



QGX LTD.

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Management Discussion and Analysis of Financial Results for 2006

This section provides an analysis of the operating and financial results of QGX Ltd. (“QGX” or the “Company”) for the three and twelve month periods ended December 31, 2006 and should be read in conjunction with our audited financial statements and notes thereto for the period ended December 31, 2006 (the “Annual 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 March 23, 2007 unless otherwise noted.

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. At December 31, 2006, the Company held 98 mineral exploration licenses in Mongolia covering approximately 18,618 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, where coal occurs within the Tavan Tolgoi Formation. The Company drilled 213 holes during 2006, bringing the property total to 350 drill holes over the last two years. Extensive geophysical programs have been conducted on the property to guide the exploration drilling program. Work to date has been focused on an area approximately 2 km x 10 km in size with the majority of the drill holes concentrated within a 1 km x 6.5 km portion of this block.

On June 7 the Company announced an initial resource estimate for the project, independently prepared by McElroy Bryan Geological Services Pty. Ltd. of Sydney, Australia ("MBGS"), of 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 and oxide 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. CAM later updated the resource estimate in a new NI 43-101 report dated October 17, 2005. The following table outlines the resource estimate.

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

On March 8, 2007 QGX announced the results of a Preliminary Economic Assessment for the CVZ which is discussed in more detail in the Principal Property Updates section of this report.

Principal Property Updates for the Period January 1, 2006 to March 23, 2007

Baruun Naran: Three drilling programs and one resource estimate were completed in 2006 at Baruun Naran.

The first drilling program began in 2005, and was finished in May 2006, (89 holes completed in first 5 months of 2006). This work formed the basis for the first (and current) NI 43-101 resource report filed on SEDAR in July 2006.

The second 2006 drilling program (84 holes comprising 23,700 m) was finished in September 2006, and was designed to add to our understanding of the resource in two areas:

1. 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, and
2. Increase our understanding of the physical-chemical properties of each of the seams, as applied to a “slim-core” coal quality program.

The third 2006 drilling program (40 holes comprising 12,000 m) began in October and was completed in early December. The prime objective of this program was to convert 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 yield two benefits:

1. They will form the basis for a new NI-43-101 resource report, and
2. They will better define the resource so as to maximize the permissible tonnage that can be included in a pre-feasibility study.

McElroy Bryan Geological Services Pty. Ltd. of Sydney, Australia is expected to deliver a “measured and indicated” NI 43-101 resource estimate on the basis of both the second and third 2006 drilling programs in Q2 2007.

Detailed understanding of coal-quality characteristics will be gained from the 2006 “slim-core” coal-quality program. Mr. Bob Leach of A&B Mylec Pty Ltd (“Mylec”), located in Brisbane, Australia, is supervising this program. The coal-quality results are expected in Q2 2007. An interim report was received and announced on February 21, 2007.

Highlights included:

- Three distinct washed coal products can be produced from Baruun Naran; semi-soft coking coal (7-9% ash), secondary thermal coal (12-16% ash), and a tertiary thermal coal (20-25% ash).
- Coking coal fractions were present in each of the 6 seams tested and
- Coal-quality distributions within seams vary, and will require blending to maintain desired ash specifications.

During 2006, AATA International, Inc. (Fort Collins, Colorado), in association with Ecotrade (Ulaanbaatar, Mongolia), completed a Social and Environmental Baseline Study (“SEBS”) for Baruun Naran. The work was compiled in January 2007 and the results announced on February 26, 2007. Highlights included:

- The study found no physical, chemical, biological or social characteristics that would present a fatal flaw to development of the property.

- The study provides the baseline database for the subsequent Social and Environmental Impact Assessment (“SEIA”), to be initiated later in 2007 as a necessary prerequisite to mining development at Baruun Naran.
- The SEIA will be conducted to satisfy both Mongolian and International standards, including IFC Performance Standards and Equator Principles.

