



QGX LTD.

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Management Discussion and Analysis of Financial Results

This section provides an analysis of the operating and financial results of QGX Ltd. (“QGX” or the “Company”) for the three- and nine-month periods ended September 30, 2006 and should be read in conjunction with our interim financial statements and notes thereto for the period ended September 30, 2006 (the “Interim Statements”) as well as our audited financial statements and the notes thereto for the year ended December 31, 2005 (the “Annual Statements”).

This MD&A has been prepared in conformity with National Instrument 51-102 F1 and has been approved by the Board of Directors. The information contained within is current as of October 31, 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”.

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. At September 30, 2006, the Company held 126 mineral exploration licenses in Mongolia covering approximately 21,900 sq. km.

Principal Properties

Baruun Naran: The Baruun Naran project is located in southern Mongolia, approximately 500 km south of Ulaanbaatar, the capital of Mongolia, and 270 km north of the Chinese border. It is also approximately 22 km southwest of the large Tavan Tolgoi coking and thermal coal deposit. The project occurs within a single exploration license totaling 953 sq km. QGX acquired 100 percent of this license in 2003.

QGX began exploring the Baruun Naran license in the early spring of 2005. A total of 137 holes were drilled in 2005, and an additional 200 holes are anticipated to be drilled in 2006. Extensive geophysical programs have been conducted on the property to guide the exploration drilling program.

Coal at Baruun Naran occurs within the Tavan Tolgoi Formation 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 6.5 km portion of this area. On June 7, the Company announced that an initial resource estimate for the project, independently prepared by McElroy Bryan Geological Services Pty. Ltd. of Sydney, Australia ("MBGS"), had outlined 47.5 million tonnes of "measured", 60.0 million tonnes of "indicated" (107.5 million tonnes of "measured & indicated") coal resources and an additional 48 million tonnes of "inferred" resource. QGX filed a copy of the NI 43-101 compliant report prepared by MBGS dated July, 2006 (the "MBGS Report") on SEDAR on July 24, 2006.

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 volcanogenic massive sulphide ("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 sulphide lenses containing copper (with byproduct gold and silver) occur at depths below the base of oxidation (approximately 70 m below the surface); 2) near-surface zones of gold and silver-bearing gossan that represent the oxidized up-dip portions of these sulphide zones, and 3) high-grade quartz-telluride veins containing gold and silver that occur along the margins of the massive sulphide bodies.

On February 28, 2005 QGX announced the completion of an independent, NI 43-101 compliant, mineral resource estimate for the CVZ. Chlumsky Armbrust & Meyer L.L.C. ("CAM") of Denver, Colorado prepared the estimate in a report dated March 28, 2005, later updated in a new NI 43-101 report dated October 17, 2005. The following table outlines these findings.

Resource Classification	Cutoff Grade			Grade			Contained Metal		
	Au (g/t)	Cu (%)	Tonnes (000's)	Au (g/t)	Ag (g/t)	Cu (%)	Gold (000's ounces)	Silver (000's ounces)	Copper (mm lbs)
Massive Sulphide									
Measured	–	0.8	1,024	0.39	5.5	1.86	13	183	42
Indicated	–	0.8	9,140	0.39	5.3	1.70	114	1,567	343
Total M+I	–	0.8	10,164	0.39	5.4	1.72	127	1,750	385
Inferred	–	0.8	9,499	0.33	4.5	1.29	101	1,389	270
Oxide (gossan)									
Measured	1.0	–	474	3.10	19.0	–	47	290	–
Indicated	1.0	–	2,624	2.78	18.9	–	234	1,594	–
Total M+I	1.0	–	3,098	2.83	18.9	–	281	1,884	–
Inferred	1.0	–	1,752	2.72	19.5	–	153	1,098	–
HGQT Veins									
Inferred	3.0	–	696	19.63	35.0	–	439	783	–
Contained Metal in Measured + Indicated Resources							409	3,634	385
Contained Metal in Inferred Resources							693	3,270	270

Exploration Update for the Period June 1 to October 31, 2006

Baruun Naran: Two drilling programs and one resource estimate already have been completed this year at Baruun Naran as of September.

