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Management Discussion and Analysis of Financial Results

This section provides an analysis of the financial results of QGX Ltd. (“QGX or the “Company”) for 2005 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, 2005 and 2004 (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. Information is current as of March 23, 2006.

Overview

QGX has been engaged in mineral exploration in Mongolia since its inception in 1994. The Common Shares of the Company are listed for trading on the Toronto Stock Exchange under the symbol “QGX”.

All of the Company’s activities have been financed through equity offerings. Three financings were completed in 2005. The first was a private placement totaling \$6,080,000 which closed in June. The second was a public offering totaling \$36,482,650 which closed in December. The public offering was completed by way of a short form prospectus through a syndicate of underwriters led by CIBC World Markets Inc. and including Sprott Securities Inc. and GMP Securities Ltd. The third was a private placement to Barrick Gold Corp. totaling \$3,429,560 which also closed in December and was done on the same terms as the public offering.

At December 31, 2005, the Company held 147 mineral exploration licenses in Mongolia covering almost 32,000 sq. km. The Company’s most advanced properties are the Baruun Naran coal project in southern Mongolia and the Golden Hills copper-gold-silver project in western Mongolia, as discussed below.

Principal Properties

Baruun Naran: The Baruun Naran project is located in southern Mongolia, approximately 500 km south of Ulaanbaatar, the capital of Mongolia, and 200 km north of the Chinese border. It is also approximately 22 km southwest of the world-class Tavan Tolgoi coking and thermal coal deposit. The project occurs within a single exploration license totaling 953 sq km. This license was acquired by QGX in 2002 and is owned 100% by QGX.

QGX began exploring the Baruun Naran license in the spring of 2005. A total of 137 holes were drilled in 2005 with encouraging results. Extensive geophysical programs were conducted on the property to guide the exploration drilling program.

Coal at Baruun Naran occurs within the Tavan Tolgoi Formation that strikes for approximately 22 km across the Baruun Naran license. Work to date has been focused on an area of approximately 2 km x 10 km with the majority of drill holes concentrated within a 1 km x 6 km portion of this area. Delineation drilling to facilitate calculation of a measured resource (per NI-43-101 standards) was completed over a 1 km long segment on the east end of the 6 sq. km area.

Drilling in 2005 identified twelve coal seams, including three coal seams that have demonstrated indicators of metallurgical grade ("coking") coal in laboratory tests. These have been designated as Seams "H", "T" and "P". Most of the drilling in 2005 was concentrated on Seams "H" and "T". The strike lengths for the north and south limbs of Seams "H" and "T" are now drill-confirmed over distances in excess of 2.5 km (south limb) and 1.2 km (north). Both limbs remain open along strike to the west where geophysical studies have highlighted resistors that correlate with coal to the east. The average estimated true thickness of Seam "H" is 16.9 m. The average estimated true thickness of Seam "T" is 17.2 m.

On October 18, 2005, the Company announced the completion of an independent NI 43-101 report on the Baruun Naran property prepared by Chlumsky Armbrust & Meyer L.L.C. ("CAM"), of Denver, Colorado dated October 10, 2005. A copy of this report (the "CAM Baruun Naran Report") has been filed on SEDAR. CAM reviewed the available data on the Baruun Naran deposit and concluded that: (i) the Baruun Naran coal deposit covers an area of approximately 2 km wide and at least 10 km long and contains both metallurgical and thermal quality coal that appears to be amenable to open-pit mining; (ii) the deposit appears to be well located with respect to the Chinese coal market; and (iii) all of the data provided to CAM indicates that Baruun Naran is a property of merit and further exploration and development is warranted.

The Baruun Naran project will be the primary focus for QGX in 2006. The Company has engaged independent consultants to prepare a resource estimate as well as a concept study. Both of these reports are expected to be completed in the second quarter of 2006. Geophysical and geological programs commenced in the first quarter of 2006 and drilling resumed in early March. The drill program will continue to delineate the western extensions of Seams "H" and "T", the two principal metallurgical-grade coal seams, as well as evaluate other potential coal seams defined by the 2005 gradient-array IP program. In addition, a one-km strike length portion of Seam "T" will undergo infill drilling in preparation for future mining operations. QGX contemplates drilling over 20,000 m during 2006 to explore and develop the Baruun Naran coalfields.

