MANAGEMENT'S DISCUSSION AND ANALYSIS
As at June 14, 2017

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 three and six-month periods ended April 30, 2017, unless otherwise noted. It should be read in conjunction with the audited financial statements and related notes as at and for the year ended October 31, 2016 and the condensed interim financial statements for the three and six-month periods ended April 30, 2017.

The condensed interim financial statements for the three and six-month periods ended April 30, 2017 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements for the year ended October 31, 2016 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). 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, 2016, 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 working on engineering and constructing a processing facility in Bécancour in southern Québec.

Quest's main 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 75% 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 publish a revised preliminary economic assessment (PEA) and ultimately proceed to 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:

- Full scale process piloting;
- Engineering;
- Environmental Impact Assessment (EIA).

All of these activities are in progress and the status and plans for each are 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 (SGS). The work since then has the aim of 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 $4.9 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 aims to significantly reduces the mass of material to be treated, resulting in smaller process plant footprint at Bécancour and reduced energy requirements;

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

• Impurity removal from the leach solution;

• Crude rare earth 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%, thereby reducing the average mineral concentrate production. This would result in significant savings in the cost of transportation of flotation concentrate from the mine site to the Becancour processing plant. A potential large reduction in volume of concentrate would 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 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, 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 STS pilot unit. Quest has started a full flotation pilot program at COREM, the largest organization in Canada totally devoted to mineral processing R&D, located in Québec City, Québec. The main objective of the flotation pilot program is to confirm the process parameters for achieving a mass pull to concentrate of about 20% with rare earth oxide recoveries of approximately 80% at a large scale.

Hydrometallurgy

Quest's 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 potential process is the selective thermal sulphation. By careful control of key process parameters, the recovery of REE to solution should 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 could be 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 STS process was successfully tested during this year at a mini pilot scale at SGS. 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 dramatically improves the quality of the leach solution, potentially leading to reduced operating costs and a simplified solution treatment process flowsheet.

The STS 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 STS process full pilot.

REE recovery from flotation concentrate to leach solution is anticipated to be as high as 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 STS and water leaching process was completed in the summer months of 2015. The mini plant piloting of the solution treatment circuit has been deferred. 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 STS Process.

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.

Quest has demonstrated on a bench scale at SGS that a significant percentage of Cerium could 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. Cerium is unlikely to represent a significant percentage of the Corporation's total potential future revenues. The Corporation is also investigating separating out the Yttrium (Y) and Lanthanum (La) during the hydromet process. If, for example, 90% of the Cerium and a similarly high percentage of the Yttrium and Lanthanum is removed earlier in the process, production through the separation plant would be significantly reduced. Cerium is relatively abundant and not particularly valuable. Yttrium and Lanthanum could be sold at a discount to a specialized industrial processor. Removing the Cerium, Yttrium and Lanthanum early in the process would potentially significantly reduce both the capital and operating costs in separation.

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 will be 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.

Recent geological, mineralogical and textural review and compilation of ongoing work completed by Quest has provided insights that could improve the mineral processing flowsheet as outlined in its technical report entitled "NI 43-101 Technical Report for the Updated Mineral Resource Estimate for the Strange Lake Property, Quebec, Canada" dated March 8, 2017, with an effective date of updated Resource Estimate of February 15, 2017 (the "Technical Report"). By targeting the host rock and textural characteristics of the minerals that predominantly include Dy, Tb, Pr, or Nd, instead of targeting Zirconium (Zr) and Total Rare Earth Elements (TREE), different handling and processing procedures could be utilized to improve the hydrometallurgical processing and Dy, Tb, Pr, and Nd grade of the concentrate. This is an important breakthrough because Dy, Tb, Pr and Nd are critical component metals of permanent magnets and Quest's management team believes that they are likely to make-up the large majority of the potential revenue. As a result it has been decided to incorporate these considerations prior to the completion of the full pilot plant work.

Once a limited number of comminution and flotation tests are completed, an integrated mini pilot will be undertaken to further define the optimal processing parameters. The pilot plant work will include the extraction of a 20-kilogram flotation concentrate at Corem, Québec City, which will be shipped to Outotec (Frankfurt, Germany) for sulphidation followed by Dy, Tb, Pr, and Nd extraction as separate metals. The pilot plant results will subsequently be used to update the Preliminary Economic Assessment (PEA) for the Strange Lake Project.

