

QGX LTD.

Management Discussion and Analysis of Financial Results

This section provides an analysis of the financial results of the Company for 2004 as compared to the prior year and should be read in conjunction with our audited financial statements and the notes to the financial statements for the years ended December 31, 2004 and 2003 (collectively, the “Financial Statements”).

This MD&A has been prepared in conformity with National Instrument 51-102 F1 and has been approved by the Board of Directors.

Description of Business

QGX Ltd. (“QGX” or the “Company”) was formed on August 1, 2002 through a merger between Quincunx Gold Exploration Ltd. (“Quincunx”) and Emerging Ventures Corp. (“EVS”). Quincunx was a private company that had been engaged in mineral exploration in Mongolia since its inception in 1994. EVS was a capital pool corporation listed on the TSX Venture Exchange. QGX has carried on the business of Quincunx following the merger.

QGX is focused on discovering and developing economic mineral deposits in Mongolia. At December 31, 2004, the Company held 148 mineral exploration licenses in Mongolia covering over 40,000 sq. km. The Company’s principal property is the Golden Hills prospect in western Mongolia. Over 100 holes have been drilled on the property to date and the Company announced the completion of an independent NI 43-101 compliant mineral resource estimate for the Central Valley Zone (CVZ) at Golden Hills on February 28, 2005.

The Common Shares of the Company are listed for trading on the Toronto Stock Exchange under the symbol “QGX”.

Selected Financial Information, For Years Ending December 31 (\$CDN)

	2004	2003	2002
Revenue	276,866	176,075	14,156
Resource Properties Expenditures	8,462,457	5,045,787	2,248,053
Loss	4,352,655	3,405,092	2,047,667
Loss per share	0.14	0.12	0.09
Total Assets	25,491,592	28,383,925	8,605,674
Working Capital	6,514,059	17,227,903	3,739,093
Shares Outstanding (weighted average)	32,111,554	27,687,378	22,075,171
Long term Debt	Nil	Nil	Nil
Dividends	Nil	Nil	Nil

Results of Operations

Revenues and Expenses

Revenues earned by the Company have been insignificant to date as the Company is still in the exploration stage and does not have any producing properties. Revenues were derived solely from interest income earned on cash balances and for the year 2004 amounted to \$276,866 as compared to \$176,075 in the prior year. Expenses increased to \$4,629,520 in 2004 as compared to \$3,581,167 in the prior year. The bulk of the increase can be attributed to management's decision to write down the carrying value of certain licenses that were abandoned in 2004, which amounted to \$1,468,539. There was no writedown of resource properties in 2003. This was partially offset by a decrease of approximately \$1 million in stock based compensation expense recorded in 2004 as compared to 2003. The property writedown and the stock base compensation expenses are both non-cash charges and as such do not have a direct impact on the Company's ability to fund operations.

The Company recorded a loss of \$4,352,655 (\$.14 per common share) in 2004 as compared to a loss of \$3,405,092 (\$.12 per common share) in 2003. The results in both years reflect the fact that the Company is incurring significant expenditures but not earning any revenues from operations, other than interest income. This is a common result for mineral exploration companies and we expect this trend to continue until we are able to generate meaningful operating revenues.

Quarterly Disclosure – Eight Most Recently Completed Quarters

The following table sets forth unaudited financial information prepared by management of the Company.

	Three Months Ended			
	<u>Dec. 31/04</u>	<u>Sept. 30/04</u>	<u>Jun. 30/04</u>	<u>Mar. 31/04</u>
Revenues	\$42,616	\$57,032	\$71,545	\$105,673
Net income (loss) per share – basic	(2,182,343) (0.07)	(1,138,916) (0.04)	(715,536) (0.02)	(315,860) (0.01)

	Three Months Ended			
	<u>Dec. 31/03</u>	<u>Sep. 30/03</u>	<u>Jun. 30/03</u>	<u>Mar. 31/03</u>
Revenues	\$98,852	\$26,231	\$33,716	\$17,276
Net income (loss) per share – basic	(2,623,242) (0.09)	(217,350) (0.01)	(325,547) (0.01)	(238,953) (0.01)

Resources Expenditures

QGX is engaged in the acquisition, exploration and development of resource properties. Resource properties are recorded at cost. All acquisition, exploration and related overhead expenditures are recorded as an asset on the balance sheet under the heading "Resource properties". These expenditures will be depleted over the estimated life of the properties if and when they reach production or will be written down by management when it is determined that the net carrying amount will not be recovered.

