

QGX Ltd.
Consolidated Financial Statements
(Unaudited)
For the period ended March 31, 2007

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QGX Ltd.
Consolidated Balance Sheets

	As at March 31, 2007 (unaudited)	As at December 31, 2006 (restated - note 3)
Assets		
Current		
Cash and short-term investments	\$13,709,807	\$15,834,120
Miscellaneous receivables and prepaids	110,834	102,776
	<u>13,820,641</u>	<u>15,936,896</u>
Resource properties (note 4)	51,196,702	51,149,484
Property, plant and equipment (note 5)	620,201	696,761
	<u>51,816,903</u>	<u>51,846,245</u>
	<u>65,637,544</u>	<u>67,783,141</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable and accrued liabilities	600,464	623,198
Long-term liabilities		
Future income taxes (note 3 and 6)	5,625,428	5,748,448
	<u>6,225,892</u>	<u>6,371,646</u>
Shareholder's equity		
Share capital (note 7)	79,470,671	79,470,671
Contributed surplus (note 8)	6,714,378	6,572,657
Deficit	<u>(26,773,397)</u>	<u>(24,631,833)</u>
	<u>59,411,652</u>	<u>61,411,495</u>
	<u>\$65,637,544</u>	<u>\$67,783,141</u>

On behalf of the Board:

David Anderson
Director

Mark Wayne
Director

QGX Ltd.

Consolidated Statement of Operations and Comprehensive Loss
(Unaudited)

	For the 3 months ended March 31, 2007	For the 3 months ended March 31, 2006
Other Income		
Interest	\$143,246	\$46,248
Expenses		
Amortization of property, plant and equipment	57,063	47,476
Bank charges and interest	9,914	6,721
Foreign exchange	101,705	22,411
Investor relations and communications	63,592	15,141
Office and administration	101,061	59,458
Professional fees	48,260	48,917
Salaries and benefits	432,474	376,436
Stock based compensation	141,721	230,711
Transfer agent and filing fees	21,051	30,663
Travel	103,777	73,421
Writedown of resource properties (note 4)	1,204,192	-
	<u>2,284,810</u>	<u>911,355</u>
Loss and comprehensive loss for the period	<u>(2,141,564)</u>	<u>(865,107)</u>
Deficit, beginning of period	(24,631,833)	(19,313,926)
Deficit, end of period	<u>(\$26,773,397)</u>	<u>(\$20,179,033)</u>
Loss per common share	(0.05)	(0.02)
Weighted average shares outstanding	45,908,956	45,857,986

The accompanying notes are an integral part of these financial statements

QGX Ltd.
Consolidated Statement of Cash Flows
(Unaudited)

	For the 3 months ended March 31, 2007	For the 3 months ended March 31, 2006
Cash flows used in operating activities		
Loss for the period	(\$2,141,564)	(\$865,107)
Adjustments to reconcile loss to net cash provided by non-operating activities		
Amortization of property, plant and equipment	57,063	47,476
Stock based compensation	141,721	230,711
Writedown of resource properties	1,204,192	-
Changes in non-cash working capital balances		
Miscellaneous receivables and prepaids	82,348	130,151
Accounts payable and accrued liabilities	40,435	(548,715)
	<u>(615,805)</u>	<u>(1,005,484)</u>
Cash flows used in investing activities		
Purchase of property, plant and equipment	(9,624)	(90,832)
Proceeds on disposal of property, plant and equipment	29,121	-
Additions to resource properties	(1,374,430)	(2,116,344)
	<u>(1,354,933)</u>	<u>(2,207,176)</u>
Changes in non-cash working capital balances		
Miscellaneous receivables and prepaids	(90,406)	(3,688)
Accounts payable and accrued liabilities	(63,169)	(2,283,549)
	<u>(153,575)</u>	<u>(2,287,237)</u>
Cash flows used in financing activities		
Repurchase of options	-	(23,531)
	<u>-</u>	<u>(23,531)</u>
Decrease in cash during the period	(2,124,313)	(5,523,428)
Cash and short-term investments, beginning of period	15,834,120	37,646,662
Cash and short-term investments, end of period	\$13,709,807	\$32,123,234

The accompanying notes are an integral part of these financial statements

QGX Ltd.
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2007

1. 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."