In conjunction with, and to follow up this work, the geological, mineralogical, and textural data relevant to Dy, Tb, Pr, and Nd characterization and distribution within the mineral resource will be undertaken. Analogous to the mineral processing flowsheet, by targeting specifically the host rock and mineral associations of Dy, Tb, Pr, and Nd, instead of Zr and TREE, there could be unrealized differences to the current mineral resource characterization, distribution and classification as outlined in the Technical Report. Upon completion of this work, Quest will then determine the scope of work required to complete the prefeasibility study of the Strange Lake Project and identify potential updates to the mineral resource, if necessary.

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

The Corporation entered into a memorandum of understanding (MOU) with Tugliq Energy Company (Tugliq) to evaluate and ultimately manage the installation of wind turbines as a source of power at the mine site. Tugliq is preparing to install necessary equipment at the mine site to gather pertinent climatic data. In the MOU, Tugliq and the Corporation have agreed to work together to develop an energy strategy aimed at supplying the Corporation`s power needs at the Strange Lake project and implement such strategy, if feasible and mutually advantageous. No significant additional engineering work was commenced or completed during the six-month period ended April 30, 2017.

Hybrid Airships

On November 16, 2016, the Corporation entered into a MOU with Straightline Aviation (SLA) to potentially provide dedicated air services for the transport of ore concentrate, supplies and personnel using Lockheed Martin's Hybrid Airships. SLA is headquartered in the United Kingdom with offices in New York and Los Angeles, and was co-founded by a team of highly experienced airship and aviation executives with the sole purpose of bringing Hybrid Airships into operation. The airships could provide shuttle transportation between Quest's Strange Lake complex mine site in Northern Québec and Schefferville, a town with a direct rail link to the Port of Sept-Iles.

Under the MOU, SLA could potentially operate a fleet of seven of the world's first heavy-lift cargo Hybrid Airships, the LMH-1. The airships could transport personnel, critical supplies for mine operations, and carry rare earth ore concentrate for delivery to Quest's Bécancour refining facilities.

Developed and built by Lockheed Martin, the LMH-1 is potentially well suited to Quest's transportation challenges due to its remote northern Québec mine site location. The Hybrid Airship has been designed to land on virtually any surface including snow, ice, gravel and even water, with no runways required or other expensive infrastructure. The helium-filled, heavier-than-air airships has been designed to carry 21 metric tons of cargo and up to 19 passengers. Both the U.S. Federal Aviation Administration (FAA) and Transport Canada have reportedly agreed on the newly developed Hybrid Airship certification criteria, which is being used to complete the type certification. First commercial deliveries are expected in 2019.

Quest believes that the airships potentially present a cost-effective and environmentally-friendly solution to Quest's transport challenges. The LMH-1 is not only designed to use less fuel, emit less carbon dioxide and produce less noise than conventional aircraft, it also could eliminate the need for costly ground-level infrastructure, avoiding impact on the area's wildlife habitat compared to road transport and trucking along a road corridor to the Newfoundland & Labrador sea coast.

Quest is the process of evaluating and confirming the technical feasibility and economic viability of using airships for its Strange Lake project. If Quest decides to use this method of transportation, the technical feasibility and economic viability will need to be confirmed in a revised PEA.

Land Claims

On March 14, 2016, Quest staked an additional 33 contiguous claims (825 ha) in Newfoundland & Labrador. This covers available claim blocks immediately north and east of the Main Zone REE Deposit, historically referred to as the A Zone by the Iron Ore Mining Company of Canada (IOCC). This new license is adjacent to Quest's existing Mineral License, also known as the Alterra Property.

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. The development and piloting work described above is anticipated to have a number of economic benefits and management is aiming to continuously lower the cash operating cost of the project. The target cost level aims to be competitive with other potential projects, including certain Chinese producers. The work, as well as a number of other initiatives, would also contribute to lower capital costs. Quest plans to establish its processing facilities in the Bécancour Industrial Park located on the waterfront of the St-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

The EIA scope for the Strange Lake Project changed in November 2016 due to the potential airship access solution through Quebec, which potentially replaces previous plans to develop road/port access across Newfoundland & Labrador. This potential option would make the EIA processes of Nunatsiavut and of Newfoundland and Labrador no longer applicable. While it is still expected that these governments would be consulted, the project's EIA would be initiated only with the governments of Quebec and of Canada after modifying project notice/description documents accordingly. Quest is the process of evaluating and confirming the technical feasibility and economic viability of the potential use of the airship solution option and its impact on the EIA and these will need to be confirmed in a revised PEA.

