



**NQ EXPLORATION INC.**

(An exploration company)

**MANAGEMENT DISCUSSION AND ANALYSIS**

For the six-month period ended May 31, 2010

(Second Quarter)

# MANAGEMENT DISCUSSION AND ANALYSIS

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This management discussion and analysis (“MD&A”) for NQ Exploration Inc. (“NQ” or “the Company”) complies with the Canadian Security Administrators’ National Instrument 51-102A on continuous disclosure obligations.

This MD&A constitutes a narrative, through the eyes of NQ’s management, on the Company’s results for the six-month period ended May 31, 2010, as well as its financial condition and future prospects. It complements the unaudited interim financial statements for the six-month period ended May 31, 2010, but does not form part of them. It should therefore be read in conjunction with the unaudited interim financial statements at May 31, 2010 and the notes thereto, as well as the audited financial statements and notes and the MD&A for the financial year ended November 30, 2009. The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements. The MD&A also provides a review of the Company’s performance for the quarter ended May 31, 2010. This review was performed by management with information available as of the date hereof.

All figures are in Canadian dollars unless otherwise stated. Additional information on the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The shares of NQ are listed on the TSX Venture Exchange under the symbol “NQE”.

## DATE

This MD&A has been prepared on the basis of information available as of July 12, 2010.

## FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that reflect the Company’s current expectations regarding future events. To the extent that such statements contain information that is not historical in nature, such statements are essentially forward-looking, and often contain words like “anticipate”, “expect”, “estimate”, “intend”, “project”, “plan” and “believe”. Forward-looking statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are many factors that could cause such differences, including volatility of metal market prices, the impact of changes in foreign exchange or interest rates, imprecision in reserve estimation, environmental risks including increased regulatory burdens, unexpected geological conditions, adverse mining conditions, changes in government regulations and policies, including laws and policies, the failure to obtain the necessary permits and approvals from government authorities, and other development and operating risks.

While the Company believes that the assumptions inherent in the forward-looking statements are reasonable, readers should not place undue reliance on such statements, which only apply as at the date of this MD&A. The Company disclaims any intention or obligation to update or revise forward-looking statements as a result of new information, future events or otherwise, unless required to do so by applicable securities laws.

## NATURE OF OPERATIONS

NQ was incorporated under the Canadian Business Corporations Act. The Company is engaged in the acquisition, exploration and development of mining properties. NQ conducts its activities in Canada.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL PERFORMANCE

### EXPLORATION ACTIVITIES

During the period covered by this analysis, the Company carried out compilation and exploration work and drilling on its mining properties. Exploration expenses of \$334,413 (\$230,435 in 2009) were incurred during for the six-month period ending May 31, 2010.

### PROPERTIES

The properties fall into two geographic groups: 1 - James Bay South, acquired from the Société de développement de la Baie-James ("SDBJ") and 2 - James Bay North, acquired from Everton Resources Inc. ("Everton").

#### JAMES BAY SOUTH PROPERTIES

Table 1 below provides a summary of the status of the James Bay South properties as at May 31, 2010.

Property	NQ Interest	Partner Interest
Gand I	100%	None
Carheil	100%	None
Opawica <sup>(1)</sup>	100%	None
Rapides-des-Cèdres	12.5% (non-contributing)	Exploration minière H. Blondeau Ltd.: 87.5%
Themines N <sup>(2)</sup>	5% (non-contributing)	Maudore Minerals Ltd.: 95%

(1) Kinross Gold Corporation and Inmet Mining Corporation: 1% NSR royalty.  
(2) Newmont Mining Corporation holds a 1.5% NSR royalty and a 51% right of reversion.

Table 1: Status of the James Bay South properties as at May 31, 2010

#### Carheil Property: Cu-Zn-Au-Ag

The Carheil property lies in Brouillan Township in the northern Abitibi region, 5 km southwest of the old Selbaie mine (Rio Algom Limited, historical production of 53 million tonnes grading 0.96% copper, 1.90% zinc, 40.7 g/t silver and 0.58 g/t gold), in very similar geological units, on the southern flank of an anticline that lies between the Carheil property and the Selbaie mine.

The Carheil property originally consisted of 32 contiguous claims wholly-owned by NQ Exploration covering a surface area of 5.12 km<sup>2</sup>. Based on the excellent results of the last drilling program (winter 2009-2010), NQ Exploration substantially increased its land position in the area. During the quarter, the Company finalized the acquisition of 89 claims totalling 28.84 km<sup>2</sup> both through map designation and staking on the ground. The new extended property almost fully surrounds a gravity anomaly (second derivative) measuring approximately 2 X 8 kilometres. The gravity high shows a coincident magnetic anomaly on its northern flank (2008 MRN airborne survey, DP 200802). The extent and direction of the property expansion was based on the fact that the vast majority of major Abitibi base metal deposits are found above or on the flanks of such anomalies. This considerable increase in land holding was also largely motivated by the excellent results of the last two drilling programs. The new extended property now covers slightly more than eight kilometres of the favourable Nordest zone horizon. of the showing.