The first 2006 drilling program was finished in May, and formed the basis for the first (and current) NI 43-101 resource report announced on June 7th 2006, filed on SEDAR on July 24th. The resource report was completed by McElroy Bryan Geological Services (Sydney), and demonstrated 47.5 Mt of “measured”, 60.0 Mt of “indicated” (107.5 Mt contained in “measured and indicated”) and an addition 48 Mt of “inferred” resources of coking and steaming coal resources within the current area of interest. The report described 24 coal seams, of which portions of only 11 seams were included in the resource estimate. Although portions of the other 13 seams were drilled to either “inferred”, “indicated” or “measured” resources, they were excluded because they lacked sufficient coal-quality data at the time of the report’s writing.

A second drilling program commenced in mid May and ended in late September, consisting of 84 drill holes for a total of 23,700 m. The drilling program was designed to bring into “inferred” resources the remaining portions of the 24 coal seams within the current area of interest that were excluded in the first NI 43-101 resource estimate. As well, additional core samples were collected as part of the 2006 coal-quality program to increase our understanding of the physical-chemical properties of each of the seams. McElroy Bryan Geological Services will calculate the “second-generation” resource estimate on the basis of these drilling and coal-quality results and deliver the report later this year. It is anticipated that sufficient coal-quality data will be available at the time of the report’s preparation for 21 of the 24 coal seams to be included in the resource estimate.

Detailed understanding of coal-quality characteristics will be gained from the 2006 coal-quality program, the results of which are expected in early 2007. A&B Mylec Pty Ltd (“Mylec”), located in Brisbane, Australia, is supervising this program.

On October 19, 2006 the Company announced the approval by the Board of Directors of an additional drilling program at Baruun Naran for 2006. The prime objective of the program will be to convert all the known coal within the current area of interest (approximately 6.5 km long and 1.5 km wide) into the “indicated” and “measured” resource categories. The results will form the basis for a NI-43-101 resource report which is expected to be delivered in Q1 of 2007. The benefit of the program is that it will maximize the permissible tonnage that can be included in a pre-feasibility study. The drilling will consist of approximately 40 holes (12,000 m) and is scheduled for completion by mid December. QGX anticipates that the program will cost approximately C\$1.8 million, positioning the Company with a year-end net cash balance forecasted to be approximately C\$17 million.

QGX anticipates that over 200 core and poly-crystalline diamond (PCD) holes (58,000 m) will be drilled in 2006 at Baruun Naran.

Golden Hills: QGX believes that the Central Valley Zone (“CVZ”) is part of a larger VMS belt or district that has the potential to host several other Cu-Au-Ag deposits. To evaluate this mineral potential, QGX conducted an airborne geophysical survey covering

approximately 2300 sq. km of the Golden Hills license block in western Mongolia, which was completed in May (see press release dated May 3, 2006). The Company has only recently received the final results of the airborne survey from the service provider who was delayed due to volume of business. A final interpretation of the data by QGX's geophysical consultant is expected in Q4 or Q1 2007. Ground follow-up of any identified airborne electromagnetic anomalies is planned for 2007.

Other Properties

No significant results were forthcoming from exploration programs on other properties in the period. Work and spending on other properties has been reduced, but continues on specific attractive prospects, as discussed under "Overview".

Qualified Persons

David Anderson, Executive Chairman of QGX, is the qualified person under National Instrument 43-101 who has reviewed the technical information contained in this report.

Amendments to the Mongolian Mining Laws

As reported previously, the government of Mongolia introduced on May 12, 2006, a Windfall Profit Tax Law, applicable to revenues from the sale of gold and copper concentrates (net of smelting & refining charges) produced in Mongolia. The Windfall Profit Tax only applies to the sale of copper concentrate and does not apply to copper cathode that is produced in Mongolia. The tax has generated significant debate amongst the industry parties active in country, however the tax structure remains in place and is anticipated to apply to all relevant producers not covered by existing Stability Agreements, as of January 1, 2007, or subsequently addressed by Investment Agreements with the government thereafter.

In July the government approved a revised Minerals Law, which included a right for the government to acquire up to a 34% equity interest, on a commercial basis, those mineral deposits considered to be of "strategic" importance to the national economy, defined as any project with annual revenues exceeding 5% of Mongolia's GDP. The strategic definition will likely apply to our coal property (Baruun Naran) and may apply to our copper/gold property (Golden Hills) as well.

