MANAGEMENT’S DISCUSSION AND ANALYSIS
As at January 25, 2016

The following management’s discussion and analysis (“MD&A”) of the results of operations and financial condition of Quest Rare Minerals Ltd. (“Quest” or the “Corporation”) covers the year ended October 31, 2015, unless otherwise noted. It should be read in conjunction with the audited consolidated financial statements and related notes as at and for the years ended October 31, 2015 and 2014.

The audited financial statements for the years ended October 31, 2015 and 2014 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts are expressed in Canadian dollars unless otherwise noted.

Forward-Looking Statements

Certain of the information contained in this document may contain “forward-looking statements”. Forward-looking statements may include, among others, statements regarding the Corporation’s future plans, costs, objectives or economic performance, or the assumptions underlying any of the foregoing, including those concerning the Corporation’s Strange Lake B-Zone Rare Earth Element (“REE”) property. In this document, words such as “may”, “would”, “could”, “will”, “likely”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “estimate” and similar words and the negative form thereof are used to identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such future performance will be achieved. Forward-looking statements are based on information available at the time and/or management’s good faith belief with respect to future events and are subject to known or unknown risks, uncertainties and other unpredictable factors, many of which are beyond the Corporation’s control. These risks and uncertainties include, but are not limited to, those described under the heading “Risk Factors” in the Corporation’s Annual Information Form for the fiscal year ended October 31, 2015, which is available on SEDAR at www.sedar.com, and could cause actual events or results to differ materially from those projected in any forward-looking statements. The Corporation does not intend, nor does it undertake any obligation, to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events or circumstances or otherwise, except if required by applicable law.

CORPORATE OVERVIEW

Quest is a Canadian corporation which is aiming to become a world class industrial supplier of critical rare earth metals. To achieve this aim, Quest is working to develop its Strange Lake REE deposit in northeastern Québec, while at the same time engineering and constructing a processing facility in Bécancour in southern Québec.

Quest’s objective is to become a major stable supplier of rare earth oxides for the permanent magnet industry. Rare earth permanent magnets are used in a wide variety of industrial and consumer applications including wind turbines, automobiles, consumer electronics and medical equipment. The Strange Lake REE deposit contains quantities of all the rare earth metals used in permanent magnets and Quest estimates as much as 65% of its projected annual commercial revenues would come from permanent magnet customers.

To achieve its objective, the Corporation has a plan to execute a series of steps to firstly develop a Bankable Feasibility Study for the project, and then construct and commission the mine and processing facilities. The key activities leading to a Bankable Feasibility Study are:

- Process piloting
- Engineering
- Environmental Impact Assessment (EIA)

All of these activities are in progress and the status and plans for each is outlined below.

Process Piloting

The process flowsheet to produce the mixed rare earth oxide concentrate was developed and tested at a bench scale at SGS Mineral Services – Lakefield and outlined in the Preliminary Economic Assessment (PEA) filed in June 2014. The work since then includes both scaling up and improving the process parameters of each process step (with the exception of the separation process). Quest's pilot programs will be partially financed by a $5 million grant from Sustainable Development Technology Canada (SDTC) that was announced in August 2015 as described below. Piloting is a critical step to ensure the scalability of the process and avoid operational challenges at commercial scale.

The flowsheet includes the following process steps:

- Beneficiation (potentially ore sorting and flotation), which significantly reduces the mass of material to be treated, resulting in smaller process plant footprint at Bécancour and reduced energy requirements when compared to previous flowsheets

- Selective Thermal Sulphation (STS) roasting and leaching, which targets recovery of REE+Y to solution, with minimum recovery of impurity elements, including Al, Fe, and Zr (they mostly remain in residue). The selective sulphation process greatly reduces acid consumption and drastically improves the quality of the leach solution, leading to reduced operating costs and allows for a simplified process flowsheet

- Impurity removal, which precipitates residual impurities from the leach solution

- Crude concentrate precipitation, which precipitates REE+Y from the leach solution

- Final mixed concentrate production, which includes re-leach of the crude concentrate and final purification steps before producing a high purity mixed rare earth concentrate

- Separation of the mixed rare earth oxide concentrate into the individual rare earth oxides

Beneficiation

The flotation optimization program has been completed. The flotation circuit has been further optimized to achieve a mass pull to concentrate of about 20% with rare earth oxide recoveries of approximately 80% - a 57% reduction in average mineral concentrate production from the 578,000 dry mt reported in the June 2014 PEA to about 250,000 dry mt. This will result in significant savings in the cost of transportation of flotation concentrate from the mine site to the Becancour processing plant. The large reduction in volume of concentrate will also result in significant capital and operating cost savings on processes downstream of beneficiation.

The beneficiation process is a simple flotation circuit that uses commercially available chemicals. The flotation optimization program completed at SGS, Lakefield has established a robust and effective reagent scheme. The program was completed in conventional mechanical flotation cells. A program to evaluate flotation performance in columns was completed in November 2015 at ALS Metallurgy, Kamloops in collaboration with Eriez Flotation Division.

In addition, Quest continues to evaluate sensor-based ore sorting (XRT, radiometric, photometric). A program to evaluate sensor ore sorting was completed at TOMRA's laboratory in Wedel, Germany with 10 dry mt of ore sample from the Strange Lake B-Zone. The economic viability of using sensor ore sorting as the first step in ore mass reduction is currently being evaluated. It is possible that ore sorting can potentially reduce the volume of material needed to be milled by 20% – 30%, the footprint of the flotation plant as well as the consumption of reagents in the flotation process. The sorted material and other unsorted ore samples (totaling about 100 dry mt) will be piloted through flotation to generate about 20 dry mt of mineral concentrate to feed the Selective Thermal Sulphation pilot unit. Quest is currently preparing to operate a full flotation pilot program at COREM, the largest organization in Canada totally devoted to mineral processing R&D, located at Québec City, Québec.

Hydrometallurgy

Quest's improved hydrometallurgical process has the potential to produce a high purity mixed rare earth oxide without technically complex, risky and costly solvent extraction circuits. The key step in the new process is the selective thermal sulphation. By careful control of key process parameters, the recovery of REE to solution can be maximized while Al, Fe, Zr and other impurities are rendered insoluble, and the acid level of the leach solution is minimized. High levels of acid and impurities in solution represent a major technical and economic challenge for many projects. By leaving the impurities behind in the leached residue and minimizing free acid in the leach solution, the flowsheet is dramatically simplified – with reductions in acid consumption, neutralizing agent consumption, process plant footprint, energy consumption and the quantity and quality of residue for disposal. Also of note is the fact that silica in Quest's minerals is not attacked by sulphuric acid, resulting in straightforward liquid solid separation steps.

The Selective Thermal Sulphation process was successfully tested during this period at a mini pilot scale at SGS Mineral Services Lakefield. The problem associated with poor flow characteristics of the mixture of ore and sulphuric acid which is common to many projects and manifests itself in difficulty to continuously feed the sulphation vessel has been successfully resolved. The STS process greatly reduces acid consumption and drastically improves the quality of the leach solution, leading to reduced operating costs and allowing for a simplified solution treatment process flowsheet.

The Selective Thermal Sulphation process development work is being supported with thermo-gravimetric analysis (TGA) and extensive kinetics mass / heat transfer modeling to help in the selection of equipment and full piloting of the process. Quest is conducting discussions with a major equipment supplier to partner with it in hosting the Selective Thermal Sulphation process full pilot.