In addition to work on coal resources, quality, and environment, the Company retained Nexant Inc, (San Francisco, California), an engineering firm with majority ownership by The Bechtel Corporation, to conduct a “Screening Study” related to the production of petrochemical products (e.g., methanol, DME, and olefins) using standard coal-to-liquid (“CTL”) technologies, deployed in commercially operating plants today. The CTL plant concept is being evaluated as part of a review to maximize the value of the thermal coal resource at Baruun Naran. Results of the Screening Study were announced on February 23, 2007. Highlights included:

- Baruun Naran coal is a suitable feedstock for a CTL plant, as run-of-mine product without washing the coal, thereby mitigating the need and capital for a washing plant.
- The Study envisions a CTL plant with a capacity of 1.78 million tonnes per annum (Mtpa) of methanol, ranking as one of Asia’s largest coal-to-methanol plants. Development would consist of a phased approach with an initial start-up plant at one-third the size
- Coal tonnages required to support a large (1.78 M Mtpa) CTL plant are available at Baruun Naran for in excess of 30 years.

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. The results of the survey were announced on May 3, 2006. A final interpretation of the data by QGX’s geophysical consultant is expected in Q2 2007. Ground follow-up of the identified airborne electromagnetic anomalies is planned for the 2007 field season.

The Company retained Chlumsky, Ambrust & Meyer LLC (“CAM”) in Q4 of 2006 to conduct a NI 43-101 compliant Preliminary Economic Assessment (“PEA”) for its 80% owned Golden Hills project. The results of that work were announced on March 8, 2007. Highlights included:

- A positive PEA on a two-stage mine development plan with 15 year mine life
- A 27% IRR, based on long-term copper price of US\$1.50/lb, gold price of US\$529/oz, and silver price of US\$9.08/oz.
- Gold cash cost in oxide phase under US\$150/oz
- Copper cash cost in sulphide phase (after gold-silver credits) of US\$0.77/lb

Project Highlights for CVZ, Golden Hills, Mongolia

Average Annual Production	
<u>Years 1-4 (Oxide Phase)</u>	
Gold / Silver	79,900 oz / 521,000 oz
<u>Years 5-15 (Sulphide & Telluride Phase)</u>	
Copper	56.5 million lbs
Gold / Silver	53,900 oz / 235,200 oz
Total Capital Cost	US\$164 million
Total Cash Cost¹	
Oxide Phase (open pit)	US\$148.53/oz Au
Sulphide & Telluride Phase (underground) ²	US\$0.77/lb Cu
Avg. Annual Revenues³	
Oxide Phase	US\$47.2 million
Sulphide/Telluride Phase	US\$105.6 million
Avg. Annual After-Tax Earnings	
Oxide Phase	US\$13.8 million
Sulphide & Telluride Phase	US\$19.5 million
IRR (pre-tax / after-tax)	34% / 27%
NPV @ 10% (pre-tax / after-tax)	US\$122 million / US\$83 million

- 1: Total cash costs/unit, are life-of-mine costs, net of by-product credits, and include transportation costs, and smelter charges (TCRC's), divided by metal units produced.
2. Underground phase by-product credits include gold and silver from both sulphide and telluride ores
- 3: Revenues reflect a reduction for Mongolian NSR royalties of 5

Separately, the Company has received positive metallurgical test results from AMEC Americas Limited (Vancouver), regarding the third phase of metallurgical studies related to the oxide at Golden Hills. These results were announced February 23, 2007.

Highlights include:

- Confirmation that agitated vat leaching is a technically feasible processing method for recovery of gold and silver from oxide.
- Conventional crushing/grinding circuits and carbon-in-pulp treatment are favourable, and
- The average sodium cyanide consumption for the Phase 3 tests with an 800g/t addition was 350g/t. This result is lower than previous results reported from Phase 1 and 2 tests, suggesting the potential for lower beneficiation costs.

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 as the Company focuses on its advanced projects.

Management Changes

The Company made several changes to its senior management team in 2006 in order to strengthen the company's ability to advance its Baruun Naran and Golden Hills (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, continues to advise the Company on financial and legal matters and will continue to serve as a Director.

QGX's new President and CEO, Dr. Paul Zweng, brings a blend of technical and financial expertise in the minerals industry developed over two decades. Dr. Zweng has been the Chief Operating Officer for QGX since February 2003, leading the exploration and development for the Baruun Naran and the Golden Hills 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 and Golden Hills 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 commenced November 1st.

