1,952)
Change in fair value of derivative	-	-	32,970	-
Change in fair value of embedded derivatives	(120)	(3,343)	(1,120)	(4,091)
Unrealized foreign exchange losses (gains)	232	319	(239)	456
Share of loss of significantly influenced investees	2	1,276	28	2,551
Write-down of carrying value of accounts receivable and other current assets	3,405	-	3,405	-
Write-down of carrying value of inventories	9,283	24,261	23,702	26,382
Write-down of carrying value of property, plant and equipment	8,447	4,922	8,447	4,922
Write-down of carrying value of long-term investments	-	4,649	1,766	4,649
Tax prepayment offsets	21,080	-	49,965	-
Deferred income taxes	(1,408)	(5,993)	(8,676)	(8,397)
Net change in non-cash operating working capital items:				
(Increase) decrease in:				
Accounts receivable	(15,669)	(534)	(16,199)	1,026
Due from related parties	1,200	961	1,384	(681)
Inventories	106,082	(99,206)	12,812	(187,282)
Prepaid expenses	4,849	(3,002)	261	2,973
(Decrease) increase in:				
Accounts payable and accrued liabilities	(5,187)	(23,573)	(58,770)	32,496
Payable to related parties	(8,032)	13,368	(9,139)	(30,318)
Deferred revenue	(2,529)	7,932	20,258	7,932
Interest payable on long-term debt	(2,948)	5,045	(11,546)	5,977
Cash provided by (used in) operating activities of continuing operations	147,144	(197,292)	(1,072)	(315,914)
Cash used in operating activities of discontinued operations	-	(597)	-	(7)
Cash provided by (used in) operating activities	\$ 147,144	\$ (197,889)	\$ (1,072)	\$ (315,921)

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17. CASH FLOW INFORMATION (Continued)

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Investing activities				
Tax prepayment	\$ 21,080	\$ -	\$ 49,965	\$ -
Deferred consideration from sale of other mineral property rights	\$ 10,000	\$ -	\$ 10,000	\$ -
Financing activities				
Rights offering (Note 11 (c))	\$ -	\$ -	\$ 962,314	\$ -
Repayment of credit facility (Note 8 (b))	\$ (26,760)	\$ -	\$ (35,884)	\$ -

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18. SEGMENT DISCLOSURES

	Six Months Ended June 30, 2014				Consolidated
	Oyu Tolgoi (a)	SouthGobi (b)	Other Exploration	Corporate	
REVENUE	\$ 544,029	\$ 11,829	\$ -	\$ -	\$ 555,858
COST OF SALES	(478,171)	(43,148)	-	-	(521,319)
EXPENSES					
Other operating expenses	(114,912)	(2,469)	-	-	(117,381)
General and administrative	-	-	-	(15,351)	(15,351)
Exploration and evaluation	(4,268)	(258)	(1,440)	-	(5,966)
Depreciation	(3,673)	(64)	(395)	(9)	(4,141)
Accretion of asset retirement obligations	(3,512)	(118)	-	-	(3,630)
Gain on sale of other mineral property rights	-	1,818	14,019	-	15,837
Write-down of accounts receivables and other current assets	-	(3,405)	-	-	(3,405)
Write-down of carrying value of materials and supplies inventory	(1,822)	-	-	-	(1,822)
Write-down of carrying value of property, plant and equipment	(8,170)	(277)	-	-	(8,447)
TOTAL EXPENSES	(614,528)	(47,921)	12,184	(15,360)	(665,625)
OPERATING LOSS	(70,499)	(36,092)	12,184	(15,360)	(109,767)
OTHER INCOME (EXPENSES)					
Interest income	1,395	13	2	1,587	2,997
Interest expense	(1,695)	(10,113)	-	(5,127)	(16,935)
Foreign exchange gains (losses)	2,528	958	(32)	540	3,994
Change in fair value of derivative	-	-	-	(32,970)	(32,970)
Change in fair value of embedded derivatives	-	1,120	-	-	1,120
Other (expense) income	-	(1,819)	-	2,572	753
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(68,271)	(45,933)	12,154	(48,758)	(150,808)
(Provision) recovery of income and other taxes	(25,128)	6,011	(42)	(749)	(19,908)
Share of loss of significantly influenced investees	-	(28)	-	-	(28)
NET LOSS FROM CONTINUING OPERATIONS	(93,399)	(39,950)	12,112	(49,507)	(170,744)
CAPITAL EXPENDITURES	\$ 121,227	\$ 3,417	\$ 280	\$ 2	\$ 124,926
TOTAL ASSETS	\$ 7,866,322	\$ 375,219	\$ 4,548	\$ 220,967	\$ 8,467,056

- (a) During the six months ended June 30, 2014, all of Oyu Tolgoi's revenue arose from copper-gold concentrate sales in China. Revenue from the three largest customers was \$167.7 million, \$135.6 million and \$97.5 million, respectively.
- (b) During the six months ended June 30, 2014, all of SouthGobi's revenue arose from coal sales in Mongolia. Revenue from the three largest customers was \$3.5 million, \$3.0 million and \$3.0 million, respectively.

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18. SEGMENT DISCLOSURES (Continued)

	Three Months Ended June 30, 2014				Consolidated
	Oyu Tolgoi (a)	SouthGobi (b)	Other Exploration	Corporate	
REVENUE	\$ 436,025	\$ 6,692	\$ -	\$ -	\$ 442,717
COST OF SALES	(379,081)	(21,322)	-	-	(400,403)
EXPENSES					
Other operating expenses	(64,378)	(633)	-	-	(65,011)
General and administrative	-	-	-	(8,906)	(8,906)
Exploration and evaluation	(1,709)	(86)	(806)	-	(2,601)
Depreciation	(1,378)	(32)	(215)	(9)	(1,634)
Accretion of asset retirement obligations	(1,756)	(60)	-	-	(1,816)
Gain on sale of other mineral property rights	-	1,818	14,019	-	15,837
Write-down of accounts receivables and other current assets	-	(3,405)	-	-	(3,405)
Write-down of carrying value of materials and supplies inventory	(1,822)	-	-	-	(1,822)
Write-down of carrying value of property, plant and equipment	(8,170)	(277)	-	-	(8,447)
TOTAL EXPENSES	(458,294)	(23,997)	12,998	(8,915)	(478,208)
OPERATING LOSS	(22,269)	(17,305)	12,998	(8,915)	(35,491)
OTHER INCOME (EXPENSES)					
Interest income	584	5	1	799	1,389
Interest expense	(242)	(5,151)	-	-	(5,393)
Foreign exchange (losses) gains	(1,497)	194	(4)	115	(1,192)
Change in fair value of derivative	-	-	-	-	-
Change in fair value of embedded derivatives	-	120	-	-	120
Other (expense) income	-	(13)	-	-	(13)
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(23,424)	(22,150)	12,995	(8,001)	(40,580)
(Provision) recovery of income and other taxes	(12,082)	(588)	(22)	(431)	(13,123)
Share of loss of significantly influenced investees	-	(2)	-	-	(2)
NET LOSS FROM CONTINUING OPERATIONS	(35,506)	(22,740)	12,973	(8,432)	(53,705)
CAPITAL EXPENDITURES	\$ 62,497	\$ 86	\$ 33	\$ 2	\$ 62,618
TOTAL ASSETS	\$ 7,866,322	\$ 375,219	\$ 4,548	\$ 220,967	\$ 8,467,056

- (a) During the three months ended June 30, 2014, all of Oyu Tolgoi's revenue arose from copper-gold concentrate sales in China. Revenue from the three largest customers was \$167.7 million, \$99.9 million and \$42.7 million, respectively.
- (b) During the three months ended June 30, 2014, all of SouthGobi's revenue arose from coal sales in Mongolia. Revenue from the three largest customers was \$3.3 million, \$1.7 million and \$0.8 million, respectively.

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18. SEGMENT DISCLOSURES (Continued)

	Six Months Ended June 30, 2013				Consolidated
	Oyu Tolgoi	SouthGobi (a)	Other Exploration	Corporate	
REVENUE	\$ -	\$ 10,527	\$ -	\$ -	\$ 10,527
COST OF SALES	-	(55,158)	-	-	(55,158)
EXPENSES					
Other operating expenses	(61,061)	(8,624)	-	-	(69,685)
General and administrative	-	-	-	(32,823)	(32,823)
Exploration and evaluation	(12,492)	(494)	(3,698)	-	(16,684)
Depreciation	(1,015)	(121)	(360)	(9)	(1,505)
Accretion of asset retirement obligations	(3,166)	(227)	-	-	(3,393)
Gain on sale of other mineral property rights	-	-	-	-	-
Write-down of accounts receivables and other current assets	-	-	-	-	-
Write-down of carrying value of materials and supplies inventory	-	(6,930)	-	-	(6,930)
Write-down of carrying value of property, plant and equipment	-	(4,922)	-	-	(4,922)
TOTAL EXPENSES	(77,734)	(76,476)	(4,058)	(32,832)	(191,100)
OPERATING LOSS	(77,734)	(65,949)	(4,058)	(32,832)	(180,573)
OTHER INCOME (EXPENSES)					
Interest income	1,820	45	25	9,868	11,758
Interest expense	-	(10,038)	-	(2,579)	(12,617)
Foreign exchange losses	(717)	(392)	(63)	(2,460)	(3,632)
Change in fair value of derivative	-	-	-	-	-
Change in fair value of embedded derivatives	-	4,091	-	-	4,091
Other (expense) income	-	(3,578)	-	608	(2,970)
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(76,631)	(75,821)	(4,096)	(27,395)	(183,943)
(Provision) recovery of income and other taxes	(18,929)	8,066	(79)	-	(10,942)
Share of loss of significantly influenced investees	-	(27)	-	(2,524)	(2,551)
NET LOSS FROM CONTINUING OPERATIONS	(95,560)	(67,782)	(4,175)	(29,919)	(197,436)
CAPITAL EXPENDITURES	\$ 754,092	\$ 1,791	\$ 187	\$ 26	\$ 756,096
TOTAL ASSETS	\$ 7,390,135	\$ 626,484	\$ 7,871	\$ 194,131	\$ 8,218,621

- (a) During the six months ended June 30, 2013, all of SouthGobi's revenue arose from coal sales in Mongolia. Revenue from the largest customer was \$7.0 million.