The government in July also approved the designation of a second type of "strategic" deposit allowing the government the right to acquire up to a 50% equity interest in those mineral deposits that were discovered and developed in the past by the State. QGX believes that neither the Baruun Naran nor the Golden Hills deposit qualifies for such designation.

As a result of these Tax and Mining Law announcements by the Mongolian government, the share prices for QGX and other TSX-listed companies with mineral projects in Mongolia plunged dramatically on May 15th, ultimately leading to 52-week lows during the subsequent weeks of trading.

On October 18, 2006, Ivanhoe Mines Ltd. and Rio Tinto PLC announced a strategic partnership, involving an immediate private placement investment by Rio Tinto of C\$345 million for a 9.95% interest in the common shares of Ivanhoe Mines. The agreement between the parties creates a defined path for Rio Tinto to make further investments of C\$1362 million (through a second investment tranche and an exercise of warrants) to secure a total interest in Ivanhoe Mines of 33.35%, subject to regulatory and shareholder approvals. Ivanhoe Mines has agreed to deploy at least 90% of the proceeds received from this transaction to finance the development of the Oyu Tolgoi Copper/Gold Project in Mongolia.

QGX management is pleased to see such a significant investment in Mongolia by one of the leading members of our industry. This new level of investment by Rio Tinto supports our view that the country risk can be favourably resolved and that attractive financial returns can be achieved from quality ore bodies in Mongolia. The standard for the development of Oyu Tolgoi that can be expected from Rio Tinto is world class, and will set a leadership norm that we believe is beneficial for the country and for our industry in Mongolia.

Recent Management Changes

The Company made several important changes to senior management in August and September 2006, reflecting a strategy aimed at refocusing the company's management team from exploration to development. These appointments bring the necessary depth and industry experience to QGX to advance the Baruun Naran and Central Valley Zone projects to production.

Effective in August 2006, David Anderson (the former President/CEO) assumed the position of Executive Chairman and Paul Zweng, the former COO, became the new President/CEO. At the same time, QGX hired Mr. George Putnam as the new CFO. Mr. Mark Wayne, the outgoing CFO, will advise the company on financial and legal issues and will continue to serve as a Director.

QGX's new President and CEO, Dr. Paul Zweng, blends a technical and financial background developed over two decades in the minerals industry. Dr. Zweng has been the Chief Operating Officer for QGX since February 2003, leading the exploration and development for the Baruun Naran and the Central Valley Zone projects, as well as participating in the development of corporate strategy, financings, and new business development. Prior to joining QGX, Dr. Zweng was a partner with Palo Alto Investors (1999-2002), a California-based hedge fund, where he conducted due diligence and led investment decisions on mining and exploration companies. Dr. Zweng led BHP Copper's new business development efforts in the Copperbelt of Africa from 1997 until 1999. From 1995 until 1997, Dr. Zweng was the Manager of Exploration & Geology of BHP's Tintaya Cu-Au-Ag mine (Peru). Dr. Zweng obtained a M.Sc. in Geological Sciences from Queen's University in 1984 and Ph.D. in Applied Earth Sciences from Stanford University in 1993.

Mr. George Putnam, the new CFO, brings a wealth of international finance and business experiences to QGX. Mr. Putnam's experiences, gained from a long career with BHP (now BHP-Billiton) and GE/Utah International, include surface coal operations, steel-

making products, petroleum refining and product sales, and copper/gold mining. Mr. Putnam held Division CFO roles with BHP Hawaii, a petroleum refining and product sales business (US\$1 billion revenues), and with BHP Manganese, an ore mining, ferro-alloy smelting and refining business in Australia (US\$300 million revenues). Mr. Putnam received an MBA in finance from Duke University in 1977.

Mr. David Anderson, the company's former President and CEO, is now the Executive Chairman. Mr. Anderson has worked in the mining and exploration industry since 1974. He is a Registered Professional Geologist with a diploma in Geology and a B.Sc. in Geophysics. In the early part of his career Mr. Anderson worked with many major mining companies on programs throughout the world. In 1986 Mr. Anderson co-founded Quantec Geoscience Ltd. ("Quantec") a company that specializes in the development and application of advanced geoscience technologies. In 1994-95 Mr. Anderson left Quantec to co-found QGX where he became the Company's President and CEO. Under his leadership, the Company has made two significant discoveries in Mongolia at Baruun Naran (coking and steaming coal) and the Central Valley Zone (copper-gold-silver).

