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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, 2007, and should be read in conjunction with our interim financial statements and notes thereto for the period ended September 30, 2007 (the "Interim Statements") as well as our audited financial statements and the notes thereto for the years ended December 31, 2006 and 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 Interim Statements and Annual Statements have been prepared in conformance with Canadian Generally Accepted Accounting Principles and the reporting currency is the Canadian Dollar.

The information contained within this report is current as of November 9, 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".

At September 30, 2007, the Company held 65 mineral exploration licenses in Mongolia covering approximately 6,362 sq. km. 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.

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 2002. QGX began exploration in the early spring of 2005, and completed 348 drill holes on the property by the end of December 2006. 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.

Completion of three drilling programs during 2005-2006 formed the basis for a new NI 43-101 resource report, independently prepared by McElroy Bryan Geological Services Pty. Ltd. of Sydney, Australia, and announced on June 13, 2007. The updated June 2007 resource estimate is more than double the size of the previous 'measured and indicated' coal estimate of June 2006, summing to 252.9 MT Later on August 7th QGX reported an additional 11 MT of inferred resources, together with the previously reported 252.9 MT measured and indicated resources.

Baruun Naran Project **NI 43-101 Compliant Resource Estimates** (tonnes x millions)			
	7-Jun-06 First Resource Estimate	**13-Jun-07 Second Resource Estimate**	**7-Aug-07 Updated Resource Estimate**
Measured Resources	47.5	93.3	93.3
Indicated Resources	60.0	159.6	159.6
Measured and Indicated Total	107.5	252.9	252.9
Inferred Resources	48.0	0.0	11.0

Mr. Bob Leach of A&B Mylec Pty Ltd ("Mylec"), located in Brisbane, Australia, has defined the coal quality for the coal seams across a number of parameters. Those announced results indicate coking coal fractions are present in each tested seam, and that with washing and blending, three distinct coal products can be produced from Baruun Naran:

1. a premium coking coal (7-10% ash),
2. a premium thermal coal (12-16% ash), and
3. a standard thermal coal (20-25% ash).

Float-sink (sizing and washing) laboratory tests have been performed and indicate theoretical overall washing yields of 64.7%. These tests also confirm that three washed products can be generated from a conventional wash process.

Other key areas of progress on the Baruun Naran project include:

- Completion of a social and environmental baseline study ("SEBS") by AATA International, Inc. (Fort Collins, Colorado), in association with Ecotrade (Ulaanbaatar, Mongolia), which will form the basis of a subsequent social and environmental impact assessment ("SEIA"), to be initiated in 2008.
- Completion of a screening study by Nexant Inc, (San Francisco, California), 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. The screening study found the Baruun Naran coal resource to be a suitable feedstock for a CTL plant.

- Completion of a preliminary economic assessment by Minarco-MineConsult (Sydney, Australia), announced on July 19th, which included a net present value (NPV) estimate for the project (10% discount) of US$481 million and a discounted cash flow - internal rate of return (DCF-IRR) of 39%. This latest economic study is discussed in greater detail in the Principal Property Updates section of this report.

Golden Hills: The Golden Hills property is located in northwestern Mongolia, 900 km west of Ulaanbaatar. QGX has completed the 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 in a location referred to as the Central Valley Zone (“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 typically 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 updated resource estimate.

	Cutoff Grade			Grade			Contained Metal		
Resource Classification	**Au**	**Cu**	**Tonnes**	**Au**	**Ag**	**Cu**	**Gold**	**Silver**	**Copper**
	(g/t)	*(%)*	*(000's)*	*(g/t)*	*(g/t)*	*(%)*	*(000's ounces)*	*(000's ounces)*	*(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 NI 43-101 compliant preliminary economic assessment (‘PEA’) for its 80% owned Golden Hills project, completed by Chlumsky, Armbrust & Meyer LLC (“CAM”) of Denver, Colorado. Highlights of that independent report included:

- A positive PEA on a two-stage mine development plan with 15 year mine life,and
- A 27% DCF - 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.

