THE MAKING OF A UNIQUE INVESTMENT OPPORTUNITY

Remarks of

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Chairman of the Board

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Annual General Meeting of Shareholders

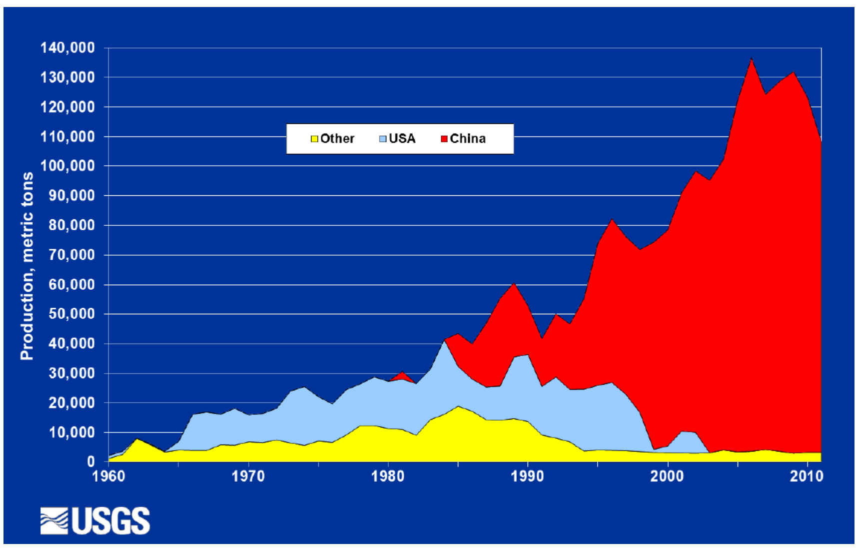
A few days ago, on April 22nd, 2016, a momentous step was taken in New York when the leaders of 175 countries gathered at the United Nations to sign the Paris climate agreement.

To keep the promises they have made to reduce emissions of greenhouse gases (GHGs), there must be a deep and structural transformation of the world's energy systems through the adoption of new technologies to reduce GHG emissions, especially in the transportation and power generation sectors.

The increased use of lower emission technologies to achieve the GHG emissions reduction targets will lead to a change in supply chains because they require different raw materials. Large windmills, for example, require rare earth elements such as neodymium, dysprosium and praseodymium. Securing the raw materials necessary for a green economy, including rare earth elements, poses a new and difficult set of challenges for industrial economies.

The first issue is the fact that, today, China accounts for more than 90 percent of rare earth elements production.

FIGURE 1: GLOBAL RARE EARTH OXIDE PRODUCTION



History has taught us that securing supply lines for critical materials is a geopolitical imperative that no country can ignore. The risks related to China's supply monopoly are further aggravated by two major factors.

A major concern pertains to the long term availability of critical rare earth elements in sufficient quantities. Despite its dominant supplier position, China's reserves are estimated at about 30 percent of world exploitable reserves. This means that China is rapidly depleting its economically accessible rare earth reserves. Moreover, China has used its abundance in rare earths to establish large and competitive industries that make extensive use of these elements. As a result, not only is China keeping for its own use an increasing proportion of its rare earths production (about 70 percent of China's production is retained for domestic industry), but it has begun importing critical elements that are in high demand for which its domestic production is insufficient. This was confirmed by Lynas that reported having sold significant volumes of rare earth oxides at fair prices in China in recent months.

Supply disruption resulting from non-geological factors such as geopolitics or resource nationalism, constitutes another major concern. Many senior business, defense and political leaders are convinced that China will have no compunction about imposing export restrictions as a means to achieve its geopolitical objectives. Even though Beijing abolished export quotas in 2015 after the World Trade Organization ruled China had failed to show justification for them, the risks of future disruptions caused by government fiat have not evaporated. A case in point is the British Geological Survey which ranked heavy and light rare earths at the top of its 2015 Risk List. These are not vacuous concerns; the emphasis on diversity of supply provides a strong case for the need to ensure supply of primary resources in stable and reliable jurisdictions and, hence, their development.

Rare earth metals are critical to hundreds of high tech applications, many of which define our modern way of life. Without rare earth elements, much of the world's modern technology would be vastly different and many applications would not be possible. For one thing, without the use of rare earth elements, we would not have the advantage of smaller sized technology, such as the cell phone and laptop computers. These metals are also key to the emergence of *green* technology such as high-efficiency fluorescent and solid-state lighting, new generation of wind powered turbines and plug-in hybrid and electric vehicles. Toyota, for example, uses an estimated 7500 tons of lanthanum and 1000 tons of neodymium per year to build its Prius cars. Some rare earth elements also have many other important civil and military applications because of their ability to withstand high temperatures and corrosion resistance and their magnetic strength which allows for extraordinary miniaturization of components.