NQ Exploration has conducted two drilling programs to date: 1 – in February 2009, a program of 1,251 metres of drilling in four holes, and 2 – from November 2009 to January 2010, a program of six holes

## MANAGEMENT DISCUSSION AND ANALYSIS

totalling 3,160.5 metres. All the holes save one were drilled on the Nordest showing. This work showed that the thickness of the rhyolitic units, massive to semi-massive sulphide beds and copper-zinc veinlet zones increases significantly with depth. A marked increase in the intensity of the geochemical alterations was also seen in the deepest holes. These results indicate increasingly proximal metallogeny and, consequently, a marked improvement in copper-zinc-silver-gold discovery potential at depth and toward the centre of the property. .

The best results for NQ's 2009-2010 drill program were as follows:

Hole #	From m	To m	Length m	Cu %	Zn %	Ag g/t	Au g/t	Vert. depth m
CA2009-01	179.4	203.0	<b>23.6</b>		<b>1.37</b>	16.0	0.06	190
CA2009-01	309.5	325.5	<b>16.0</b>	<b>0.28</b>	0.33			265
CA2009-02	194.4	205.3	<b>10.9</b>		0.65	<b>74.9</b>	0.22	175
CA2009-02	267.0	270.8	3.8	<b>0.71</b>				235
CA2009-04	226.7	238.2	<b>11.5</b>		<b>1.29</b>	<b>43.4</b>	0.28	228
CA2009-05	414.5	425.0	<b>10.5</b>		<b>1.58</b>	<b>524.1</b>	0.14	410
CA2009-07	349.5	350.8	1.3	<b>1.78</b>		18.5	<b>4.78</b>	340
CA2009-09	567.0	574.3	<b>7.3</b>		0.64	<b>265.6</b>	0.15	545
CA2009-09	582.8	585.2	2.4		0.38	<b>296.3</b>	0.46	560

NB: Taking into account dips of 75° to 65° for the holes in the mineralized zones and plunges of 55° to 65° for the rock structures, the true width of all the intersections is estimated at between 65% and 75% of the lengths shown in the above table.

All the holes drilled on the Nordest showing intersected copper-zinc mineralized zones, often with significant gold and silver grades. Many of these intersection were among the highest in the entire region, with the exception of the old Selbaie mine. The deepest holes showed a significant increase in the intensity and thickness of black chlorite alteration, as well as a marked thickening of the felsic volcanic units, along with the appearance of a polymictic agglomerate unit, thus confirming the presence of an increasingly proximal volcanogenic massive sulphide geological environment.

The Nordest showing is composed of the same lithological units, alterations and mineralization styles as at the Selbaie mine. Among other things, barren massive sulphide lenses have been identified at the top of the rhyolitic unit, along with lenses of so-called "pisolitic rhyolite" (likely chert in gel form), both typical Selbaie-environment marker horizons. Chloritization is generally accompanied by very intense silicification, with occasional evidence of porcelanite. On section 650E, a polymictic agglomerate unit at about -400 metres displays, among other things, singular fragments of margin-chilled rhyolite, welded rhyolite tuffs and devitrified felsic glass, all evidence of hot, and therefore near-source, deposition. In this area and at depth, fragments of massive sulphides also appear, forming up to 40% of the pyroclastic fragments that surround the agglomerate.

The high copper and zinc grades obtained from this program, as well as the associated high precious metal grades (524 g/t silver over 10.5 metres and 4.78 g/t gold over 1.30 metres), are among the most significant ever obtained in the region aside from Selbaie, yet another indication of proximity and excellent potential. The Company is currently planning a large exploration program to cover the entire extended property, particularly along the favourable horizon, on the northern flank of the gravity anomaly that has now been traced as far as 10 kilometres NW of the Nordest showing, onto the Broullan property.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Opawica Property: Au**

The property lies 20 kilometre east of Desmaraisville in the Chibougamau mining camp. The property lies within a major regional NE-SW deformation corridor that hosts a number of gold showings and two former producers, the Lac Shortt mine, three kilometre to the north, and the Bachelor Lake mine, 20 kilometres to the west. Metanor Resources Inc. is presently reactivating the Bachelor Lake mine, whose mill is already in operation. No mineral resource has been estimated for the Opawica property; no drilling has been done on the property since 1983. Previous work on the property, including 41 drillholes, identified a gold-bearing zone about 350 metres long, extending to a depth of 100 to 200 metres. In addition to high grade gold potential at depth, the property has untested low-grade-high-tonnage potential on surface, the mineralized zone being spatially associated with porphyry-type dikes within a gold-anomalous envelope over 40 metres wide.