The Government of Québec officially issued Mine Site EIA directives to Quest in March 2016. Further to discussions with Quebec authorities, a letter will be submitted to officially advise of project plans to add an airship landing area, as well as wind turbines, at this location. A third party wind turbine operator may also take charge of managing all energy supply at the mine site. Government authorities will then consider any need to modify the Mine EIA directives, or to related documents.

The airship option would also introduces a new environmental footprint in Schefferville. A third party airship operator may set up a base of airship operations, including areas and infrastructure for take-off/landing, transloading to road or rail, parking, refueling and maintenance. Environmental approval requirements for this new location are currently being assessed on this basis. Any additional project features to allow for use existing rail and port facilities on the Quebec North Shore will also be evaluated.

The EIA Project Notice/Description for the processing facility in Bécancour (southern Québec) will also be modified prior to submission to the Quebec Government. Bulk concentrate transportation could be replaced by super-bags (1-5 tonnes), possibly containerized. Annual concentrate tonnage could potentially be lower, relative to planned quantities for the previous Newfoundland & Labrador road/port option, due to plans to potentially generate higher quality concentrate at the mine site. As a result, the scale of planned process equipment at Bécancour may also change.

Project descriptions for all relevant components will be submitted to the Canadian Environmental Assessment Agency (CEAA) to determine project aspects which are subject to a federal-level EIA.

Government officials and Indigenous representatives were updated on these changes in the last quarter of 2016. In 2017, Quest plans to finalize project changes and complete modifications of project description documents. The project's potential benefits, and its approach to mitigating any environmental impacts, will be presented to local communities prior to continuing with the EIA.

Working Capital Requirements

During the fiscal year ended October 31, 2016, Quest was awarded a grant from SDTC in the amount of $4,935,000 to support its pilot plant project to produce mixed rare earth oxides. During the three months to July 31, 2016, the Corporation received $1,013,802 representing the initial milestone payment of this grant. During the six-month period ended April 30, 2017, the Corporation raised $550,000 through a convertible debenture with a United States private equity special opportunity fund and $1,620,000 through a Special Warrant offering which subsequently converted into a common share and warrant offering.

During the fiscal year ended October 31, 2015, the Corporation raised $2,500,000 through a convertible debenture with Ekagrata Inc. as well as $595,376 through a share/warrant financing with Investissement Québec and received $3,044,818 in refunds of Québec Mining Duties and SR&ED tax credits.

The Corporation will need to raise further funds to finance the completion of the full piloting, the full EIA process and the FEL2 and FEL3 engineering work. The Corporation is pursuing a variety of routes to raise these funds, including discussions with potential global strategic investors as well as institutional financial investors, although no assurances can be given in this regard (refer to Going Concern Uncertainty*)*. The public markets have over the last 18 months been difficult for the Corporation to access, however the Corporation continues to monitor market developments with a view to in time being able to raise funds again in the public markets. 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 noteworthy risks are:

1) 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 major recognized risk.

2) 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 (since 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 though prices have risen modestly over the last 6 months. 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. Projected returns are most sensitive to changes in rare earth prices. 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.

3) Performance of Molycorp

   One of the primary producers outside of China, Molycorp filed for Chapter 11 protection in 2015 and subsequently mothballed its Mountain Pass operation. Their performance has created questions around the whole rare earth industry outside of China, particularly in the investment community. Quest continues to point out that its project is expected to produce a very different and more valuable mix of rare earth products than Molycorp. While this gives Quest management confidence in the competitive robustness of its project, the performance of Molycorp does make it more difficult to communicate this message to the investment community.

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 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 potential 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 and in the Corporation's 2016 Amended and Restated Annual Information Form (AIF) and Short Form Prospectus dated March 23, 2017 entitled "Risk Factors" where there is a discussion of the risk factors applicable to the Corporation and its business.