Qualified Persons

David Anderson, Executive Chairman and John Thompson, Vice President-Project Development are the qualified persons under National Instrument 43-101 who have reviewed the technical information contained in this report.

Amendments to the Mongolian Mining Laws

As reported previously, on May 12, 2006, the government of Mongolia introduced 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 (or future) stability agreements, as of January 1, 2007.

In July 2006 the government revised the Minerals Law, which included the right for the government to acquire up to a 34% equity interest, on a commercial basis, of specific 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 may apply to our coal property (Baruun Naran) and to our copper-gold property (Golden Hills).

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 Baruun Naran nor Golden Hills qualifies for such designation.

These tax and mining law changes dampened investor sentiment towards mineral exploration companies with properties in Mongolia. Recent events in the mining sector, such as the Ivanhoe Mines Ltd./Rio Tinto PLC strategic partnership, Centerra Gold's announcement of a mine expansion at the Boroo gold mine and continued Chinese interest in Mongolian resources have improved the outlook for the mining sector. In addition, this past quarter has witnessed emerging positive signs from the government, including the replacement of key senior officials in MPRAM Mining Department as well as encouraging comments made by Mongolian mining delegations presenting at global

mining conferences (e.g., PDAC in March 2007). These factors are generating a more positive sentiment towards mineral projects in Mongolia among investors and the mining industry.

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			
	Dec. 31/06	Sept. 30/06	June 30/06	Mar. 31/06
Revenues	\$220,390	\$197,713	\$571,735	\$46,248
Net Income (loss)	(1,062,716)	(2,145,347)	(1,244,737)	(865,107)
Per share – basic	(0.03)	(0.04)	(0.03)	(0.02)
	Dec. 31/05	Sept. 30/05	June 30/05	Mar. 31/05
Revenues	\$76,080	\$40,680	\$24,980	\$22,392
Net Income (loss)	(1,499,904)	(1,769,054)	(726,065)	(578,510)
Per share – basic	(0.04)	(0.05)	(0.02)	(0.02)

Results of Operations

Revenues and Expenses – Full Year Results for 2006

The Company is still in the pre-mining stage without any producing properties. Revenues were derived solely from interest income earned on cash balances. For the year ended December 31, 2006 interest income amounted to \$1,036,086 versus \$164,132 in the comparable period in 2005. This increase reflected the substantial increase in cash balances held by the Company throughout 2006 as a result of significant financings completed in December of 2005. Expenses (cash and non-cash) for the year totaled \$6,353,993 as compared to \$4,737,665 in the prior year. The \$1,616,338 increase in 2006 reflects spending changes in the following areas:

- increased project write-downs of \$1,164,665
- foreign exchange impacts of \$519,401
- higher spending on professional fees of \$198,657
- increased spend on investor relations of \$102,978
- slightly higher salaries of \$63,128

These spending increases were partially offset by a \$450,178 decrease in stock-option expense.

The net result of the foregoing is that Company recorded a loss of \$5,317,907 (\$0.12 per common share) for the year as compared to \$4,573,533 loss (\$0.13 per common share) in the corresponding 12 month period of 2005. These negative earnings reflect the fact that the Company is incurring significant expenditures without generating revenues from

operations. 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.

Revenues and Expenses – Results for Fourth Quarter 2006

Revenues for the fourth quarter amounted to \$220,390 as compared to \$76,080 earned in the fourth quarter of 2005, reflecting interest on higher average period cash balances. Expenses totaled \$1,232,257 in the fourth quarter as compared to \$1,575,984 in the prior year quarter. Fourth quarter expenses were lower as a result of:

- lower stock option expenses, and a gain on foreign exchange
- partially offset by higher project write-offs and higher legal and consulting fees.

The net result of the foregoing is that the company recorded a loss of \$1,062,716 (\$0.03 per common share) in the last quarter of 2006 as compared to a loss of \$1,499,904 (\$0.04 per common share) in corresponding quarter of 2005.