The following table shows some of the best assay results of previous drilling:

Hole	Grade/Thickness
23-11	87.5 g/t gold over 1.5 metres
23-05	23.7 g/t gold over 0.75 metres
Q0-2	2.5 g/t gold over 6.1 metres
23-04	5.1 g/t gold over 2.0 metres
Q0-5	6.9 g/t gold over 3.8 metres
Q0-9	3.6 g/t gold over 4.7 metres

The Company is in the process of reviewing all the relevant data in order to define the property's potential in light of a new geological model for the area, including the possibility that the mineralized zones have a different orientation.

## **Gand I Property: Au**

The Gand I property lies in the James Bay region, about 25 km northeast of Desmaraisville in the Chibougamau mining district. It consists of 76 contiguous claims in Gand and Lespérance townships covering a total area of 12.55 km<sup>2</sup>. The property is wholly-owned by NQ.

The property is adjacent to the Lac Shortt mine property, in a similar geological setting. The Lac Shortt mine, which produced 2.7 million tonnes grading 4.65 g/t of gold, lies about 5 km to the west. Two favourable structures cross the Company's property: the Lac Shortt Fault, which hosts the mine of the same name, and the Opawica Fault, which hosts various deposits, including the Mariposite deposit immediately east of Gand I. Mariposite has historical inferred reserves (Camchib, 1986) of 470,300 tonnes at 2.75 g/t Au and 211,240 tonnes at 4.11 g/t gold in two zones.

A property visit in 2009 confirmed the presence of a favourable gold-bearing horizon with the identification of important metallogenes, including a highly-altered horizon of Temiscamingue-type sediments in a "pull-apart" structural setting. All the data for the property and its surroundings is currently under review to determine the property's potential in light of the new geological model. A detailed compilation of the entire area was carried out during the quarter, and a mapping, sampling and stripping program is planned for the summer field season.

# MANAGEMENT DISCUSSION AND ANALYSIS

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## **Brouillan Property: Cu-Zn-Au-Ag**

During the quarter, NQ Exploration entered into an agreement with D'Ariane Resources to earn an 80% interest in the Brouillan property (see press release dated April 13, 2010). This property lies three kilometres northwest of the original Carheil property, adjacent to recently-staked claims. It is made up of 15 claims covering an area of about 8.35 km<sup>2</sup>.

The Brouillan property is primarily characterized by the presence of the same felsic rocks that host the copper-zinc-silver-gold mineralization of the Nordest showing on the Carheil property (see press release dated March 8, 2010). The base metal potential is enhanced by the results of reconnaissance work carried out by D'Ariane Resources in 2008, which showed the presence of a strongly-silicified rhyolite outcrop hosting a sulphide stringer zone. In addition, a VTEM (Versatile Time Domain Electro-Magnetic) survey conducted in 2008 identified multiple magnetic anomalies, some of which do not appear to have been drilled. A compilation of all earlier work revealed interesting gold potential in shallow holes drilled in the 1980s, for which the best intersections were

- 24.99 g/t Au over 1.10 m, Hole D-2-20, 1988 BP Canada Resources Ltd.
- 29.89 g/t Au over 0.60 m, Hole D-2-26, 1988 BP Canada Resources Ltd.
- 8.26 g/t Au over 0.80 m, Hole D-2-27, 1988 BP Canada Resources Ltd.

Together, the original Carheil property, newly-staked claims and option on the Brouillon property now form an unbroken land position measuring about 3 X 13 kilometres, covering an area of 42.30 km<sup>2</sup>. This land position also spans about ten kilometres of the Nordest showing. The Company is planning to carry out reconnaissance work in the fall of 2010 and drilling in the winter of 2011.

## **JAMES BAY NORTH PROPERTIES**

No work was done on the James Bay North properties during the period covered by this MD&A. The Company is presently in the process of determining which additional phases of exploration are required. It is considering various possibilities, including carrying out work on the best showings, optioning certain properties and dropping certain claims considered non-essential.

## **Aylmer Property: Au, Ag, Cu, Zn, Mo**

The Aylmer property lies in the James Bay region of northern Quebec. The property now consists of 12 claims covering a total area of 6.31 km<sup>2</sup>. It is wholly owned by NQ, although subject to a 2% NSR royalty.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Candlestick Property: Au**

The Candlestick property lies 35 km south of the La Grande River in the James Bay region of northern Quebec. The property is made up of 90 contiguous map-designated claims covering a total area of 46.6 km<sup>2</sup>. NQ has a 100% interest in the property, which is subject to a 2% NSR royalty.