Going Concern Uncertainty

The Corporation's interim 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 for the next 12 months and its planned pilot plant and 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 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 revised PEA and/or 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 in the six months ended April 30, 2017 and the year ended October 31, 2016 of $1,617,878 and $2,509,732 respectively. 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, Quebec

For the three and six-month periods ended April 30, 2017, Quest had incurred net of government tax credits and grants a total of $432,221 and $713,022 respectively in exploration expenditures on the Québec Strange Lake Project compared to $321,148 and $779,204 respectively for the three and six-months period ended April 30, 2016. The following table breaks down the capitalized expenditures by its material components.

	Three months ended		**Six months ended**	
	April 30, 2017	**April 30, 2016**	**April 30, 2017**	**April 30, 2016**
	$	**$**	**$**	**$**
Acquisition costs	-	-	12,948	-
Geophysical Surveys	-	-	-	-
Geological Surveys	-	18,750	-	37,500
Drilling	9,375	9,375	18,750	18,750
Prospecting	-	-	-	-
Prefeasibility Studies	136,240	85,632	203,391	191,326
Feasibility Studies	-	-	-	-
Metallurgical Work	-	-	-	-
Environmental & Permitting	95,419	49,056	161,936	167,483
Project Management & Support	180,604	263,418	395,478	523,728
Other	-	-	-	-
Government tax credits	**14,198**	**(105,083)**	**(9,302)**	**(159,583)**
Government Grants	**(3,615)**		**(70,179)**	
Total	**432,221**	**321,148**	**713,022**	**779,204**

Summary of Quarterly Results

The following table presents unaudited selected financial information for the eight most recently completed financial quarters:

	Year ending October 31, 2017		Year ended October 31, 2016				Year ended October 31, 2015	
	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $
Revenues	-	-	-	-	-	-	-	-
Net loss and total comprehensive loss	(787,107)	(830,771)	(409,009)	(285,814)	(799,196)	(1,015,713)	(1,437,674)	(2,193,074)
Basic and fully diluted net income (loss) per share	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)	(0.03)

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.

Quarter ended April 30, 2017 compared with the quarter ended April 30, 2016

Expenses for the quarter ended April 30, 2017, as detailed in the Interim Statements of Comprehensive Loss, totaled $742,037 as compared to $643,269 for the quarter ended April 30, 2016.

For the quarter ended April 30, 2017, the Corporation reported a net loss of $787,107 as compared to a net loss of $799,196 for the quarter ended April 30, 2016. 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.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled $742,037 (2016 - $643,269). The increase of $98,768 related to the following variations:

- Exploration and evaluation expenses increased by $112,489 to $435,866 mainly due to higher prefeasibility studies and environmental & permitting costs offset in part by lower geological survey and project management costs.
- Professional fees decreased by $2,029 to $68,476 and related mainly to lower legal and consulting fees during the quarter as compared $70,505 for the same quarter in 2016.
- Investor relations expenses totaled $99,101 compared to $59,314 for the quarter ended April 30, 2016. The main components of this net increase of $39,787 as detailed in note 6 to the condensed interim financial statements related mainly to the increase in travel related costs.
- Administration expenses decreased by $51,479 to $138,594 for the quarter ended April 30, 2017 (2016 – $190,073). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related mainly to decreases in: salaries and other benefits; stock based compensation expenses; and Directors' fees.

For the quarter ended April 30, 2017, finance income totaled $349 compared to $12,498 for the quarter ended April 30, 2016. The net decrease of $12,149 was as a result of interest earned on tax refunds for the quarter ended April 30, 2017 as compared to the quarter ended April 30, 2016. Finance expenses totaled $46,469 for the quarter ended April 30, 2017 compared to $168,625 for the quarter ended April 30, 2016 of which $29,201 (2016 – $101,275) related to accretion with respect to the convertible debentures as detailed in note 6 to the condensed interim financial statements.

The Corporation has recognized its investments held for trading on the balance sheet 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 April 30, 2017 and October 31, 2016, the fair value of the investments held for trading were $1,850 and $750 respectively resulting in an unrealized gain on investments held for trading of $1,050 compared to an unrealized gain on investments held for trading of $200 for the quarter ended April 30, 2016.

Quarter ended April 30, 2016 compared with the quarter ended April 30, 2015

Expenses for the quarter ended April 30, 2016, as detailed in the Interim Statements of Comprehensive Loss, totaled $643,269 as compared to $2,141,070 for the quarter ended April 30, 2015.