REE recovery from flotation concentrate to leach solution is approximately 87% in the new process.

Following sulphation and water leaching, the remaining process steps include precipitation and filtration stages using customary equipment and relatively low cost reagents. Impurities are selectively precipitated from solution with minimal REE losses. A crude rare earth concentrate is produced by precipitation. The crude concentrate is then purified to produce the final mixed rare earth concentrate feed to the separation plant.

The final precipitation of the high purity mixed rare earth concentrate uses oxalic acid, which precipitates the rare earths as oxalates. The mixed rare earth oxalate is calcined to produce the high purity oxide.

Mini plant piloting of the Selective Thermal Sulphation and water leaching process was completed in the summer months of 2015. The mini plant piloting of the solution treatment circuit has been deferred to Q3 of 2016. Options to further improve the purity of the mixed rare earth concentrate including base metal control and cerium removal have been developed on the bench and are being evaluated. The Corporation is in discussions with a potential technology provider for the full piloting of the Selective Thermal Sulphation Process scheduled to be completed in 2016.

In support of the piloting work, Quest is doing detailed modelling of the chemical processes including computational fluid dynamics (CFD), complex heat and mass balances and chemical kinetics modeling. This modeling is providing critical insights into the precise process parameters and will be important input into the full piloting design and ultimately the engineering design criteria for the commercial scale equipment.

The Corporation commissioned Renaud Geological Consulting Ltd. to extract a bulk sample from the Strange Lake site during the summer of 2015 for use in the full piloting. A representative sample of about 50 tonnes from Strange Lake has been taken and delivered to COREM for piloting. This sample is expected to be used in the full piloting of the process starting in 2016. The full pilot plant will process about 100 dry metric tons (mt) through the beneficiation circuits (ore sorting and flotation) to produce approximately 20 dry mt of mineral concentrate which will be processed into high purity rare earth mixed oxides. It should be noted that piloting at the scale of 100 tonnes is a substantial and costly undertaking. Other companies processing rare earths have chosen not to pilot to this extent and have then had challenges in ramping up commercial production. Quest's full piloting program is designed to minimize the scale up risk and ensure seamless commissioning and start-up of the commercial scale facilities. Quest's staged piloting from bench to mini plant to full piloting, combined with extensive modeling of the process, has been designed and executed in a rigorous manner to ensure the Corporation has a detailed and complete picture of all the process parameters. In addition, mixed rare earth oxide output from the full pilot is intended to provide definitive proof that Quest's process works and produces a product that meets and, in fact, exceeds specifications established by separation refiners.

Quest management believes that its full piloting program is an essential step in its plan to build a world class rare earth processing plant at Bécancour.

Quest has demonstrated on a bench scale at SGS Lakefield that between 50% – 60% of Cerium can be removed during the hydromet process (i.e. before the separation plant). Further work will be done to evaluate the operational and economic merits of processes to remove up to 95% of the Cerium. Quest's total planned REO production is ~11,444 MT per year, of which 3,337 MT or 29% is Cerium. However, Cerium represents less than 2% of total revenues. If for example, 90% of the Cerium is removed earlier in the process, production through the separation plant will be reduced to 8,440 MT. Cerium is relatively abundant and not particularly valuable. Removing the Cerium early in the process will reduce both the capital and operating costs in separation. Even assuming Quest receives nil for the Cerium, project economics will still be improved.

Recycled Phosphor Powder

Fluorescent lights contain phosphors which are partly made of rare earth metals (primarily Yttrium, Terbium, Europium, Lanthanum and Cerium). In North America around 10,000 mt of used fluorescent lights are collected each year, the mercury removed and the remaining powder (containing ~8%-10% rare earths) sent to landfill. There is no facility in North America capable of recovering the rare earths.

In 2015 Quest tested, at both the bench scale and the mini pilot scale, the ability to use this recycled phosphor powder as feedstock mixed with the flotation concentrate going into the Selective Thermal Sulphation process. These tests demonstrated that Quest's process does successfully recover the rare earths in the phosphor powder without any preprocessing steps (other than the removal of the mercury). While further testing is planned at the full piloting stage, the Corporation is optimistic that it will be able use this material (a 3%-5% mix with its flotation concentrate) as feedstock. Use of this material in the commercial operation at Becancour would improve project economics by boosting revenue at a relatively low marginal cost.

Engineering

No significant additional engineering work was commenced or completed during the year. During the second half of 2015, several alternatives for the delivery of mineral concentrate from the mine site to the Bécancour processing plant were evaluated by the Corporation. The plan is to proceed to a revised PFS and subsequently FEL3 Engineering in 2016.

Project Economics

In additional to scaling up and improving the process parameters, the other reason for the above described piloting and engineering work is to improve the project's economics. In the PEA filed in June 2014, the reported cash operating cost was $34.25 per kg of separated rare earth oxide produced and the initial capital cost was $1,631 million (including the cost of a separation plant). The development and piloting work described above is anticipated to have a number of economic benefits and management is targeting a cash operating cost per kg of $27 or less than $20 before separation. At current foreign exchange rates (Can$1.40 to US$1), that would be less than US$15/kg. This target cost level would be highly competitive with other potential projects and even certain Chinese producers. The work will also contribute to lower capital costs and management is targeting a 10%-20% reduction from the PEA estimate. Quest plans to establish its processing facilities in the Bécancour Industrial

Park located on the waterfront of the Saint-Lawrence River. To this effect, Quest has signed an option agreement with Société du parc industriel et portuaire de Bécancour ("SPIPB") dated August 1, 2015 securing rights to the plant and residue space in the Bécancour Industrial Park for Quest to build its planned rare earth processing facilities. Quest has received strong support for the project from SPIPB and looks forward to working closely with the Parc Industriel and the Bécancour communities as it builds its business.

Environment

For the mine and road in Northern Québec, the Kativik Environmental Quality Commission completed its recommendations on the directives for EIA after having received Quest's final EIA Project Notice/Description in March 2015. It is expected that the Government of Québec will officially issue EIA directives to Quest before the end of February 2016. This will serve as a basis for Quest's planning of next steps for the remainder of 2016.

For the relevant jurisdictions in Newfoundland and Labrador, Quest has completed all Project Description documents, which have been provided in their current form to the concerned governments. However, their official submission awaits the results of a project-specific EIA harmonization agreement which is currently being negotiated between the governments of Nunatsiavut, Newfoundland and Labrador, and Canada. While Quest cannot participate directly in these government negotiations, Quest is accompanying this process as closely as possible through regular updates and by providing any complementary information required. The main contents of this agreement should be available by March 2016, followed by administrative steps and ratification by each government. This will offer an opportunity to refine EIA Project Description documents if necessary, prior to official submission. The Newfoundland and Labrador EIA harmonization process remains the highest priority as it represents a critical path for project scheduling.

The EIA Project Notice/Description for the processing facility in Bécancour (southern Québec) has been completed. This will be officially submitted to Québec authorities at the same time as the Labrador EIA Description document. In the meantime, it has been submitted as a final draft to the governments of Québec and Canada, as well as to local stakeholders.

All of the above components will be combined and submitted to the Canadian Environmental Assessment Agency (CEAA). This will allow for a determination of project aspects in both provinces which are subject to a federal-level EIA.