FIGURE 2: THE UBIQUITOUS USE OF RARE EARTH ELEMENTS

Heavy Rare Earths (less abundant)	Major End Use	Light Rare Earths (more abundant)	Major End Use
Terbium	Phosphors, permanent magnets	**Praseodymium**	Magnets
Dysprosium	Permanent magnets, hybrid engines	**Neodymium**	Auto catalyst, petroleum refining, hard drives in laptops, headphones, hybrid engines
Erbium	Phosphors, fiber optics, green color	**Samarium**	Magnets
Yttrium	Red color, fluorescent, lamps, ceramics, metal alloy agent	**Europium**	Red color for television and computer screens
Holmium	Glass coloring, lasers	**Lanthanum**	Hybrid engines, metal alloys
Thulium	Medical x-ray units	**Cerium**	Auto catalyst, petroleum refining, metal alloys
Lutetium	Catalysts in petroleum refining		
Ytterbium	Lasers, steel alloys		
Gadolinium	Magnets, MRIs		

These concerns for the security of supply have far-reaching consequences. It is widely believed that there are many innovations based on rare earths, such as the use of gadolinium to reduce energy consumption in refrigeration and air-conditioning, waiting to be brought to market due to concerns about security of supply. The New York Times reported that "uncertain supply, have led companies to abandon promising technologies" giving as example General Electric's shift from using technologies requiring rare earths in its windmills.[1]

The second structural issue was handed down by Mother Nature. She showed no concern for the specific geological composition of the minerals bearing rare earth elements around the world nor for the end-use demand and relative economic value of the rare earth elements in their distribution within deposits. Worldwide, deposits contain a much larger proportion of light rare earth elements whereas, because of their thermal stability and magnetic properties, the elements in fast rising demand are the less abundant heavy rare earth elements.

FIGURE 3: NON-CHINESE RARE EARTH OXIDES PRODUCTION

REE	Quest Canada	Lynas Target	Molycorp Mountain Pass Target
Dysprosium (Dy)	413	167	10
Terbium (Tb)	93	39	12
Erbium (Er)	267	52	4
Thulium (Tm)	39	6	4
Ytterbium (Yb)	227	23	4
Lutetium (Lu)	31	2	2
Gadolinium (Gd)	284	339	40
Holmium (Ho)	89	24	4
Europium (Eu)	46	143	20
Yttrium (Y)	3 298	652	20
	4 786	1 447	120
Neodymium (Nd)	1 259	3 962	2 400
Praseodymium (Pr)	365	1 090	860
Lanthanum (La)	1 538	5 363	6 640
Cerium (Ce)	3 397	9 562	9 820
Samarium (Sm)	298	580	160
	6858	20557	19880
Total REE:	**11 643**	**22 004**	**20 000**

These natural characteristics of rare earth deposits have profound economic and business consequences. Since all rare earth elements are present together but in varying proportion in the minerals, it is not possible to tailor production to those elements which are in high demand at a point in time.

Let's take the case of Molycorp and assume that an end-user needs a guaranteed supply of 200 MT of dysprosium per annum. Given the combination of rare earth elements at its Mountain Pass deposit, Molycorp would have had to multiply its annual production by a factor of 20. But in doing so, lanthanum and cerium annual production would have increased to 133,000 MT and 197,000 MT respectively, flooding the market for these elements that are already in surplus. Obviously, Molycorp's production facilities were not designed to accommodate a twenty-fold increase in total production. Lynas may be able to stretch its process to produce just enough dysprosium to satisfy such an order but commercially, part of its production is already

1 David S. Abraham, *The Next Resource Shortage*, The New York Times, 20 November 2015.

committed to the Japanese firms that have financed its facilities to loosen their dependence on Chinese suppliers.[2]

This hypothetical case illustrates the challenges facing the vast majority of rare earth oxide producers, including Chinese producers. Now, contrast Lynas and Molycorp's situations with that of Quest.

Because of its very favorable mix of valuable rare earth elements, Quest could meet the needs of two customers who require 200 MT of dysprosium annually, with additional quantities to spare. The case holds true for all the other heavy rare earth elements which are by far the most valuable. Incidentally, those are the elements where China is much less endowed.

