

QGX Ltd.
Consolidated Financial Statements
(Unaudited)
For the 3 and 6 month periods ended June 30, 2004 and 2005

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QGX Ltd.
Consolidated Balance Sheets
(Unaudited)

For the period ended	June 30, 2005	December 31, 2004
Assets		
Current		
Cash and short-term investments	\$1,510,113	\$7,006,564
Receivables	240,106	-
Share subscription receivable (note 3)	6,020,000	
Advances to supplier	203,867	315,356
Current taxes recoverable	12,506	33,616
Prepaid expenses	10,575	-
	<u>7,997,167</u>	<u>7,355,536</u>
Property, plant and equipment (note 5)	530,971	489,494
Taxes recoverable (note 8)	-	932,474
Resource properties (note 4)	<u>21,729,687</u>	<u>16,714,088</u>
	<u>22,260,658</u>	<u>18,136,056</u>
	<u>30,257,825</u>	<u>25,491,592</u>
Liabilities and Shareholder's Equity		
Current		
Accounts payable and accrued liabilities	583,840	841,477
Shareholder's equity		
Share capital (note 6)	41,783,970	35,933,740
Warrants (note 6)	169,770	-
Contributed surplus (note 7)	3,765,213	3,456,768
Current earnings (loss)	(1,304,575)	-
Retained earnings (loss)	<u>(14,740,393)</u>	<u>(14,740,393)</u>
	<u>29,673,985</u>	<u>24,650,115</u>
	<u>\$30,257,825</u>	<u>\$25,491,592</u>

On behalf of the Board:

David Anderson
Director

Mark Wayne
Director

QGX Ltd.
Consolidated Statement of Operations and Deficit
(Unaudited)

	For 3 months ended June 30, 2005	For 3 months ended June 30, 2004	For 6 months ended June 30, 2005	For 6 months ended June 30, 2004
Revenue				
Interest	\$24,980	\$71,545	\$47,372	\$177,219
Expenses				
Amortization of property, plant and equipment	26,895	26,579	77,188	38,579
Bank charges and interest	4,586	3,804	6,947	6,117
Foreign exchange loss (gain)	7,423	(1,849)	11,140	1,598
Investor relations and communications	26,041	2,419	43,152	3,460
Office and administration	85,974	90,105	145,584	133,013
Professional fees	23,057	52,292	55,693	74,467
Capital tax expense	-	85,496	-	85,496
Salaries and benefits	236,070	202,472	479,249	387,363
Stock based compensation	246,506	147,937	308,445	231,099
Transfer agent and filing fees	12,441	139,089	50,298	144,133
Travel	82,052	38,737	174,251	103,290
	751,045	787,081	1,351,947	1,208,615
Loss for the period	(726,065)	(715,536)	(1,304,575)	(1,031,396)
Deficit, beginning of period	(15,318,903)	(10,703,599)	(14,740,393)	(10,387,739)
Deficit, end of period	(\$16,044,968)	(\$11,419,135)	(\$16,044,968)	(\$11,419,135)
Loss per common share	(0.02)	(0.02)	(0.04)	(0.03)

These financial statements have not been reviewed by the auditors of QGX Ltd.
The accompanying notes are an integral part of these financial statements

QGX Ltd.
Consolidated Statement of Cash Flows
(Unaudited)

	For 3 months ended June 30, 2005	For 3 months ended June 30, 2004	For 6 months ended June 30, 2005	For 6 months ended June 30, 2004
Cash flows from operating activities				
Loss for the period	(\$726,065)	(\$715,536)	(\$1,304,575)	(\$1,031,396)
Adjustments to reconcile loss to net cash provided by non-operating activities				
Amortization of property, plant and equipment	26,895	26,580	77,188	38,579
Stock based compensation	246,506	147,937	308,445	231,099
Changes in non-cash working capital balances				
Receivables	(240,106)	439,195	(240,106)	347,193
Advances to supplier	94,591	-	111,489	-
Taxes recoverable	1,009,560	-	953,584	-
Prepaid expenses	(10,575)	-	(10,575)	-
Accounts payable and accrued liabilities	73,090	(260,306)	(257,637)	85,871
	473,896	(362,130)	(362,187)	(328,654)
Cash flows from investing activities				
Purchase of fixed assets	(65,929)	(198,262)	(118,665)	(371,001)
Additions to resource properties	(3,834,199)	(2,940,704)	(5,015,599)	(5,268,720)
	(3,900,128)	(3,138,966)	(5,134,264)	(5,639,721)
Cash flows from financing activities				
Sale of shares (net of cash issue costs)	-	46,489	-	377,365
	-	46,489	-	377,365
Decrease in cash during the period	(3,426,232)	(3,454,607)	(5,496,451)	(5,591,010)
Cash and short-term investments, beginning of period	4,936,345	16,055,484	7,006,564	18,191,887
Cash and short-term investments, end of period	\$1,510,113	\$12,600,877	\$1,510,113	\$12,600,877

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The accompanying notes are an integral part of these financial statements

QGX Ltd.
Notes to Consolidated Financial Statements

Three Months Ended June 30 2005

1. Nature of Operations

The Company was formed on August 1, 2002 through an amalgamation 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. Quincunx was considered to be the acquiring company in the transaction and the Company has carried on the business of Quincunx following the amalgamation. The common shares of the Company were listed for trading on the TSX Venture Exchange on August 13, 2002 under the trading symbol "QGX". Effective July 13, 2004, the common shares were listed on the Toronto Stock Exchange.