## **Conviac Property: Au, Cu, Zn**

The Conviac property lies in the James Bay region of Quebec, 22 km north of the Eastmain River and about 275 km north of Chibougamau. During the period covered by this MD&A, 243 claims were dropped. The property consists of 198 contiguous claims that cover a total area of 104.1 km<sup>2</sup>. It is wholly-owned by NQ.

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## **Duncan Property: Au, Ag, Cu, Zn**

The Duncan project lies in the James Bay region of Quebec, approximately 35 km south of Radisson. The Duncan property comprises 229 claims in two blocks covering a total area of 116.8 km<sup>2</sup>. The claims are wholly-owned by NQ, with some of them subject to a 2% NSR royalty.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Eastmain North Property: Au, Cu, Zn**

The Eastmain North property lies in the James Bay region of Quebec, approximately 250 km north of Chibougamau. The property consists of 131 contiguous claims covering a total area of 69.1 km<sup>2</sup>. NQ owns a 100% interest in the property, with a portion subject to a 1% NSR royalty.

The property lies 75 km southeast of Goldcorp Inc.'s Éléonore project (43-101 indicated resource of 1.83 million ounces of gold) and 30 km east of Eastmain Resources Inc.'s Eau Claire deposit (43-101 indicated and inferred resource of 1 million ounces of gold).

No exploration work was carried out on the property during the period covered by this MD&A.

## **Le Moyne Property: Au**

The Le Moyne property lies 35 km south of the La Grande River in the James Bay region of Quebec. The property consists of 40 contiguous claims covering a total area of 20.6 km<sup>2</sup>. It is wholly-owned by NQ and is subject to a 2% NSR royalty.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Morand Property: U-Th, Au**

The Morand property lies in the James Bay region of Quebec, about 72 km west of Radisson and immediately north of the La Grande River. The property consists of 177 contiguous map-designated claims covering a total area of 89.85 km<sup>2</sup>. It is wholly-owned by NQ and is subject to a 2% NSR royalty.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Pine Hill Property: Au**

The Pine Hill property lies north of the LG-3 reservoir in the James Bay region of Quebec, about 135 km east of Radisson. The Pine Hill property consists of 68 contiguous claims covering an area of 34.5 km<sup>2</sup>. It is wholly-owned by NQ and is not subject to any royalties.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Pine Hill North Property: U, Au, Mo**

The Pine Hill North property lies in the James Bay region of Quebec, about 150 km east of Radisson and north of the LG-3 reservoir. The property consists of 85 continuous map-designated claims covering a total area of 42.9 km<sup>2</sup>. It is wholly-owned by NQ, with 64 claims subject to a 2% NSR royalty.

# MANAGEMENT DISCUSSION AND ANALYSIS

No exploration work was carried out on the property during the period covered by this MD&A.

## **Star Lake Property: U, Cu, Au**

The Star Lake property lies in the James Bay region of Quebec, 120 km southeast of Radisson. The property now consists of 217 contiguous claims covering a total area of 112.2 km<sup>2</sup>.

No exploration work was carried out on the property during the period covered by this MD&A.

## **Person Responsible for the Technical Information**

Jacquelin Gauthier, a geological engineer, Vice President, Exploration and a qualified person under Regulation 43-101 respecting standards of disclosure for mineral projects, wrote and approved the technical content of the Management Discussion and Analysis. Mr. Gauthier also planned and supervised the work done on the property.

Additional information on all the properties can be found on NQ's website at [www.ngexploration.com](http://www.ngexploration.com).

## **RESULTS OF OPERATION**

NQ anticipates that, for the foreseeable future, quarterly results of operations will be impacted by various factors, including the timing of exploration and the efforts and level of expenditures devoted to the Company's development. Due to fluctuations in these factors, NQ believes that period-to-period comparisons of its operating results cannot provide a clear, accurate picture of its future performance.

The following discussion constitutes an analysis of the operating results for the six-month period ended May 31, 2010. The selected financial information shown below is derived from the unaudited interim financial statements for the periods indicated.