All of the Company's properties are in the exploration stage and there can be no assurance that any of them will reach the stage of production.

The Company expended \$8,462,457 on resource properties in Mongolia during the current period (\$5,045,787 in 2003). Net additions for the year amounted to \$6,993,918 after a writedown of resource properties amounting to \$1,468,539 that was recorded in 2004. There was no writedown in 2003.

The bulk of resource property expenditures were allocated to the Golden Hills prospect (\$5,419,493). Over 50 holes were drilled in 2004 at a cost of approximately \$3.3 million. Other significant expenditures on the project included lab fees, geophysics and travel.

The next largest resource property expenditure in 2004 was on the Shuteen prospect (\$883,723) where the exploration program included a significant amount of geophysical work followed by the initiation of a 7- 9 hole drill program.

An initial drill program and related work was also carried out on the TT prospect in NE Mongolia where QGX expended at total of \$605,949 in 2004.

A summary of the exploration highlights for 2004 is provided below under "Exploration Results".

Financial Condition, Liquidity and Capitalization

Working Capital

QGX had working capital of \$6,514,049 at December 31, 2004, (2003-\$17,227,903) consisting primarily of cash and cash equivalents. The decrease is directly attributable to the operating loss (adjusted for non-cash items such as stock option expense) and resource property expenditures as noted in the preceding sections. Management believes that the Company has sufficient cash to cover planned exploration expenditures and operating expenses although the Company may seek to raise additional capital from time to time as market conditions warrant. There can be no assurance that additional funds will be available at any given time. Management will adjust its budgets accordingly to ensure that adequate working capital is maintained.

The Company had no long-term liabilities at year end.

Capitalization

The Company had approximately 32.2 million common shares outstanding at December 31, 2004 versus approximately 31.7 million outstanding at December 31, 2003. The

increase in 2004 was attributable to the 300,752 (2003 - 797,328) shares issued pursuant to the exercise of broker warrants and 161,000 (2003 - 175,000) shares issued pursuant to the exercise of stock options.

As at December 31, 2004 the Company's fully diluted share capital was 35,246,556 shares. The potential dilution comes from 3,048,500 stock options issued to officers, directors, employees and consultants, at exercise prices ranging from \$.50 to \$5.25.

Exploration Results

Exploration results for the year ended December 31, 2004 (updated to the date of this report) for each key property are summarized below along with plans for future work:

Golden Hills

Golden Hills, located in western Mongolia, is the Company's principal property. Over 100 holes have been drilled to date resulting in numerous intersections yielding significant gold (Au), copper (Cu) and silver (Ag) in three types of ore: gossan (oxide) containing Au-Ag; massive sulphides containing Cu-Au-Ag; and quartz-telluride veins containing high-grade Au-Ag. The Company issued several press releases throughout the year summarizing assay results from its ongoing drill program.

On February 28, 2005 QGX announced the completion of an independent, NI 43-101 compliant, mineral resource estimate for the Central Valley Zone (CVZ) at the Golden Hills project. The estimate was prepared by Chlumsky Armbrust & Meyer L.L.C., ("CAM"), of Denver, Colorado.

Significant conclusions of the CAM report include:

1) The CVZ Massive Sulphide contains an estimated resource totaling:

- Measured and Indicated: 10.16 million tonnes grading 1.72 % copper, 0.39 g/t gold and 5.4 g/t silver.
- Inferred: 9.50 million tonnes grading 1.29 % copper, 0.33 g/t gold and 4.5 g/t silver.
- 0.80% copper cutoff applied

2) The CVZ Oxide contains an estimated resource totaling:

- Measured and Indicated: 3.1 million tonnes grading 2.83 g/t gold and 18.9 g/t silver, .
- Inferred: 1.75 million tonnes grading 2.72 g/t gold and 19.5 g/t silver.
- 1.0 g/t gold cutoff applied.

3) The CVZ High-Grade Quartz-Telluride contains an estimated resource totaling:

- Inferred: 696,000 tonnes grading 19.63 g/t gold and 35.0 g/t silver.
- 3.0 g/t gold cutoff applied.