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. Significant Accounting Policies

These interim consolidated financial statements should be read in conjunction with the most recent annual financial statements. They follow the same accounting policies and methods of their application as the most recent annual financial statements.

3. Receivables

The receivables at June 30, 2005 include the funds due from an equity financing that was completed in the current quarter (see note 6). The funds (\$6,020,000, which are net of \$60,000 in share issuance costs paid in cash) were received shortly after the end of the quarter.

4. Resource Properties

	June 30, 2004	December 31, 2004
	Cost	Cost
Balance, beginning of period	\$ 16,714,088	\$ 9,720,170
Additions	5,015,599	8,462,457
Writedowns	-	(1,468,539)
Balance, end of period	\$21,729,687	\$ 16,714,088

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 June 30, 2005, the Company held 151 exploration licenses which give the Company exploration rights to almost 40,000 square kilometers throughout Mongolia. It is management's opinion that each of these sites may contain extractable ore reserves and therefore the Company has deferred the costs incurred during the year relating to these licenses.

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.

QGX Ltd.
Notes to Consolidated Financial Statements

Three Months Ended June 30 2005

4. Resource Properties
(Continued)

	Cumulative to June 30, 2005		January 1, 2005 to June 30, 2005		Cumulative to December 31, 2004	
	Acquisition and license Cost	Deferred Exploration Cost	Acquisition and license Cost	Deferred Exploration Cost	Acquisition and license Cost	Deferred Exploration Cost
Mongolian Properties						
Bortolgoi	\$329,234	\$269,684	66,117	2,754	\$263,117	\$266,930
Golden Hills	528,702	11,048,615	73,941	1,906,619	454,761	9,141,996
Shuteen	529,946	1,151,647	150,536	150,536	379,410	702,449
Uhaa Hudag	60,419	699,491	986	4,500	59,433	694,991
Baruun Naran	1,638	1,459,783	1,638	1,459,783	-	-
Joint venture properties	-	2,425,430	-	-	-	2,425,430
Others	1,453,292	1,771,806	457,649	441,878	995,643	1,329,928
Totals	2,903,231	18,826,456	750,867	4,264,732	2,152,364	14,561,724
Total Acquisition and Deferred Cost		\$21,729,687		\$5,015,599		\$16,714,088

**5. Property, Plant and
Equipment**

	June 30, 2005		December 31, 2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	12,667	3,369	11,637	2,144
Automobiles	159,070	47,854	155,136	28,574
Field equipment	219,365	70,743	187,341	47,945
Furniture and fixtures	128,561	53,339	104,019	46,344
Computer equipment	416,816	230,203	354,145	197,777
	\$936,478	\$405,507	\$812,278	\$322,784
Net book value		\$530,971		\$489,494

QGX Ltd.
Notes to Consolidated Financial Statements

Three Months Ended June 30 2005

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:

	Number of Shares	Amount
Balance outstanding at December 31, 2004	32,198,056	\$35,933,740
Shares issued to June 30, 2005 (gross)	3,800,000	6,080,000
Less: Issue costs		(229,770)
Net share capital at June 30, 2005	35,998,056	\$41,783,970

Warrants

During the quarter, 62,500 warrants were issued each of which entitles the holder to purchase one common share for \$1.60 for two years. The fair value of the warrants issued was estimated to be \$169,770 at the date of the issue, and this amount has been treated as a share issue cost. The fair value of these warrants was estimated at the date of issue using the Black-Scholes option-pricing model with the following assumptions; risk free interest rate – 4.5%, expected life – 2 years, expected volatility – 69% and dividend yield – nil.

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 3,011,000 common shares at option prices ranging from \$0.50 to \$3.10 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>2005</u>	<u>2004</u>
Risk-free interest rate	4.5%	4.5%
Expected life on grant	5 years	5 years
Expected volatility	82%	88%
Dividend yield	0%	0%

QGX Ltd.
Notes to Consolidated Financial Statements

Three Months Ended June 30 2005

6. Share Capital
(Continued)

The following table summarizes the status of the stock option plan for the first half of 2005:

	2005 Stock options outstanding	Weighted average exercise price
Outstanding, December 31, 2004	3,048,500	\$1.90
Granted	501,000	2.22
Exercised	-	
Expired	(538,500)	5.20
Outstanding	3,011,000	\$1.36

The following table summarizes information about stock options outstanding at June 30, 2005

Exercisable prices	Number Outstanding	Number Exercisable	Weighted average remaining contractual life
\$0.50	1,270,000	1,270,000	2.1 years
1.20	600,000	600,000	2.8 years
2.00	230,000	-	5.0 years
2.40	500,000	500,000	3.3 years
2.40	261,000	-	4.5 years
3.10	150,000	75,000	4.0 years
	3,011,000	2,445,000	

7. Contributed Surplus

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

	June 30 2005	December 31 2004
Opening Balance	\$3,456,768	\$2,344,866
Warrants exercised	-	(110,327)
Options expensed	308,445	1,222,229
	\$3,765,213	\$3,456,768

8. Taxes Recoverable

The taxes recoverable at December 31, 2004 represented VAT on goods purchased in Mongolia. Contrary to management expectations, a second quarter tax audit by the Mongolian Tax authorities has ruled that this amount is not recoverable by the company. The amount was re-classified to deferred exploration and allocated to the cost of applicable properties. The company may appeal this ruling.