For the quarter ended April 30, 2016, the Corporation reported a net loss of $799,196 as compared to a net loss of $2,210,910 for the quarter ended April 30, 2015. 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.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled $643,269 (2015 - $2,141,070). The decrease of $1,497,801 related to the following variations:

- Exploration and evaluation expenses decreased by $646,568 to $323,377 mainly due to lower prefeasibility studies costs offset in part by higher environmental & permitting costs.
- Professional fees decreased by $116,047 to $70,505 and related mainly to lower legal and consulting fees during the quarter as compared $186,552 for the same quarter in 2015.
- Investor relations expenses totaled $59,314 compared to $157,179 for the quarter ended April 30, 2015. The main components of this net decrease of $97,865 related mainly to the reduction in: salaries and other employee benefits, investor relations fees; conference expenses, consulting services, dues and subscriptions, meeting and travel related costs.
- Administration expenses decreased by $637,321 to $190,073 for the quarter ended April 30, 2016 (2015 – $827,394). The main components of this variation, related to salaries and other benefits, stock based compensation expenses and rent.

For the quarter ended April 30, 2016, finance income totaled $12,498 compared to $6,872 for the quarter ended April 30, 2015. The net increase of $5,626 was as a result of interest earned on tax refunds for the quarter ended April 30, 2016 as compared to the quarter ended April 30, 2015. Finance expenses totaled $168,625 for the quarter ended April 30, 2016 compared to $76,862 for the quarter ended April 30, 2015 of which $101,275 (2015 – $53,657) related to accretion with respect to the convertible debentures.

The Corporation has recognized its investments held for trading on the balance sheet 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 April 30, 2016 and October 31, 2015, the fair value of the investments held for trading was $1,000 resulting in an unrealized gain on investments held for trading of $200 compared to an unrealized gain on investments held for trading of $150 for the quarter ended April 30, 2015.

Six-month period ended April 30, 2017 compared with the six-month period ended April 30, 2016

The Corporation's cash is deposited with a major Canadian chartered bank. As at April 30, 2017, the Corporation had a total of $263,840 in cash compared to $37,889 in cash as at April 30, 2016.

Expenses for the six-month period ended April 30, 2017, as detailed in the Interim Statements of Comprehensive Loss, totaled $1,468,492 as compared to $1,509,924 for the six-month period ended April 30, 2016.

For the six-month period ended April 30, 2017, the Corporation reported a net loss of $1,617,878 as compared to a net loss of $1,814,909 for the six-month period ended April 30, 2016. 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.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled $1,468,492 (2016 - $1,509,924). The decrease of $41,432 related to the following variations:

- Exploration and evaluation expenses decreased by $68,066 to $716,667 mainly due to lower geological survey and project management costs offset in part by higher prefeasibility study costs.
- Professional fees decreased by $42,381 to $140,385 and related mainly to lower legal, accounting and consulting fees incurred during the six-month period ended April 30, 2017 as compared $182,766 for the six-month period ended April 30, 2016.
- Investor relations expenses totaled $153,540 compared to $95,958 for the six-month period ended April 30, 2016. The main components of this net increase of $57,582 as detailed in note 6 to the condensed interim financial statements related mainly to the increase in investor relation fees, printing and filing expenses and travel related costs.
- Administration expenses increased by $11,433 to $457,900 for the six-month period ended April 30, 2017 (2016 – $446,467). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related to an increase in salaries and other benefits offset in part by decreases in stock based compensation expenses and Directors' and officers' insurance,.

For the six-month period ended April 30, 2017, finance income totaled $868 compared to $12,968 for the six-month period ended April 30, 2016. The net decrease of $12,100 was as a result of the decrease in funds on deposit during the six-month period ended April 30, 2017 as compared to the six-month period ended April 30, 2016.

The Corporation is entitled to refundable tax credits on qualified expenditures. The refundable tax credits have been applied against the exploration and evaluation assets when such expenditures are incurred provided that the Corporation has reasonable assurance those credits will be realized.

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. Adjustments to estimated tax credits receivable, if any, are recorded against exploration and evaluation assets.

During the six-month period ended April 30, 2017, the Corporation recognised tax credits receivable related to Québec resource tax credits ("QRTC"), QMD and SR&ED pertaining to the six month period ended April 30, 2017 expenditures, amounting to $9,303.