Although rare earths are vital for the technologies that define modern economies, it is the magnetic group of these elements that is the primary driver for the market at present and likely in the future. These rare earths are used in the production of the most powerful permanent magnets found in wind turbines, electric vehicles, mobile phones and a wide spectrum of similar technologies. The growth in these sectors pushes the demand which from three to four percent a year in the past is expected to increase to 10-12 percent per annum. The magnetic group of rare earths makes up more than 80 percent of the total value of the world's primary production of rare earth oxides despite only accounting for less than a quarter of total output. Because of its favorable mix of heavy rare earth elements, Quest will be particularly well positioned to capture a reasonable share of the fast growing magnet market and reap the financial benefits that accrue.

FIGURE 4: GLOBAL DEMAND FOR RARE EARTHS IN PERMANENT MAGNETS

Global Demand for Rare Earths in Permanent Magnets

REO (MT)	2015	2020	2025	Quest average annual production
Dysprosium	1,300	2,200	4,600	413
Neodymium	24,000	38,000	80,000	1,259
Praseodymium	8,000	13,000	27,000	365
Terbium	100	200	350	93
Gadolinium	700	1,100	2,300	284
Samarium	1,000	1,700	3,500	298
Total Demand	**35,000**	**56,200**	**117,750**	**2,712**

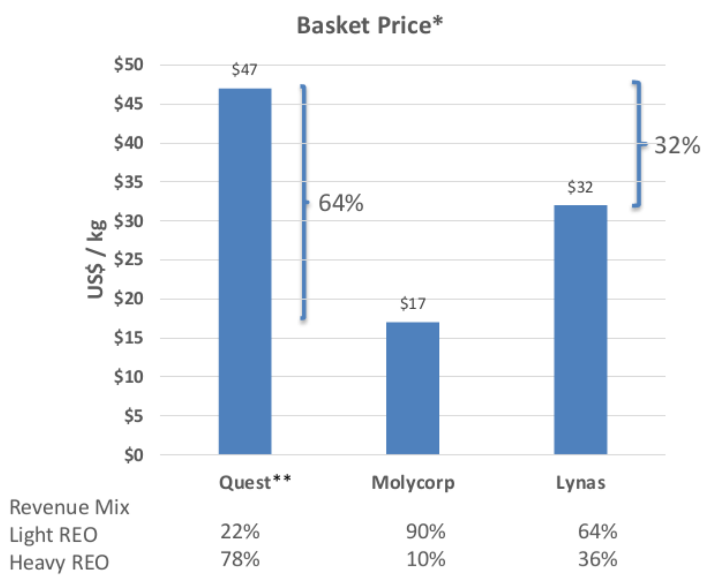
Current Chinese suppliers will not be able to meet this demand

The high concentration of critical rare earth elements in our Strange Lake deposit has significant financial implications. Molycorp's bankruptcy and Lynas difficulties have cast a pale on the whole non-Chinese rare earth development and production sector. Lost in the scramble is the fact that Quest's business is measurably different from that of Molycorp and Lynas. On the

2 Lyna's financing agreement with Sojitz and JOGMEC provided that they would receive the allocation of a minimum of 8500 tonnes (± 500 tonnes) per annum of rare earth products for Japan over ten years. This volume represents about 40 percent of Lynas target production and 30 percent of the current Japanese market.

revenue dimension, the higher concentration of heavy rare earth elements means that Quest will be able to fetch a much better price for its production under all reasonable market projections.

FIGURE 5: SOLID ECONOMICS



* Basket price = Weighted average projected output and 2020 – 2025 projected prices
** Mixed REO excludes Ce, La and Y

Since the cost of extraction of the rare earth elements from the host mineral is the same for all elements, irrespective of their atomic number, Quest will generate much stronger margins. Moreover, the eco-friendly Selective Thermal Sulphating (STS) process developed by Quest is particularly efficient. During a recent meeting with senior executives at a large Japanese rare earths end-user, the executive responsible for procurement indicated that Quest's cost of production was competitive with that of Chinese producers, a message that was repeated to us by other Japanese and Korean companies in the know.