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18. SEGMENT DISCLOSURES (Continued)

	Three Months Ended June 30, 2013				Consolidated
	Oyu Tolgoi	SouthGobi (a)	Other Exploration	Corporate	
REVENUE	\$ -	\$ 6,129	\$ -	\$ -	\$ 6,129
COST OF SALES	-	(31,707)	-	-	(31,707)
EXPENSES					
Other operating expenses	(53,571)	(4,422)	-	-	(57,993)
General and administrative	-	-	-	(16,978)	(16,978)
Exploration and evaluation	(5,293)	(221)	(1,364)	-	(6,878)
Depreciation	(1,015)	(34)	(159)	(9)	(1,217)
Accretion of asset retirement obligations	(1,583)	(114)	-	-	(1,697)
Gain on sale of other mineral property rights	-	-	-	-	-
Write-down of accounts receivables and other current assets	-	-	-	-	-
Write-down of carrying value of materials and supplies inventory	-	(6,930)	-	-	(6,930)
Write-down of carrying value of property, plant and equipment	-	(4,922)	-	-	(4,922)
TOTAL EXPENSES	(61,462)	(48,350)	(1,523)	(16,987)	(128,322)
OPERATING LOSS	(61,462)	(42,221)	(1,523)	(16,987)	(122,193)
OTHER INCOME (EXPENSES)					
Interest income	1,138	23	14	2,876	4,051
Interest expense	-	(5,071)	-	(2,579)	(7,650)
Foreign exchange gains (losses)	438	(25)	(63)	(2,319)	(1,969)
Change in fair value of derivative	-	-	-	-	-
Change in fair value of embedded derivatives	-	3,343	-	-	3,343
Other (expense) income	-	(3,583)	-	347	(3,236)
LOSS BEFORE INCOME TAXES AND OTHER ITEMS	(59,886)	(47,534)	(1,572)	(18,662)	(127,654)
(Provision) recovery of income and other taxes	(10,394)	5,818	(76)	-	(4,652)
Share of loss of significantly influenced investees	-	(10)	-	(1,266)	(1,276)
NET LOSS FROM CONTINUING OPERATIONS	(70,280)	(41,726)	(1,648)	(19,928)	(133,582)
CAPITAL EXPENDITURES	\$ 285,448	\$ 1,412	\$ 140	\$ -	\$ 287,000
TOTAL ASSETS	\$ 7,390,135	\$ 626,484	\$ 7,871	\$ 194,131	\$ 8,218,621

- (a) During the three months ended June 30, 2013, all of SouthGobi's revenue arose from coal sales in Mongolia. Revenue from the largest customer was \$5.8 million.

19. FAIR VALUE ACCOUNTING

The ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

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19. FAIR VALUE ACCOUNTING (Continued)

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at June 30, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Long-term investments	\$ 43,731	\$ 30,363	\$ 13,368	\$ -
Other long-term investments	215,474	-	-	215,474
	\$ 259,205	\$ 30,363	\$ 13,368	\$ 215,474
Liabilities:				
Payable to related parties	\$ -	\$ -	\$ -	\$ -
Rights offering derivative liability	-	-	-	-
Embedded derivative liability	2,275	-	2,275	-
	\$ 2,275	\$ -	\$ 2,275	\$ -
	Fair Value at December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Long-term investments	\$ 49,053	\$ 31,121	\$ 17,932	\$ -
Other long-term investments	254,253	-	-	254,253
	\$ 303,306	\$ 31,121	\$ 17,932	\$ 254,253
Liabilities:				
Payable to related parties	\$ 71,886	\$ -	\$ 71,886	\$ -
Rights offering derivative liability	928,280	456,827	471,453	-
Embedded derivative liability	3,395	-	3,395	-
	\$ 1,003,561	\$ 456,827	\$ 546,734	\$ -

The Company's freely tradeable long-term investments are classified within level 1 of the fair value hierarchy as they are valued using quoted market prices of certain investments. Whereas, long-term investments with trading restrictions are classified within level 2 as they are valued by applying a liquidity discount to quoted market prices of certain investments.

The Company's other long-term investments are classified within level 3 of the fair value hierarchy and consist of tax prepayments and the T-Bill.

The standby purchaser fee liability, which was included within payable to related parties prior to its settlement in January 2014, was classified within level 2 of the fair value hierarchy as its fair value was determined using the optimal currency of exercise for a right.

The Company's rights offering derivative liabilities were classified within levels 1 and 2 of the fair value hierarchy. The derivative financial liability associated with rights held by the Company's noncontrolling shareholders was classified within level 1 of the fair value hierarchy as its fair value was determined by

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19. FAIR VALUE ACCOUNTING (Continued)

reference to published market quotations for the rights. The derivative financial liability associated with rights held by Rio Tinto was classified within level 2 of the fair value hierarchy as its fair value was determined using a forward pricing model, which uses readily observable inputs.

The Company's embedded derivative liability, included within the convertible credit facility (Note 9), is classified within level 2 of the fair value hierarchy as its fair value is determined using a Monte Carlo simulation valuation model, which uses readily observable market inputs.

The table below sets forth a summary of changes in the fair value, on a recurring basis, of the Company's level 3 financial assets for the six month period ended June 30, 2014.

	<u>Tax Prepayment</u>	<u>T-Bills</u>	<u>Totals</u>
Balance, December 31, 2013	\$ 144,959	\$ 109,294	\$ 254,253
Accrued interest	1,044	1,572	2,616
Fair value redeemed	(49,965)	-	(49,965)
Unrealized gains included in other comprehensive income	6,483	2,087	8,570
Balance, June 30, 2014	\$ 102,521	\$ 112,953	\$ 215,474

20. DISCLOSURES REGARDING FINANCIAL INSTRUMENTS

- (a) Turquoise Hill is exposed to credit risk with respect to its accounts receivable and other long-term investments. The significant concentrations of credit risk are situated in Mongolia and China. Turquoise Hill does not mitigate this risk.
- (b) Turquoise Hill is exposed to interest rate risk with respect to the variable rates of interest incurred on the credit facilities (Note 8) and cash and cash equivalents. Interest rate risk is concentrated in Canada and Mongolia and principally relates to the U.S. dollar LIBOR. Turquoise Hill does not mitigate this risk.

21. CONTINGENCIES

Due to the size, complexity and nature of Turquoise Hill's operations, various legal and tax matters arise in the ordinary course of business. Turquoise Hill accrues for such items when both a liability is probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the consolidated financial statements of the Company.

- (a) On December 13 and 18, 2013, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors. The Court has now consolidated these actions and appointed a lead plaintiff. The lawsuit seeks to recover damages resulting from alleged misstatements about the Company's financial performance and business prospects arising from revisions to its recognition of revenue on SouthGobi's coal sales, as disclosed on November 8, 2013. The Company believes the complaint is without merit and will vigorously defend against the lawsuits. In the opinion of the Company, at June 30, 2014 a provision for this matter is not required.

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

21. CONTINGENCIES (Continued)

- (b) SouthGobi is subject to investigations by Mongolia's Independent Authority against Corruption (the "IAAC") and the Mongolian State Investigation Office (the "SIA") regarding allegations against SouthGobi and some of its former employees. The IAAC investigation concerns possible breaches of Mongolia's anti-corruption laws, while the SIA investigation concerns possible breaches of Mongolia's money laundering and taxation laws.

While the IAAC investigation into allegations of possible breaches of Mongolian anti-corruption laws has been suspended, SouthGobi has not received formal notice that the IAAC investigation is completed. The IAAC has not formally accused any current or former SouthGobi employees of breach of Mongolia's anti-corruption laws.

A report issued by the experts appointed by the SIA on June 30, 2013 and again in January 2014 has recommended that the accusations of money laundering as alleged against SouthGobi's three former employees be withdrawn. However, to date, SouthGobi has not received notice or legal document confirming such withdrawal as recommended by the experts appointed by the SIA.

A third investigation ordered by the SIA and conducted by the National Forensic Center ("NFC") into alleged violations of Mongolian taxation law was concluded at the end of January 2014. The report with conclusions of the investigations by the NFC have been provided to the Prosecutor General of Mongolia. The Prosecutor General has issued criminal charges against the three former employees and SouthGobi's Mongolian subsidiary SouthGobi Sands LLC may be held liable as "civil defendant" for alleged violations of Mongolian taxation law. The case was transferred to a Court of Justice for review by a judge in April 2014. On May 12, 2014, SouthGobi was advised that the appointed judge has concluded that the investigation on the case was incomplete and has ordered to return the case to the General Prosecutor for additional investigation. On June 24, 2014, SouthGobi announced it had been informed that the additional investigation has been completed and the case was transferred back to the First Instance 2nd District Court which set the trial date to June 30, 2014. Following the initial appearances before the court by all concerned parties, the trial date for the case has been deferred until August 25, 2014.

The likelihood or consequences of an outcome or any action taken against SouthGobi Sands LLC as "civil defendant" are uncertain and unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on Turquoise Hill.

Turquoise Hill views these accusations as unfounded and disputes these accusations and the procedures and conclusions of the investigations that led to these accusations and will vigorously defend itself and its former three employees against these charges. At this point, the three former employees continue to be subject to a travel ban. SouthGobi Sands LLC is designated as a "civil defendant" in connection with the tax evasion allegations, and may potentially be held financially liable for the alleged criminal misconduct of its former employees under Mongolian Law.

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

21. CONTINGENCIES (Continued)

The SIA also continues to enforce administrative restrictions, which were initially imposed by the IAAC investigation, on certain of SouthGobi's Mongolian assets, including \$1.5 million held in local bank accounts, in connection with its continuing investigation of these allegations. This \$1.5 million is included within the cash balance in our financial statements. While the orders restrict the use of in-country funds pending the outcome of the investigation, they are not expected to have a material impact on Turquoise Hill's activities in the short term, although they could create potential difficulties for Turquoise Hill in the medium to long term. Turquoise Hill will continue to take all appropriate steps to protect its ability to conduct its business activities in the ordinary course.