The Corporation has recognized its investments held for trading on the balance sheet 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 April 30, 2017 the fair value of the investments held for trading was $1,850 resulting in an unrealized gain on investments held for trading of $1,100 compared to an unrealized loss on investments held for trading of $350 for the six-month period ended April 30, 2016.

Six-month period ended April 30, 2016 compared with the six-month period ended April 30, 2015

The Corporation's cash is deposited with a major Canadian chartered. As at April 30, 2016, the Corporation had a total of $37,889 in cash compared to $3,447,911 in cash as at April 30, 2015.

Expenses for the six-month period ended April 30, 2016, as detailed in the Interim Statements of Comprehensive Loss, totaled $1,509,924 as compared to $3,589,550 for the six-month period ended April 30, 2015.

For the six-month period ended April 30, 2016, the Corporation reported a net loss of $1,814,909 as compared to a net loss of $3,681,612 for the six-month period ended April 30, 2015. 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.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled $1,509,924 (2015 - $3,589,550). The decrease of $2,079,626 related to the following variations:

- Exploration and evaluation expenses decreased by $1,021,186 to $784,733 mainly due to lower prefeasibility studies offset in part by higher environmental & permitting costs.
- Professional fees decreased by $92,243 to $182,766 and related mainly to lower legal, accounting and consulting fees incurred during the six-month period ended April 30, 2016 as compared $275,009 for the six-month period ended April 30, 2015.
- Investor relations expenses totaled $95,958 compared to $328,289 for the six-month period ended April 30, 2015. The main components of this net decrease of $232,331 related mainly to the reduction in: investor relation fees, salaries and other employee benefits, printing and filing expenses, dues and subscriptions, consulting services, advertising and travel related costs.
- Administration expenses decreased by $733,866 to $446,467 for the six-month period ended April 30, 2016 (2015 – $1,180,333). The main components of this variation related to restructuring expenses, stock based compensation expenses, salaries and other benefits and rent.

During the six-month period ended April 30, 2016, the Corporation received payments amounting $151,587 from the Federal government related to claims for Scientific Research & Experimental Development ("SR&ED") tax credits which were recorded as a reduction in exploration and evaluation assets. The SR&ED claim related to expenditures incurred in 2013 pertaining to the Corporation's Strange Lake project.

For the six-month period ended April 30, 2016, finance income totaled $12,968 compared to $12,272 for the six-month period ended April 30, 2015. The net decrease of $696 was as a result of the decrease in funds on deposit during the six-month period ended April 30, 2016 as compared to the six-month period ended April 30, 2015.

The Corporation is entitled to refundable tax credits on qualified expenditures. The refundable tax credits have been applied against the exploration and evaluation assets when such expenditures are incurred provided that the Corporation has reasonable assurance those credits will be realized.

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. Adjustments to estimated tax credits receivable, if any, are recorded against exploration and evaluation assets.

During the six-month period ended April 30, 2016, the Corporation recognised tax credits receivable related to Québec resource tax credits ("QRTC"), QMD and SR&ED pertaining to the six months ended April 30, 2016 expenditures, amounting to $159,583.

The Corporation has recognized its investments held for trading on the balance sheet 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 April 30, 2016 the fair value of the investments held for trading was $1,000 resulting in an unrealized gain on investments held for trading of $350 compared to an unrealized loss on investments held for trading of $150 for the six-month period ended April 30, 2015.

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 2017 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").

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 for fiscal 2014.

On March 11, 2016, the Corporation completed a partial redemption of its Ekagrata Debentures in the amount of $158,000.

During fiscal 2016, the Corporation received $1,010,306 of refundable tax credits including $716,069 related to QRTC, $80,644 to QMD and $213,593 to SR&ED relating to fiscal years 2013 & 2014. Subsequent to the October 31, 2016 year end, the Corporation received an additional $1,963,455 of refundable tax credits including $31,498 related to QRTC and $1,931,957 to QMD relating to fiscal years 2013 to 2015.

On January 18, 2017, the Corporation entered into a Securities Purchase Agreement (the "Agreement") with an unrelated United States private equity special opportunity fund, pursuant to which the Corporation, issued a secured convertible debenture in a principal amount of $550,000 (the "2017 Debenture") and 550,000 common share purchase warrants.