FIGURE 6: QUEST OPERATING COSTS TO PRODUCE MIXED REO

Process Steps	Cost US$/kg of REO	%
Mining	$1.90	11
Beneficiation	$2.70	15
Transport & Logistics*	$3.90	22
Selective Thermal Sulphation & Leach	$2.50	14
Processing of extracted REE	$4.90	28
G&A	$1.80	10
Total Cash Operating Costs	$17.70	100%

* includes cost of recycled fluorescent lamp material
Can$ to US$ exchange rate of $1.15

Finally, both Quest and its major customers will be able to plan over a long time horizon. The Strange Lake deposit is not only the world's largest surface hard rock deposit of critical rare earth elements, but at the current planned rate of production, the recoverable rare earths is expected to last 100 years, and this is without taking into account the adjacent Alterra property which is now wholly-owned by Quest.

FIGURE 7: A WORLD CLASS AT SURFACE DEPOSIT OF HEAVY RARE EARTH ELEMENTS

Domain	Tonnes	LREO (Recoverable)	HREO+Y (Recoverable)	TREO+Y (Recoverable)	HREO+Y: TREO+Y
	(x1000T)	(x1000T)	(x1000T)	(x1000T)	Ratio
Indicated					
Enriched Zone	20,020	92	69	161	43%
Granite	258,108	909	407	1,315	31%
Total	278,128	1,001	475	1,477	32%
Inferred					
Granite	214,351	755	307	1,062	29%

>100 yrs

Before producing individual rare earth oxides, the rare earth elements need to be 'extracted' from the mineral that hosts them. Since every ore deposit is unique, the chemical process to produce a concentrated mixed rare earth oxide is also unique. Depending on the nature of the host mineral, the rare earth mixture will have a high propensity to turn into a viscous blob, making the extraction of rare earth elements very difficult, if not impossible. For example, this is the case with eudialyte[3]. We remain astounded to find in discussions with individuals that should know better that the particularities of rare earth minerals are generally ignored. The facts are that the process to extract the rare earth elements from the host mineral and produce a very high purity mixed rare earth oxide is unique to each ore deposit type and that deep chemical and metallurgical engineering knowledge is required to develop and master the processes. The command of the extraction process is precisely a key advantage for Quest.

FIGURE 8: HIGH PURITY MIXED RARE EARTH OXIDE

Analyte	Unit	Bench scale testing result (SGS COX2 Calcine)	Mass balance projection	Non-China Spec Maximum Allowable
Th	ppm	5.4	2.4	11.0
U0x	ppm	140.2	3.6	3.8
Al	ppm	53.8	1.0	500.0
Fe	ppm	71.0	0.3	1,000.0
Mg	%	0.006%	0.000%	0.6%
Ca	%	0.145%	0.011%	1.0%
Na	%	0.008%	0.002%	1.0%
F	ppm	101.58	367.28	1,000.0
Zn	ppm	711.06	0.00	50.0
TREO	%	98.4%	99.7%	NA

3 Eudialyte is a sodium-rich zirconsilicate with rather exotic chemistry found in a number of alkaline igneous complexes worldwide. Rare-earth-enriched eudialyte deposits are found in the Kipawa complex in Temiscamingue (Quebec).

Compared to alternative technologies, Quest's proprietary industrial process for the production of a high purity mixed rare earth oxide is efficient and eco-friendly. Our Selective Thermal Sulphating (STS) process[4] is:

- much simpler;
- requires fewer reagents and lower reagent dosages;
- separates rare earth elements from major contaminants (i.e. Fe, Al, Nb, Th, Ti, U and Zr);
- minimizes process effluent and produces smaller quantities of a more inert residue;
- allows for the bulk separation of low value and abundant cerium, lanthanum and yttrium from leached solution;
- entails lower capital and operating costs.

Our confidence in the superiority of our STS extraction process is supported by several strong external validations.

First, comprehensive bench scale testing conducted at Hazen Research (Colorado), at the Process Research Ortech (Ontario), at the TOMRA Laboratories, with the support of the Helmholtz Institute for Resource Technology (Freiburg, Germany), at RPC (Fredericton, New Brunswick), and by SGS Mineral Services (Lakefield), all confirmed the performance characteristics of the STS process and that the recovery of the rare earth elements at a high purity level suitable for separation plant feed (i.e. a minimum of 98 percent purity) is maximized.

Second, after conducting a rigorous due diligence of the scientific basis and evidence applicable to the STS process and the results of the bench scale testing of the beneficiation, thermal sulphation and solution treatment, the Canada Foundation for Sustainable Development Technology awarded Quest a $5 million grant to conduct the piloting of the process at industrial scale.