In support of these remaining EIA initiation steps, Quest plans information sessions in Q1 2016 to continue familiarizing local communities and stakeholders in both provinces on the project's potential benefits and its approach to mitigating any potential impacts (information sessions were held at various times in 2015).

Outside of the formal EIA, Quest will continue with environmental due diligence and regulatory compliance reassurance, particularly in planning for Quest's properties and activities in 2016.

Achievements in 2015

A summary of the key milestones the Corporation achieved during 2015 is as follows:

Technical	Geology	Plant Location & Government Relations
• Completed all mini plant test work and refined flow sheet • Finalized process criteria for beneficiation • Defined flowsheet for sulphation and acid recovery • Completed tradeoffs / options for solution purification in hydromet • Began preparation for full sulphation piloting at a leading technology provider	• Secured ~50 tonnes bulk sample from Strange Lake for piloting • Upgraded the geological assessment of the resource • Created plan to upgrade the resource from Indicated to Measured within 12 months	• Secured lease on site for the commercial plant at Bécancour, Québec • Prepared and filed environmental descriptions to all governments to start the formal permitting process • Extensive consultations with all governments and Aboriginal groups to build support and positive momentum for the project

Management & Marketing	Financing	Other
• Changed the Quest Management Team • Centralized operations in Montreal – closed Toronto and St. John's offices • Focused on developing the Strange Lake project – transition from an exploration company to an industrial metals company • Developed relationships with potential customers and partners in China, Japan, Korea and Germany	• $2.5 million raised from Ekagrata • $5 million grant signed from Sustainable Development Technology Canada – Federal Government	• Advanced negotiations with Vale to share port facilities at Voisey's Bay • Determined that rare earths in recycled phosphor material can be recovered and identified partner to source such material in North America

Working Capital Requirements

During the fiscal year ended October 31, 2015, the Corporation raised $2.5 million through a convertible debenture with Ekagrata Inc.; $595,376 through a share/warrant financing with Investissement Québec and $3,106,940 in refunds of Québec Mining Duties and Federal SR&ED tax credits.

This was sufficient to fund the Corporation's flotation optimization work, the initial scale mini pilot plant, the bulk sampling, the project description filing and initial EIA work and general corporate expenses through this fiscal year.

Quest has been awarded a grant from SDTC in the amount of $5 million to support its pilot plant project to produce mixed rare earth oxides with separate matching funding from other sources which is in the process of being negotiated.

The Corporation will need to raise further funds to finance the full EIA process and the FEL2 and FEL3 engineering work. The Corporation is pursuing a variety of routes to raise these funds and is confident that these efforts will succeed, although no assurances can be given in this regard. In the interim, management has conducted a comprehensive rationalization of current and planned expenditures and has implemented a series of cost saving measures to reduce and control the professional fees, investor relations and administration expenses.

Risks

As with any new large industrial project there are a number of significant risks. From management's perspective the major risks are:

1) Pricing and Chinese industry dominance

   The rare earth industry is currently dominated by producers based in China who represent more than 90% of global production. The Chinese government views the rare earth sector as an important strategic industry for the country and over the years has put in place various policies that have impacted the sector. These included export quotas (recently removed) which initially caused rare earth prices to rise rapidly though they subsequently fell just as rapidly. More recently the government is instituting policies to consolidate the rare earth industry in China into 6 State Owned Enterprises and is placing a tax on production value. The goal appears to be to significantly reduce the amount of illegal (and generally polluting) production in China while at the same time raising the price and improving the economics of rare earth production. However, this has yet to occur and prices continue to be under pressure. Many observers believe that the Chinese industry will, in time, begin to experience shortages of certain heavy rare earths and may need to begin to import them by the end of this decade.

   The projected price of rare earth oxides is a critical input into Quest's financial projections and cash flow. Project returns are most sensitive to changes in rare earth prices. Current prices are significantly below the prices projected in the June 2014 PEA. However, the Corporation's analysis indicates that the project is profitable at the current low price levels. This gives management confidence in the long term economic attractiveness of the project. Management also recognizes that developments in the Chinese industry can impact Quest's project (both positively and negatively) and need to be monitored on a continuous basis.

2) Poor performance of Molycorp and Lynas

   The two producers outside of China, Molycorp and Lynas, have had significant operational difficulties and are both facing financial challenges. Molycorp filed for Chapter 11 protection during the period and subsequently announced that it is mothballing its Mountain Pass operation. Their performance has created questions around the whole rare earth industry outside of China, particularly in the investment community. While both companies continue to cast a cloud over the rare earth industry, Quest continues to point out that its project is expected to produce a very different and more valuable mix of rare earth products. While this gives Quest management confidence in the competitive robustness of its project, the performance of Molycorp and Lynas is making it more difficult to communicate this message to the investment community.

3) Financing

   To execute on its plans to develop a Bankable Feasibility Study and to subsequently build and construct the whole project, substantial financing will be required. Management estimates it will require approximately $65 million to complete the Bankable Feasibility Study. The Corporation is pursuing a variety of avenues and options to obtain financing, including strategic investors, private investors, governments and the public markets. The Corporation is well aware that the current environment for attracting financing is challenging. While the Corporation is convinced of the merits of its project, obtaining financing in a timely manner is a recognized risk.

4) Delays

   Project delays due to, for example, obtaining financing or delay in obtaining permits to start construction or construction taking longer than planned are potential risks. The Corporation has been focused on preparing and filing the required project descriptions with the various governments to start the formal EIA process and to obtain permits in a timely manner. It has also been investing considerable time and effort to communicate and to continue building relationships with a multitude of local stakeholder groups to create support for the project in all local communities affected. The Corporation will have a dedicated EIA team focused on executing the required studies and liaising with both community and government authorities. Construction planning will be an important component of the FEL3 engineering. Quest intends to conduct a structured process to hire the best available Engineering, Procurement, Construction Management (EPCM) contractor and negotiate a contract with the right incentives to ensure construction is done on time and on budget.

5) Scale up generates unanticipated issues

   Scaling up a process from bench to commercial production always entails risks. Management is committed to a rigorous piloting process to test, confirm and optimize process parameters, first at a mini pilot scale (almost completed) and then at a full pilot scale. For critical parts of the process the Corporation intends to pilot with key industrial equipment suppliers who will subsequently be suppliers for the commercial plant. The relative simplicity of its process combined with rigorous piloting are the key mitigating actions the Corporation is taking to address this risk.

Additional risks are outlined in the Risk Factors section of the MD&A.

Change in Accounting Policy

During the year ended October 31, 2015, the Corporation voluntarily changed its policy for accounting for exploration and evaluation expenditures considered under IFRS 6 - *Exploration for and Evaluation of Mineral Resources*. The Corporation previously elected to capitalize all costs relating to the exploration and evaluation on its properties, net of tax credits. During the year ended October 31, 2015, the Corporation changed its policy under IFRS 6 to expense all costs relating to the exploration and evaluation on its properties (including the cost of acquisition of exploration rights), net of tax credits, as it concluded that this policy provided more useful information to the users.

The Corporation has applied the change in accounting policy on a retrospective basis and has therefore restated its 2014 comparative statement.

Going Concern Uncertainty

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to twelve months from the end of the reporting period. The use of these principles may not be appropriate.

To date, the Corporation has not earned significant revenue and is considered to be in the exploration and development stage. Exploration and evaluation expenditures comprise a significant portion of the Corporation's activities. Mineral exploration and development is highly speculative and involves inherent risks.