The ongoing viability of the Company 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 (Note 3).

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of the financial statements is based upon accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements with the exception of the adoption of the new accounting policies described below. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the Notes to the Company's audited consolidated financial statements for the year ended December 31, 2006, since they do not contain all disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

Recently adopted accounting pronouncements

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "Comprehensive Income", 3251 "Equity" and 3855 "Financial instruments". The Company adopted these standards prospectively; accordingly comparative amounts for prior periods have not been restated.

CICA Section 1530 established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

CICA Section 3251 established standards for the presentation of equity and changes in equity during the period. Accumulated other comprehensive income is included on the consolidated balance sheet as a separate component of shareholders' equity, and includes the foreign currency cumulative translation adjustment.

Upon transition to CICA Section 3251, Equity, the Company reclassified the cumulative translation adjustment to accumulated other comprehensive income for both periods presented on the consolidated balance sheet.

QGX Ltd.
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 Three Months Ended March 31, 2007

CICA Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost based measures under different circumstances. Transaction costs related to held to maturity financial liabilities are charged to interest expense as incurred.

The fair value of all short-term financial assets, liabilities, cash and short term investments approximates their carrying value, particularly given their short maturities. Unless otherwise noted, it is management's opinion that there are no significant currency and credit risks arising from these financial instruments.

The changes in accounting policy did not have a material impact on the financial statements.

3. Restatement of Comparative Figures

During the year 2006, the Company identified certain restrictions that are likely to prevent it from realizing full tax deductions for some of the costs incurred while exploring its resource properties in Mongolia, which have been deferred on the balance sheet. Accordingly the Company has recognized a liability for future income taxes in accordance with its related accounting policy, as described in Note 2 of the annual financial statements. As these costs were incurred in connection with acquisition of an asset other than in a business combination, the cost of this liability has been added to deferred resource property costs in accordance with Canadian GAAP rather than treated as an expense in the statement of operations.

4. Resource Properties

	January 1, 2007 to March 31, 2007	January 1, 2006 to December 31, 2006
	Cost	Cost
Balance, beginning of period	\$ 51,149,484	\$ 35,188,344
Future income tax adjustment	(123,020)	1,129,955
Additions	1,374,430	16,166,371
Writedowns	(1,204,192)	(1,335,186)
Balance, end of period	\$51,196,702	\$ 51,149,484

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. At March 31, 2007, the Company held 71 exploration licenses which give the Company exploration rights to almost 7,980 square kilometers throughout Mongolia.

In addition to the exploration licenses referred to above, the Company also has a 10% carried interest in an exploration license called Kharmagtai and a 20% carried interest in an exploration license called Ovoot Hyar, both situated in Mongolia. These properties are subject to agreements with Ivanhoe Mines Ltd. whereby Ivanhoe is responsible for all exploration, development and other expenditures on the properties until commercial-scale production is achieved.

During the quarter the Company decided to abandon various exploration licenses where it was determined that the Company was unlikely to recover its investment in those properties. A write-down of \$1,204,192 in capitalized costs associated with those properties was recorded for the period in accordance with the Company's accounting policies.