## **FINANCIAL HIGHLIGHTS**

	May 31 (6 months)	
	<b>2010</b>	<b>2009</b>
Revenues	\$ 1,320	\$ 1,777
General administrative expenses and salaries	122,582	191,011
Registration, listing fees and shareholders' information	32,111	21,341
Professional and consultant fees	46,056	40,751
Stock-based compensation	21,646	105,076
Amortization of equipment	1,046	1,567
Part XII.6 taxes	2,482	197
Interest of debentures	45,481	3,881
Write-off of deferred exploration expenses and of mining properties	-	25,185
Loss before income taxes	\$ (270,084)	\$ (387,232)
Future income and mining taxes	(100,658)	-
Net loss	\$ (370,742)	\$ (387,232)
Cash & cash equivalents	\$ 158,869	\$ 310,219

# MANAGEMENT DISCUSSION AND ANALYSIS

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## Revenues

Revenues for the six-month period ended May 31, 2010, amounted to \$1,320 (\$1,777 in 2009) and consisted of interest income. Being a mining exploration company, NQ does not generate any regular earnings, so the Company must issue capital stock to survive.

## General Administrative Expenses and Salaries

General administrative expenses and salaries for the six-month period ended May 31, 2010, consisted mainly of general office expenditures, travel expenses, entertainment expenses, salaries, claims renewal costs and expenses incurred to rent office space in Rouyn-Noranda and Quebec.

The change from the previous period is mainly due to \$88,704 in claim renewal fees for the six-month period ended May 31, 2010 (\$111,624 in 2009). The Company capitalizes claims renewal costs in the year that a property is acquired, and then expenses them from the second year on. The board of directors also granted the president a salary increase retroactive to January 1, 2010.

## Listing and Registrar Fees and Shareholder Communications

Listing and registrar fees and shareholder communications expenses for the six-month period ended May 31, 2010 consisted mainly of legal and regulatory expenses required to comply with the requirements of the securities commission. The increase in expenses was caused by the dissemination of a larger number of press releases and the hiring of an investor relations firm.

## Professional and Consultant Fees

Professional fees for the six-month period ended May 31, 2010, consisted mainly of legal, accounting, auditing and management expenses. The change is attributable to legal expenses associated with the acquisition of a mining property.

## Stock-Based Compensation

Stock-based compensation for the six-month period ended May 31, 2010, represents options granted to directors, officers and consultants. A compensation expense of \$21,646 (\$105,076 in 2009) was recognized under earnings for stock options granted during the period using the Black-Scholes option-pricing model.

## Part XII.6 Taxes

Part XII.6 taxes represent taxes payable on exploration expenses incurred after February 28, 2010.

## Interest on Debentures

During the six-month period ended May 31, 2010, the Company paid a total of \$14,795 in interest on its debentures (nil in 2009).

## Write-Off and Sale of Deferred Exploration Expenditures and Mining Properties

Unlike in the previous period, the Company did not take any writedowns during the six-month period ended May 31, 2010.

## SUMMARY OF QUARTERLY RESULTS

The following comments concern the operating results for the three-month period ended May 31, 2010. The selected financial information below was taken from the unaudited financial statements for each of the three-month periods indicated.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

	May 31 (3 months)	
	2010	2009
Revenues	\$ 493	\$ 254
General administrative expenses and salaries	74,073	127,396
Registration, listing fees and shareholders' information	15,877	12,878
Professional and consultant fees	43,187	21,189
Stock-based compensation	3,197	105,076
Amortization of equipment	530	784
Part XII.6 taxes	1,758	-
Interest of debentures	23,167	3,881
Loss before income taxes	\$ (161,296)	\$ (270,950)
Future income and mining taxes	(25,330)	-
Net loss	\$ (186,626)	\$ (270,950)
Cash & cash equivalents	\$ 158,869	\$ 310,219

### Revenues

Revenues for the three-month period ended May 31, 2010, amounted to \$493 (\$254 in 2009) and consisted of interest income. Being a mining exploration company, NQ does not generate any regular earnings so in order to survive; the Company has to issue capital stock.

### General Administrative Expenses and Salaries

General administrative expenses and salaries for the three-month period ended May 31, 2010, consisted mainly of general office expenditures, travel expenses, entertainment expenses, salaries, claims renewal costs and expenses incurred to rent office space in Rouyn-Noranda and Quebec.

The change from the previous period is mainly due to \$62,381 in claim renewal fees for the three-month period ended May 31, 2010 (\$77,861 in 2009). The Company capitalizes claims renewal costs in the year that a property is acquired, and then expenses them from the second year on. The board of directors also granted the president a salary increase retroactive to January 1, 2010.

### Listing and Registrar Fees and Shareholder Communications

Listing and registrar fees and shareholder communications expenses for the three-month period ended May 31, 2010 consisted mainly of legal and regulatory expenses required to comply with the requirements of the securities commission. The increase in expenses was caused by the dissemination of a larger number of press releases.

### Professional and Consultant Fees

Professional fees for the three-month period ended May 31, 2010, consisted mainly of legal, accounting, auditing and management expenses. The change was due to the auditor's billing period and to legal expenses associated with the acquisition of a mining property.