The Corporation's current committed cash resources are insufficient to cover expected expenditures in fiscal 2016 and its planned Pre-feasibility study on Strange Lake. The Corporation's ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurance that management will be successful in securing adequate financing. In addition, while the Corporation's Preliminary Economic Assessment ("PEA") and future development activities in relation to its Strange Lake project look promising, there can be no assurance that the results of its planned Pre-feasibility study will confirm the existence of economically viable quantities of ore or that the project will ultimately go into production.

The Corporation reported a net loss and total comprehensive loss of $7,312,361 during the year ended October 31, 2015 and as of that date, the Corporation's current liabilities exceeded its current assets by $568,597. These recurring losses and the need for continued financing to further successful exploration and development activities indicate the existence of a material uncertainty that may cast significant doubt as to the Corporation's ability to continue as a going concern.

These financial statements do not include any adjustments to the carrying values of assets and liabilities that might be necessary, if the Corporation is unable to continue as a going concern. Such adjustments could be material.

Expenditures by Material Component

Strange Lake Property, Québec

For the year ended October 31, 2015, Quest incurred a total of $3,832,565 in acquisition and exploration expenditures net of government tax credits on the Québec Strange Lake mining property compared to $7,647,538 for the year ended October 31, 2014. The following table breaks down the expenditures by its material components

	2015	**2014**
Acquisition costs	$22,366	-
Geophysical Surveys	-	$540
Geological Surveys	$90,632	$206,708
Drilling	$41,489	$441,504
Prospecting	$718	-
Prefeasibility Studies	$3,017,684	$3,092,877
Feasibility Studies	-	$98,776
Metallurgical Work	$(5,533)	$938,984
Environmental & Permitting	$647,830	$537,057
Project Management & Support	$1,031,655	$294,769
Other	$117,630	$352,249
Government Tax Credits	$(1,131,906)	$1,684,074
Total	**$3,832,565**	**$7,647,538**

Misery Lake Property, Québec

The Misery Lake property is located approximately 120 km south of Strange Lake and consists of 170 mining claims in Québec and covers an area of 8,334 hectares.

On April 8, 2015, the Corporation entered into an agreement with Mr. Peter Cashin, then-CEO and a director of Quest, for the transfer of its full ownership interest in the Misery Lake property to 2457661 Ontario (the "Purchaser"), a company controlled by Mr. Cashin. In part consideration for the transfer of the claims, Quest was granted a 2% royalty on all claims (the "Quest Royalty"). The Quest Royalty may be repurchased at any time by the Purchaser for a total of $2,000,000. The repurchase may be completed in up to two transactions, each representing 50% of the Quest Royalty in exchange for $1,000,000. Also, under the agreement, the Purchaser assumed responsibility for the demobilization of the Misery Lake camp and assumed all environmental obligations relating to the Misery Lake project. The transfer of the Misery Lake claims was completed on April 20, 2015.

Alterra-Strange Lake Option Property, Newfoundland and Labrador

On June 15, 2010, the Corporation entered into an exploration and option agreement with Search Minerals Inc. ("Search") and Alterra Resources Inc. ("Alterra"), a wholly-owned subsidiary of Search, pursuant to which the Corporation had an option to acquire up to a 65% undivided working interest in 30 mining claims. Under the agreement, Alterra retained a 1.5% NSR with the option for the Corporation to buy back 1% for $1,000,000.

As at October 31, 2014, the Corporation had issued a total of 80,000 common shares under this agreement, incurred a total of $751,520 in exploration expenditures, related to geological surveys and drilling, and earned a 50% undivided interest. The Corporation did not exercise its option under the exploration and option agreement to earn an additional 15% undivided interest in the working claims and as a result, this option lapsed.

On September 16, 2015, the Corporation entered into a Purchase and Sale Agreement with Search, under which the Corporation issued 1,500,000 common shares to Search in consideration for the acquisition of the remaining 50% ownership interest in the Alterra-Strange Lake Property. Following this transaction, which closed on October 7, 2015, Quest now has a 100% interest in the exploration rights related to the Alterra – Strange Lake Property.

Results of Operations

The following table summarizes selected financial data of Quest for the last three fiscal years ended October 31, 2015, 2014 and 2013. It should be noted that QTM Extraction Ltd, a wholly owned subsidiary, was amalgamated with the Corporation on May 1, 2015.

	Year ended October 31, 2015 $	Year ended October 31, 2014 $	Year ended October 31, 2013 $
Revenues	-	-	-
Net loss and total comprehensive loss	$(7,312,361)	$(11,760,627)	($20,110,854)
Basic and fully diluted net loss per share	(0.09)	(0.17)	(0.32)
Total assets	$3,633,208	$10,865,448	$18,501,324
Total long-term financial liabilities	$1,987,238	-	-
Cash dividends	-	-	-

Fiscal year ended October 31, 2015 compared with the fiscal year ended October 31, 2014

Expenses for the year ended October 31, 2015, as detailed in the Statements of Comprehensive Loss, totaled $7,312,361 as compared to $11,760,627 for the year ended October 31, 2014.

Professional fees, investor relations, administration expenses and exploration and evaluation expenditures totaled $6,941,815 (2014 - $11,901,863). The decrease of $4,960,048 related to the following variations:

- Professional fees increased by $100,474 to $581,473 (2014 - $480,999) and consisted primarily of higher consulting fees offset by lower legal and accounting fees.
- Investor relations expenses totaled $502,215 in 2015 compared to $922,847 for the year ended October 31, 2014. The main components of the net decrease of $420,632, as detailed in Note 9 to the financial statements, consisted of: lower salaries and other employee benefits and reduced advertising expenses, printing and filing, conferences costs, travel related activities and consulting expenses partly offset by higher investor relations fees and meeting costs.
- Administration expenses increased by $311,634 to $1,837,610 in 2015 from $1,525,976 in 2014. The main components of this variation, as detailed in Note 9 to the financial statements, consisted of higher restructuring charges due mainly to personnel reductions and office closures in 2015 and increased stock-based compensation costs resulting from the stock options granted in 2015 net of unvested stock option expenses cancelled as a result of their expiration or termination of the optionee. Offsetting these increases were reductions in salaries and employee benefits, directors fees, office rent, IT services, and other office expenses.
- Exploration and evaluation expenditures decreased from $8,972,041 to $4,020,517 or by $4,951,524. The main components of this decrease were due to lower expenditures on Misery Lake and stock based compensation and geological surveys, drilling and metallurgical work at Strange Lake offset in part by higher expenditures on environmental & permitting and project management.

Exploration and exploration expenditures related to mining properties, which include acquisition costs for the right to explore as well as costs relating to research and analyzing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, compiling pre-feasibility and feasibility studies and related share-based compensation costs, net of government tax credits, are charged to operations in the year incurred until such time as it has been determined that a property has economically recoverable reserves.

For the year ended October 31, 2015, finance income totaled $24,999 compared to $118,240 for the year ended October 31, 2014. The net decrease of $93,241 was as a result of a decrease in funds on deposit during the year ended October 31, 2015.

As at October 31, 2015, the Corporation had cash equivalents in the amount of $nil bearing interest at 0% (2014 – $151,810 bearing interest at 0.80%).