4) Total contained metal and in-situ metal value, as calculated by QGX, at the above cutoffs::

- Measured and Indicated: 1,708,000 gold equivalent ounces (In-situ metal value: US\$734.4 million)
- Inferred: 1,615,000 gold equivalent ounces (In-situ metal value: US\$694.4 million)

Based on the positive results of this resource estimation, CAM recommends that QGX carry out further drilling, metallurgical, mining and geotechnical studies at Golden Hills in order to advance the project.

Further details concerning the CAM report can be found in the Company's press release dated February 28, 2005.

QGX can earn an 80% interest in the Central Valley Zone licenses by expending US\$450,000 on the property by July 1, 2005. QGX can increase its interest to 100% by making a payment of US\$1,000,000 after completion of the earn-in.

Shuteen

The Shuteen property is held pursuant to a joint venture between Ivanhoe Mines Ltd., Jinshan Gold Mines Inc and QGX. (see press release dated July 26, 2004). Under the terms of the joint venture, QGX can earn an 80% interest in the property by completing \$710,000 US in exploration expenditures by July of 2006.

Shuteen is located 120 kms to the NE of Oyu Tolgoi and lies to the immediate south of the Bronze Fox prospect. Both projects are owned and operated by Ivanhoe Mines Ltd. Shuteen represents a series of porphyry copper-gold prospects contained in a district-scale license located in the southern Gobi porphyry copper-gold belt.

A drill program consisting of 7-9 holes commenced in late November 2004 and is currently ongoing. See press dated October 26, 2004 for a description of the drill targets. No assay results have been reported as of the date of this report.

Baruun Naran (Coal)

In 2002 QGX acquired the Baruun Naran licence which is located 22 kms west of Tavan Tolgoi the largest, undeveloped coal deposit in Asia. The Baruun Naran licence is on strike of and within the same synclinal basin that hosts Tavan Tolgoi. Historical work by the Mongolian/Russian geologic expeditions identified a prominent coal seam that extends for 9.5 kms within the Baruun Naran licence. In early 2005 QGX acquired an historical data set based on the work completed by the earlier Mongolian/Russian expeditions. In March we retained the services of an independent coal consultant to assess the significance of the coal occurrence. On receipt of the consultant's report we will update shareholders on his findings.

North-East Mongolia (TT License)

QGX initiated an extended gold reconnaissance program in 2004 in the NE area of Mongolia. The objective of the program was to look for low-sulphidation state epithermal vein opportunities similar to the vein systems at the Baley deposit located on strike, 200 kms to the NE, in Russia. The reconnaissance program led to the discovery of several low-sulphidation state, epithermal prospects. Drilling on the initial system late in 2004 yielded only anomalous gold values. The Company remains of the opinion that the regional geologic setting in NE Mongolia is similar to other low-sulphidation state, epithermal districts and plans to continue exploration in this area during the 2005 field season. QGX has acquired a large land position in this area.

Onon

The Onon prospect consisted of a series of exploration licenses covering 50 km by 15 km within the Onon graben (valley) in NE Mongolia that was considered prospective for epithermal gold deposits. An initial drill program in the first quarter of 2004 did not return any significant mineralization. Additional work led management to conclude that the property does not hold potential for economic mineralization. The agreement pursuant to which QGX had a right to earn an interest in this property was terminated in September. Management recorded a write-down in the period equal to the full amount that had been expended on the property (\$803,770) to reflect the termination of the Company's interest in the property.

Erdene Tolgoi (SE Mongolia)

In late 2002 QGX acquired several licenses covering approximately 10,000 sq km in southeastern Mongolia that were considered prospective for porphyry Cu-Au deposits.

In late 2003-early 2004 three diamond drill holes were completed at the Chuluut and Chuluut South prospects in this area. At Chuluut, both drill-holes intersected a pyrite-bearing breccia body with associated porphyry-style veins and alteration. The copper grades are low within the breccia and the adjacent altered and veined country rock, ranging from <100 to 2400 ppm. Gold and silver grades are also low, ranging from <0.01 to 0.05 ppm Au and from <1 to 6 ppm Ag. At Chuluut South a single drill hole intersected a thick sequence of pyrite-rich metalvocalic rocks but did not intersect porphyry-style mineralization.