### Stock-Based Compensation

Stock-based compensation for the three-month period ended May 31, 2010, represents options granted to directors, officers and consultants. A compensation expense of \$3,197 (\$105,076 in 2009) was recognized under earnings for stock options granted during the period using the Black-Scholes option-pricing model.

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## Part XII.6 Taxes

Part XII.6 taxes represent taxes payable on exploration expenses incurred after February 28, 2010.

## Interest on Debentures

During the three-month period ended May 31, 2010, the Company paid a total of \$14,795 in interest on its debentures (nil in 2009).

## Write-Off and Sale of Deferred Exploration Expenditures and Mining Properties

The Company did not take any writedowns during the three-month periods ended May 31, 2010 and May 31, 2009.

The selected financial information below was taken from NQ's unaudited financial statements for each of the following quarters:

\$000s of \$ except for share data	May 31 2010	Feb 28 2010	Nov. 30 2009	Aug. 31 2009	May 31 2009	Feb 28 2009	Nov. 30 2008	Aug. 31 2008	May 31 2008
Revenues	-	1	-	-	-	2	4	6	6
Net loss	187	184	699	219	271	116	548	41	411
Basic and diluted net loss per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.00	\$ 0.02

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as at May 31, 2010, amounted to \$158,869 compared to \$310,219 as at May 31, 2009. Management intends to seek additional capital in the form of equity financing to support current and future mining property development.

The following table shows a breakdown of financings closed by NQ and how the Company intends to use the proceeds.

Date	Financing		Commercial Goals	
August 2009	Flow-through shares	\$400,000	Exploration expenditures	Still has \$143 318 to realized at the latest December 31, 2010

Administrative expenses for the coming year are expected to be about \$62,000. Management is of the opinion that, even if it is unable to raise equity financing in the future, the Company will be able to meet its current exploration obligations and keep its properties in good standing for the next 12 months. Advanced exploration of some of the mineral properties would require substantially more financial resources. During the six-month period ended May 31, 2010, the Company was able to rely on its ability to raise financing through public or privately negotiated equity offerings. There is no assurance that such financing will be available when required, or under terms that are favourable to NQ. The Company may also select to advance the exploration and development of mineral properties through joint-venture participation.

## CASH FLOWS

	May 31 (3 months)	
	2010	2009
Operating activities	\$ (262,984)	\$ (241,697)
Investing activities	-	124,667
Financing activities	(2,775)	177,325
	\$ (265,759)	\$ 60,295
Cash & cash equivalents	\$ 158,869	\$ 310,219

## MANAGEMENT DISCUSSION AND ANALYSIS

During the six-month period ended May 31, 2010, funds used for operating activities were spent primarily on improving operations and promoting the Company.

During the six-month period ended May 31, 2010, investing activities consisted mainly of raising funds for exploration and development of mineral properties. These funds are specifically reserved for exploration on the Carheil, Opawica, Duncan and Gand 1 properties.

### CONTRACTUAL OBLIGATIONS AND OFF-BALANCE-SHEET ARRANGEMENTS

The Company has an employment contract with its president. This contract is for an undetermined term beginning on January 1, 2009. The Company has undertaken to pay the president an annual salary of \$100,000.

In March 2009, the Company signed an employment contract with its vice president of exploration. The contract is for a one-year term, renewable for one year thereafter. The Company has undertaken to pay the vice president of exploration an annual salary of \$50,000.

In April 2009, the Company issued a \$200,000 unsecured convertible debenture to Société de développement de la Baie-James bearing interest at an annual rate of 15%. The debenture capital is convertible at the option of the holder into common shares of the Company at a price of \$0.18 each, up until April 30, 2010. Conversion of the debenture capital may be extended to April 30, 2011, in which case it will be convertible into common shares of the Company at a price of \$0.20 per share.

In September 2009, the Company issued two unsecured convertible debentures totalling \$250,000 to the Fonds de solidarité FTQ and Sidex Limited Partnership (Sidex), bearing interest at an annual rate of 12% and maturing in 36 months. The debenture capital is convertible at the option of the holder into common shares of the Company at a price of \$0.18 each.

### ROYALTIES ON MINING PROPERTIES

#### ROYALTIES ON THE MINING PROPERTIES

<b>James Bay North Properties</b>	<b>Royalties</b>
Aylmer	2%
Candlestick	2%
Duncan	2%
Eastmain Nord	1%
Le Moyne	2%
Morand	2%
Pine Hill Nord	2%
<b>James Bay South Properties</b>	
Gand I	2%
Opawica	1%

# MANAGEMENT DISCUSSION AND ANALYSIS

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## **RELATED-PARTY TRANSACTIONS AND COMMERCIAL OBJECTIVES**

During the three-month ended February 28, 2010, the Company paid professional fees of \$3,000 (\$3,000 in 2009) to a company controlled by the Company's chief financial officer, for services rendered in this capacity.