In the opinion of Turquoise Hill, at June 30, 2014 a provision for this matter is not required.

- (c) In the first quarter of 2013, SouthGobi was subject to orders imposed by the IAAC which placed restrictions on certain of SouthGobi's Mongolian assets. The orders were imposed on SouthGobi in connection with the IAAC's investigation of the Company. The SIA also continues to enforce the orders on SouthGobi.

The orders placing restrictions on certain of SouthGobi's Mongolian assets could ultimately result in an event of default on SouthGobi's CIC convertible debenture. It is Turquoise Hill's view that this does not result in an event of default as defined under the CIC convertible debenture terms. However, if an event of default on SouthGobi's CIC convertible debenture occurs that remains uncured for ten business days, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to SouthGobi by CIC.

The orders relate to certain items of operating equipment and infrastructure and SouthGobi's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in SouthGobi's mining activities. The orders related to SouthGobi's Mongolian bank accounts restrict the use of in-country funds. While the orders restrict the use of in-country funds pending outcome of the investigation, they are not expected to have any material impact on Turquoise Hill's activities.

- (d) In June 2014, Oyu Tolgoi received a Tax Act (the "Tax Assessment") from the Mongolian Tax Authority (the "MTA") as a result of a general tax audit for the period covering 2010 through 2012. The Company believes the Tax Assessment includes breaches of the tax stabilization provisions of the Investment Agreement. The unpaid taxes, penalties and fines imposed by the Tax Assessment are approximately \$127 million.

Given the nature of the Tax Assessment and the breaches of the Investment Agreement, two formal dispute resolution processes are being undertaken. Oyu Tolgoi has given formal notice to the Government of Mongolia of a dispute under the Investment Agreement. The process requires a 60 day negotiation period after which point if issues remain unresolved, formal International Arbitration proceedings can commence.

TURQUOISE HILL RESOURCES LTD.

Notes to the Consolidated Financial Statements

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

21. CONTINGENCIES (Continued)

Oyu Tolgoi has also begun the dispute resolution process outlined by the MTA to object to the full Tax Assessment, noting items that are covered by specific Investment Agreement provisions. A formal dispute notice was lodged with the authorities and initial engagement with the Dispute Resolution Council has commenced.

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 and Mongolian law and in the opinion of the Company, at June 30, 2014 a provision is not required. The final amount of taxes to be paid depends on a number of factors including the outcome of appeals, negotiation and possible arbitration. Changes in management's assessment of the outcome of this matter could result in material adjustments to the Company's income statement.

22. SUBSEQUENT EVENT

On July 29, 2014, the Company announced that it had entered into a share purchase agreement with National United Resources Holdings Limited (the "Purchaser"), a Hong Kong-based public company listed on the main board of the Stock Exchange of Hong Kong (the "SEHK"), providing for the sale to the Purchaser of a 29.95% stake in SouthGobi.

Under the terms of the agreement, which was effected in accordance with and in reliance upon the "private agreement" exemption under the Canadian takeover bid regime and in accordance with the Hong Kong Code on Takeovers and Mergers, Turquoise Hill has agreed to sell 56,102,000 common shares that it owns in the capital of SouthGobi to the Purchaser at a price of Cdn\$0.455 per common share, following which Turquoise Hill would continue to hold 48,705,155 shares of SouthGobi, representing approximately a 26% stake in SouthGobi. Under the terms of the agreement, the Company is to receive approximately Cdn\$12.8 million in cash at closing and deferred consideration of approximately Cdn\$12.8 million due one year after the closing of the transaction.

Closing is subject to certain closing conditions, including the SEHK approving the circular to be provided to the Purchaser's shareholders for the shareholder vote on the transaction and the Purchaser's shareholders approving the transaction. Closing is expected to occur no later than November 30, 2014.

The Company had been considering the divestment of its interest in SouthGobi to allow it to focus on the operation and development of the Oyu Tolgoi mine. Upon signing of the share purchase agreement after June 30, 2014, the reporting segment for SouthGobi was considered to be a disposal group held for sale on July 29, 2014.

TURQUOISE HILL RESOURCES LTD.
Notes to the Consolidated Financial Statements
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22. SUBSEQUENT EVENT (Continued)

The main classes of assets and liabilities of the SouthGobi disposal group as at June 30, 2014 are:

Assets	
Cash and cash equivalents	\$ 8,789
Inventories	41,782
Property, plant and equipment	286,729
Long-term investments	28,183
Other assets	9,736
	\$ 375,219
Liabilities	
Accounts payable and accrued liabilities	\$ 10,768
Convertible credit facility	96,037
Payable to related parties	579
Other liabilities	22,379
	\$ 129,763
Net assets	\$ 245,456
Noncontrolling interest	108,123
	\$ 137,333

Upon reclassification of the disposal group as held for sale, the Company expects to record a material impairment of the property, plant and equipment of the disposal group. The Company's retained interest in SouthGobi of approximately 26% is expected to be recorded as an equity accounted investment measured at its fair value upon closing of the transaction.



Turquoise Hill Resources Ltd.

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

June 30, 2014

Turquoise Hill Resources Ltd.

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

INTRODUCTION

This 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 consolidated financial statements of Turquoise Hill Resources Ltd. and the notes thereto for the six month period ended June 30, 2014, and with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2013. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). 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, is available under the Company's profile on SEDAR at www.sedar.com.

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

This MD&A contains certain forward-looking statements and certain forward-looking information. Please refer to the cautionary language commencing on page 24.

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 21.

The effective date of this MD&A is August 12, 2014.

Turquoise Hill Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations
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Turquoise Hill Resources Ltd.

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1. OVERVIEW

Financial Results and Review of Operations for the Second Quarter of 2014

- Oyu Tolgoi had an All Injury Frequency Rate of 0.51 per 200,000 hours worked and no fatalities for the first half of 2014.
- Oyu Tolgoi recorded net revenue of \$436.0 million in Q2'14 on sales of approximately 202,500 tonnes of copper-gold concentrate.
- Q2'14 concentrate sales increased approximately 320% over Q1'14 and exceeded production resulting in an inventory drawdown for the quarter.
- In Q2'14, Oyu Tolgoi had its strongest quarterly performance since production began in 2013 with 140,000 tonnes of copper-gold concentrate produced containing 36,200 tonnes of copper.
- Concentrate sales, which are expected to be strong throughout the second half of 2014, are scheduled to exceed production through the end of 2014.
- Sales contracts have been signed for 100% of Oyu Tolgoi's expected 2014 concentrate production and 92% of 2015 planned production; 84% of concentrate production has been contracted for up to eight years.
- Ore grades are expected to increase as the Oyu Tolgoi open pit deepens into a high-grade zone during the second half of 2014.
- Turquoise Hill continues to expect Oyu Tolgoi to produce between 135,000 – 160,000 tonnes of copper and 600,000 – 700,000 ounces of gold in concentrates for 2014.
- Following receipt of a Tax Act from the Mongolian Tax Authority during Q2'14, all parties continue to work together to resolve these issues.
- The feasibility study for the underground is largely complete subject to confirmation of some estimate assumptions.
- All 15 global banks participating in the Oyu Tolgoi project financing agreed to extend their commitment letters to September 30, 2014.
- All parties remain committed to the underground development of Oyu Tolgoi and are working through the outstanding shareholder issues; underground development is subject to resolution of shareholder issues, the finalization and approval of the feasibility study by all shareholders, the agreement of a comprehensive funding plan including project finance and receipt of all relevant permits
- On July 29, 2014, Turquoise Hill entered into a share purchase agreement with National United Resources Holdings for the sale of a 29.95% stake in SouthGobi.
- Turquoise Hill's cash position, on a consolidated basis at June 30, 2014, was \$201.2 million.

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(Stated in U.S. dollars, except where noted)

2. SELECTED QUARTERLY DATA

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

	Quarter Ended			
	Jun-30 2014	Mar-31 2014	Dec-31 2013	Sep-30 2013
Revenue				
Copper-gold concentrate	\$ 436.0	\$ 108.0	\$ 51.6	\$ -
Coal	6.7	5.1	32.4	15.7
Total revenue	\$ 442.7	\$ 113.1	\$ 84.0	\$ 15.7
Net (loss) income from continuing operations attributable to the Company	\$ 9.6	\$ (50.6)	\$ 134.3	\$ (84.8)
Income (loss) from discontinued operations attributable to the Company	-	-	4.1	(9.3)
Net (loss) income attributable to the Company	\$ 9.6	\$ (50.6)	\$ 138.4	\$ (94.1)
Basic (loss) income per share attributable to the Company				
Continuing operations	\$ -	\$ (0.03)	\$ 0.10	\$ (0.07)
Discontinued operations	-	-	0.01	(0.01)
Total	\$ -	\$ (0.03)	\$ 0.11	\$ (0.08)
Diluted (loss) income per share attributable to the Company				
Continuing operations	\$ -	\$ (0.03)	\$ 0.10	\$ (0.07)
Discontinued operations	-	-	0.01	(0.01)
Total	\$ -	\$ (0.03)	\$ 0.11	\$ (0.08)
	Jun-30 2013	Mar-31 2013	Dec-31 2012	Sep-30 2012
Revenue				
Copper-gold concentrate	\$ -	\$ -	\$ -	\$ -
Coal	6.1	4.4	1.3	3.8
Total revenue	\$ 6.1	\$ 4.4	\$ 1.3	\$ 3.8
Net (loss) income from continuing operations attributable to the Company	\$ (77.8)	\$ (40.4)	\$ (144.0)	\$ 125.5
Loss from discontinued operations attributable to the Company	(27.6)	(10.5)	(1.0)	(13.3)
Net (loss) income attributable to the Company	\$ (105.4)	\$ (50.9)	\$ (145.0)	\$ 112.2
Basic (loss) income per share attributable to the Company				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.11)	\$ 0.11
Discontinued operations	(0.02)	(0.01)	-	(0.01)
Total	\$ (0.08)	\$ (0.04)	\$ (0.11)	\$ 0.10
Diluted (loss) income per share attributable to the Company				
Continuing operations	\$ (0.06)	\$ (0.03)	\$ (0.11)	\$ 0.11
Discontinued operations	(0.02)	(0.01)	-	(0.01)
Total	\$ (0.08)	\$ (0.04)	\$ (0.11)	\$ 0.10

Turquoise Hill Resources Ltd.