Third, Outotec, the premier organization worldwide in the design, construction and operation of sulfuric acid plants agreed, subsequent to a comprehensive review of our STS process and the bench test data, to carry an industrial scale pilot.[5] Outotec will carry-on the full sulphation processing of 20 tons of flotation concentrate at a facility in Frankfurt (Germany).[6]

The objectives of the industrial scale pilot are threefold:

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4 Patent pending.

5 Outotec, a Finnish company with headquarters in Espoo, is a global leader in minerals and metals processing technology. It is the leading sulfuric acid plant designer with more than 650 plants installed worldwide, accounting over one-third of the current entire global sulfuric acid capacity.

6 The piloting includes : (i) mixing of flotation concentrate with sulphuric acid; (ii) first stage sulphation of metals in concentrate; (iii) recovery of excess sulphuric acid; (iv) second stage selective decomposition of base metal sulphates; (v) recovery of sulphur oxides; and (iv) leaching of rare earth salts in water.

1) Demonstrate rigorously that Quest's process to produce a high purity mixed rare earth oxide is cost efficient at industrial scale.

2) Obtain precise parameters for the design of the industrial facilities we plan to build in Bécancour (Québec).

3) Produce sufficient quantities of high purity mixed rare earth oxides to allow Quest to engage into contractual discussions with large industrial firms in the business of separating mixed rare earth oxides into individual rare earth oxides.

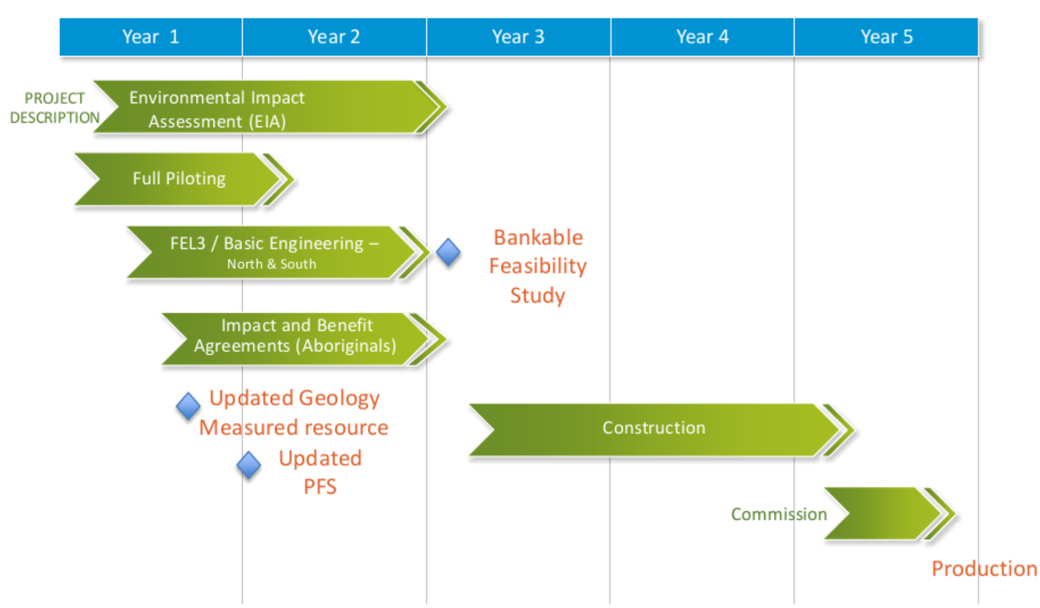
THE YEAR 2015 IN REVIEW

Capital markets have not been friendly to resource development projects in 2015. Confronted with this situation, your Board has made the decision to focus our financing efforts towards industrial groups with the wherewithal to see the project to completion and the foresight to understand the strategic importance of rare earths in the new economy. To date, such discussions are unfolding with three different industrial groups; none are Canadians!

Although it would be preposterous for us to suggest odds as to the likelihood that these strategic investment negotiations will be successful and the timing of any decision, we are encouraged by the seriousness they apply to the analysis and the seniority of the people involved in assessing the fit of a major investment in Quest's project with the strategic objectives pursued by their corporation.

The financial constraints that have applied throughout the year had practical consequences. Most importantly, they have prevented Quest from advancing the engineering design required to complete the bankable feasibility study. These delays mean that completion of the Quest project and the production date for high purity mixed rare earth oxide is postponed to 2020/2021 (one year late).