This transaction was entered into in the normal course of business and was measured at the fair market value, which is the amount established and accepted by the parties.

In addition, one of the directors of NQ is also a director of Everton Resources Inc.

## **SUBSEQUENT EVENTS**

On July 7, 2010, NQ Exploration announced that it had granted Murray Brooks Minerals an option to acquire a 50% interest in the Duncan West property in consideration of 300,000 shares, \$45,000 in cash payments and \$1,400,000 in exploration over three years. Murray Brooks Minerals will also have the option of acquiring an additional 30% interest by incurring another \$1,400,000 in exploration expenditures over two years and issuing 200,000 more shares.

## **NEW ACCOUNTING POLICIES**

### **Presentation of Financial Statements**

The unaudited interim financial statements were prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). These consolidated interim financial statements were prepared using the same accounting policies and methods as were used in the presentation of the audited annual financial statements for the year ended November 30, 2009. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's annual management discussion and analysis. The operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year as a whole. Certain corresponding figures have been restated to reflect the presentation adopted for the current year.

# MANAGEMENT DISCUSSION AND ANALYSIS

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## Future Accounting Changes

### Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "No-controlling interests". These new standards will be effective for years beginning on or after January 1<sup>st</sup>, 2011. The Company is in the process of evaluating the requirements of these new standards.

Section 1582 replaces Section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations". The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1<sup>st</sup>, 2011. Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to years beginning on or after January 1<sup>st</sup>, 2011.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1<sup>st</sup>, 2011.

### International Financial Reporting Standards (IFRS)

The CICA plans the convergence of Canadian generally accepted accounting principles (GAAP) to IFRS on a transition period ending in 2011. The Company expects this transition to have an effect on its accounting methods, presentation of financial information and information systems. During the next quarters, the Company will develop its internal implementation plan to meet the guidelines of the future reporting requirements.

### CERTIFICATION OF INTERIM FILINGS

The President and Chief Executive Officer and Chief Financial Officer have signed the official basic certificates for venture issuers as required by *Regulation 52-109 respecting certification of disclosure in issuers' annual and interim filings*, confirming the review, absence of untrue or misleading information and fair presentation of the interim documents filed.

The President and Chief Executive Officer and Chief Financial Officer have confirmed that they have reviewed the interim financial statements and the interim MD&A (collectively referred to as the "interim filings") of the Company for the six-month period ended May 31, 2010.

The President and Chief Executive Officer and Chief Financial Officer have confirmed that, based on their knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings

The President and Chief Executive Officer and Chief Financial Officer have confirmed that, based on their knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings for these periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OTHER REQUIREMENTS OF THE MD&A

The financial data in the following table is derived from the financial statements for the periods indicated.

### MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES

	May 31 (3 months)		May 31 (6 months)	
	<b>2010</b>	2009	<b>2010</b>	2009
Balance, beginning of period	<u>\$2,656,419</u>	<u>\$2,106,006</u>	<u>\$2,403,977</u>	<u>\$1,970,331</u>
Add:				
Mining Properties	<b>10,000</b>	30,000	<b>10,000</b>	30,000
Analysis	<b>4,164</b>	11,837	<b>36,602</b>	11,837
Production of reports	<b>1,025</b>	12,812	<b>1,025</b>	12,812
Consulting	<b>9,115</b>	15,061	<b>19,809</b>	26,643
Drilling	<b>43,446</b>	754	<b>240,729</b>	98,323
Claims	-	(100)	-	(100)
Geophysics and Geology	<b>18,600</b>	25,032	<b>27,281</b>	74,279
General exploration expenses	<b>5,621</b>	4,179	<b>8,967</b>	6,641
	<u><b>91,971</b></u>	<u>99,575</u>	<u><b>344,413</b></u>	<u>260,435</u>
Balance, before deduction	<u><b>2,748,390</b></u>	<u>2,205,581</u>	<u><b>2,748,390</b></u>	<u>2,230,766</u>
Write-off	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,185</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,185</u>
Balance, end of period	<u><b>\$2,748,390</b></u>	<u>\$2,205,581</u>	<u><b>\$2,748,390</b></u>	<u>\$2,205,581</u>

### MATERIAL COMPONENTS

	May 31 (3 months)		
	<b>2010</b>	2009	2008
<b>Earnings</b>			
Professional and consultant fees	\$ <b>43,187</b>	\$ 21,189	\$ 25,682
Stock-based compensation	<b>3,197</b>	105,076	261,770
	<u><b>May 31</b></u>	<u><b>May 31</b></u>	<u><b>May 31</b></u>
	<b>2010</b>	2009	2008
<b>Balance sheet</b>			
Cash reserved for exploration expenses	\$ <b>142,318</b>	\$ -	\$ 718,681
Mining properties and deferred exploration expenses	<b>2,748,390</b>	2,205,581	1,635,091
Convertible debentures (debt component and debt component of convertible debentures)	<b>450,000</b>	200,000	-

# MANAGEMENT DISCUSSION AND ANALYSIS

The following selected financial information is derived from the unaudited financial statements.