The 2017 Debenture matures in one year and bears interest at a rate of 10% per annum, payable semi-annually in cash, and can be converted, at the holder's option, into common shares of the Corporation at a price of $0.16 per share. Each of the 550,000 common share purchase warrants entitles the holder to acquire one common share of the Corporation at a price of $0.18 for three years. The 2017 Debenture is secured by a first-ranking hypothec on all of Quest's assets, present and future, corporeal and incorporeal. The proceeds of the 2017 Debenture, were, in part, used to redeem in full, the remaining balance of the Ekagrata debenture and all accrued interest owing, amounting to $385,420 and $78,524 respectively.

On February 22, 2017, the Corporation issued 8,100,000 Special Warrants ("Special Warrants) at a price of $0.20 per Special Warrant, for total proceeds of $1,620,000, pursuant to a private placement.

On March 30, 2017 each of the Special Warrants was exchanged, for no additional consideration, for one Quest common share and one common share purchase warrant ("Warrant") of the Corporation. Each of the Warrants entitles its holder to purchase one common share at a price of $0.275 for a period of three years from the closing date of the private placement.

The Corporation filed a prospectus on March 23, 2017 in those provinces in which Special Warrants were sold in order to qualify for distribution the Shares and Warrants issuable upon the exchange of the Special Warrants. The Special Warrants were deemed to be exercised without payment of additional consideration or further action on the third business day following the day upon which the Corporation obtained a receipt for the final prospectus.

On June 5, 2017 the Corporation announced that it will apply for listing on the TSX Venture Exchange ("TSX-V") and for voluntary delisting from the Toronto Stock Exchange ("TSX"). Quest expects that the transition from the TSX to the TSX-V will be completed within the next 60 days in a seamless manner, in accordance with the streamlined listing procedures of the TSX-V for companies transferring from the TSX.

Six-month period ended April 30, 2017 compared with the six-month period ended April 30, 2016

As at April 30, 2017, the Corporation had a total of $263,840 in cash and cash equivalents compared to $37,889 in cash and cash equivalents and investments held-to-maturity as at April 30, 2016 and $1,850 (2016 - $1,000) 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.

During the six-month periods ended April 30, 2017 and 2016, 100,000 (2016 – nil) stock options were exercised. No warrants had been exercised during the periods...

Six-month period ended April 30, 2016 compared with the six-month period ended April 30, 2015

As at April 30, 2016, the Corporation had a total of $37,889 in cash compared to $3,447,911 in cash as at April 30, 2015 and $1,000 (2015 - $800) 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.

During the six-month periods ended April 30, 2016 and 2015, no stock options or warrants had been exercised.

Outstanding Share Data

As at June 14, 2017, there were 94,629,011 common shares, stock options in respect of 6,541,000 common shares, 480,000 deferred share units, 275,000 restricted share units, 26,755,300 warrants outstanding and 405,000 broker compensation options.

Off-Balance Sheet Arrangements

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

Related Party Transactions

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

During the three and six-month periods ended April 30, 2017, the Corporation incurred fees to a law firm in which a director of the Corporation is a partner. For the three-month period ended April 30, 2017, the total amount for such services provided was $94,775, of which $19,100 was recorded in professional fees, $11,119 was recorded in issue costs and $64,556 to investor relations [2016 – $8,721, nil, and $8,866 respectively]. For the six-month period ended April 30, 2017, the total amount for such services provided was $209,489, of which $27,304 was recorded in professional fees, $169,068 was recorded in issue costs and $13,117 was recorded in investor relations [2016 – $42,272, nil, and $8,866 respectively]. As at April 30, 2017, an amount of $390,001 [October 31, 2016 – $193,093] owing to these law firms was included in accounts payable and accrued liabilities in respect of these fees.

During the three and six-month periods ended April 30, 2017, the Corporation incurred fees to a private investment firm of which a director of the Corporation has a related party association. For the three and six-month periods ended April 30, 2017, the total amounts for such services provided was $12,581 and $42,581 respectively, which were recorded in professional fees [2016 – $30,000 and $60,000 respectively]. As at April 30, 2017, an amount of $186,481 [October 31, 2016 – $143,900] owing to this firm was included in accounts payable and accrued liabilities in respect of these fees.