Highlights for Golden Hills Project		
Preliminary Economic Assessment Project Highlights	Oxide Phase Open Pit Years 1-4	Sulphide/Telluride Underground Years 5-15
Average Annual Production		
Copper		56.6 million Lbs.
Gold	79,900 oz	53,900 oz
Silver	521,000 oz	235,300 oz
Average Annual Revenues*	$47 million	$106 million
Average Annual Net Earnings	$13.8 million	$19.8 million
Capital Cost	Total Project	
Development Capital	US$146 million	
Sustaining Capital	US$18 million	
NPV @ 10%	US$83 million	
IRR	27%	
*Revenues shown net of government royalties		

AMEC Americas Ltd (Vancouver) has provided positive metallurgical test results regarding the third phase of metallurgical studies related to the oxide at Golden Hills. These results include confirmation that agitated vat leaching, conventional crushing/grinding, and carbon-in-pulp treatment are all technically feasible processing methods for the oxide resource.

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 in 2006 covering approximately 2300 sq. km of the Golden Hills license block in western Mongolia. Ground follow-up of the identified airborne electromagnetic anomalies has been completed, and is discussed in greater detail in the Principal Property Updates section of this report.

Principal Property Updates for the Period July 1, 2007 to November 9, 2007

Baruun Naran: On July 19, 2007, QGX announced the results of a NI 43-101 compliant preliminary economic assessment ("PEA") for the Baruun Naran project. Minarco-MineConsult of Sydney, Australia ("MMC"), independently prepared the PEA on QGX's behalf. The PEA defines a conventional, truck-and-shovel, open-cut mining operation with coal processed on site using a wash plant to produce both coking and thermal coal products. The coal products are assumed to be delivered to markets by rail starting in 2011.

Project economics are most influenced by coking coal prices and volumes—81% of revenue is derived from coking coal product sales. Coking coal tonnages in the PEA are maximized by blending to a 10% ash product, still considered a premium product in the Chinese market.

The PEA concludes that the Project is financially robust with an estimated after-tax NPV (10% discount rate) of US$481 million and a DCF-IRR of 39%. Project highlights are summarized below.

Project Production and Financial Highlights

Production	
Total Mineable Coal (ROM Mt)	201
Mine Life (production years)	23
ROM Production Rate (Mtpa)	9.0
Average Stripping Ratio (bcm/ROM mt)	4.1
Typical Annual Saleable Coal Production	
Coking Coal (10% ash) (Mtpa)	3.2
Premium Thermal Coal (14% ash) (Mtpa)	0.4
Standard Thermal Coal (25% ash) (Mtpa)	1.7
Typical Total Annual Saleable Coal Production (Mtpa)	5.2
Typical Annual Revenues, and Profits	
Average Annual Revenue (US$ millions)*	$320
Average Annual After-Tax Net Profit (US$ millions)*	$90
Financial Summary	
NPV @ 10% discount rate (US$ millions)	$481
DCF-IRR (%)	39%
Payback (years)**	4.3

* for periods with sales revenue; ** from start of mine construction; Mtpa = million metric tonnes per year; mt = metric tonne

On August 7th, 2007, QGX Ltd. announced that it has retained MMC to begin the pre-feasibility study for Baruun Naran, expected to be completed by year end 2007.

Golden Hills: On August 22, 2007, QGX Ltd. announced that a drilling program and geotechnical studies have been initiated at the Central Valley Zone ("CVZ") of Golden Hills, western Mongolia, as part of the requirements to convert the exploration license to a mining license. The drilling program consists of five holes, a planned total of 750 meters, and two distinct objectives:

- hydrological drilling, to determine the location, quantity, and quality of water present in the area, and
- geotechnical and rock mechanical test work to guide the design of the oxide gold-silver open pit, utilizing drill core from the water program.

Other studies underway for the purpose of mining license conversion include an environmental baseline study, a mining and milling progress design study, a preliminary feasibility study, and completion of a geological resource report. QGX must file a geological reserve report for the Central Valley Zone to register the resource with the government. Upon receipt of government approval of the reserve, QGX will submit an official application for a mining license.