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3. REVIEW OF OPERATIONS

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

Turquoise Hill also has a 56% interest in SouthGobi, which owns the Ovoot Tolgoi coal mine in southern Mongolia; the remaining 44% of SouthGobi's shares are publicly held. On July 29, 2014, Turquoise Hill announced that it had entered into a share purchase agreement for the sale of a 29.95% stake in SouthGobi. The transaction is subject to certain closing conditions. Upon closing, Turquoise Hill will retain an approximately 26% interest in SouthGobi.

In Q2'14, Turquoise Hill recorded net income of \$9.6 million (\$0.00 per share), compared to a net loss of \$105.4 million (\$0.08 per share) in Q2'13, representing an improvement of \$115.0 million. Results for Q2'14 improved due to reductions in operating losses before non-controlling interests at Oyu Tolgoi of \$39.2 million and at SouthGobi of \$24.9 million which after adjusting for non-controlling interests resulted in improvements of \$25.9 million and \$13.9 million respectively. In addition, the improvement arose from a gain of \$14.0 million on the sale of non-core mineral property rights and reduced corporate expenses of \$8.1 million. The results for Q2'13 included a loss from discontinued operations of \$48.9 million.

In Q2'14, Turquoise Hill capitalized \$27.4 million in additions to property, plant and equipment compared to \$174.9 million in Q2'13. The majority of the Q2'14 additions to property, plant and equipment were at the Oyu Tolgoi mine. The decrease in additions to property, plant and equipment was primarily due to (i) suspending the development of the Oyu Tolgoi underground mine in Q3'13 and (ii) ceasing the capitalization of costs associated with establishing and commissioning the Oyu Tolgoi mine's ore processing infrastructure on May 1, 2013.

A. OYU TOLGOI

The Oyu Tolgoi mine is approximately 550 kilometres south of Ulaanbaatar, Mongolia's capital city, and 80 kilometres north of the Mongolia-China border. Mineralization on the property consists of porphyry-style copper, gold, silver and molybdenum contained in a linear structural trend (the Oyu Tolgoi Trend) that has a strike length extending over 26 kilometres. Mineral resources have been identified in a series of deposits throughout this trend. They include, from south to north, the Heruga Deposit, the Southern Oyu deposits (Southwest Oyu, South Oyu, Wedge and Central Oyu) and the Hugo Dummett deposits (Hugo South, Hugo North and Hugo North Extension). Mining of ore commenced in May 2012, with the first concentrate produced, as part of the commissioning activities, in January 2013.

The Oyu Tolgoi mine has initially been developed as an open-pit operation. A copper concentrator plant, with related facilities and necessary infrastructure to support an initial throughput of 100,000 tonnes of ore per day, has been constructed to process ore mined from the Southern Oyu open pit. Development plans for Oyu Tolgoi are based on a 95,000-tonne-per-day underground block-cave mine. In August 2013, development of the underground mine was delayed to allow matters with the Government of Mongolia to be resolved. Further development of the underground mine is expected to commence once the following conditions are met: (1) successful resolution of the mine's outstanding shareholder issues; (2) agreement of a comprehensive funding plan including project finance; (3) completion and approval of the Oyu Tolgoi underground feasibility study by the Oyu Tolgoi shareholders; and (4) obtaining all necessary permits for the mine's operations and development.

Q2'14 performance

Safety remains a major focus throughout Oyu Tolgoi's operations and management and site leadership are committed to reducing risk and injury. For the first half of 2014, the mine's All Injury Frequency Rate was higher than Q1'14 at 0.51 per 200,000 hours worked.

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Concentrate sales during Q2'14 increased 320% over Q1'14 due to ongoing improvements in customer logistics and marketing. As a result of the increase, Q2'14 sales exceeded production resulting in an inventory drawdown for the quarter.

In Q2'14, Oyu Tolgoi generated revenue of \$436.0 million, net of royalties of \$23.5 million, on sales of approximately 202,500 tonnes of copper-gold concentrates. Oyu Tolgoi's breakdown of Q2'14 revenue, net of royalties, by metals in concentrates is as follows: approximately 51,600 tonnes of copper for \$285.4 million, approximately 126,000 ounces of gold for \$145.2 million and approximately 309,000 ounces of silver for \$5.4 million. Oyu Tolgoi's sales of concentrate are subject to a 5% royalty in Mongolia. Revenues are presented net of royalties and typical contractual deductions (treatment and refining charges and freight differential).

Oyu Tolgoi recognized cost of sales in Q2'14 of \$379.1 million. Production and delivery costs of \$266.6 million include primarily the cash costs in inventory sold as well as the cash selling and allocated mine administration costs. Depreciation and depletion of \$112.5 million includes the depreciation and depletion in inventory sold as well as any depreciation of assets used in the selling and delivery process. Stripping costs, including cash and equipment depreciation, are recorded in the run-of-mine copper-gold stockpile inventory in the period incurred.

Key operational metrics for Q2'14 are as follows:

Oyu Tolgoi Key Metrics

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

	3Q 2013	4Q 2013	1Q 2014	2Q 2014	1H 2013	1H 2014	Full Year 2013
Open pit material mined ('000 tonnes)	12,151	21,956	21,621	16,861	37,925	38,482	72,032
Ore treated ('000 tonnes)	8,052	7,835	5,560	7,778	4,430	13,338	20,317
Average mill head grades:							
Copper (%)	0.47	0.49	0.52	0.53	0.42	0.52	0.47
Gold (g/t)	0.36	0.41	0.49	0.60	0.27	0.55	0.36
Silver (g/t)	1.39	1.44	1.52	1.57	1.31	1.55	1.39
Concentrates produced ('000 tonnes)*	110.3	129.5	102.9	140.0	50.2	242.9	290.0
Average concentrate grade (% Cu)	27.7	25.4	24.6	25.8	26.1	25.3	26.4
Production of metals in concentrates:							
Copper in concentrates ('000 tonnes)	30.6	32.9	25.3	36.2	13.1	61.5	76.7
Gold in concentrates ('000 ounces)	62	74	66	113	21	179	157
Silver in concentrates ('000 ounces)	196	208	163	229	85	391	489
Concentrates sold ('000 tonnes)		26.4	48.2	202.5	-	250.6	26.4
Sales of metals in concentrates:							
Copper in concentrates ('000 tonnes)	-	6.1	13.1	51.6	-	64.7	6.1
Gold in concentrates ('000 ounces)	-	10	28	126	-	154	10
Silver in concentrates ('000 ounces)	-	36	78	309	-	387	36
Metal recovery (%)							
Copper	81.7	86.4	87.9	87.6	73.2	87.7	81.6
Gold	66.3	71.2	75.5	74.8	56.7	75.1	66.1
Silver	54.9	57.2	59.3	58.6	47.8	58.7	54.2

* Dry metric tonnes

Concentrate production for Q2'14 improved after recovering from thickener rake repairs in Q1'14, while mill head grades remained flat due to delayed mine advancement.

In Q2'14, Turquoise Hill capitalized \$27.1 million (Q2'13: \$174.6 million) in additions to property, plant and equipment at the Oyu Tolgoi mine, including underground evaluation costs of \$9.4 million (Q2'13: \$144.2 million). The decrease in additions to property, plant and equipment was primarily due to (i) suspending the development of the Oyu Tolgoi underground mine in Q3'13 and (ii) ceasing the capitalization of costs associated with establishing and commissioning the Oyu Tolgoi mine's ore processing infrastructure on

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May 1, 2013, which was the date that this infrastructure was in the condition and location necessary for its intended use.

Funding of Oyu Tolgoi by Turquoise Hill

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

For amounts funded by debt, Oyu Tolgoi must repay such amounts, including accrued interest, before it can pay common share dividends. At June 30, 2014, the aggregate outstanding balance of loans extended by subsidiaries of the Company to Oyu Tolgoi was \$7.2 billion, including accrued interest of \$1.1 billion. These loans bear interest at an effective annual rate of LIBOR plus 6.5%. The subsidiaries of the Company have accrued \$114.4 million in accounts payable and accrued liabilities for the withholding taxes due upon payment of the accrued interest by Oyu Tolgoi.

In accordance with the ARSHA, a subsidiary of the Company has funded 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. As at June 30, 2014, the cumulative amount of such funding, representing approximately 34% of invested common share equity, and accrued interest thereon, totaled \$751.2 million and \$139.0 million respectively.

Operational outlook

Strong concentrate sales are expected to continue throughout the second half of 2014. Sales are expected to exceed production through the end of 2014. Oyu Tolgoi's goal is to reach four to eight weeks of concentrate production in inventory by the end of 2014.

Sales contracts have been signed for 100% of Oyu Tolgoi's expected 2014 concentrate production and long-term contracts account for 92% of 2015 planned production. Additionally, 84% of concentrate production has been contracted for up to eight years (subject to mutually agreed renewals). All contracts are based on international terms.

While small amounts of higher-grade ore were processed in Q2'14, the grade is expected to increase as the mine deepens into a high-grade zone during the second half of 2014. In the high-grade zone, copper head grades are expected to reach 0.60% - 0.70% per tonne and gold head grades are expected to average approximately 1.0 gram per tonne. Turquoise Hill continues to expect Oyu Tolgoi to produce between 135,000 – 160,000 tonnes of copper and 600,000 – 700,000 ounces of gold in concentrates for 2014.

As operations transition from post-commissioning to steady-state, Oyu Tolgoi has been focusing on cost reduction and productivity initiatives designed to generate positive cash flow, improve overall operational and financial performance.

Discussions with the Government of Mongolia and project financing update

In June 2014, Oyu Tolgoi received a Tax Act (Tax Assessment) from the Mongolian Tax Authority (MTA) as a result of a general tax audit for the period covering 2010 through 2012. The Company believes the Tax Assessment includes breaches of the tax stabilization provisions of the Investment Agreement. The unpaid taxes, penalties and fines imposed by the Tax Assessment are approximately \$127 million and the claim is being disputed.