The Corporation has recognized its investments held for trading on the Consolidated Statements of Financial Position at their fair value, and changes in fair value are recognized as income or loss in the period in which the change arises. As at October 31, 2015, the fair value of the investments held for trading was $650 compared to $950 as at October 31, 2014. The corresponding unrealized loss on investments held for trading was $300 (2014 - $650).

For the year ended October 31, 2015, the Corporation reported a net loss and total comprehensive loss of $7,312,361, as compared to a net loss of $11,760,627 for the year ended October 31, 2014. The Corporation expects to record losses until such time as an economic ore body is defined and developed and there are revenues from mineral production.

As a portion of the Corporation's exploration activities are financed by flow-through share arrangements, under the terms of flow-through share agreements, the tax deductions of the related Canadian exploration expenditures ("CEE") are renounced in favour of the investors. Accordingly, flow-through proceeds are allocated between the offering of the common shares and the premium liabilities associated with the sale of tax benefits when the common shares are offered. The amount allocated to share capital is based on the fair value of the common shares and the residual amount of the proceeds received from the investor for the flow-through shares is recognized as premium liabilities and the premium liabilities are reversed in the statements of comprehensive loss as the Corporation spends the flow-through proceeds. For the year ended October 31, 2015, the Corporation reversed nil in premium liabilities (2014 – $282,519).

Fiscal year ended October 31, 2014 compared with the fiscal year ended October 31, 2013

Expenses for the year ended October 31, 2014, as detailed in the Statements of Comprehensive Loss, totaled $11,760,627 as compared to $20,110,854 for the year ended October 31, 2013.

Professional fees, investor relations, administration expenses and exploration and evaluation expenditures totaled $11,901,863 (2013 - $20,465,285). The decrease of $8,563,422 related to the following variations:

- Professional fees decreased by $100,531 to $480,999 (2013 - $581,530) and consisted primarily of lower legal and accounting fees offset by higher consulting and professional fees.
- Investor relations expenses totaled $922,847 in 2014 compared to $1,483,624 for the year ended October 31, 2013. The net decrease of $560,777 related to lower investor relations activities, international marketing initiatives and shareholders' communication and corporate development expenses in 2014 combined with the listing and commencement of trading on the TSX which impacted prior year expenditures.
- Administration expenses increased by $234,533 to $1,525,976 in 2014 from $1,291,443 in 2013. The main components of this variation, as detailed in Note 8 to the consolidated financial statements, consisted of: slightly higher salaries and other employee benefits due mainly to personnel movements in 2014; an increase in the remuneration expenses of Quest directors as a result of changes in Board members; and increased stock-based compensation costs resulting from the stock options granted in 2014 net of unvested stock option expenses cancelled as a result of their expiration or termination of the optionee. Furthermore, stock based compensation costs for 2013 of ($86,799) were due to the reversal of non-vested stock options which expired and were cancelled in 2013. Offsetting these increases were reductions in recruitment costs and the relocation of the Toronto office upon the termination of its lease.
- Exploration and evaluation expenditures totaled $8,972,041 in 2014 compared to $17,108,689 for the year ended October 31, 2013. The net decrease of $8,136,648 related to a decrease in exploration and evaluation expenditures during the year,

Exploration and exploration expenditures related to mining properties, which include acquisition costs for the right to explore as well as costs relating to research and analyzing exploration data, conducting geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, compiling pre-feasibility and feasibility studies and related share-based compensation costs, net of tax credits, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves.

During the year ended October 31, 2014, management revised the estimated tax credits receivable and reduced them by $2,053,383 with a corresponding increase in exploration and evaluation expenditures based on the eligibility of such credits. The reduction in the estimated tax credits receivable followed Revenu Québec's assessment of the 2012 tax credit claim and related in large part to expenses incurred by the Corporation in fiscal years ended October 31, 2011, 2012 and 2013 for bench-scale testing, product testing, metallurgical testwork and pilot plant testing not being considered qualifying expenditures. For the year ended October 31, 2014, finance income totaled $118,240 compared to $235,705 for the year ended October 31, 2013. The net decrease of $117,465 was as a result of a decrease in funds on deposit during the year ended October 31, 2014.

The Corporation's cash and cash equivalents consist of cash and highly-liquid short-term investments with maturities of less than three months from the date of acquisition that are readily convertible to known amounts of cash at any time and that are subject to an insignificant risk of change in value. Due to the liquid nature of these financial assets, the Corporation has elected to classify them as held-for-trading and changes in fair value are recorded in the statements of comprehensive loss. As at October 31, 2014, the Corporation had cash equivalents in the amount of $151,810 bearing interest at 0.80% (2013 – $5,388,467 bearing interest at 1.50%).

The Corporation has recognized its investments held for trading on the Consolidated Statements of Financial Position at their fair value, and changes in fair value are recognized as income or loss in the period in which the change arises. As at October 31, 2014, the fair value of the investments held for trading was $950 compared to $1,600 as at October 31, 2013. The corresponding unrealized loss on investments held for trading was $650 (2013 - $8,150).

For the year ended October 31, 2014, the Corporation reported a consolidated net loss and total comprehensive loss of $11,760,627, as compared to a net loss of $20,110,854 for the year ended October 31, 2013. The Corporation expects to record losses until such time as an economic ore body is defined and developed and there are revenues from mineral production.

As a portion of the Corporation’s exploration activities are financed by flow-through share arrangements, under the terms of flow-through share agreements, the tax deductions of the related Canadian exploration expenditures (“CEE”) are renounced in favour of the investors. Accordingly, flow-through proceeds are allocated between the offering of the common shares and the premium liabilities associated with the sale of tax benefits when the common shares are offered. The amount allocated to share capital is based on the fair value of the common shares and the residual amount of the proceeds received from the investor for the flow-through shares is recognized as premium liabilities and the premium liabilities are reversed in the statements of comprehensive loss as the Corporation spends the flow-through proceeds. For the year ended October 31, 2014, the Corporation reversed $282,519 in premium liabilities (2013 – $126,876).

Summary of Quarterly Results

The following table presents unaudited selected financial information for the eight most recently completed financial quarters (taking into account the change in accounting policy described above):

	Year ended October 31, 2015				Year ended October 31, 2014			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Revenues	-	-	-	-	-	-	-	-
Net loss and total comprehensive loss	(1,451,414)	(2,200,216)	(2,202,698)	(1,458,033)	(2,460,000)	(2,046,442)	(4,204,299)	(3,049,886)
Basic and fully diluted net income (loss) per share	(0.02)	(.03)	(.03)	(.02)	(.03)	(.03)	(.06)	(.05)

The Corporation has no intention of paying dividends in the foreseeable future. Any future decision to pay cash dividends will be left to the discretion of the Board of Directors of the Corporation and will depend on the Corporation’s financial position, operating results and capital requirements at the time as well as such other factors that the Board of Directors may consider relevant. The Corporation has paid no dividends and has no retained earnings from which it might pay dividends.

Fourth Quarter

Total expenses for the three-month period ended October 31, 2015 decreased by $1,207,575 to $1,310,061 (2014 - $2,517,636). Professional fees increased $122,024 to $214,642 (2014 - $92,618) which related mainly to lower legal and accounting fees but higher consulting fees related to fund raising activities; investor relations expenses decreased by $119,245 to $53,541 (2014 - $172,786) which related mainly to lower government relations and marketing and communication costs incurred during the respective quarters; and administration expenses decreased by $97,713 to $220,934 (2014 - $318,647) and related to lower office costs from closing offices in

Toronto and St. John’s. Exploration and evaluation expenditures decreased by $1,112,641 to $820,944 (net of government tax credits) ($1,933,585 in 2014) mainly related to the different nature of development work undertaken in Q4 2015 versus the same period in 2014.

