

QGX Ltd.
Consolidated Financial Statements
(Unaudited)
For the period ended March 31, 2008

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QGX Ltd.

(an exploration stage company)

Consolidated Balance Sheets

(\$ CDN) (unaudited)

	As at March 31, 2008	As at December 31, 2007
Assets		
Current		
Cash and cash equivalents	\$1,832,893	\$7,578,216
Miscellaneous receivables and prepaids (note 11)	709,699	699,301
	<u>2,542,592</u>	<u>8,277,517</u>
Resource properties (note 4)	54,931,008	53,262,441
Property, plant and equipment (note 5)	491,921	526,447
	<u>55,422,929</u>	<u>53,788,888</u>
	<u>\$57,965,521</u>	<u>\$62,066,405</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$465,135	\$2,811,532
Future income tax liability (note 6)	4,919,347	4,904,980
	<u>5,384,482</u>	<u>7,716,512</u>
Shareholder's equity		
Share capital (note 7)	83,933,710	83,232,713
Contributed surplus (note 8)	8,897,367	7,985,470
Deficit	(40,250,038)	(36,868,290)
	<u>52,581,039</u>	<u>54,349,893</u>
	<u>\$57,965,521</u>	<u>\$62,066,405</u>

Refer to note 1, Going Concern

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Consolidated Statement of Operations and Comprehensive Loss

(\$ CDN) (unaudited)

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Other Income		
Interest	\$49,149	\$143,246
Expenses		
Amortization of property, plant and equipment	34,526	57,063
Bank charges and interest	10,051	9,914
Foreign exchange	76,832	101,705
Investor relations and communications	48,618	63,592
Office and administration	83,753	101,061
Professional fees	224,930	48,260
Salaries and benefits	456,570	432,474
Stock based compensation	1,612,894	141,721
Transfer agent and filing fees	25,721	21,051
Travel	99,778	103,777
Writedown of resource properties (note 4)	757,224	1,204,192
	<u>3,430,897</u>	<u>2,284,810</u>
Loss and comprehensive loss for the period	<u>(3,381,748)</u>	<u>(2,141,564)</u>
Deficit, beginning of period	(36,868,290)	(24,631,833)
Deficit, end of period	<u>(\$40,250,038)</u>	<u>(\$26,773,397)</u>
Loss per common share	(\$0.07)	(\$0.05)
Diluted loss per common share	(\$0.07)	(\$0.05)
Weighted average shares outstanding	47,874,362	45,908,956

Refer to note 1, Going Concern

QGX Ltd.

(an exploration stage company)

Consolidated Statement of Cash Flows

(\$ CDN) (unaudited)

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Cash flows used in operating activities		
Loss for the period	(\$3,381,748)	(\$2,141,564)
Items not affecting cash		
Amortization of property, plant and equipment	34,526	57,063
Stock based compensation	1,612,894	141,721
Writedown of resource properties	757,224	1,204,192
Changes in non-cash working capital balances		
Miscellaneous receivables and prepaids	(10,398)	(8,058)
Accounts payable and accrued liabilities	(2,346,397)	(22,734)
Accounts payable related to investing activities	(243,700)	(330,255)
	<u>(3,577,599)</u>	<u>(1,099,635)</u>
Cash flows used in investing activities		
Purchase of property, plant and equipment	-	(9,624)
Proceeds on disposal of property, plant and equipment	-	29,121
Additions to resource properties - total (note 4)	(2,411,424)	(1,374,430)
Additions to resource properties - accrued portion	243,700	330,255
	<u>(2,167,724)</u>	<u>(1,024,678)</u>
Cash flows used in financing activities		
Issue of common stock	-	-
Exercise of stock options	(413,954)	-
Repurchase of stock options	413,954	-
	<u>-</u>	<u>-</u>
Decrease in cash during the period	(5,745,323)	(2,124,313)
Cash and short-term investments, beginning of period	7,578,216	15,834,120
Cash and short-term investments, end of period	\$1,832,893	\$13,709,807

The accompanying notes are an integral part of these financial statements

1. Going Concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes the realization of assets and settlement of liabilities and commitments in the normal course of business.

The Company has no sources of revenue (other than interest on cash balances), has recorded a deficit amounting to \$40,250,038 since its inception, and is dependent on financings to fund its operations. For the three months ended March 31, 2008, the Company incurred a loss of \$3,381,748 and had a negative cash flow result of \$5,745,323.

The ongoing viability of the Company to continue as a going concern and the recoverability of amounts shown as resource properties are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete the development, future profitable production or proceeds from the disposition of resource properties, and the ability to complete its obligations and obtain approval from the Mongolian government at each stage of exploration and development of its properties.