Oyu Tolgoi is engaging with the Government of Mongolia and the Mongolian Tax Authority to try and resolve these tax disputes.

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All of the 15 global banks participating in the Oyu Tolgoi project financing have agreed to extend their respective commitment letters for the financing of the underground development at Oyu Tolgoi to September 30, 2014. In addition, Export Development Canada, the European Bank of Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the Export-Import Bank of the United States, as well as the Australian Export Finance and Insurance Corporation, also have conditional board approvals to close the financing.

The feasibility study for the underground is largely complete subject to confirmation of some estimate assumptions.

Further underground development is expected to recommence once successful resolution has been reached on the outstanding shareholder issues including satisfactory resolution of the recent tax claims and potential breach of the Investment Agreement, agreement of a comprehensive funding plan including project financing, completion and approval of the underground feasibility study and obtaining all necessary permits for the mine.

Q2'14 development and exploration drilling

Oyu Tolgoi's exploration strategy is focused on developing a project pipeline prioritized in areas that can impact the current development of the Oyu Tolgoi ore bodies, seeking low-cost development options with the potential to directly impact the value of current operations and continuing development of legacy datasets to enable future discovery.

Final results have been received from Hugo West Shallow and are consistent with previous results and expectations of modest grades. Hugo West Shallow is interpreted to form part of a peripheral halo to Southern Oyu mineralization, evidenced by strong structural controls on mineralization, trace sphalerite in most holes and pervasive quartz-sericite-pyrite alteration which in some holes transitions to a chlorite-sericite-pyrite assemblage.

B. SOUTHGOBI

Sales and operations at the Ovoot Tolgoi coal mine

In Q2'14, SouthGobi's revenue was \$6.7 million compared to \$6.1 million in Q2'13. SouthGobi sold 0.63 million tonnes of coal at an average realized selling price of \$12.52 per tonne compared to sales of 0.32 million tonnes of coal from stockpile at an average realized selling price of \$26.26 per tonne in Q2'13. Revenue increased in the second quarter of 2014 compared to the second quarter of 2013 primarily due to higher sales volumes. The average realized selling price was impacted by the product mix in the second quarter of 2014.

Cost of sales was \$21.3 million in Q2'14 compared to \$31.7 million in Q2'13, a decrease of \$10.4 million arising primarily from a reduced writedown of the carrying value of inventory. Cost of sales comprises the direct cash costs of product sold, mine administration cash costs of product sold, costs related to idled mine assets, coal inventory write-downs, mining plant and equipment depreciation, depletion of mineral properties and share-based compensation expense.

Production decreased to 0.55 million tonnes of raw coal in the second quarter of 2014 compared to production of 0.64 million tonnes of raw coal in the first quarter of 2014. This decrease in production is due to SouthGobi's decision in June in response to current market conditions to reduce its production and place approximately half of its workforce in furlough. This furlough is anticipated to remain in place until the end of August subject to market conditions.

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Governmental and regulatory investigations

SouthGobi is subject to investigations by Mongolia's Independent Authority against Corruption (IAAC) and the Mongolian State Investigation Office (SIA) regarding allegations against SouthGobi and some of its former employees. The IAAC investigation concerns possible breaches of Mongolia's anti-corruption laws, while the SIA investigation concerns possible breaches of Mongolia's money laundering and taxation laws.

While the IAAC investigation into allegations of possible breaches of Mongolian anti-corruption laws has been suspended, SouthGobi has not received formal notice that the IAAC investigation is completed. The IAAC has not formally accused any current or former SouthGobi employees of breach of Mongolia's anti-corruption laws.

A report issued by the experts appointed by the SIA on June 30, 2013 and again in January 2014 has recommended that the accusations of money laundering as alleged against SouthGobi's three former employees be withdrawn. However, to date, SouthGobi has not received notice or any legal document confirming such withdrawal as recommended by the experts appointed by the SIA.

A third investigation ordered by the SIA and conducted by the National Forensic Center (NFC) into alleged violations of Mongolian taxation law was concluded at the end of January 2014. The report with conclusions of the investigations by the NFC has been provided to the Prosecutor General of Mongolia. The Prosecutor General has issued criminal charges against the three former employees and SouthGobi's Mongolian subsidiary SouthGobi Sands LLC may be held liable as "civil defendant" for alleged violations of Mongolian taxation law. The case was transferred to a Court of Justice for review by a judge in April 2014. On May 12, 2014, SouthGobi was advised that the appointed judge had concluded that the investigation on the case was incomplete and had ordered that the case be returned to the General Prosecutor for additional investigation. On June 24, 2014, SouthGobi announced it had been informed that the additional investigation has been completed and the case was transferred back to the First Instance Second District Court which set the trial date to June 30, 2014. Following the initial appearances before the court by all concerned parties, the trial date for the case has been deferred until August 25, 2014.

The likelihood or consequences of an outcome or any action taken against SouthGobi Sands LLC as "civil defendant" are uncertain and unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on Turquoise Hill.

Turquoise Hill views these accusations as unfounded and disputes these accusations and the procedures and conclusions of the investigations that led to these accusations and will vigorously defend itself and its former three employees against these charges. At this point, the three former employees continue to be subject to a travel ban. SouthGobi Sands LLC is designated as a "civil defendant" in connection with the tax evasion allegations, and may potentially be held financially liable for the alleged criminal misconduct of its former employees under Mongolian Law.

The SIA also continues to enforce administrative restrictions, which were initially imposed by the IAAC investigation, on certain of SouthGobi's Mongolian assets, including \$1.5 million held in local bank accounts, in connection with its continuing investigation of these allegations. This \$1.5 million is included within the cash balance in Turquoise Hill's financial statements. While the orders restrict the use of in-country funds pending the outcome of the investigation, they are not expected to have a material impact on Turquoise Hill's activities in the short term, although they could create potential difficulties for Turquoise Hill in the medium to long term. Turquoise Hill will continue to take all appropriate steps to protect its ability to conduct its business activities in the ordinary course.

Class action lawsuit

On or about January 6, 2014, Siskinds LLP, a Canadian law firm, filed a proposed securities class action against SouthGobi, certain of its former senior officers and current directors, and its former auditors,

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Deloitte LLP, in the Ontario Superior Court of Justice in relation to SouthGobi's restatement of financial statements as previously disclosed.

The proposed class action seeks general damages against all defendants in the sum of C\$30 million, without particulars as to how such amount was determined, or such other amount that the Court deems appropriate. Turquoise Hill has been advised that SouthGobi disputes and will vigorously defend itself against these claims. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the action or determine the amount of any potential losses, if any. However, in the opinion of Turquoise Hill's management, at June 30, 2014 a provision for this matter is not required.

Turquoise Hill to sell 29.95% stake in SouthGobi

On July 29, 2014, Turquoise Hill announced that it had entered into a share purchase agreement with National United Resources Holdings Limited (the Purchaser), a Hong Kong-based public company listed on the main board of the Stock Exchange of Hong Kong (SEHK), providing for the sale to the Purchaser of a 29.95% stake in SouthGobi.

Under the terms of the agreement, which was effected in accordance with and in reliance upon the "private agreement" exemption under the Canadian takeover bid regime and in accordance with the Hong Kong Code on Takeovers and Mergers, Turquoise Hill has agreed to sell 56,102,000 common shares that it owns in the capital of SouthGobi to the Purchaser at a price of C\$0.455 per common share, following which Turquoise Hill would continue to hold 48,705,155 shares of SouthGobi, representing approximately a 26% stake in SouthGobi. Under the terms of the agreement, the Company is to receive approximately C\$12.8 million in cash at closing and deferred consideration of approximately C\$12.8 million due one year after the closing of the transaction.

Closing is subject to certain closing conditions, including the SEHK approving the circular to be provided to the Purchaser's shareholders for the shareholder vote on the transaction and the Purchaser's shareholders approving the transaction. Closing is expected to occur no later than November 30, 2014.

C. OTHER EXPLORATION

Transaction documents for the sale of the Company's shares in various Indonesian exploration companies were executed on April 25, 2014 and closing conditions are currently being satisfied.

In Q2'14, Turquoise Hill completed the sale of certain Mongolian licenses and technical information considered non-core for gross proceeds and gain of \$14.0 million.

D. CORPORATE ACTIVITIES

Election of directors at Annual Meeting of Shareholders

All nominees set forth in the Turquoise Hill management proxy circular dated March 26, 2014 were elected directors of the Company at the 2014 Annual Meeting of Shareholders, which was held on May 8, 2014.

New Chief Financial Officer

Effective June 1, 2014, Mr. Steeve Thibeault was appointed Chief Financial Officer of the Company replacing Mr. Chris Bateman, who left the Company to pursue other opportunities. Most recently, Mr. Thibeault was Chief Financial Officer of Australian Stock Exchange-listed Energy Resources of Australia.

Class action lawsuits

On December 13 and 18, 2013, two putative securities class action lawsuits were filed in the United States District Court for the Southern District of New York against the Company and certain of its officers

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and directors. The Court has now consolidated these actions and appointed a lead plaintiff. The lawsuit seeks to recover damages resulting from alleged misstatements about the Company's financial performance and business prospects arising from revisions to its recognition of revenue on SouthGobi's coal sales, as disclosed on November 8, 2013. The Company believes the complaint is without merit and will vigorously defend against the lawsuits. The Company filed a motion to dismiss on June 19, 2014. In the opinion of the Company, at June 30, 2014 a provision for this matter is not required.

E. ADMINISTRATIVE AND OTHER

General and administrative costs. General and administrative costs in Q2'14 were \$8.9 million, a decrease of \$8.1 million from Q2'13 (\$17.0 million). The decrease was mainly due to lower employee and consulting costs in Q2'14 and a \$2.6 million decrease in non-cash stock-based compensation expense.

Interest income. Interest income in Q2'14 of \$1.4 million was \$2.7 million lower than Q2'13 (\$4.1 million). The decrease was primarily due to the lower average balance of cash and cash equivalents throughout Q2'14 and the higher rate of interest achieved on amounts deposited with Rio Tinto during Q2'13.

4. LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Operating activities. The \$147.1 million of cash from operating activities in Q2'14 was primarily generated from Oyu Tolgoi cashflows arising as a result of sales and the drawdown of concentrate inventory. Operating cashflows have improved over Q1'14 by \$295.4 million and improved over Q2'13 by \$345.0 million. Revenue was first recorded at Oyu Tolgoi in Q4'13 and increased by \$328.0 million in Q2'14 compared to Q1'14.

Investing activities. Cash used in investing activities totaled \$56.7 million in Q2'14. Property, plant and equipment purchases of \$62.6 million mainly related to activities at the Oyu Tolgoi mine (\$62.5 million).

Financing activities. The \$30.0 million in cash used in financing activities was the result of \$30.0 million drawn on the revolving credit facility at Oyu Tolgoi, offset by repayments of \$60 million on the facility.

Liquidity and capital resources

As at June 30, 2014, Turquoise Hill had consolidated cash and cash equivalents of \$201.2 million, consolidated working capital of \$426.8 million and an accumulated deficit of \$5.8 billion.

On January 13, 2014, the Company successfully closed a rights offering and confirmed gross proceeds of \$2.4 billion and net proceeds of \$2.3 billion. The Company used \$2.2 billion of the net proceeds from the rights offering to repay Rio Tinto all amounts then outstanding on the Interim Funding Facility (\$1.8 billion) and the New Bridge Facility (\$402.6 million), and any remaining proceeds were used for the continued funding of the Oyu Tolgoi mine, working capital requirements, general administrative expenses and other corporate expenses.

On February 20, 2014, Oyu Tolgoi signed a \$126 million non-revolving copper-gold concentrate prepayment agreement with one of its customers whereby Oyu Tolgoi can request the customer to prepay up to 80% of the provisional value of copper-gold concentrate produced for that customer but not yet delivered pursuant to a sales contract. Amounts prepaid by the customer bear interest at a fixed margin over LIBOR and are required to be used for Oyu Tolgoi's working capital and general corporate purposes. At March 31, 2014, the customer had prepaid Oyu Tolgoi \$53.8 million under the prepayment agreement of which \$9.1 million was offset against amounts invoiced to the customer. In Q2'14, no prepayments were made and a further \$26.8 million had been offset resulting in a principal balance of \$17.9 million at June 30, 2014. The prepayment agreement matures on August 30, 2014.

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On February 24, 2014, Oyu Tolgoi signed an unsecured \$200 million revolving credit facility with two banks. Amounts drawn under the credit facility are required to be used by Oyu Tolgoi for working capital purposes. The revolving credit facility bears interest at a fixed margin over LIBOR on any drawn amounts together with a utilization fee, which varies according to the utilized portion of the facility, and a commitment fee on undrawn amounts. The revolving credit facility matures on the earlier of February 24, 2015 and the first draw down of project financing. At March 31, 2014, \$60.0 million had been drawn down on the revolving credit facility. In Q2'14, a further \$30.0 million was drawn down and \$60 million had been repaid, resulting in a principal balance of \$30.0 million at June 30, 2014.

Turquoise Hill believes that based on its current cash position, cash generated from the operation of the Oyu Tolgoi mine, the availability of the \$126 million non-revolving prepayment arrangement and the unsecured \$200 million revolving credit facility, it will have sufficient funds to meet its minimum obligations, including general corporate activities, for at least the next 12 months.

Carrying out further development and exploration of the Oyu Tolgoi mine and the various other mineral properties in which Turquoise Hill holds interests depends upon the Company's ability to obtain financing through capital markets, sales of non-core assets or other means.

In late February 2013, the boards of the European Bank of Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) approved their respective participation in project financing. On April 17, 2013, Rio Tinto signed commitment letters with 15 global commercial banks that locked in pricing and terms. In addition to the approval of the EBRD and the IFC, the Oyu Tolgoi project financing has been conditionally approved by the boards of Export Development Canada, Australian Export Finance and Insurance Corporation, and Export-Import Bank of the United States. The project financing is subject to the unanimous approval of the Oyu Tolgoi Board of Directors, which includes representatives from the Government of Mongolia. The Company remains committed to project financing for underground development and is engaging with the Government of Mongolia.

In July 2013, Turquoise Hill announced that funding and all work on the underground development of Oyu Tolgoi would be delayed until matters with the Government of Mongolia, including project financing, could be resolved and a new timetable had been agreed. Turquoise Hill is of the view that further underground development is expected to recommence once successful resolution has been reached on the outstanding shareholder issues, agreement of a comprehensive funding plan including project financing, completion, approval of the underground feasibility study and obtaining all necessary permits.

Market volatility in precious and base metals may affect the terms upon which debt or equity financing is available. Turquoise Hill operates in some regions of the world that are prone to economic and political instability, which may make it more difficult for Turquoise Hill to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause Turquoise Hill to postpone its development plans, forfeit rights in some or all of its properties or joint ventures, reduce or terminate some or all of its operations or force the Company to raise funds from alternative sources on less favourable terms.

As at June 30, 2014, SouthGobi had cash of \$8.8 million and working capital of \$27.9 million compared to \$21.8 million and \$40.6 million respectively as at December 31, 2013. As at August 11, 2014, SouthGobi had cash of \$6.2 million.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption for SouthGobi. Turquoise Hill anticipates that coal prices in China will remain under pressure through the end of 2014, which will continue to impact SouthGobi's margins and liquidity. Therefore SouthGobi is actively seeking additional sources of financing to continue operating and meet its objectives, while continuing to be focused on minimizing uncommitted capital expenditures while preserving its growth options. On July 29, 2014, the Company entered into a share purchase agreement for the sale of a 29.95% stake in SouthGobi. There can be no assurance that the transactions contemplated by the share purchase agreement will be completed. In the interim, SouthGobi will require additional funding and sources of liquidity, including in order to pay the interest due under the China

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Investment Corporation (CIC) convertible debenture on November 19, 2014. If it fails to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2015, then SouthGobi is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC convertible debenture. As a result, SouthGobi may not be able to continue as a going concern. Please refer to section 13 – RISKS AND UNCERTAINTIES on page 21. Therefore, SouthGobi is actively seeking additional sources of financing to continue operating and meet its objectives. If for any reason, SouthGobi is unable to continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in Turquoise Hill's consolidated financial statements and such adjustments could be material.

While SouthGobi intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default under the \$250.0 million CIC convertible debenture which, if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to SouthGobi by CIC.

Factors that impact SouthGobi's liquidity are being closely monitored and include, but are not limited to, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where SouthGobi operates and exploration and discretionary expenditures.

In Q2'14, SouthGobi was subject to orders imposed by the IAAC which placed restrictions on certain of SouthGobi's Mongolian assets. The orders were imposed on SouthGobi in connection with the IAAC's investigation of SouthGobi. The SIA also continues to enforce the orders on SouthGobi.

The orders placing restrictions on certain of SouthGobi's Mongolian assets could ultimately result in an event of default on SouthGobi's CIC convertible debenture. It is Turquoise Hill's view that this does not result in an event of default as defined under the CIC convertible debenture terms. However, if an event of default on SouthGobi's CIC convertible debenture occurs that remains uncured for ten business days, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to SouthGobi by CIC.

The orders relate to certain items of operating equipment and infrastructure and SouthGobi's Mongolian bank accounts (\$1.5 million). The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in SouthGobi's mining activities. The orders related to SouthGobi's Mongolian bank accounts restrict the use of in-country funds. While the orders restrict the use of in-country funds pending outcome of the investigation, they are not expected to have any material impact on Turquoise Hill's activities.

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

(Stated in \$000's of dollars)	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Financial Assets		
Cash and cash equivalents	\$ 201,214	\$ 78,112
Held-for-trading:		
Long-term investments	94	222
Available-for-sale:		
Long-term investments	43,637	48,831
Other long-term investments	215,474	254,253
Cost method:		
Long-term investments	4,467	7,207
Loans and receivables:		
Accounts receivable	20,762	4,853
Due from related parties	3,686	5,070
Investments subject to significant influence		
Long-term investments	23,780	23,470
Financial Liabilities		
Accounts payable and accrued liabilities	320,641	386,340
Payable to related parties	106,668	175,806
Credit facilities	48,099	-
Interim and bridge funding facilities and interest payable	-	2,142,792
Convertible credit facility debt host contract and interest payable	98,047	96,002
Derivatives		
Standby purchaser liability (related party)	-	71,886
Rights offering derivative liabilities	-	928,280
Convertible credit facility embedded derivative liability	2,275	3,395

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

- Long-term investments – Fair values of freely tradeable long-term investments were determined by reference to published market quotations, which may not be reflective of future values. Whereas, fair values of long-term investments with trading restrictions were determined by applying a liquidity discount to published market quotations, which may not be reflective of future values.
- Other long-term investments – Fair values were determined by considering the best available data regarding market conditions for such investments, which may not be reflective of future values.
- Standby purchaser fee liability – The fair value of the standby purchaser fee liability, which was included in payable to related parties prior to its settlement in January 2014, was determined using the optimal currency of exercise for a right, which may not be reflective of future value.
- Rights offering derivative liabilities – The fair value of the derivative financial liability associated with rights held by Rio Tinto was determined using a forward pricing model, which uses readily observable inputs. The fair value of the derivative financial liability associated with rights held by

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the Company's non-controlling shareholders was determined by reference to published market quotations for the rights. Neither of these estimated fair values may be reflective of future values.

- Convertible credit facility embedded derivative liability – Fair value was determined using a Monte Carlo simulation valuation model.