Liquidity and Capital Resources

The Corporation’s operations are focused on the development of its Strange Lake mining property and the industrial facilities required to process the rare earths minerals. Accordingly, the most relevant financial information relates to current liquidity, solvency and planned development expenditures. The financial success of the Corporation depends on its ability to produce mixed rare earths oxides which meet the quality standards of purity at a unitary cost competitive with other global producers.

A number of factors determine the economic viability of the project including: the size of the deposit; the quantity and quality of the reserves; the availability and capital cost of planned infrastructure; the forecasted development and operating costs and the costs to finance the planned expenditures and the projected cash flows. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine. The economic value of the Corporation’s project is largely dependent on factors beyond the Corporation’s control, including the market value of the metals to be produced.

The Corporation’s main sources of short-term and long-term funding to date have been debt and equity markets, private placements and outstanding warrants and stock options. The Corporation has not paid any dividends. As well, the Corporation does not have any externally imposed capital requirements, either regulatory or contractual.

Quest is actively exploring financing options to cover its expected expenditures for fiscal 2016 including a strategic partnership or off take agreements with end users and has held meetings with interested potential investors and governmental authorities. As previously discussed, Quest has identified and continues to work toward the implementation of a number of additional operational improvements to the base case assumptions presented by the PEA filed in April 2014, which are intended to further reduce project capital and operating costs and increase product yields.

On March 9, 2015, the Corporation entered into a Securities Purchase Agreement (the “Agreement”) with Ekagrata Inc. (“Ekagrata”), an unrelated Canadian private investor, pursuant to which the Corporation issued to 2455440 Ontario Inc., an affiliate of Ekagrata, a 7% secured convertible debenture in a principal amount of $2,250,000 (the “Debenture Tranche 1”) and 2,250,000 common share purchase warrants.

On April 20, 2015, the Corporation issued 7% secured convertible debenture in a principal amount of $250,000 (the “Debenture Tranche 2”) and 250,000 common share purchase warrants (collectively the “Debentures”).

The Debentures (i) mature at the earlier of December 31, 2016 and the date on which the Corporation receives payment from the Government of Québec of Resource Tax Credits (QRTC) and Mining Duties (QMD) for the Corporation's 2013 and 2014 fiscal years; (ii) bears interest at a rate of 7% per annum, payable semi-annually in cash, (iii) at the holder's option, can be converted into common shares of the Corporation at a price of $0.13 per share; and (iv) are secured by a first-priority security interest in, and lien upon, the Corporation's rights to QRTC and QMD for the Corporation's fiscal years 2013 and thereafter.

Each of the 2,500,000 common share purchase warrants entitles the holder to acquire one common share of the Corporation at a price of $0.15 for four years. In addition, under the agreement Ekagrata was given the right to nominate two directors to the Board of Directors of the Corporation, subject to prior approval by the Board. Ekagrata’s first Board nominee was appointed on March 9, 2015. The nominee was subsequently elected to the Board by shareholders at the Corporation’s annual and special meeting held on April 20, 2015. The proceeds of the Debentures totalling $2,500,000 were pro-rated between the host debt component, common share purchase warrants, and share capital in the amounts of $2,025,932, $201,379 and $272,689 respectively.

In connection with the Agreement, the Corporation incurred issue costs amounting to $364,267, which have been pro-rated between the host debt component, common share purchase warrants, and share capital in the amounts of $295,192, $29,343 and $39,732 respectively.

On April 30, 2015, the Corporation completed a private placement with Ressources Québec Inc. by issuing 4,579,815 units at a price of $0.13, for gross proceeds of $595,376. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.15 until April 30, 2019.

In connection with this private placement, the Corporation incurred professional fees and expenses of $24,592 which have been pro-rated between the share capital and warrants of $12,192 and $12,400 respectively.

On February 11, 2015, the Corporation received payment of the refundable QMD for its fiscal years 2010 to 2012 in an amount of $3,044,818.

As at October 31, 2015, none of the 613,008 broker compensation units issued had been exercised.

On November 4, 2015 the Canada Revenue Agency (CRA) advised the Corporation that its Scientific Research and Experimental Tax (SR&ED) refund claim totaling $237,369 for fiscal 2013 had been accepted as filed. On November 17, 2015, the Corporation received a refund cheque in the amount of $151,587 representing the Newfoundland and Labrador portion of the SR&ED refund. The Quebec portion of the refund of $85,782 is still outstanding.

Loan Facility

The Corporation is entitled to receive QRTC at the rate of 38.75% of certain eligible exploration expenditures incurred in Québec.

In order to monetize the QRTC for the year ended October 31, 2012, the Corporation entered into a loan facility with Investissement Québec (the "Loan Facility") on September 11, 2013, as amended on May 5, 2014, under which the Corporation can borrow up to $4,339,000, representing a proportion of the estimated 2012 QRTC. Amounts drawn down under the Loan Facility had to be repaid on the earlier of November 30, 2014 or upon collection of the 2012 QRTC, which were assigned to Investissement Québec. Amounts drawn under the Loan Facility bore interest, payable on a monthly basis, at an annual rate of prime plus 5.5% (October 31, 2014 and 2013 – 8.5%). The Corporation provided security to Investissement Québec by way of an irrevocable letter of credit in the amount of $150,000 secured by a redeemable term deposit recorded as cash and cash equivalents at October 31, 2014, a deed of hypothec in the amount of $4,339,000 and an additional hypothec in the amount of $868,000 over its present and future QRTC claims and its accounts receivable, as well as a first ranking hypothec on the Corporation's present and future tax credits.

As at October 31, 2014, $4,338,793 had been drawn down pursuant to this Loan Facility (October 31, 2013 – nil). During the year ended October 31, 2014, interest expense pursuant to this Loan Facility amounted to $254,698 (2013 – nil).

The Loan Facility contained certain financial and non-financial covenants which were met as at October 31, 2014.

On November 27, 2014, the Corporation received $4,168,861 from Revenu Québec for the 2012 QRTC. The payment was made directly to Investissement Québec and applied against the Loan Facility balance. The remaining balance of the Loan Facility in the amount of $169,932 was settled in full by the Corporation on November 28, 2014. On December 4, 2014, Investissement Québec revoked the letter of credit and released all hypothecs pursuant to the Loan Facility.

Fiscal year ended October 31, 2015 compared with the fiscal year ended October 31, 2014

As at October 31, 2015, the Corporation had cash and cash equivalents of $208,925 (2014 - $1,281,706) and $650 (2014 - $950) invested in Canadian equity securities pursuant to mining property agreements. The investment in cash which comprises most of Quest's invested capital, presents no significant risk.

The Corporation's only long-term borrowings are the Convertible Debentures held by an affiliate of Ekagrata. As at October 31, 2015, the outstanding amount of these Debentures was $1,987,238 (2014 – nil).

During the year ended October 31, 2015, no cash was raised from the exercise of stock options (2014 – $31,667).

Fiscal year ended October 31, 2014 compared with the fiscal year ended October 31, 2013

On July 25, 2013, the Corporation completed a private placement by issuing 4,065,360 flow-through shares at a price of $0.55 per share, for gross proceeds of $2,235,948. Of the total proceeds received for the flow-through shares, $1,742,297 was allocated to common shares and $493,650 to premium liabilities.