On September 4, 2007, QGX Ltd. announced that exploration drilling is now underway at the Copper Ridge massive sulphide prospect, located approximately 3 km from the Central Valley Zone ("CVZ") copper-gold-silver massive sulphide deposit at Golden Hills, western Mongolia. Assays are pending from the one drill hole collared at Copper Ridge.

Other Properties: On August 15, 2007, QGX Ltd**.** announced the discovery at Khotgor, southern Mongolia, of a multiple-phase rhyolite-syenite-latite porphyry intrusive centre with zoned alteration typically associated with molybdenum deposits. Disseminated fluorite associated with coarse-grained white mica ("greisen") is widespread throughout the central zone of alteration. A recently completed induced polarization (IP) survey shows a classic "doughnut-shaped" chargeability response centered on the intrusive which forms a resistivity low. This is a classic geophysical response that is typically associated with porphyry deposits. QGX believes the chargeability high is reflecting a pyrite-rich fringe surrounding the hydrothermal system. The broad chargeability/resistivity anomaly, combined with the large volumes of biotite-, greisen-, sericite-, and clay-altered rock mapped at surface, is interpreted to reflect a large hydrothermal system in excess of 9 sq. km.

Geomaster Engineering (Ulaanbaatar) performed the dipole-dipole induced polarization (IP) survey over the Khotgor area, Umnogovi province, on behalf of QGX during July 16-24, 2007. QGX has completed a three-hole program at Khotgor and is awaiting assay results from each of these three holes.

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.

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.

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. 30/07	**June 30/07**	**Mar. 31/07**	**Dec. 31/06**
Revenues	$97,818	$127,070	$143,246	$220,390
Net Income (loss)	(1,580,196)	(1,420,689)	(2,141,564)	(1,062,716)
Loss per share – basic	(0.03)	(0.03)	(0.05)	(0.03)
Loss per share –fully diluted	(0.03)	(0.03)	(0.05)	(0.03)
Total Assets	64,548,017	64,602,639	65,637,544	67,783,141
	Sept. 30/06	**June 30/06**	**Mar. 31/05**	**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)
Loss per share – basic	(0.04)	(0.03)	(0.02)	(0.04)
Loss per share – fully diluted	(0.04)	(0.03)	(0.02)	(0.04)
Total Assets	68,929,188	70,216,808	69,008,891	73,649,738

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.

The Company's cash balance as at September 30, 2007 was $8,797,777, approximately 42% the size of the balance at January 1, 2007. As a result of the declining cash balances, the Company's interest income figures are lower by comparison with earlier periods. For the third quarter ended September 30, 2007, interest income totaled $97,818 versus $197,713 in the third quarter period of 2006. Interest income for the first nine months of 2007 totaled $368,134, versus $815,696 in the first nine month period of 2006.

Expenses (cash and non-cash) for the third quarter of 2007 totaled $1,678,014, a reduction when compared to expenses of $2,343,060 in the third quarter period of 2006. Expenses for the first nine months of 2007 were $5,510,583, higher than expenses of $5,070,887 for the comparable nine month period in 2006.

Third quarter 2007 expenses were lower than the comparable third quarter in 2006, by $665,046. Principal spending reductions for the quarter include:

- Much smaller write-down of resource properties during the 2007 quarter, reflecting a $1,100,567 comparative improvement to costs (non-cash);
- Lower foreign exchange losses of $34,278, reflecting lower cash balances held in currencies that weakened relative to the Canadian dollar (US dollar), and

- Lower office and administration expenses of $34,030 for the current quarter, due to lower rental costs in Waterdown and Mongolia.

Offsetting these quarter-to-quarter spending reductions were $503,829 of spending increases, summarized as follows.

- Higher stock-based compensation costs of $188,654, due to options issued to Directors in Q3 of 2007 that vested immediately, requiring immediate recognition of value (non-cash);
- Higher professional fees of $105,420 due to legal costs, investment banking fees, and higher audit fees due to greater consultation and support for year-end 2006 work;
- Higher amortization charges of $82,106 due to a correction in the corresponding period of 2006 for a prior period overcharge;
- Higher travel costs of $54,457;
- Loss on disposal of fixed assets of $32,580, due to sale of automobiles and furniture, and
- Higher expenses in several other areas (bank fees, salaries, investor relations) totaling $40,612.