During the three and six-month periods ended April 30, 2017, 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 three-month period ended April 30, 2017, the total amount for such services provided was $84,500, of which $12,500 was recorded in directors fees and $72,000 was recorded in exploration and evaluation expenditures [2016 – $12,500 and $72,000 respectively]. For the six-month period ended April 30, 2017, the total amount for such services provided was $161,000, of which $25,000 was recorded in directors fees and $136,000 was recorded in exploration and evaluation expenditures [[2016 – $25,000 and $147,016 respectively]. As at April 30, 2017, an amount of $346,441 [October 31, 2016 – $233,125] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the three and six-month periods ended April 30, 2017 and 2016, the Corporation recorded the following compensation for key management personnel and the Board of Directors.

	Three-month period ended April 30		Six-month period ended April 30	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries and employee benefits	**51,937**	76,044	**127,574**	150,730
Directors' fees	**41,250**	48,750	**88,750**	97,500
Stock compensation	**731**	2,881	**2,191**	47,221
Total	**93,918**	127,675	**218,515**	295,451

Financial Instruments

The Corporation is not exposed to any significant credit risk as at April 30, 2017. 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 April 30, 2017 for Canadian and U.S. funds were 0.75% [October 31, 2016 – 0.75%] and 0.05% [October 31, 2016 – 0.05%], respectively.

The Corporation's objectives when managing capital are to safeguard its ability to continue its operations as well as its exploration programs. As such, the Corporation has primarily relied on the Loan Facility and the equity markets to fund its activities. In order to carry out planned exploration and to pay for administrative costs, the Corporation will spend its existing working capital and is attempting to raise additional funds as needed. The Corporation does not use term debt financing (with the exception of Convertible Debentures) and has not paid any dividends. As well, the Corporation does not have any externally imposed capital requirements, either regulatory or contractual.

Critical Accounting Judgments and Estimates

As detailed in note 2 of the audited financial statements for the year ended October 31, 2016, 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 and government grants – Judgment

The Corporation is entitled to refundable tax credits, mining duties credits and government grants on qualified exploration and evaluation expenditures incurred in the province of Québec. Management judgment is applied in determining whether the mine property expenses are eligible for claiming such credits and government grants and that all conditions have been or will be complied with. Those benefits are recognized when the Corporation estimates that it has reasonable assurance that the tax credits will be realized or grants have been earned and all conditions will be complied with.

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.

Valuation of the debt and equity components of convertible debentures – Estimate

The 2017 Convertible Debenture was determined to comprise two separate financial instruments, the first being a compound financial instrument comprising a host debt component and a residual equity component representing the conversion feature, and the second related to the common share purchase warrants that were issued along with the 2017 Debentures. On initial recognition, the combined fair value of these two financial instruments was estimated and used to prorate the principal amount of the 2017 Debentures between the two. The fair value of the host or liability component of the convertible debenture was estimated by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows that do not have an associated share purchase warrants and conversion option. The fair values of the equity component representing the conversion feature of the first financial instrument and also of the warrants comprising the second financial instrument were determined based on the Black-Scholes option pricing model. Where the prorated value of the compound financial instrument comprising the host debt component and the equity conversion feature was less than the estimated fair value of the host debt component itself, then the fair value assigned to the equity conversion feature was reduced to zero and the prorated value of the compound financial instrument was allocated entirely to the host debt component.

Changes in Significant Accounting Policies

The Corporation’s significant accounting policies are disclosed under notes 2 and 3 to the financial statements for the year ended October 31, 2016. There have been no changes in the Corporation’s significant accounting policies during the six-month period ended April 30, 2017.

Recent Accounting Pronouncements

The Corporation adopted the following new standard in preparing these condensed interim financial statements:

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the Management Discussion and Analysis). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively and was effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not have an impact on the Company’s interim condensed consolidated 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.

The Corporation's current committed cash resources are insufficient to cover expected expenditures in fiscal 2017 and its planned Bankable Feasibility Study on Strange Lake. The Corporation's ability to continue as a going concern (refer to Going Concern Uncertainty) 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 2017 Annual Information Form and Short Form Prospectus dated March 23, 2017 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 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, 2016. 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, 2016 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, 2016 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, 2016.

There have been no changes in the Corporation's design of internal controls over financial reporting during the six-month period ended April 30, 2017 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.