QGX Ltd.
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2007

5. Property, Plant and Equipment

	March 31, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	59,908	6,931	59,908	6,260
Automobiles	303,496	135,104	344,350	119,795
Field equipment	333,361	170,519	332,977	157,556
Furniture and fixtures	158,054	83,846	158,188	79,937
Computer equipment	496,326	334,544	484,424	319,538
	\$1,351,145	\$730,944	\$1,379,847	\$683,086
Net book value		\$620,201		\$696,761

6. Income Taxes

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

	March 31 2007	December 31 2006
Property plant and equipment	101,348	81,753
Non-capital losses carried forward	5,262,448	5,262,448
Share issue costs	574,952	574,952
Valuation Allowance	(5,938,748)	(5,919,153)
	-	-
Resource Properties	(5,625,428)	(5,748,448)
Net future income tax liabilities recorded	(5,625,428)	(5,748,448)

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

2007	790,056
2008	3,917,643
2009	236,093
2010	1,296,710
2014	1,197,662
2015	2,617,162
2026	3,910,098
	14,341,002

QGX Ltd.
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2007

7. Share Capital

Authorized and Issued Share Capital

Authorized:

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:

	<u>Number of Shares</u>	<u>Amount</u>
Balance outstanding at December 31, 2006	45,908,956	\$79,470,671
Shares issued to March 31, 2007 (gross)	-	-
Less: Share issue costs	-	-
Net share capital at March 31, 2007	45,908,956	\$79,470,671

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 4,105,000 common shares at option prices ranging from \$0.50 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:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	4.0%	3.3% - 4.2%
Expected life on grant	5 years	5 years
Expected volatility	66%	78% - 83%
Dividend yield	0%	0%

The Company will recognize a further expense of \$322,919 in future periods relating to the fair value of stock options granted before March 31, 2007.

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Notes to Consolidated Financial Statements
Three Months Ended March 31, 2007

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

	Stock options outstanding	Weighted average exercise price
Outstanding, December 31, 2006	4,100,000	\$1.65
Granted	25,000	2.92
Expired	(20,000)	2.00
Outstanding at March 31, 2007	4,105,000	\$1.66

The following table summarizes information about stock options outstanding at March 31, 2007

Exercisable prices	Number Outstanding	Number Exercisable	Weighted average remaining contractual life
\$0.50	1,070,000	1,070,000	0.33 years
1.20	500,000	500,000	0.92 years
2.00	1,450,000	806,875	4.18 years
2.40	530,000	530,000	1.50 years
2.52	375,000	375,000	3.31 years
2.92	25,000	-	5.00 years
3.10	150,000	150,000	2.23 years
3.25	5,000	5,000	3.44 years
1.76	4,105,000	3,436,875	

8. Contributed Surplus

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

	March 31 2007	December 31 2006
Opening Balance	\$6,572,657	\$5,358,538
Options repurchased	-	(96,801)
Options exercised	-	(24,352)
Options issued	141,721	1,335,272
	\$6,714,378	\$6,572,657

QGX Ltd.
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2007

9 Segmental Disclosure

The Company's head office is located in Ontario, Canada. All of the Company's exploration activities and resource properties are located in Mongolia. The geographical origin of revenues, expenses, assets and liabilities is as shown.

	March 31, 2007			March 31, 2006		
	Canada	Mongolia	Total	Canada	Mongolia	Total
Interest Revenue	142,819	427	143,246	46,137	111	46,248
Stock based compensation	141,721	-	141,721	230,711	-	230,711
Amortization of capital assets	7,576	49,487	57,063	9,376	38,100	47,476
Write-down of resource properties	401,211	802,981	1,204,192	-	-	-
All other expenses	666,031	215,803	881,834	500,668	132,500	633,168
Total expense	1,216,539	1,068,271	2,284,810	740,755	170,600	911,355
Reported loss	1,073,720	1,067,844	2,141,564	694,618	170,489	865,107
	March 31, 2007			December 31, 2006		
Working capital	13,456,128	(235,951)	13,220,177	15,260,766	52,932	15,313,698
Taxes recoverable	-	-	-	-	-	-
Property, plant and equipment	99,117	521,084	620,201	106,693	590,068	696,761
Resource properties	-	51,196,702	51,196,702	-	51,149,484	51,149,484
Deferred Tax Liability	-	(5,625,428)	(5,625,428)	-	(5,748,448)	(5,748,448)
Net assets	13,555,245	45,856,407	59,411,652	15,367,459	46,044,036	61,411,495