For the nine-month period comparison of 2007 with 2006, spending was $439,696 higher in the current period than in the comparable nine months of the prior period. There were certain favorable spending variances during the period ($476,101), as follows:

- Lower foreign exchange impact of $390,209, reflecting lower cash balances held in currencies that weakened relative to the Canadian dollar (US dollar);
- Lower stock-based compensation costs of $82,949. QGX reached a point in 2006 where portions of the existing options pool have been fully expensed, reducing expense in future years, beginning in 2007, Additionally, fewer options were issued in the 2007 period (266,000 less) than in the corresponding period for 2006. Offsetting this were options issued to Directors that vested immediately and were expensed in Q3 2007 (non-cash item);
- Lower banking charges of $ 17,010 due to lower management fees on our investments due to their draw down, and
- Slightly lower office expenses of $2,943.

These favorable spending variances were more than offset by the following unfavorable variances ($932,867) to the comparable prior period:

- Higher salary costs of $571,547, due to timing of bonus payments of $327,429, and to additional management staffing in 2007;
- Higher professional fees of $131,314 reflecting a one-time accrual of an investment banker fee, legal costs related to restructuring and the recognition of the 2006 audit fee;
- Increased write-down of resource properties of $103,625, due to reductions in holdings of leased acreage with larger associated capitalized cost write-downs;
- Higher travel costs of $60,022;
- Loss on disposal of fixed assets of $32,580, resulting from sale of automobiles and furniture;
- Increased amortization costs of $17,508, reflecting the higher capital asset base in use during 2007. Average capital assets in use were higher in 2007 by $38,789, and

- Higher transfer agent fees and investor relations costs generated the remaining $16,271 spending variance against the prior period.

The net result of the foregoing is that Company recorded a loss of $1,580,196 ($0.03 per common share, both outstanding and fully diluted) for the quarter. This compares to a loss of $2,145,347 ($0.05 per common share, both outstanding and fully diluted) in the corresponding three-month period of 2006, reflecting the combined impacts of lower comparable interest income and lower expenses. For the nine-month period ending September 30, 2007 the Company recorded a loss of $5,142,449 ($0.11 per common share, both outstanding and fully diluted). This compares to a loss of $4,255,191 ($0.09 per common share in the corresponding nine-month period of 2006, both outstanding and fully diluted).

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.

Resource Expenditures

QGX is engaged in the acquisition, exploration, and development of resource properties. All acquisition, exploration, and related overhead expenditures are capitalized and recorded as an asset on the balance sheet under the heading “Resource Properties”. These expenditures will be ammortized over the estimated life of the properties if and when they reach production. Management continuously reviews the status of properties in the Company’s mineral license portfolio, and if management believes that a license no longer holds sufficient mineral potential to retain in the portfolio, or if a license is dropped from the portfolio, the capitalized cost associated with that license is fully written off the balance sheet, and a write-off charge is taken to current period income. As a result, the resource properties asset line item on the Company’s balance sheet reflects deferred costs entirely related to properties currently in the Company portfolio of exploration and mining licenses.

Certain restrictions will prevent tax deductions for some of the costs incurred on our resource properties. This probable loss of deductibility has been reflected as a future income tax liability on the balance sheet. The tax liability has been offset on the balance sheet by recording an increase to “Resource properties”, 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 recognized a net increase to resource properties recorded on the balance sheet in the quarter ending September 30, 2007 of $1,918,620. Project detail for this capitalized amount is as follows:

- Baruun Naran project spend for the quarter was $930,906. Project expenses include camp costs, staffing costs attributable to the project, consulting costs attributable to the current pre-feasibility study underway, as well as the current water drilling program. Approximately 13.4% of the total relates to the water program expense, which will continue for some number of additional quarters.

