

**QGX Ltd.**  
**Consolidated Financial Statements**  
**(Unaudited)**  
For the period ended June 30, 2007

**Contents**

---

**Financial Statements**

Consolidated Balance Sheets	<b>1</b>
Consolidated Statements of Operations and Comprehensive Loss	<b>2</b>
Consolidated Statements of Cash Flows	<b>3</b>
Notes to Consolidated Financial Statements	<b>4 - 9</b>

**QGX Ltd.**  
**Consolidated Balance Sheets**

	As at June 30, 2007 (unaudited)	As at December 31, 2006 (unaudited)
<b>Assets</b>		
<b>Current</b>		
Cash and short-term investments	\$11,220,844	\$15,834,120
Miscellaneous receivables and prepaids	232,126	102,776
	<u>11,452,970</u>	<u>15,936,896</u>
<b>Resource properties</b> (note 3)	52,559,825	51,149,484
<b>Property, plant and equipment</b> (note 4)	589,844	696,761
	<u>53,149,669</u>	<u>51,846,245</u>
	<u>\$64,602,639</u>	<u>\$67,783,141</u>
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$769,993	\$623,198
<b>Long-term liabilities</b>		
Future income taxes (note 5)	5,647,601	5,748,448
	<u>6,417,594</u>	<u>6,371,646</u>
<b>Shareholder's equity</b>		
Share capital (note 6)	79,513,171	79,470,671
Contributed surplus (note 7)	6,865,960	6,572,657
Deficit	<u>(28,194,086)</u>	<u>(24,631,833)</u>
	<u>58,185,045</u>	<u>61,411,495</u>
	<u>\$64,602,639</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 3 month period ended June 30, 2007	For 3 month period ended June 30, 2006	For 6 month period ended June 30, 2007	For 6 month period ended June 30, 2006
<b>Other Income</b>				
Interest	\$127,070	\$571,735	\$270,316	\$617,983
<b>Expenses</b>				
Amortization of property, plant and equipment	35,565	109,750	92,628	157,226
Bank charges and interest	16,424	5,818	26,338	12,539
Foreign exchange	80,632	515,857	182,337	538,268
Investor relations and communications	17,877	66,649	81,469	81,790
Office and administration	106,897	117,413	207,958	176,871
Professional fees	149,067	122,516	197,327	171,433
Salaries and benefits	815,141	349,855	1,247,615	726,291
Stock based compensation	219,782	402,395	361,503	633,106
Transfer agent and filing fees	11,919	6,973	32,970	37,636
Travel	94,455	119,246	198,232	192,667
Writedown of resource properties (note 3)	-	-	1,204,192	-
	<u>1,547,759</u>	<u>1,816,472</u>	<u>3,832,569</u>	<u>2,727,827</u>
<b>Loss and comprehensive loss for the period</b>	<u>(1,420,689)</u>	<u>(1,244,737)</u>	<u>(3,562,253)</u>	<u>(2,109,844)</u>
<b>Deficit, beginning of period</b>	(26,773,397)	(20,179,033)	(24,631,833)	(19,313,926)
<b>Deficit, end of period</b>	<u>(\$28,194,086)</u>	<u>(\$21,423,770)</u>	<u>(\$28,194,086)</u>	<u>(\$21,423,770)</u>
Loss per common share	(0.03)	(0.03)	(0.08)	(0.05)
Diluted loss per common share	(0.03)	(0.03)	(0.08)	(0.05)
Weighted average shares outstanding	45,911,209	45,877,956	45,910,089	45,877,956
Shares outstanding on a fully diluted basis	48,703,750	49,367,830	49,045,946	49,925,539