## DISCLOSURE OF OUTSTANDING SHARE DATA (as at July 5, 2010)

<b>Common shares outstanding:</b>	32,073,334	
<b>Options outstanding:</b>	3,045,000	
Average exercise price of:	\$ 0.20	
<u>Expiry date</u>	<u>Number of shares</u>	<u>Exercise price</u>
		\$
May 2013	975,000	0.25
October 2013	150,000	0.20
March 2014	600,000	0.20
May 2014	670,000	0.15
July 2014	500,000	0.15
February 2015	150,000	0.20
	3,045,000	
<b>Warrants outstanding :</b>	2,588,890	
Average exercise price of:	\$ 0.28	
<u>Expiry date</u>	<u>Number of shares</u>	<u>Exercise price</u>
		\$
August 2010	200,000 <sup>1</sup>	0.20
August 2010	1,000,000	0.35
September 2011	1,388,890	0.24
	2,588,890	

<sup>1</sup> Issued to brokers

## RISKS AND UNCERTAINTIES

NQ is subject to a variety of risks, some of which are described below. If any of the following risks occur, the Company's business, results of operations or financial condition could be adversely affected in a material manner.

**Mining Exploration.** Mining exploration involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, there are no underground or surface infrastructure nor any known commercial orebodies on the mineral properties in which the Company owns an interest, and any proposed exploration program is an exploratory search for ore. Unusual or unexpected formations, fires, power outages, labour disputes, floods, subsidence and the inability to locate the appropriate or adequate manpower, machinery or equipment are all risks associated with the execution of exploration programs. The Company supplements its internal exploration and mining expertise with advice from consultants or others from time to time, as required. The economics of developing gold and other mineral properties is affected by many factors, including the cost of operations, variation in the grade of ore mined and fluctuations in the price of any minerals produced.

**Property Titles.** While the Company has diligently investigated title to the various properties in which it owns interests, and to the best of its knowledge, titles to those properties are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers, native or government land claims or regulatory non-compliance.

## MANAGEMENT DISCUSSION AND ANALYSIS

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**Permits and Licenses.** The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all the licenses and permits required for the purposes of exploration, development and mining on its properties.

**Metals Prices.** Even if the Company's exploration programs are successful, factors beyond the Company's control may affect marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and global production. The effect of these factors cannot be accurately predicted.

**Competition.** The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests, as well as for recruitment and retention of qualified employees.

**Environmental Regulations.** The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards and greater penalties for non-compliance. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The cost of complying with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

**Conflicts of Interest.** Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

**Development Stage.** The Company's properties are in the exploration stage and to date none of them have a proven orebody. The Company does not have a history of earnings or providing a return on investment, and there can be no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

**Industry Conditions.** Mining and milling operations are subject to government regulations. Operations may be affected in varying degrees by government regulations, such as restrictions on production, price controls, tax increases, expropriation of property, pollution controls or changes in conditions under which minerals may be mined, milled or marketed. The marketability of minerals may be affected by numerous factors beyond the control of the Company, such as government regulations. The effect of these factors cannot be accurately determined.

**Uninsured Hazards.** Exploration and development of mineral deposits involves hazards such as unusual geological conditions. The Company may become subject to liability for pollution or other hazards which cannot be insured against or against which the Company may elect not to insure

## MANAGEMENT DISCUSSION AND ANALYSIS

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because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company's assets or its insolvency.

**Future Financing.** Completion of future programs may require additional financing, which may dilute the interests of existing shareholders.

**Key Employees.** Management of the Company rests on a few key officers and members of the Board of Directors, the loss of any of whom could have a detrimental effect on its operations.

**Canada Revenue Agency.** There can be no assurance that the Canada Revenue Agency will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expenses or the eligibility of such expenses as Canadian exploration expenses under the *Income Tax Act* (Canada).

### STRATEGY AND OUTLOOK

The gold market is showing a rising trend and the outlook for gold is generally positive. The financing prospects for all the Company's projects are good, which should enable it to significantly advance its exploration program in Quebec, where the potential for discoveries is high.