The pre-feasibility study will continue for one quarter to completion, and other costs are ongoing.,

- Golden Hills project spend for the quarter was $355,964. Project expenses include camp costs, staffing costs attributable to the project, consulting costs attributable to work supporting application to convert the project's exploration license to a mining license, as well as water program costs also required by the mining license application. This work is anticipated to continue for at least one more quarter, although camp and staff costs are ongoing.,
- Undur Tsagaan project spend for the quarter was $530,950. Project expenses include consulting costs for a Mongolian-standard economic valuation, staffing costs, geologic consulting and water drilling programs to support an application to convert this exploration license to a mining license. This work is expected to continue for at least one more quarter.
- Remainder ($107,800) capitalized against other exploration projects, reflecting staff costs, reconnaissance work, travel costs, supplies and other general operational expenses of the exploration team. This cost is ongoing.

Liquidity and Capital Resources

Working Capital

QGX had working capital of $8,361,119 at September 30, 2007, (December 31, 2006 – $15,313,698) 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 fixed operating expenses, for a period of 12 months. The Company is however taking its Baruun Naran project through the pre-feasibility stage this year and planning to undertake a full feasibility study in 2008, along with conducting a water program in 2007 and 2008. These project development expenditures will shorten the timeframe required for the Company to seek to raise additional capital. Management can and will adjust its budgets accordingly, to ensure that adequate working capital is maintained.

Based in part on the funding demands placed on the Company by its development projects, the Board and management are currently seeking and evaluating new capital sources and strategic alternatives for the Company. While the Company has been successful in the past at sourcing additional capital when required, this is always subject to market conditions and there can be no assurance that additional funds will be available at any given time.

Recent Private Placement Equity Financing

On July 24, 2007, QGX announced it entered into a subscription agreement with JUST Group Industries, a private Mongolian Company, which provided for the purchase of five million common shares of QGX at an issue price of $4.15 CDN per share for total proceeds of $20.75 million, subject to regulatory approval. Closing of the private placement was expected to take place within 60 days.

During the defined 60 day period, JUST Group completed the subscription for 722,892 shares of QGX at $4.15 CDN per share, representing an investment of $3 million. All shares acquired by JUST Group are subject to a statutory four-month hold period and JUST Group has agreed not to sell any shares for 12 months from closing.

On October 9, 2007 QGX Ltd. announced that the Company entered into an amending agreement with JUST Group Industries regarding the proposed financing. This amending agreement granted JUST Group an extension until October 25, 2007 to complete the remaining balance of the proposed financing (approximately $17.75 million) on the same terms and conditions
.

On October 24, 2007 QGX Ltd. announced that it had been advised by JUST Group Industries that due to other commitments, they would not subscribe for the remaining portion of the financing, as granted by the amending agreement.

The final result of the subscription agreement with JUST Group generated a $3 million investment in QGX, consisting of the purchase of 722,892 common shares of QGX, at a price of $4.15 CDN per share.

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.

Long-Term Liability

The only long-term liability of the Company as of September 30, 2007 is for future income taxes. 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-asset and book-asset valuations 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.

The Company does not have any material contracts or commitments for expenses extending beyond twelve months. Ongoing lease costs and associated minimum work requirements in Mongolia, plus staffing costs can be considered long term in nature, but these expenses can be and are managed, based on current and anticipated funding levels.

Capitalization

There were 46,978,956 common shares outstanding at September 30, 2007.

The Company's fully diluted share count at September 30, 2007 was 50,808,956 shares. The potential dilution is related to 3,830,000 stock options held by officers, directors, employees and consultants, at exercise prices ranging from $1.20 to $3.25.

Change in Accounting Policies

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. Recognition of these new guidelines had no effective impact on QGX’s financials, based on the fact that the Company had no Comprehensive Income, Equity restatements or Financial Instruments that required restatement to fair value as opposed to market valuation. There were no other changes to accounting policies since the Company’s 2006 year end.