In addition, on July 25, 2013, the Corporation issued 1,012,000 units at a price of $0.50 per unit, for gross proceeds of $506,000. Each unit was comprised of one common share and one-half of a common share purchase warrant; each whole warrant entitled its holder to purchase one additional common share at a price of $0.80 until January 25, 2015. An amount of $72,286 related to common share purchase warrants was allocated to warrants.

Further, on July 25, 2013, the Corporation also issued broker compensation options entitling the agents for the private placement to purchase a maximum of 203,094 common shares of the Corporation at a price of $0.50 until January 25, 2015. The total fair value of broker options was $71,083, allocated to contributed surplus.

In connection with the private placement, the Corporation paid cash commissions to agents of $224,996, issued broker compensation options of $71,083 and incurred other professional fees and expenses of $171,905 for a total of $467,984 which has been prorated between the share capital, warrants and premium liabilities of $371,390, $12,338 and $84,256 respectively.

During fiscal 2014, the Corporation raised cash proceeds of $31,667 (2013 - $44,250) from the exercise of stock options.

As at October 31, 2014, the Corporation had cash and cash equivalents of $1,281,706 (2013 - $7,269,170) of which $nil (2013 - $1,571,890) is restricted in use for exploration expenditures pursuant to flow-through agreements. The Corporation has no long-term borrowings.

Outstanding Share Data

As at January 25, 2016, there were 85,289,011 common shares, stock options in respect of 7,221,000 common shares, 620,000 deferred share units, 275,000 restricted share units, 18,105,300 warrants and 613,008 broker compensation units outstanding.

Commitments

The Corporation has leases for its premises and other operating leases. For the next five years the Corporation's rental payments total $843,820 as detailed in note 13 to the financial statements.

On November 5, 2013, QTM, a wholly owned subsidiary of the Corporation, entered into an option agreement with SPIPB (the "SPIPB Agreement"). Under the SPIPB Agreement, QTM had the right to purchase land in the Bécancour Port industrial site to build a processing facility for the ore from Strange Lake. The option was for a period of one year and could be extended by QTM for up to an additional three years to November 2017 in six increments of six months each. QTM could cancel this agreement at any time.

Payments made under the SPIPB Agreement may be offset and deducted against the eventual purchase price once the option is exercised. QTM therefore has capitalized the option payments as they are made until such time as either its option is exercised, cancelled or allowed to lapse by the Corporation.

On July 16, 2015, Quest entered into a revised option agreement with SPIPB (the "Revised SPIPB Agreement") effective August 1, 2015, for a second site including a servitude for the site for the placement of pipelines. The option was granted for a period of one year and can be extended by Quest for up to an additional one and a half years to January 31, 2018 in three increments of six month each. The Revised SPIPB Agreement supersedes the SPIPB Agreement. Quest can cancel the Revised SPIPB Agreement with proper notice to SPIPB.

On September 12, 2014, QTM entered into an option and lease agreement with 154639 Canada Inc. (the "Fraenkel Agreement"). Under the Fraenkel Agreement, QTM has the right to purchase another piece of land in the City of Bécancour to build a rare earth production facility for the ore from Strange Lake. The option is for a period of three years from March 1, 2015 and can be extended by QTM indefinitely in increments of one year each. QTM can cancel the Fraenkel Agreement at any time after March 1, 2016. In consideration for the Fraenkel Agreement, Quest issued 250,000 common shares to the sole shareholder of 154639 Canada Inc.

Lease payments made under the Fraenkel Agreement may be offset and deducted, against the eventual purchase price, once the option is exercised, as follows:

- 75% of lease payments made until the earlier of the date of purchase or February 28, 2018, and
- 50% of lease payments made from March 1, 2018 until the date of purchase.

Quest therefore capitalizes the portion of the lease payments eligible to be offset and deducted as they are made, until such time as either the option is exercised, cancelled or allowed to lapse by the Corporation.

On May 1, 2015, Quest and QTM amalgamated and the SPIPB Agreement and Fraenkel Agreement were assumed by Quest.

A breakdown of other non-current assets as at October 31, 2015 and October 31, 2014 are as follows:

	October 31, 2015 $	**October 31, 2014 $**
SPIPB Agreement – option payments	**296,364**	261,141
Fraenkel Agreement – option payments	**145,291**	51,250
Total	**441,655**	312,391

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements.

Income Taxes

As at October 31, 2015, the Corporation had non-capital loss carry-forwards of $21,668,000 (2014 - $19,331,000) and investment tax credits of $3,240,000 (2014 - $3,750,000) which are available to reduce future years' taxable income as detailed in note 6 to the consolidated financial statements.

Further, as at October 31, 2015, the Company has Scientific Research and Experimental Development ("SR&ED") tax credits available for Canadian federal and Ontario income tax purposes, amounting to approximately $1,497,000 and $75,000, respectively, which are available to reduce future income tax liabilities and expire between 2032 and 2035.

Related Party Transactions

All of the following related party transactions occurred in the normal course of operations.

The Corporation retains the services of certain directors of the Corporation to carry out professional activities. During the year ended October 31, 2015, the total amount charged for professional services by directors of the Corporation and recorded in exploration and evaluation expenditures was $26,667 [2014 – $75,000].

During the year ended October 31, 2015, the Corporation incurred fees to a law firm, in which a Director of the Corporation is a partner. In addition, during the year ended October 31, 2015, the Corporation incurred fees to a second law firm, to which a Director of the Corporation has a related party association. During the year ended October 31, 2015, the total amount for such services provided was $440,165, of which $83,628 was recorded in professional fees, $19,410 was recorded in investor relations, $221,952 was recorded in exploration and evaluation expenditures and $115,175 was recorded in issue costs [2014 – $142,479, $19,893, $29,612 and $248,437 respectively]. As at October 31, 2015, an amount of $288,333 [October 31, 2014 – $14,917; November 1, 2013 – $52,731] owing to these law firms was included in accounts payable and accrued liabilities in respect of these fees.

During the year ended October 31, 2015, the Corporation incurred fees to a private investment firm of which a director of the Corporation has a related party association. During the year ended October 31, 2015, the total amount recorded in professional fees for such services provided was $77,419 [2014 – nil].

During the year ended October 31, 2015, the Corporation incurred fees to a number of management entities of which certain officers or directors of the Corporation have a related party association. For the year ended October 31, 2015, the total amount for such services provided was $303,578, of which $25,000 was recorded in directors fees and $278,578 was recorded in exploration and evaluation expenditures [2014 – nil and $288,000 respectively]. As at October 31, 2015, an amount of $52,534 [October 31, 2014 – $28,862; November 1, 2013 – $nil] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

Excluding the amounts reported above, during the years ended October 31, 2015 and 2014, the Corporation recorded the following compensation for key management personnel and the Board of Directors:

	2015 $	**2014** $
Salaries, employee benefits	**368,962**	511,434
Separation benefits	**418,806**	—
Directors’ fees	**181,622**	223,333
Stock compensation	**280,544**	218,874
Total	**1,249,934**	953,641

Financial Instruments

The Corporation is not exposed to any significant credit risk as at October 31, 2015. The Corporation’s cash and cash equivalents are deposited with a major Canadian chartered bank and are held in highly-liquid investments.