FIGURE 9: QUEST'S PROJECT SCHEDULE



This is not to say that no progress was accomplished in 2015. On the contrary. The environmental impact assessments (EIA) are critical to any major project since they hold the key to permitting. Quest has submitted the mandatory project descriptions to all levels of government concerned with one or the other part of the project. As a result:

- The EIA process for the mine/concentrator site is moving forward with full engagement of the Kativik, Québec and Canadian governments, in accordance with the James Bay Treaty.

- The Newfoundland & Labrador government has committed to a joint/harmonized process with the Nunatsiavut and Canadian governments.

- There are no particular issue for industrial/processing facilities in Bécancour.

Once the EIA process is engaged, the Canadian and Quebec governments are bound to proceed in accordance with the fixed schedule embodied in the legislation. To build support and positive momentum for the project, we have maintained extensive consultations with all governments and Aboriginal groups, a policy we are committed to pursue in the months and years ahead

Much progress was equally accomplished with respect to the ore concentration and metallurgical processes. The mini plant test work was completed, the process criteria for beneficiation were finalized and the flowsheet for sulphation and acid recovery was defined. We have moved 100 tons of ore to COREM in Quebec City. Physical ore sorting was completed by TOMRA in Germany, providing additional information for cost savings and environmental benefits. As indicated earlier, Outotec has initiated the industrial scale pilot test in Germany that will use 20 tons of flotation concentrate.

A STRATEGIC INVESTMENT FOR A *GREEN* ECONOMY

Manufacturers have increasingly higher environmental expectations across the supply chain, with supplier's environmental commitments and performance subject to external audits. These new environmental requirements have been incorporated into Quest's project design:

- 87 percent of mined material remains in the North, only 13 percent is transported to Bécancour. Rejected material will be mixed with cement to form relatively inert dry material. There will be no tailings ponds.

- Optimal water/heat recovery, appropriate for northern conditions.

- Wind power at the mine site.

- Closed loop recovery and recycling of sulphuric acid in the production of mixed rare earth oxide.

- Processing located at a designated industrial park in Bécancour: simple process with minimal waste streams (dry stacked, no tailings pond).

We have gone one step further: in North America, the disposal of fluorescent bulbs creates a major environmental problem for landfills. Quest will provide a solution to this problem. Its STS process is designed to recover rare earths from the phosphor powder contained in fluorescent bulbs, thus creating the first such recycling facility in North America.

We proceed in this way not only because it is the right thing to do, but also because the approach will offer superior performance and financial results. In time, we expect "green" investors to be influenced by such an investment opportunity and join other Quest shareholders in supporting a globally important 'green' technologies enabler.

As we move forward, one would hope that Canadian policy makers at the federal and provincial levels will see the strategic importance of a strong rare earths industry in Canada. Let there be no hesitation: GHG reduction targets cannot be met without the deployment of new '*green*' technologies which, in turn, depend on rare earths for their performance. Because of proximity, ease of access to the material and the strengthening of scientific and engineering capabilities it entails, the development of our rare earth resources offers a unique opportunity for the development of an industrial sector and eco-scientific and engineering system geared to the future. In the United States, there exists strong evidence that U.S. innovation of rare earth magnets dropped when the U.S. rare earth industries moved to China while a marked increase in expertise and innovations is observed in China.

A good illustration of the industrial impact of a buoyant domestic rare earth production sector is given by the evolution of global wind power generation technology. Direct drive generators using permanent magnets (i.e. rare earth magnets) deliver lower noise, lower weight (and capital cost), greater reliability and much lower maintenance cost than the standard gear-box generator systems. Of the top ten largest generators (i.e. 6 to 8 MW), eight use the permanent magnet technology. Interestingly, cumulatively through 2015, over 40 percent of China wind power installations are of the permanent magnet type. By comparison, less than 1 percent of generators in North America and the United Kingdom use permanent magnet generators; the percentage is only slightly higher in Europe. Not surprisingly, China is now the dominant player. Given Canada's (and Québec's) endowment in rare earth minerals, and the concentration of material science professionals in Montreal universities and research centers, there is no reason we cannot carve a strong industrial position in this burgeoning sector.

CONCLUSION

Despite strong headwinds, Quest has made progress in 2015 towards achieving its objective. This is due in large part to the leadership of our President, Dr. Dirk Naumann, and the dedication of all members of the team. We are also very fortunate to have the support of our Advisor, Mr. Robert Fung, who spent countless hours helping Quest engage in strategic investment discussions with industrial groups. I would be remiss if I did not express my sincere thanks, and that of the team, to our Directors, individually and as a group, for their unconditional support throughout the year.