Limited work was performed on this property during the balance of the year. The Company elected to drop certain licenses that it considered to be non-prospective, representing approximately 87% of the lands held under license in the area. A writedown equal to 87% of the carrying costs of this project area was recorded for 2004, which amounted to \$545,813. The Company considers the remaining licenses to be prospective for mineralization and will implement a work program in due course.

Joint Venture Properties

QGX has a carried interest in two advanced exploration prospects in the south Gobi desert of Mongolia, *Kharmagtai* and *Ovoot Hyar* that are being explored by Ivanhoe Mines Ltd. The Kharmagtai exploration license covers 67 square kilometres (26 sq.miles), approximately 120 kilometres north of Ivanhoe's Turquoise Hill project. QGX has a 10% carried interest through to production in the Kharmagtai Project and a 20%

carried interest through to production in additional exploration licenses covering approximately 6,530 square kilometres (2,520 sq. miles) in the immediate vicinity of Kharmagtai (referred to as the Ovoot Hyar license).

In a press release issued on June 14, 2004, Ivanhoe reported that several early holes had intersected long intercepts of high-grade gold and copper porphyry mineralization starting near surface. Ivanhoe reported that Hole KH259 intersected 203 metres grading 2.45 g/t gold and 0.45% copper, beginning at a down-hole depth of three metres. This hole followed on the success of hole KH240 drilled at the end of the 2003 field season, which intersected 245 metres grading 2.48 g/t gold and 0.75% copper beginning at a down-hole depth of three metres. Hole KH183, also drilled in the 2003 season, intersected 62 metres grading 1.44 g/t gold and 0.47% copper, beginning at a depth of two metres.

Ivanhoe stated that drilling was ongoing to better define the potential size and grade of this new gold-rich zone and that it planned to have an independently prepared resource estimate prepared for the Kharmagtai Project upon completion of the current phase of drilling.

No further results from either of the joint venture properties have been released by Ivanhoe subsequent to the above-noted report.

Qualified Persons

David Anderson, President and Chief Executive Officer, and Patrick Redmond, Chief Geologist, are the qualified persons under National Instrument 43-101 who supervise all work and review all press releases associated with the Company's exploration programs in Mongolia.

Change in Accounting Policies

There have been no changes in accounting policies since the Company's most recent year end.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the Interim Statements include the Company's estimate of the recoverable value of its resource properties as well as the value of stock-based compensation. Both of these estimates could be significantly affected by factors that are out of the Company's control.

Resource properties are recorded at cost. All acquisition, exploration and related overhead expenditures are recorded as an asset on the balance sheet under the heading "Resource properties". These expenditures will be depleted over the estimated life of the properties if and when they reach production or will be written down by management when it is determined that the net carrying amount will not be recovered.

The amount expensed for stock-based compensation was based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's shares. The Company used an expected volatility rate for its shares of 88% in 2004 (91% in 2003). This is an estimate only based on past stock trading data

and actual volatility may be significantly different. While the estimate of stock-based compensation can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no impact on the Company's financial condition.

Financial Instruments

The Company has not entered into any specialized financial agreements to minimize its investment, currency or commodity risks. There are no off-balance sheet arrangements. The principal financial instruments used by the Company are short-term deposits or debt obligations which are acquired to enhance the returns on the Company's cash position. The Company considers these instruments to be very low risk in nature. The fair value of these instruments approximate their carrying costs, unless otherwise noted on the financial statements.

Risks and Uncertainties

Mineral exploration involves a high degree of risk. Few properties that are explored are ultimately developed into production. None of the Company's properties has a known body of commercial ore. Other risks facing the Company include: political stability in Mongolia; changes in legislation in Mongolia that could affect exploration and mining rights as well as taxation and royalties; fluctuations in mineral prices; ability to attract and retain qualified personnel; availability of additional capital; costs and availability of materials and services relevant to the mining industry; title risks; and integrity of exploration results.

Forward Looking Statements

The above contains forward looking statements that are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward looking statements. Shareholders and prospective investors should not place undue reliance on forward-looking information and should bear in mind the risks and uncertainties outlined above under "Risks and Uncertainties".

Additional Information

Additional information relating to QGX can be found in the Financial Statements, as well as in the Company's Annual Information Form, which are filed on SEDAR at www.sedar.com

Mark Wayne,
Chief Financial Officer

March 28, 2005