The rates as at October 31, 2015 for Canadian and U.S. funds were 0% (2014 – 0.80%)

In order to ensure that the Corporation maximizes the rate of return on cash funds in excess of its current operating requirements, the Corporation has established an investment committee to oversee the management of these funds.

Critical Accounting Judgments and Estimates

As detailed in note 2 of financial statements, management has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Valuation of refundable tax credits and mining duties credits – Judgment

The Corporation is entitled to refundable tax credits and mining duties credits on qualified mining exploration expenses incurred in the province of Québec. Management judgment is applied in determining whether the mining exploration expenses are eligible for claiming such credits. Those benefits are recognized when the Corporation estimates that it has reasonable assurance that the tax credits will be realized.

Share-based remuneration expense – Estimate

The estimation of share-based payments at fair value at the date of grant requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The fair value of each option or warrant is evaluated using the Black-Scholes pricing model at the date of grant. The Corporation has made estimates as to the volatility, the expected life of options or warrants, and where applicable, expected forfeiture rates. The expected life of the option or warrant is based on historical data. The expected volatility is based on the historical volatility of comparable companies, over the period of the expected life of the stock option or warrant. These estimates may not necessarily be indicative of future actual patterns.

Changes in Significant Accounting Policies

The Corporation's significant accounting policies are disclosed under notes 3 and 4 to the financial statements for the year ended October 31, 2015.

During the year ended October 31, 2015, the Corporation voluntarily changed its policy for accounting for exploration and evaluation expenditures considered under IFRS 6 - *Exploration for and Evaluation of Mineral Resources*. The Corporation previously elected to capitalize all costs relating to the exploration and evaluation on its properties, net of tax credits. During the year ended October 31, 2015, the Corporation changed its policy under IFRS 6 to expense all costs relating to the exploration and evaluation on its properties (including the cost of acquisition of exploration rights), net of tax credits, as it concluded that this policy provided more useful information to the users. The impact of this change in policy on the Corporation's 2014 and 2013 financial statements is outlined in note 4 to the financial statements for the year ended October 31, 2015.

During the year ended October 31, 2015, the Corporation adopted new IFRS standards noted below:

IAS 32 Financial instruments, Presentation.

In December 2011, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The amendments were effective on November 1, 2014 and did not have any impact on the Corporation's financial statements.

IFRIC 21 Levies.

IFRIC 21, Levies (IFRIC 21) was amended by the IASB in June 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The main features of IFRIC 21 are: (i) the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by legislation, and (ii) the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. The Corporation adopted IFRIC 21 on November 1, 2014 and it did not have any impact on the Corporation's financial statements.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The above definitions are consistent with how the Corporation has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments did not impact the Corporation's accounting policies.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The Corporation's related party disclosures are consistent with the requirements of this amendment. The Corporation adopted IAS 24 on November 1, 2014 and it did not have any impact on the Corporation's financial statements.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued amendments to three standards, which included:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Corporation does not apply the portfolio exception in IFRS 13 and therefore it did not have any impact on the Corporation's financial statements.

The following pronouncements are issued but not yet effective for the year ended October 31, 2015:

IFRS 9 Financial Instruments

The final version of IFRS 9, Financial instruments (IFRS 9) was issued by the IASB in July 2014 which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: recognition and measurement (IAS 39). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for the Corporation on November 1, 2018. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Corporation is currently evaluating the impact of this standard and amendments on its financial statements.

Risk Factors

Resource exploration and development is a highly speculative business, involves a high degree of risk and is frequently unsuccessful. There is no certainty that the expenditures to be made by the Corporation in the exploration of its properties or otherwise will result in discoveries of commercial quantities of minerals. The exploration for and development of mineral deposits involves significant risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. Although the discovery of an ore body may result in substantial rewards, few properties explored are ultimately developed into producing mines. Significant expenditures may be required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the Corporation's current exploration programs will result in a profitable commercial mining operation.

Significant capital investment is required to achieve commercial production from successful exploration efforts. The commercial viability of a mineral deposit is dependent upon a number of factors. These include: (i) deposit attributes such as size, grade and proximity to infrastructure; (ii) current and future metal prices (which can be cyclical); (iii) government regulations, including those relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and necessary supplies and environmental protection; (iv) First Nations negotiations and agreements; (v) technological risks and changes and (vi) securing sufficient financing to commercialize the project. The complete effect of these factors, either alone or in combination, cannot be entirely predicted, and their impact may result in the Corporation not receiving an adequate return on invested capital.

The prices of minerals fluctuate widely and are affected by many factors outside of the Corporation's control. The prices of minerals and future expectation of such prices may have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may affect the Corporation's ability to raise equity financing for its capital requirements.

Exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future exploitation or sale. Such circumstances include the period for which the Corporation has the right to explore in a specific area, actual and planned expenditures, results of exploration, whether an economically-viable operation can be established and significant negative industry or economic trends. Management judgment is also applied in determining the lowest levels of exploration and evaluation assets grouping, for which there are separately identifiable cash flows (cash generating units), generally on the basis of areas of geological interest.

The Corporation's current committed cash resources are insufficient to cover expected expenditures in fiscal 2016 and its planned Bankable Feasibility Study on Strange Lake. The Corporation's ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurance that the Corporation will be successful in securing adequate financing.

Reference is made to the section of the Corporation's 2015 Annual Information Form and Short Form Prospectus dated July 9, 2014 entitled "Risk Factors" for a discussion of the risk factors applicable to the Corporation and its business.

Disclosure Controls and Internal Controls over Financial Reporting

Management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that all material information relating to the Corporation has been made known to them and has been properly disclosed in the Corporation's annual and interim filings and other reports filed or submitted under applicable Canadian and United States securities laws.

Management of the Corporation, with the participation of the CEO and the CFO, has evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as at October 31, 2015. Based on this evaluation, the CEO and the CFO have concluded that the Corporation's disclosure controls and procedures were effective as of October 31, 2015 to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and other reports filed or submitted were recorded, processed, summarized and reported within the time period specified in those rules.

An evaluation, under management supervision, was carried out on the effectiveness of the Corporation's internal control over financial reporting as at October 31, 2015 using the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this evaluation, management has concluded that internal control over financial reporting was effective as at October 31, 2015.

There have been no changes in the Corporation's design of internal controls over financial reporting during the quarter ended October 31, 2015 that materially affected, or are reasonably likely to affect, the Corporation's internal control over financial reporting.

Presentation of Mineral Reserve and Resource Information

This MD&A has been prepared in accordance with the requirements of Canadian securities laws, which differ from the requirements of United States securities laws. Unless otherwise indicated, all reserve and resource estimates included in this MD&A have been prepared in accordance with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("Nl 43-101"). Nl 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.

Canadian standards, including Nl 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC") and reserve and resource information contained in this MD&A may not be comparable to similar information disclosed by United States companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserve". Under United States standards, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by United States standards in documents filed with the SEC. United States investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" exists, is economically or legally mineable, or will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Disclosure of "contained ounces" in a resource estimate is permitted disclosure under Canadian regulations; however, the SEC normally permits issuers to report mineralization that does not constitute "reserves" by SEC standards only as in-place tonnage and grade without reference to unit measures. The requirements of Nl 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported by Quest in compliance with Nl 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by companies that report in accordance with United States standards.

Other Information

Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com and on the Corporation's website at www.questrareminerals.com.