Golden Hills: The Golden Hills property is located in northwestern Mongolia, 900 kilometers west of Ulaanbaatar. QGX has completed its earn-in requirements for an 80% interest in the initial license area comprising approximately 70 sq km and has acquired a 100% interest in several surrounding licenses comprising approximately 6,000 sq. km.

QGX discovered a copper-gold-silver volcanigenic massive sulfide ("VMS") deposit at Golden Hills in 2002, referred to as the Central Valley Zone (the "CVZ"). The CVZ

deposit contains three distinct types of mineralization; 1) massive sulfide lenses containing copper, gold and silver occur at depths below the base of oxidation; 2) near-surface zones of gold and silver-bearing gossan that represent the oxidized up-dip portions of these sulfide zones; and 3) high-grade quartz-carbonate-gold-telluride vein zones that occur along the margins of the larger massive sulfide bodies. QGX believes that the Golden Hills property is part of a larger VMS belt or district that has the potential to host several other Cu-Au-Ag deposits.

On February 28, 2005 QGX announced the completion of an independent, NI 43-101 compliant, mineral resource estimate for the CVZ. The estimate was prepared by Chlumsky Armbrust & Meyer L.L.C. ("CAM"), of Denver, Colorado in a report dated March 28, 2005. This report was updated by CAM in a new NI 43-101 report dated October 17, 2005 which supersedes and replaces the original report. A copy of the updated report (the "CAM Golden Hills Report") was filed by QGX on SEDAR on October 20, 2005.

The CAM Golden Hills Report includes a resource estimate of the CVZ deposit incorporating the three ore types found in the CVZ, as summarized below:

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.

On October 12, 2005 QGX announced that AMEC Americas Limited ("AMEC") had delivered positive metallurgical test results for the massive sulphide (copper-gold-silver) and high-grade quartz-telluride vein (gold-silver) samples from the Central Valley Zone.

Highlights of the diagnostic test work included the following results:

- Supergene massive sulfide (Cu, Au, Ag):
 - High copper recovery (94.3%) yielding a cleaner concentrate grade of 31.1% copper, Gold and Silver recoveries are 58% and 77%.
- Hypogene massive sulfide (Cu, Au, Ag):
 - High copper recovery (90.1%) yielding a cleaner concentrate grade of 25.3% copper, Gold and silver recoveries are 29% and 36%, respectively, and may reflect losses in depressed pyrite.

- HGQT vein (Au, Ag):
 - High gold (93-97%) and silver (80-97%) recoveries yielding a concentrate grade of 330 g/t gold and 247 g/t silver. The gross concentrate value for just gold is about US\$4,800 per tonne (without silver credit) based on a US\$400/oz gold price.

As a result of this work, AMEC believes that the technology for processing each of the three ore types is well established and that the project should be advanced to a pre-feasibility level.

Additional engineering studies will be on going in 2006 including completion of a column leach test of the oxide.

On March 7, 2006, the Company signed a contract with Geotech Airborne Limited of Aurora, Ontario to conduct an airborne geophysical survey on the Golden Hills license block. The survey will cover an area of over 2300 sq. km. Final results are expected in Q2, 2006. Geological field work is scheduled to begin April and QGX will move rapidly to evaluate and advance prospects defined by the airborne survey.

Other Properties

Undur Tsagaan: On September 30th 2005 QGX announced the completion of an eight-drill-hole program at the Undur Tsagaan tungsten-molybdenum (W-Mo) deposit in NE Mongolia. The program was designed to test for a high grade W and Mo core within a large, low-grade, historical resource delineated by the Russians and Mongolians (see QGX press release of April 19, 2005). QGX drill holes offset Russian/Mongolian drill holes and intersected similar widths and grades of W and Mo mineralization. Drilling is currently halted at Undur Tsagaan while the company evaluates its options for the property.