**QGX Ltd.**  
**Consolidated Statement of Cash Flows**  
**(Unaudited)**

	For 3 month period ended June 30, 2007	For 3 month period ended June 30, 2006	For 6 month period ended June 30, 2007	For 6 month period ended June 30, 2006
<b>Cash flows used in operating activities</b>				
Loss for the period	(\$1,420,689)	(\$1,244,737)	(\$3,562,253)	(\$2,109,844)
Adjustments to reconcile loss to net cash provided by non-operating activities				
Amortization of property, plant and equipment	35,565	109,750	92,628	157,226
Stock based compensation	219,782	288,905	361,503	519,616
Writedown of resource properties	-	-	1,204,192	-
Changes in non-cash working capital balances				
Miscellaneous receivables and prepaids	(121,292)	22,981	(129,350)	149,444
Accounts payable and accrued liabilities	169,529	477,731	146,795	(2,354,533)
	(1,117,105)	(345,370)	(1,886,485)	(3,638,091)
<b>Cash flows used in investing activities</b>				
Purchase of property, plant and equipment	(5,208)	(133,607)	(14,832)	(224,439)
Proceeds on disposal of property, plant and equipment	-	-	29,121	-
Additions to resource properties	(1,340,950)	(6,558,452)	(2,715,380)	(8,674,796)
	(1,346,158)	(6,692,059)	(2,701,091)	(8,899,235)
<b>Cash flows used in financing activities</b>				
Additional financing costs	-	(45,369)	-	(45,369)
Exercise of stock options	42,500	10,000	42,500	10,000
Repurchase of stock options	(68,200)	(38,705)	(68,200)	(62,236)
	(25,700)	(74,074)	(25,700)	(97,605)
<b>Decrease in cash during the period</b>	(2,488,963)	(7,111,503)	(4,613,276)	(12,634,931)
<b>Cash and short-term investments, beginning of period</b>	13,709,807	32,123,234	15,834,120	37,646,662
<b>Cash and short-term investments, end of period</b>	\$11,220,844	\$25,011,731	\$11,220,844	\$25,011,731

---

QGX Ltd.  
Notes to Consolidated Financial Statements  
Six Months Ended June 30, 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.

**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.

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.

QGX Ltd.  
**Notes to Consolidated Financial Statements**  
Six Months Ended June 30, 2007

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.

**Recently issued accounting pronouncements**

In December 2006, the CICA issued three handbook sections, which apply to fiscal years beginning on or after October 1, 2007.

**Financial Instruments - disclosures**

Section 3862 describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This section complements existing handbook section 3855, Financial instruments - recognition and measurement, section 3863, Financial Instruments - presentation and 3865 - Hedges.

**Financial Instruments - presentation**

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing handbook section 3861, Financial instruments - disclosure disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital.

**Capital disclosures**

Section 1535 establishes standards disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and procedures for managing capital.

The Company is currently evaluating the impact of these new handbook sections on the consolidated financial statements and will adopt the sections commencing fiscal 2008.

**3. Resource Properties**

<b>Mongolian Properties</b>	<b>Cumulative to December 31, 2006</b>	<b>Additions January 1, 2007 to June 30, 2007</b>	<b>Write-downs January 1, 2007 to June 30, 2007</b>	<b>Cumulative to June 30, 2007</b>
Baruun Naran	\$ 21,864,580	\$ 1,224,458	\$ -	\$ 23,089,038
Golden Hills	14,041,585	984,007	(304,539)	14,721,053
Shuteen	1,838,712	188,672	(375,998)	1,651,386
Undur Tsagaan	1,213,607	8,527	-	1,222,134
Joint venture properties	2,425,430	-	-	2,425,430
Others	4,017,122	309,717	(523,655)	3,803,184
	45,401,036	2,715,380	(1,204,192)	46,912,224
Future income taxes	5,748,448	32,890	(133,737)	5,647,601
<b>Total resource properties</b>	<b>\$ 51,149,484</b>	<b>\$ 2,745,270</b>	<b>\$ (1,337,929)</b>	<b>\$ 52,559,825</b>

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.

QGX Ltd.  
Notes to Consolidated Financial Statements  
Six Months Ended June 30, 2007

The Company has been exploring for mineral deposits in Mongolia since 1994. At June 30, 2007, the Company held 69 exploration licenses which give the Company exploration rights to almost 7,116 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 first quarter of 2007 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.

**4. Property, Plant and Equipment**

	June 30, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	\$ 59,908	\$ 7,601	\$ 59,908	\$ 6,260
Automobiles	303,496	139,977	344,350	119,795
Field equipment	334,269	183,582	332,977	157,556
Furniture and fixtures	158,054	87,756	158,188	79,937
Computer equipment	500,626	347,594	484,424	319,538
	<b>\$1,356,354</b>	<b>\$766,510</b>	<b>\$1,379,847</b>	<b>\$683,086</b>
Net book value		<b>\$589,844</b>		<b>\$696,761</b>

**5. Income Taxes**

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

	June 30 2007	December 31 2006
Property plant and equipment	\$ 93,606	\$ 81,753
Non-capital losses carried forward	5,262,448	5,262,448
Share issue costs	574,952	574,952
Valuation Allowance	(5,931,006)	(5,919,153)
	-	-
Resource Properties	(5,647,601)	(5,748,448)
Net future income tax liabilities recorded	<b>\$ (5,647,601)</b>	<b>\$ (5,748,448)</b>

QGX Ltd.  
Notes to Consolidated Financial Statements  
Six Months Ended June 30, 2007

As at June 30, 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
	\$	<u>14,341,002</u>

**6. 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 as of December 31, 2006	45,908,956	\$79,470,671
Shares issued to June 30, 2007 (gross)	85,000	\$42,500
Net share capital at June 30, 2007	<u>45,993,956</u>	<u>\$79,513,171</u>

**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 4,415,000 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% - 4.53%	3.3% - 4.2%
Expected life on grant	5 years	5 years
Expected volatility	66% - 67%	78% - 83%
Dividend yield	0%	0%

QGX Ltd.  
Notes to Consolidated Financial Statements  
Six Months Ended June 30, 2007

The Company will recognize a further expense of \$814,794 in future periods relating to the fair value of stock options granted before June 30, 2007.