Future Accounting Standards

The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards effective for the fiscal years beginning on or after October 1, 2007 and January 1, 2008. Sections 3862 “Financial Instruments-Disclosures”, 1535 “Capital Disclosures”, and 3863 “Financial Instruments-Presentation”. The Company is currently evaluating the impact of these new handbook sections on the Company's financial statements and will adopt the sections commencing fiscal 2008.

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.

All property-related acquisition costs, exploration costs, and associated overhead expenditures are recorded as an asset on the balance sheet under the heading “Resource Properties”. Resource properties, provided they are deductible for tax purposes at some future date, are recorded at cost.

A portion of the Company’s current capitalized assets are not reasonably assured of their future tax deductibility, either in Mongolia or Canada. In accordance with Canadian Generally Accepted Accounting Principles (GAAP), the additional tax obligation associated with these non-deductible assets has been recognized immediately as a future tax liability. The Mongolian corporate income tax rate of 25% is the applicable rate in this tax liability calculation, and has been used to calculate both the future tax liability and the adjusted asset value. The calculation of tax liability has been applied as follows:

Deferred tax liability = (Asset Value X 0.25) / (1-0.25)

All resource property assets, once capitalized are held on the balance sheet until one of two events occurs;

- If lease acreage is dropped from the exploration portfolio, or of management otherwise determines that the net carrying amount on a specific lease will not be recovered, the associated asset values and tax liability (if relevant) are immediately written off to income.

- If a property is put into production at some future date, both the capitalized asset value and the deferred tax liability will be amortized against earnings over the estimated life of the property.

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 66% - 77% in 2007 (79% - 83% in 2006). 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

All of QGX's operations involve mineral exploration and development and there is no guarantee that any such activity will result in commercial production of deposits. Mineral exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. Examples of these risks include, but are not limited to:

- **No Proven Commercial Resources**. There is no assurance that commercial quantities of ore will be discovered on any of QGX's exploration properties, or even if commercial quantities of ore are discovered, that a mineral property will be brought into commercial production. The Company has not completed a final feasibility study on it's two advanced stage projects (Baruun Naran and Golden Hills), so cannot say that the possible project economics discussed in this MD&A have any commercial certainty.
- **Legal/Political Risk**. QGX's business in Mongolia may be harmed if the country fails to complete its transition from state socialism and a centrally planned economy to political democracy and a free market economy. Laws may be applied in an inconsistent, arbitrary and unfair manner. Legal remedies may be uncertain, delayed or unavailable, due to an undeveloped court system. Future amendments to Mongolian laws could weaken, shorten or curtail QGX's mineral exploration rights or adversely impact development economics.
- **Changing Government Regulations**. QGX's operations may be affected by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, and expropriation of property, employment, land use, water use, environmental legislation and mine safety.

- **Lack of Infrastructure**. Mongolia is infrastructure-poor, and this affects mining businesses generally, and QGX's advanced stage projects in particular.
- **Lack of Qualified Staff**. Although the Company believes that it will be successful in attracting and retaining qualified personnel as it's business activity grows, there can be no assurance of such success.
- **Availability of Financing.** There can be no assurance that QGX will be capable of raising the additional financing that it needs to carry out its exploration and development objectives.
- **No Operating Mine History**. QGX has no history of developing or operating a mining project and there can be no assurance of its ability to operate such mining projects profitably.

Disclosure Controls and Procedures (DC&P)

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. No changes were made during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's design or effectiveness of disclosure controls and procedures., as accepted and certified at year end 2006.
Based on that evaluation, the Chief Executive Officer and Chief Financial Officer conclude that current disclosure controls and procedures were effective as of September 30, 2007 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 Over Financial Reporting Review – (ICFR)

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.

A change was made during the quarter ended September 30, 2007 to the accounting systems utilized in Mongolia. The Company replaced the general ledger system with another of very similar design, but which offered better access and performance in local currency. None of the consolidation systems, internal controls, or other processes were affected by the change. Management believes there have been no changes that have materially affected, or are reasonably likely to materially affect, the Company's design of internal controls over financial reporting, as accepted and certified at year end 2006. Based on that evaluation, the chief executive officer and chief financial officer conclude that ICFR design was effective as of September 30, 2007.

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.