South Gobi: The Company plans to conduct follow-up work in 2006 on the three new gold and copper-gold prospects in the south Gobi that were announced on December 15, 2005: Golden Ram, Copper Springs and Hobo Hills. These are all early-stage prospects that yielded encouraging results from initial sampling programs conducted by QGX in 2005.

Shuteen: QGX holds an 80% interest in the Shuteen property. Genghis Holding Company Ltd., owned by Jinshan Gold Mines Inc., retains a 20% carried interest in the property. The Shuteen prospect is located approximately 120 km north-northeast of Oyu Tolgoi and occurs within the southern Mongolian mineralized belt hosting the Oyu Tolgoi copper-gold deposit owned by Ivanhoe Mines Ltd. The three licenses that form the Shuteen property cover approximately 220 sq. km. Shuteen represents a series of porphyry copper-gold prospects contained in a district-scale license located in the southern Gobi porphyry copper-gold belt. An initial drill program conducted by QGX on the property in late 2004 and early 2005 did not encounter any significant mineralization. The Company is currently assessing a number of alternatives to continue exploration of the property.

NE Mongolia: Regional exploration programs are planned for 2006 in northeastern Mongolia to identify epithermal gold-silver targets.

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 programs and review all public disclosure documents associated with the Company's exploration programs in Mongolia.

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

	2005	2004	2003
Interest Income	164,132	276,866	176,075
Resource Properties Expenditures	13,093,810	8,462,457	5,045,787
Loss	4,573,665	4,352,654	3,405,092
Loss per share	0.13	0.14	0.12
Total Assets	69,031,245	25,491,592	28,383,925
Working Capital	34,374,141	7,446,533	17,227,903
Shares Outstanding (weighted average)	34,864,537	32,111,554	27,687,378
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 2005 amounted to \$164,132 as compared to \$276,866 in the prior year. Expenses increased moderately to \$4,737,665 in 2005 as compared to \$4,629,520 in 2004. Most of the expense categories, such as salaries and expenses, travel, and office and administration, were significantly higher in 2005, reflecting additional staffing and related costs incurred with work programs on the Baruun Naran coal project, which only began in 2005. This was largely offset by a \$1,298,018 reduction in property write-downs (2005 - \$170,521; 2004 - \$1,468,539). A write-down is recorded whenever management decides to abandon a license that is no longer considered prospective. The amount of the write-down is equal to the expenditures on any such licenses. Property write-downs are non-cash charges. Stock based compensation is another non-cash charge. There was an increase in this expense of \$679,541 in 2005 due to the granting of additional options in the year.

The net result of the foregoing is that Company recorded a loss of \$4,573,533 (\$.13 per common share) in 2005 as compared to a loss of \$4,352,654 (\$.14 per common share)

in 2004. 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.

Fourth Quarter Results

The Company recorded a loss of \$1,499,904 in the fourth quarter of 2005 as compared to a loss of \$2,182,342 in the corresponding quarter of 2004. The reduced loss was primarily attributable to changes in three non-cash expenses, as follows: (i) Stock based compensation for the current quarter was \$525,857 as compared to \$928,286 in 2004, which relates to the timing of option grants; (ii) a foreign exchange gain of \$188,101 was recorded in the current quarter as opposed to a gain of \$66,370 in 2004. The gain resulted from an increase in the value of the US dollar as compared to the Canadian dollar in each of the relevant periods, but in the current quarter the Company's holding of US dollars was substantially higher than in the previous period as a significant portion of the funds received from the equity financings in December of 2005 was converted into US dollars; and (iii) a property write-down of \$664,769 was recorded in the fourth quarter of 2004 as compared to no write-down in the current quarter. The write-downs for the full year and the policies applied in recording property write-downs were discussed earlier in this report. The benefit of the changes in these non-cash charges was partially offset by increases in normal operating expenses such as salaries and benefits, professional fees and travel, which is attributable to higher staffing and activity levels in 2005 as compared to 2004.