In September, QGX appointed Mr. John Thompson as Vice President of Project Development. Mr. Thompson brings to QGX the necessary depth and experience in operations to guide the continued development of the Baruun Naran (coking and steaming coal) and Golden Hills (copper, gold, and silver) projects as they move into the pre-feasibility stage. Mr. Thompson's career spans 36 years working in open-pit and underground operations for Utah Development Company, BHP, Newcrest Mining, and others in Australia, New Zealand, and the United States. At various points in his career Mr. Thompson was the Mine Manager of BHP's, Blackwater mine, Queensland (annual production of 4.3 Mt coking coal and 1.4 Mt steaming coal; 510 employees), the Project Manager for Newcrest Mining's Cadia Hill mine, New South Wales (annual production capacity of 300,000 oz gold and 25,000 mt copper), and the General Manager for Newcrest Mining's Telfer gold mine, Western Australia (annual production of 308,000 oz gold; 700 people workforce). Mr. Thompson's appointment will commence November 1st.

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			
	Sept. 30/06	June 30/06	Mar. 31/06	Dec. 31/05
Revenues	\$197,713	\$571,735	\$46,248	\$76,080
Net Income (loss)	(2,145,347)	(1,244,737)	(865,107)	(1,499,904)
per share – basic	(0.04)	(0.03)	(0.02)	(0.04)
	Sept. 30/05	June 30/05	Mar. 31/05	Dec. 31/04
Revenues	\$40,680	\$24,980	\$22,392	\$42,616
Net Income (loss)	(1,769,054)	(726,065)	(578,510)	(2,182,342)
per share – basic	(0.05)	(0.02)	(0.02)	(0.07)

Results of Operations

Revenues and Expenses

The Company is still in the pre-mining stage without any producing properties. Revenues were derived solely from interest income earned on cash balances and for the quarter ended September 30, 2006 amounted to \$197,713 as compared to \$40,680 earned in the third quarter of 2005 (\$815,696 for nine-month period ended June 30, 2006 versus \$88,052 in the comparable period in 2005). The increase in each period was due to a substantial increase in cash balances as a result of the significant financings completed in December of 2005. Expenses increased to \$2,343,060 in the current quarter (\$5,070,887 for the nine-month period) as compared to \$1,809,734 in the prior year quarter (\$3,161,681 in the prior year nine-month period). The increase in the current quarter was primarily due to a \$1,243,225 write down of resource properties, and an increase in stock-based compensation and amortization. This was partially offset by a correction in the amortization calculation for the nine-month period.

The net result of the foregoing is that Company recorded a loss of \$2,145,347 (\$0.04 per common share) in the current quarter as compared to a loss of \$1,769,054 (\$0.05 per common share) in the corresponding quarter of 2005. For the nine-month period the losses were \$4,255,191 in 2006 as compared to \$3,073,629 in the corresponding nine-month period of 2005. 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.

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 the third quarter of 2006 were \$2,513,635 (\$3,183,680 in 2005). The bulk of the exploration expenditures in the quarter were spent on Baruun Naran (\$3,607,773), primarily on drilling, geophysical surveys, consultants and laboratory fees. During the quarter a \$1,243,225 write down was recorded related to the dropping of certain non-strategic mineral licenses in Mongolia. These properties were deemed to hold no further potential for QGX. Further license portfolio reductions are anticipated.

Liquidity and Capital Resources

Working Capital

QGX had working capital of \$19,700,364 at September 30, 2006, (December 31, 2005 – \$34,374,141) consisting primarily of cash and short-term investments. The decrease is due to resource expenditures incurred in the period, as discussed above. 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 September 30, 2006.

Capitalization

There were 45,877,956 common shares outstanding at September 30, 2006. This represents an increase of 20,000 common shares from December 31, 2005, resulting from the exercise of 20,000 stock options in the second quarter.

The Company's fully diluted share capital at September 30, 2005 was 50,171,456 shares. The potential dilution comes from 4,293,500 stock options held by officers, directors, employees and consultants, at exercise prices ranging from \$0.50 to \$4.15.

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 79% - 83% in 2006 (82% in 2005). This is an estimate based on past stock trading data and actual volatility may be significantly different in the future. 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, high-grade interest-bearing cash investments, 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.

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.