The consolidated statements of operations include the following amounts of unrealized gains (losses) from fair value adjustments to financial instruments:

(Stated in \$000's of dollars)	Three Months Ended,		Six Months Ended,	
	June 30,		June 30,	
	2014	2013	2014	2013
Unrealized losses on long-term investments	\$ (8)	\$ (473)	\$ (48)	\$ (468)
Unrealized gains on other long-term investments	-	-	-	238
Change in fair value of derivative	-	-	(32,970)	-
Change in fair value of embedded derivatives	120	3,343	1,120	4,091
Write-down of long-term investments	-	(4,649)	(1,766)	(4,469)

The total other comprehensive income and loss includes the following amounts of unrealized gains (losses) from fair value adjustments to financial instruments:

(Stated in \$000's of dollars)	Three Months Ended,		Six Months Ended,	
	June 30,		June 30,	
	2014	2013	2014	2013
Unrealized (losses) gains on available-for-sale equity securities	\$ (4,751)	\$ 3,348	\$ (11,760)	\$ (284)
Unrealized gains (losses) on available-for-sale debt securities	4,820	(1,588)	8,570	(12,213)

Turquoise Hill is exposed to credit risk with respect to its accounts receivable and other long-term investments. The significant concentrations of credit risk are situated in Mongolia and China.

Turquoise Hill is exposed to interest-rate risk with respect to the variable rates of interest incurred on credit facilities and earned on cash and cash equivalents. Interest-rate risk is concentrated in Canada and Mongolia and principally relates to the U.S. dollar LIBOR. Turquoise Hill does not mitigate this risk.

5. SHARE CAPITAL

As at August 12, 2014, the Company had a total of:

- 2,012,298,797 common shares outstanding;
- 4,566,906 incentive stock options outstanding, with a weighted average exercise price of C\$13.70 per share. Each option is exercisable to purchase a common share of the Company at prices ranging from C\$2.41 to C\$23.75 per share;
- Series D Warrants exercisable to purchase 74,247,460 common shares of the Company at any time until May 22, 2015 at a price of \$8.20; and
- Anti-Dilution Series D Warrants exercisable to purchase 74,247,460 common shares of the Company at any time until May 22, 2015 at a price of \$4.31.

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6. OUTLOOK

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

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

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

Copper market

Commodity prices are a key driver of Turquoise Hill's future earnings. Copper prices remain volatile but have been on a recovering trend since early July 2014. After reaching \$3.20 per pound in late-May 2014, prices dropped to just above \$3.00 per pound as a result of the Qingdao port financing scandal with reports of a Chinese company fraudulently pledging the same lots of cathode as collateral multiple times. This resulted in tightened availability for letters of credit and temporarily constrained Chinese import demand.

Since mid-June 2014, the market has begun to re-focus on tight physical availability with exchange cathode stocks at their lowest level since 2008, combined with signs that the Chinese economy has stabilized and further positive indications from the US economy. This led to prices recovering to approximately \$3.25 per pound in early July 2014.

The concentrate market continues to be supported by the disruption to Indonesian exports but has been partially offset by maintenance or delays at Chinese smelters. Spot treatment and refining charges are currently approximately 105 and 10.5 respectively, above the 2014 annual benchmarks of 92 and 9.

Gold prices were broadly flat in June 2014 at approximately \$1,280 per ounce; however prices began picking up in early July 2014 as a result of increased hedging demand following conflict escalation in the Middle East.

It is difficult to reliably forecast commodity prices and customer demand for Turquoise Hill's products; however, long-term sales contracts based on international terms have been signed on a substantial portion of the Oyu Tolgoi mine's concentrate production.

SouthGobi

SouthGobi continues to operate under difficult market conditions. Coal prices in China declined further in Q2'14 compared to Q1'14 as a result of strong seaborne and domestic supply. The decline in coal prices has been partially offset by the increase in SouthGobi's volumes in Q2'14 compared to the seasonally slow first quarter.

In June 2014, following a review of operations in response to current market conditions, SouthGobi reduced its production and placed approximately half of its workforce in furlough. This furlough is anticipated to remain in place until the end of August subject to market conditions. Contracted sales volumes are expected to be met from the combination of the existing coal stockpile and reduced production volumes.

SouthGobi anticipates that coal prices in China will remain under pressure through the end of 2014, which will continue to impact SouthGobi's margins and liquidity. SouthGobi continues to strive for further cost reductions and where possible delay expenditures. As at the date hereof, SouthGobi expects to be able to make the \$8 million cash interest payment on the CIC convertible debenture on November 19, 2014. However, in the event a loan or other financing arrangement is not secured by November 19, 2014, and

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even if such loan is secured, if SouthGobi does not secure additional funding to address its cash requirements through June 30, 2015, SouthGobi is unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments. Therefore, SouthGobi is actively seeking additional sources of financing to continue operating and meet its objectives.

In order for SouthGobi to continue as a going concern, it must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If SouthGobi fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business as described above, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations) and it may not be able to continue as a going concern. Please refer to Section 13 – RISKS AND UNCERTAINTIES on page 21 of this MD&A. While SouthGobi intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the \$250.0 million CIC convertible debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to SouthGobi by CIC. If for any reason, SouthGobi is unable to continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in Turquoise Hill's consolidated financial statements and such adjustments could be material.

Corporate

On July 29, 2014, Turquoise Hill announced that it had entered into a share purchase agreement for the sale of a 29.95% stake in SouthGobi. The transaction is subject to certain closing conditions. Upon closing, Turquoise Hill will retain an approximately 26% interest in SouthGobi.

Please refer to Section 3 B – REVIEW OF OPERATIONS – SOUTHGOBI on page 9 of this MD&A.

Exchange Rates

Oyu Tolgoi's and SouthGobi's sales are settled in U.S. dollars, while a significant portion of their expenses are incurred in local currencies. Foreign exchange fluctuations can have a significant effect on Turquoise Hill's operating margins, unless such fluctuations are offset by related changes to commodity prices.

7. OFF-BALANCE SHEET ARRANGEMENTS

During the six months ended June 30, 2014, Turquoise Hill was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of the Company.

8. CONTRACTUAL OBLIGATIONS

As at June 30, 2014, there were no significant changes in Turquoise Hill's contractual obligations and commercial commitments from those disclosed in its MD&A for the year ended December 31, 2013. Primarily as a result of the repayment of the Interim Funding facility and New Bridge Facility from the closing of the 2014 Rights Offering, the debt obligations less than one year have decreased and the updated schedule as at June 30, 2014 is shown below:

	Payments Due by Period				
	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Debt obligations ⁽¹⁾	\$ 48,099	\$ -	\$ -	\$ 250,000	\$ 298,099

- (1) Debt obligations comprise SouthGobi's CIC convertible credit facility that matures in 2039 and two other credit facilities that mature in less than one year.

9. CHANGES IN ACCOUNTING POLICIES

In July 2013, Financial Accounting Standards Board Accounting Standards Codification (ASC) guidance was updated to clarify the presentation of unrecognized tax benefits when a net operating loss carryforward exists. The updated guidance provides that an unrecognized tax benefit should generally be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or similar tax losses or tax credit carryforwards. The updated guidance was effective for the Company's fiscal year beginning January 1, 2014. The adoption of the updated guidance had no impact on the Company's consolidated balance sheet or results of operations.

In April 2014, ASC guidance was updated related to discontinued operations which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. The updated guidance requires an entity to only classify discontinued operations due to a major strategic shift or a major effect on an entity's operations in the financial statements. The updated guidance will also require additional disclosures relating to discontinued operations. The updated guidance was adopted for the Company's interim period beginning April 1, 2014 and will be applied prospectively to all disposals or classifications as held for sale that occur on or after that date.

10. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 its MD&A for the year ended December 31, 2013.

11. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, ASC guidance was issued relating to service concession arrangements. This guidance states that certain service concession arrangements with public-sector grantors are not within the scope of lease accounting. Operating entities entering into these arrangements should not recognize the related infrastructure as its property, plant and equipment and should apply other accounting guidance. The updated guidance becomes effective for the Company beginning January 1, 2015.

In May 2014, ASC guidance was issued related to revenue recognition from contracts with customers. The updated guidance becomes effective for the Company beginning January 1, 2017.

The Company has not assessed the impact, if any, of the standards that become effective January 1, 2015 or later.

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS CHANGEOVER PLAN

The Company currently files its consolidated financial statements with Canadian and U.S. securities regulators in accordance with U.S. GAAP, as permitted under securities regulations in both countries. These regulations also permit the Company to file its consolidated financial statements with Canadian and U.S. securities regulators in accordance with International Financial Reporting Standards (IFRS), which is the predominant accounting framework for Canadian public companies.

Certain subsidiaries of the Company, including Oyu Tolgoi and SouthGobi, currently prepare their financial statements in accordance with IFRS. The Company's parent, Rio Tinto, also prepares its

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consolidated financial statements in accordance with IFRS. For purposes of reporting efficiencies, on November 29, 2013, the Company's Audit Committee approved management's decision to adopt IFRS effective January 1, 2015. Due to the requirement to present comparative financial information, the effective transition date will be January 1, 2014.

The Company's IFRS conversion project consists of four phases: scoping and planning, detailed assessment, implementation and post-implementation.

The scoping and planning phase involves establishing a project team and organizational structure, including oversight of the process. This phase also entails an initial assessment of the key areas where IFRS transition may have a significant impact and present significant challenges. The Company has completed the scoping and planning phase. The second phase, detailed assessment, involves in-depth technical analysis that will result in understanding potential impacts, decisions on accounting policy choices and the drafting of accounting policies. The Company is progressing through the detailed assessment phase. During the implementation phase, the Company will identify and carry out the implementation requirements to effect management's accounting choices, develop sample financial statements, implement business and internal control requirements, calculate the opening balance sheet at January 1, 2014 and other transitional reconciliations and disclosure requirements. The Company expects to complete the detailed assessment and implementation phases during the fourth quarter of 2014 in order to be able to effectively adopt IFRS for its first quarter of 2015. The last phase, post-implementation, will involve continuous monitoring of changes in IFRS following the implementation process.

The Company is developing and maintaining IFRS competencies by addressing training requirements at various levels within the organization.

Scoping and Detailed Assessment

IFRS 1 - First-Time Adoption of International Financial Reporting Standards

Adoption of IFRS requires the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS.

The following are the optional exemptions available under IFRS 1 that the Company currently intends to elect on transition to IFRS. The Company continues to review all IFRS 1 exemptions and will implement those determined to be most appropriate. The list below and comments should not be regarded as a complete list of IFRS 1 elections available to the Company as a result from the transition to IFRS.