All of these outcomes are uncertain and taken together, cast substantial doubt as to the ability of the company to continue as a going concern, if the Company is unable to secure additional financing.

The Company funded its operations in the three months ended March 31, 2008 through the application of existing cash reserves, acquired through prior financings. Period end cash balances are insufficient to fund anticipated administrative costs and project development activities planned for the 12 months ending March 31, 2009. In recognition of these circumstances, the company continues to seek additional capital in order to fund these operations. The ability of the company to continue as a going concern is dependent upon management's ability to raise capital and eventually to generate positive cash flows from mining operations. Management believes that it will be successful in these actions making the use of the going concern basis appropriate; however, it is not possible at this time to predict the outcome of these efforts.

Subsequent to the March 31, 2008 quarter end date, the Company announced on April 3rd, the closing of a private placement equity financing. A total of 1,485,000 common shares of the Company were issued at price of \$3.40 per share for gross proceeds of \$5.049 million.

These financial statements do not include any adjustments to the carrying values of the Company's assets, liabilities, and expenses and the related balance sheet and income statement classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management but could be material.

2. Nature of Operations

QGX is engaged in the acquisition, exploration and development of resource properties in Mongolia and has been active in the country since 1994. The common shares of the Company are listed for trading on the Toronto Stock Exchange under the symbol "QGX". QGX Ltd. was incorporated by Certificate of Incorporation dated July 28, 1994 under the Business Corporations Act (Ontario) under the name Quincunx Gold Exploration Ltd. The articles of the company were amended on July 29, 1996 by removing the restrictions applicable to private companies. Effective August 1, 2002, Quincunx amalgamated with Emerging Ventures Corp., with the resulting issuer continuing to carry on business under the name "QGX Ltd."

3. Summary of Significant Accounting Policies

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Quincunx (BVI) Ltd., which is incorporated under the laws of British Virgin Islands, and the wholly-owned subsidiaries of Quincunx (BVI) Ltd., QGX Mongolia XXK, Shuteen Exploration XXK, Bayan Airag Exploration XXK, Erstsair Exploration XXK, Khangad Exploration XXK, Khaichiin Bulag Exploration

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XXK and Khan Bogd Exploration XXK, each of which is incorporated under the laws of Mongolia. All material inter-company transactions and balances have been eliminated.

Resource Properties

The Company's accounting policy is to capitalize all property-related costs associated with exploration costs, lease costs, and related administrative expenses. These resource property assets, once capitalized, are held on the balance sheet until one of two events occurs:

- If lease acreage is abandoned from the exploration portfolio, or if management otherwise determines that the net carrying amount on a specific lease will not be recovered, the associated asset values and tax liability (if relevant) are immediately written off to income.
- If a property is put into production at some future date, both the capitalized asset value and the deferred tax liability will be amortized against earnings over the estimated productive life of the property.

Cash and cash equivalents

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less. Cash equivalents are stated at the lower of cost and market value.

Property, Plant and Equipment

Property, Plant and Equipment are stated at cost less accumulated amortization. Amortization, based on the estimated useful life of the asset, is calculated as follows:

Automobiles	- 30% diminishing balance basis
Buildings	- 5% diminishing balance basis
Field equipment	- 30% diminishing balance basis
Furniture and fixtures	- 20% diminishing balance basis
Computer equipment	- 30% diminishing balance basis

Foreign Currency

The Company's operations outside Canada are not self-sustaining and are therefore considered to be integrated with the operations of the parent company, QGX Ltd. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary items and revenues and expenses are translated at the dates of the transactions, except amortization and depletion which are translated at the same rate as the related assets. Realized and unrealized foreign exchange gains and losses are included in operations.

Income Taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized. Future tax assets are recognized in the financial statements to the extent that their recovery is considered more likely than not.

Financial Instruments

The Company's financial instruments consist of certain assets and liabilities with short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Stock Options

The Company uses the fair value based method to account for stock-based transactions with directors and eligible employees. The value of options granted is recognized over the applicable vesting period as compensation expense and an increase in contributed surplus. When the options are exercised, the proceeds received by the Company, together with the related amount in contributed surplus, will be credited to share capital. For options granted prior to January 1, 2003, the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When these options are exercised, the proceeds received by the Company will be recorded as share capital.

Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding throughout the year.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities shown on the balance sheet and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Adoption of new accounting pronouncements

On January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These new disclosure standards increase the Company's disclosure regarding the nature and risk associated with financial instruments and how those risks are managed (see note 9). The new presentation standard carries forward the former presentation requirements.
- Section 1535, *Capital Disclosures*. This new standard requires the Company to disclose its objectives, policies and processes for managing its capital structure (see note 7).
- Section 1400, *General Standards on Financial Statement Presentation*. This standard requires management to assess at each balance sheet date and, if necessary, disclose any uncertainty surrounding the ability of the Company to continue as a going concern. The adoption of this standard had no impact on the Company's disclosures in these interim financial statements (see Note 1).

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

- Section 3064, *Goodwill and intangible assets*, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC27, which addressed recognition of revenues and capitalization of expenses, during the pre-operating period (defined as the period between initial production and achievement of commercial production). At such time as the Company was to advance a project to this stage of development, the Company would no longer be able to defer project costs or revenues on that project.

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4. Resource Properties

Mongolian Properties	Cumulative to December 31, 2007	Additions January 1, 2008 to Mar. 31, 2008	Write-downs January 1, 2008 to Mar. 31, 2008	Cumulative to Mar. 31, 2008
Baruun Naran	\$ 28,758,628	\$ 2,044,083	\$ -	\$ 30,802,711
Golden Hills	13,601,296	176,483	-	13,777,779
Shuteen	-	-	-	-
Undur Tsagaan	1,966,485	23,621	-	1,990,106
Joint venture properties*	1,425,430	-	-	1,425,430
Others	2,605,622	167,237	(757,224)	2,015,635
	48,357,461	2,411,424	(757,224)	50,011,661
Future income tax liabilities (assets)	4,904,980	24,300	(9,933)	4,919,347
Total resource properties	\$ 53,262,441	\$ 2,435,724	\$ (767,157)	\$ 54,931,008

* The joint venture properties include pre 2002 costs for Kharmagtai - \$1,425,430.

Mongolian Properties	Cumulative to December 31, 2006	Additions January 1, 2007 to Dec. 31, 2007	Write-downs January 1, 2007 to Dec. 31, 2007	Cumulative to Dec. 31, 2007
Baruun Naran	\$ 21,864,580	\$ 6,894,048	\$ -	\$ 28,758,628
Golden Hills	14,041,585	1,154,089	(1,594,378)	13,601,296
Shuteen	1,838,712	369,494	(2,208,206)	-
Undur Tsagaan	1,213,607	752,878	-	1,966,485
Joint venture properties*	2,425,430	-	-	1,425,430
	4,017,122	821,968	(1,000,000)	2,605,622
Others	45,401,036	9,992,477	(2,233,468)	48,357,461
Future income tax liabilities (assets)	5,748,448	87,186	(930,654)	4,904,980
Total resource properties	\$ 51,149,484	\$ 10,079,663	\$ (7,966,706)	\$ 53,262,441

* The joint venture properties include pre 2002 costs for Kharmagtai - \$1,425,430. Pre 2002 joint venture property costs associated with Shuteen (\$1,000,000) were written-off at December 31, 2007, in conjunction with other Shuteen property write-downs.

The Company has investigated title to all of its mineral properties and, to the best of its knowledge, they are in good standing. All of the properties in which the company has an interest are located in Mongolia. The Company has been exploring for mineral deposits in Mongolia since 1994.

In addition to the exploration licenses referred to above, the Company also has a 10% carried interest in an exploration license called Kharmagtai situated in Mongolia. This property is subject to an agreement with Ivanhoe Mines Ltd. whereby Ivanhoe is responsible for all exploration, development and other expenditures on the property until commercial-scale production is achieved.

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5. Property, Plant and Equipment

	March 31, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings	\$ 64,342	\$ 9,744	\$54,598	\$ 64,342	\$ 9,053	\$ 55,289
Automobiles	293,030	166,685	126,345	293,030	156,441	136,589
Field equipment	337,532	220,224	117,308	337,532	210,712	126,820
Furniture and fixtures	153,641	96,575	57,066	153,641	93,571	60,070
Computer equipment	498,227	361,623	136,604	498,227	350,548	147,679
	\$1,346,772	\$854,851	\$491,921	\$1,346,772	\$820,325	\$526,447

6. Income Taxes

The company's future tax assets/ (liabilities), arising in Canada and Mongolia, are summarized as follows:

	March 31 2008	December 31 2007
Property plant and equipment	\$ 111,275	\$ 111,275
Non-capital losses carried forward	6,863,364	4,715,101
Share issue costs	500,765	500,765
Valuation Allowance	(7,475,404)	(5,327,141)
	-	-
Resource Properties	(4,919,347)	(4,904,980)
Net future income tax liabilities recorded	<u>\$ (4,919,347)</u>	<u>\$ (4,904,980)</u>

As at December 31, 2007, the company has available non-capital loss carry-forwards in Canada and Mongolia that will expire in the following years:

2008	6,345,533
2009	6,133,280
2010	1,296,710
2014	1,197,662
2015	2,617,162
2026	3,942,452
2027	5,953,127
	<u>\$ 27,485,926</u>

7. Share Capital

Authorized and Issued Share Capital

The Company has authorized an unlimited number of First Preferred shares and Second Preferred shares. Each of these share classes is issuable in series, non-voting, participating and cumulative. The Company has authorized an unlimited number of common shares.