Resources Expenditures

QGX is engaged in the acquisition, exploration, and development of resource properties. 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.

Certain restrictions are likely to prevent full tax deductions for some of the costs incurred on our resource properties. This has been reflected as a future income tax liability on the balance sheet. As described in note 3 and note 4 to the annual financial statements, the amount recorded as “Resource properties” has been increased to offset the future tax liability in accordance with Canadian Generally Accepted Accounting Principles.

All of the Company’s properties are in the exploration stage and there can be no assurance that any will commence production in the future.

The Company’s net additions to resource properties in the year ending December 31, 2006 were \$15,961,140. The bulk of the exploration expenditures in the year were spent on Baruun Naran (\$13,751,938), primarily on drilling, consultant fees and laboratory services.

In addition to the amount that was added to resource properties in connection with the recognition of the future tax liability in 2006 (\$1,129,955), the net additions to resource properties figure also includes an asset write-down for the year of \$1,335,186 (\$91,961 for the fourth quarter), related to the dropping of certain non-strategic mineral licenses in Mongolia. This reduction in license holdings reflects management’s belief that those licenses no longer hold sufficient mineral potential to retain in our portfolio, and therefore no longer warrant carrying their portion of deferred cost on the balance sheet.

Liquidity and Capital Resources

Working Capital

QGX showed working capital of \$15,313,698 at December 31, 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.

Long Term Liability

The only long-term liability the Company as at December 31, 2006 was for future income taxes (please refer to note 3 of the annual financial statements). This liability recognizes that higher tax may be paid at some future point, from potential income-generating operations, as a result of differences between tax and book asset valuations on certain assets held on the Company's balance sheet. This balance sheet liability will only be realized in the event that the project assets associated with it generate taxable income, either through operations or sale of the assets.

Capitalization

There were 45,908,956 common shares outstanding at December 31, 2006. This represents an increase of 51,000 common shares from December 31, 2005, resulting from the exercise of 20,000 stock options in the second quarter and 31,000 stock options in the fourth quarter.

The Company's fully diluted share count at December 31, 2006 was 50,008,956 shares. The potential dilution is related to 4,100,000 stock options held by officers, directors, employees and consultants, at exercise prices ranging from \$0.50 to \$3.25.

Change in Accounting Policies

There were no changes in accounting policies since the Company's 2005 year end.

Restatement of Comparative Figures

During the year, 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 previously 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 3 of the annual financial statements for the year ended December 31, 2006. As these costs were incurred in connection with acquisition of an asset, rather than in a business combination, the cost of this liability has been added to deferred resource property costs in accordance with Canadian Generally Accepted Accounting Principles. These costs were not treated as an expense in the statement of operations.

Management believes that these tax deduction restrictions were also in place as at December 31, 2005, and accordingly we have provided a restated comparative 2005 balance sheet in our consolidated financial statements for 2006. There was no impact on reported Statement of Earnings or cash flows in either 2006 or 2005.

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, provided they are deductible for tax purposes at some future date, 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". If certain of these capitalized assets are not reasonably assured of their future tax deductibility, the additional tax obligation will be recognized immediately as a future tax liability. 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 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 adversely affect exploration and mining rights as well as taxation and royalties; 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.

Disclosure Controls and Procedures

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable.

As of the financial year ended December 31, 2006, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and Chief Financial Officer, on both the design and effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these current disclosure controls and procedures were effective as of December 31, 2006 to provide accurate and complete disclosure in public filings.

The Board of Directors assesses the integrity of the public financial disclosures through the oversight of the Audit Committee.

Internal Controls Review

During 2006 the Company completed a detailed evaluation of the design effectiveness regarding controls over financial reporting, based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The evaluation was conducted under the supervision of the Chief Executive Officer and the Chief Financial Officer, and identified a lack of segregation of duties and in-house expertise to deal with complex taxation, accounting and reporting duties, due to a limited number of employees dealing with financial matters. However, management has concluded that, considering the relatively small size of the company, employees involved, and the control procedures in place, including management and audit committee oversight;

- the risks associated with such lack of segregation are not significant enough to justify further measures, and
- internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with issuer's GAAP.

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.