All of the significant operating events that occurred in the fourth quarter of 2005, including the equity financings that were completed in December, 2005, are discussed elsewhere in this report.

Quarterly Disclosure – Eight Most Recently Completed Quarters

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

	Three Months Ended			
	<u>Dec.31/05</u>	<u>Sept 30/05</u>	<u>June.30/05</u>	<u>Mar.31/05</u>
Revenues	\$76,080	\$40,680	24,980	\$22,392
Net Income (loss)	(1,499,904)	1,769,054)	(726,065)	(578,510)
per share – basic	(0.04)	(0.05)	(0.02)	(0.02)
	<u>Dec. 31/04</u>	<u>Sept 30/04</u>	<u>June 30/04</u>	<u>Mar.31/04</u>
Revenues	\$42,616	\$57,032	\$71,545	\$105,673
Net Income (loss)	(2,182,342)	(1,138,916)	(715,536)	(315,860)
per share – basic	(0.07)	(0.04)	(0.02)	(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's net additions to resource properties in 2005, including write-downs and reclassifications, was \$12,923,289 (\$6,993,918 in 2004). As previously noted, a write-down of \$170,521 was recorded in 2005 as compared to \$1,468,539 in 2004. Also in 2005 there was a reclassification of the December 31, 2004 taxes recoverable balance of \$932,474 to resource properties following a ruling by the tax authorities in Mongolia that the amount was not recoverable.

The bulk of the resource property expenditures in 2005 was allocated to Baruun Naran (\$8,858,429, as compared to nil in 2004). 137 holes were drilled in 2005 and extensive geophysical programs were conducted.

The next largest resource property expenditure in 2005 was on the Golden Hills prospect (\$2,184,924 as compared to \$5,419,493 in 2004). This included drilling 11 holes as well as costs associated with metallurgical testing on the CVZ deposit.

Expenditures at Undur Tsagaan totaled \$1,212,478 in 2005 (2004 - nil). This included an eight-hole drill program, the results of which were reported on September 30, 2005.

Liquidity and Capital Resources

Working Capital

QGX had working capital of \$34,374,141 at December 31, 2005, (2004 - \$7,446,533) consisting primarily of cash and short-term investments. The increase is primarily due to the significant equity financings that were completed in December of 2005, as described below. 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

There were 45,857,956 common shares outstanding at December 31, 2005 versus 32,198,056 at December 31, 2004. Three equity financings were completed in 2005. In June, 3,800,000 common shares were issued pursuant to a private placement at \$1.60 per share for gross proceeds of \$6,080,000. In December, a public offering was

completed consisting of 8,791,000 common shares at \$4.15 per share for gross proceeds of \$36,482,650. The public offering was completed by way of a short form prospectus through a syndicate of underwriters led by CIBC World Markets Inc. and including Sprott Securities Inc. and GMP Securities Ltd. A private placement consisting of 826,400 common shares at \$4.15 per share for gross proceeds of \$3,429,560 was also completed in December. All of these shares were purchased by Barrick Gold Corp. in order to maintain its 9.4% equity interest in the Company.

Additional shares were issued in 2005 through the exercise of 62,500 warrants (2004 - 300,752) and 180,000 stock options (2004 - 161,000).

The Company's fully diluted share capital at December 31, 2005 was 49,238,956 shares. The potential dilution comes from 3,381,000 stock options held by officers, directors, employees and consultants, at exercise prices ranging from \$.50 to \$3.25.

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 Financial 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 82% in 2005 (88% in 2004). 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 approximates 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.

Disclosure Controls and Procedures

The certifying officers of QGX have designed a system of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them with respect to financial and operational conditions impacting disclosure with respect to the fiscal year ended December 31, 2005. The certifying officers have evaluated the effectiveness of the disclosure controls and procedures and are satisfied that all factors that impact on the financial condition of the Company have been brought to their attention.

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.