Issued common share capital is as follows:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number of shares	Amount	Number of shares	Amount
Opening balance	47,756,848	\$83,232,713	45,908,956	\$79,470,671
Shares issued	344,961	\$700,997	1,847,892	\$3,762,042
Share issue costs	-	-	-	-
Closing balance	48,101,809	\$83,933,710	47,756,848	\$83,232,713

The Company's capital structure is comprised of Shareholders' Equity. The Company's objectives when managing its capital structure are to i) preserve the Company's access to capital markets and its ability to meet its financial obligations, and ii) finance its exploration and development activities.

The Company monitors its capital structure using future forecasts of cash flows, particularly those related to its exploration and development programs.

The Company manages its capital and makes adjustments to it to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust its exploration and development programs, operating expenditure plans, or issue new shares. The Company's capital management objectives have remained unchanged over the period presented.

Stock Options

The Company has a stock option plan ("the Plan") for directors, officers, employees and consultants of the Company and its subsidiaries. The number of common shares subject to the options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Company and no one person may receive in excess of 5% of the outstanding common shares of the Company. The Company has granted options to certain key employees, directors and officers of the Company to purchase a total of 4,235,000 common shares at option prices ranging from \$2.00 to \$3.25 per share. All options have a term of five years from the date of grant, subject to early expiry under certain circumstances, and some options are subject to vesting periods of up to two years after grant.

The fair value of stock options was estimated at the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Risk-free interest rate	3.45%	4.0% - 4.53%
Expected life on grant	5 years	5 years
Expected volatility	74%	66% - 77%
Dividend yield	0%	0%

The Company will recognize a further expense of \$837,134 in future periods relating to the fair value of stock options granted before March 31, 2008.

The following table summarizes movements in stock options outstanding for the three months ended March 31, 2008:

	Stock options outstanding	Weighted average exercise price
Outstanding, December 31, 2007	3,775,000	\$2.22
Granted	960,000	2.79
Exercised	(344,961)	1.20
Repurchased	(155,039)	1.20
Outstanding at March 31, 2008	4,235,000	\$2.47

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The following table summarizes movements in stock options outstanding for the twelve months of 2007:

	Stock options outstanding	Weighted average exercise price
Outstanding, December 31, 2006	4,100,000	\$1.65
Granted	875,000	2.66
Exercised	(1,125,000)	0.62
Repurchased	(55,000)	2.00
Expired	(20,000)	2.00
Outstanding at December 31, 2007	<u>3,775,000</u>	<u>\$2.22</u>

The following table summarizes information about stock options outstanding at March 31, 2008

Exercisable prices	Number Outstanding	Number Exercisable	Weighted average remaining contractual life
2.00	1,390,000	1,190,000	3.28 years
2.40	530,000	530,000	0.51 years
2.50	150,000	150,000	4.39 years
2.52	375,000	375,000	2.31 years
2.65	450,000	337,500	4.17 years
2.75	960,000	700,000	4.86 years
2.92	25,000	12,500	4.00 years
3.10	100,000	100,000	1.23 years
3.22	250,000	62,500	4.47 years
3.25	5,000	5,000	2.44 years
\$2.47	<u>4,235,000</u>	<u>3,462,500</u>	

During the quarter ended March 31, 2008, the Company granted 960,000 options at a grant-date fair value of \$2.79 per share.

The Company's stock option plan has a provision that allows an optionee to request that the Corporation purchase each of the optionee's vested options for a price equal to the excess of the volume weighted average trading price of the Company's shares for the five trading days immediately preceding receipt of the written notice of exercise over the exercise price of each option being purchased. The acceptance of such a request may be declined by the Board of Directors or any committee of the Board of Directors to whom the operation of the Share Option plan has been delegated.

8. Contributed Surplus

The following table summarizes movements in amounts recorded as contributed surplus during the period.

	March 31 2008	December 31 2007
Opening Balance	\$7,985,470	\$6,572,657
Options repurchased	(129,009)	(68,200)
Options exercised	(287,043)	(118,442)
Options expensed	1,327,949	1,599,455
	<u>\$8,897,367</u>	<u>\$7,985,470</u>

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.