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

	<b>Stock options outstanding</b>	<b>Weighted average exercise price</b>
Outstanding, December 31, 2006	<b>4,100,000</b>	<b>\$1.65</b>
Granted	<b>475,000</b>	<b>2.66</b>
Exercised	<b>(85,000)</b>	<b>0.50</b>
Repurchased	<b>(55,000)</b>	<b>2.00</b>
Expired	<b>(20,000)</b>	<b>2.00</b>
Outstanding at June 30, 2007	<b>4,415,000</b>	<b>\$1.78</b>

The following table summarizes information about stock options outstanding at June 30, 2007

Exercisable prices	Number Outstanding	Number Exercisable	Weighted average remaining contractual life
\$0.50	985,000	985,000	0.09 years
1.20	500,000	500,000	0.67 years
2.00	1,395,000	1,040,000	3.99 years
2.40	530,000	530,000	1.26 years
2.52	375,000	375,000	3.06 years
2.65	450,000	-	4.92 years
2.92	25,000	6,250	4.75 years
3.10	150,000	150,000	1.99 years
3.25	5,000	5,000	3.19 years
1.76	<b>4,415,000</b>	<b>3,591,250</b>	

**7. Contributed Surplus**

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

	<b>June 30 2007</b>	December 31 2006
Opening Balance	<b>\$6,572,657</b>	\$5,358,538
Options repurchased	<b>(68,200)</b>	(96,801)
Options exercised	-	(24,352)
Options issued	<b>361,503</b>	1,335,272
	<b>\$6,865,960</b>	\$6,572,657

QGX Ltd.  
Notes to Consolidated Financial Statements  
Six Months Ended June 30, 2007

**8. Segmented 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.

	June 30, 2007			June 30, 2006		
	Canada	Mongolia	Total	Canada	Mongolia	Total
Interest Revenue	\$269,308	\$1,008	\$270,316	\$617,239	\$744	\$617,983
Stock based compensation	361,503	-	361,503	633,106	-	633,106
Amortization of capital assets	15,151	77,477	92,628	18,346	138,880	157,226
Write-down of resource properties	401,211	802,981	1,204,192	-	-	-
All other expenses	965,839	1,208,407	2,174,246	1,602,583	334,912	1,937,495
Total expense	1,743,704	2,088,865	3,832,569	2,254,035	473,792	2,727,827
Reported loss	\$1,474,396	\$2,087,857	\$3,562,253	\$1,636,796	\$473,048	\$2,109,844
	June 30, 2007			December 31, 2006		
Working capital	\$10,929,147	\$(246,170)	\$10,682,977	\$15,260,766	\$52,932	\$15,313,698
Property, plant and equipment	91,541	498,303	589,844	106,693	590,068	696,761
Resource properties	-	52,559,825	52,559,825	-	51,149,484	51,149,484
Deferred Tax Liability	-	(5,647,601)	(5,647,601)	-	(5,748,448)	(5,748,448)
Net assets	\$11,020,688	\$47,164,357	\$58,185,045	\$15,367,459	\$46,044,036	\$61,411,495

**9. Subsequent Events**

**Recent Private Placement Equity Financing**

On July 24, 2007, QGX announced it has entered into a subscription agreement with JUST Group Industries, a private Mongolian company, which provides for the purchase of five million common shares of QGX at an issue price of \$4.15 per share for total proceeds of \$20.75-million, subject to regulatory approval. Closing of the private placement is expected to take place within 60 days. JUST Group has deposited \$1.0-million (U.S.) in an escrow account which will be forfeited to QGX if closing does not occur within 60 days. All shares acquired by JUST Group will be subject to a statutory four-month hold period and JUST Group has agreed not to sell any shares for 12 months from closing.

JUST Group is a private Mongolian company incorporated in 1999. It is active through subsidiary companies in the trading, distribution and bulk transportation of energy products, logistics, mining and meat processing in Mongolia. Proceeds from the private placement will be used by QGX for the continuing development of its Baruun Naran coal project and the Central Valley zone in its Golden Hills copper-gold-silver project.