Business Combinations

Under IFRS 1, an entity has the option to retroactively apply IFRS 3, *Business Combinations* to all business combinations or may elect to apply the standard prospectively only to those business combinations that occur after the date of transition. The Company currently intends to elect this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

Share based payments

Under IFRS 1, an entity can elect not to apply the requirements of IFRS 2, *Share Based Payments* to options granted before November 7, 2002 and options granted after November 7, 2002 which were vested at the date of transition. The Company currently intends to elect this exemption under IFRS 1.

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Foreign currency translation

Under IFRS 1, a first-time adopter can elect to reset its cumulative translation account to zero on the transition date with the amount being adjusted to opening retained earnings. The Company's management is considering this IFRS 1 election in conjunction with its assessment of functional currency.

Potential Significant Impacts on Transition to IFRS

Based on the assessment performed to date, the Company's management has identified the following key areas of IFRS and US GAAP differences that are being assessed for potential changes in accounting policies that may impact the consolidated financial statements. This list should not be regarded as a complete list of changes that will result from transition to IFRS and is intended to highlight those areas where the potential for change is believed to be most significant. The Company is currently assessing the impact of each of the following areas and has not concluded whether differences will arise:

- Investments in subsidiaries and affiliates and related transactions;
- Exploration and evaluation costs;
- Impairment of long-lived assets;
- Foreign currency translation;
- Decommissioning and restoration provisions;
- Share based payments;
- Provisions for onerous contracts; and
- Financial instruments.

The discussion above regarding potential significant impacts on transition to IFRS is provided to allow readers to obtain a better understanding of the Company's IFRS changeover plan and the areas of potential effects on the Company's consolidated financial statements. Readers are cautioned that it is premature to draw conclusions as to the impact of IFRS on the Company's consolidated financial statements. This discussion reflects the Company's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations. The Company is still in the process of completing the selection of IFRS accounting policies and its assessment and quantification of potential differences from U.S. GAAP. Once completed, this information will be subject to (i) approval by the Company's Audit Committee, and (ii) audit prior to being finalized. Accordingly, the discussion above is subject to change.

Systems and Processes

The Company continues to assess the impact of the IFRS transition project on systems and processes, including an assessment on information technology systems and internal controls.

The Company is applying its existing control framework to the IFRS changeover process. All accounting policy changes and transitional financial position impacts will be subject to review by senior management and the Company's Audit Committee.

Business Activities

The Company is currently assessing the impacts of the IFRS transition project on all areas of the business, including contractual arrangements, financial covenants and key ratios.

13. RISK AND UNCERTAINTIES

Turquoise Hill is subject to a number of risks due to the nature of the industry in which it operates, 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, other than that which is described

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below, from those disclosed in its MD&A for the year ended December 31, 2013 and in its Annual Information Form dated March 26, 2014 in respect of such period.

If SouthGobi fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2015, SouthGobi will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern and may be forced to seek relief under applicable legislation (or an involuntary petition for bankruptcy relief or similar creditor action may be filed or taken against it). Therefore, SouthGobi is actively seeking additional sources of financing to continue operating and meet its objectives.

The significant uncertainties faced by SouthGobi relating to its ability to generate sufficient cash flows from operations and to continue to operate its business, may affect the price and volatility of SouthGobi's common shares and any investment in such shares could suffer a significant decline or total loss in value. This volatility may adversely affect the price of SouthGobi's common shares regardless of SouthGobi's operating performance.

14. RELATED-PARTY TRANSACTIONS

As at June 30, 2014, Rio Tinto's equity ownership in the Company was 50.8% (December 31, 2013: 50.8%).

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

(Stated in \$000's of dollars)	June 30, 2014	December 31, 2013
Due from related parties	3,686	5,070
Payable to related parties:		
Management services payment (i)	(41,096)	(100,569)
Cost recoveries (ii)	(65,572)	(75,237)
Standby purchaser fee (iii)		(71,886)
Interest payable on long-term debt (iv)	-	(13,530)
Interim funding facility (iv)	-	(1,789,787)
New bridge facility (iv)	-	(339,475)
	\$ (102,982)	\$ (2,385,414)

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

(Stated in \$000's of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income on demand deposits (v)	\$ -	\$ 2,042	\$ -	\$ 5,679
Costs recoveries - Turquoise Hill	305	717	882	1,287
Financing costs:				
Front end fees	\$ -	\$ (1,125)	\$ -	\$ (1,125)
Commitment fees	-	(3,793)	(224)	(11,085)
Interest expense (iv)	-	(30,857)	(4,903)	(61,467)
Management services payment (i)	(7,143)	(5,294)	(13,508)	(8,574)
Costs recoveries - Rio Tinto (ii)	(24,235)	(21,819)	(40,541)	(45,199)
	\$ (31,073)	\$ (60,129)	\$ (58,294)	\$ (120,484)

- (i) In accordance with the ARSHA, which was signed on June 8, 2011, and other related agreements, Turquoise Hill is required to pay a management services payment to Rio Tinto equal to a percentage of all capital costs and operating costs incurred by Oyu Tolgoi from March 31, 2010 onwards. Until the Oyu Tolgoi mine achieved the Commencement of Production, as defined in the Investment Agreement, on September 1, 2013, the percentage of costs used to calculate the management services payment was 1.5%. Thereafter, the percentage increased to 3.0%.
- (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 the Oyu Tolgoi mine.
- (iii) In Q1'14, the Company recognized a derivative gain of \$1.1 million associated with remeasuring the standby purchaser fee liability.
- (iv) In Q1'14, the Company used \$2.2 billion of the net proceeds from the rights offering that closed in January 2014 to repay all amounts outstanding on the Interim Funding Facility (\$1.8 billion) and the New Bridge Facility (\$402.6 million).
- (v) In Q4'12, the Company deposited two amounts with Rio Tinto that earned interest at LIBOR plus 3.25% and were required to be repaid, in whole or in part, to the Company on demand. One deposit of \$274.2 million was repaid on March 1, 2013 when Rio Tinto terminated that deposit arrangement in accordance with its terms. The remaining \$696.4 million on deposit with Rio Tinto was fully repaid by May 22, 2013.
- (vi) The terms of the Rio Tinto credit facilities include gross-up provisions for withholding taxes. Accordingly, commitment fees and interest expense include gross-ups for withholding taxes where applicable.

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

15. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the six months ended June 30, 2014, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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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 (responsibility for overall preparation and mineral reserves), B. Eng. (Mining), FAusIMM (201743), employed by OreWin Pty Ltd as Technical Director – Mining and Kendall Cole-Rae (responsibility for mineral resources, geology and exploration), B.Sc. (Geology), SME (4138633), employed by Rio Tinto as a Principal Geologist. Each of these individuals is a “qualified person” as that term is defined in 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 resources and reserves, readers should refer to the Annual Information Form of the Company for the year ended December 31, 2013, and other continuous disclosure documents filed by the Company since January 1, 2014, under Turquoise Hill's profile on SEDAR, at www.sedar.com.

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

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

Canadian standards, including NI 43-101, differ significantly from the requirements of the U.S. Securities and Exchange Commission (the “SEC”), and reserve and resource information contained in this document may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term “resource” does not equate to the term “reserve”. Under U.S. standards, mineralization may not be classified as a “reserve” unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. 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 U.S. *Private Securities Litigation Reform Act of 1995*. Forward-looking information and statements relate to future events or future performance, reflect current expectations or beliefs regarding future events and are typically identified by words such as "anticipate", "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. Such statements and information are based on numerous assumptions regarding present and future business strategies 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, the ability to complete the disposition of certain of its non-core assets, the ability and timing to complete project financing and/or secure other financing on acceptable terms, and the evolution of discussions with the Government of Mongolia on a range of issues including the implementation of the Investment Agreement, project development costs, operating budgets, the payment of taxes and taxation matters, management fees and governance and the existence or filing of legal proceedings against the Company and its officers and directors. Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward-looking statements and information include, among others, copper, gold and silver price volatility, discrepancies between actual and estimated production, mineral reserves and resources and metallurgical recoveries, mining operational and development risks, litigation risks, regulatory restrictions (including environmental regulatory restrictions and liability), activities or assessments by governmental authorities, currency fluctuations, the speculative nature of mineral exploration, the global economic climate, dilution, share price volatility, competition, loss of key employees, additional funding requirements, capital and operating costs for the construction and operation of the Oyu Tolgoi mine and defective title to mineral claims or property. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements.

With respect to specific forward-looking information concerning the construction and development of the Oyu Tolgoi mine, 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 impact of the decision announced by the Company to delay the funding and development of the Oyu Tolgoi underground mine pending resolution of outstanding issues with the Government of Mongolia associated with the development and operation of the Oyu Tolgoi mine and to satisfy all conditions precedent to the availability of Oyu Tolgoi Project Financing; the time required to complete the underground feasibility study for the Oyu Tolgoi Project and the approval of such study by Oyu Tolgoi's shareholders, 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 availability and cost of appropriate

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smelting and refining arrangements; the obtaining of (and the terms and timing of obtaining) necessary environmental and other government approvals, consents and permits; the availability of funding on reasonable terms; the timing and availability of a long-term power source for the Oyu Tolgoi mine; delays, and the costs which would result from delays, in the development of the underground mine (which could significantly exceed those projected in the 2013 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 the Oyu Tolgoi mine.

The cost, timing and complexities of mine construction and development are increased by the remote location of a property such as the Oyu Tolgoi mine. It is common in new 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 the Oyu Tolgoi mine has achieved commercial production, there is no assurance that future development activities will result in profitable mining operations. In addition, funding and development of the underground component of the Oyu Tolgoi mine have been delayed until matters with the Government of Mongolian can be resolved and a new timetable agreed. These delays can impact project economics.

The Company's 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 therein 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 the Oyu Tolgoi mine, 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 the Company's MD&A filed on SEDAR and EDGAR.

Readers are cautioned not to place undue reliance on forward-looking information or statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements are included in the "Risk Factors" section in the Company's Annual Information Form dated as of March 26, 2014 in respect of the year ended December 31, 2013 (the "AIF").

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