

Condensed Interim Financial Statements

Quest Rare Minerals Ltd.

(An Exploration & Development Stage Corporation)

For the three and nine-month periods ended July 31, 2016

(Unaudited)

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NOTICE TO READER

Management has compiled the unaudited condensed interim financial statements of Quest Rare Minerals Ltd. as at July 31, 2016 and for the three and nine-month periods then ended. These condensed interim financial statements have not been audited or reviewed by the Corporation's independent auditors.

Quest Rare Minerals Ltd.

**INTERIM STATEMENTS
OF FINANCIAL POSITION
(UNAUDITED)**

	July 31, 2016	October 31, 2015
	<u>\$</u>	<u>\$</u>
ASSETS		
Current assets		
Cash <i>[notes 1 and 13]</i>	1,043,003	208,925
Investments <i>[note 13]</i>	800	650
Prepaid expenses and deposits	278,074	294,187
Commodity taxes and other receivables	52,515	189,971
Tax credits receivable	685,669	685,320
	<u>2,060,061</u>	<u>1,379,053</u>
Non-current assets		
Tax credits receivable	961,000	1,812,500
Other non-current assets <i>[note 7]</i>	650,254	441,655
Government grant receivable <i>[note 9]</i>	54,994	—
Total assets	<u>3,726,309</u>	<u>3,633,208</u>
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities <i>[note 12]</i>	3,179,086	1,947,650
Loans payable <i>[note 8]</i>	110,526	—
Deferred Government grant <i>[note 9]</i>	518,857	—
Convertible debentures <i>[note 10]</i>	2,162,152	—
Total current liabilities	<u>5,970,621</u>	<u>1,947,650</u>
Non-Current liabilities		
Convertible debentures <i>[note 10]</i>	—	1,987,238
Total non-current liabilities	<u>—</u>	<u>1,987,238</u>
Deficiency		
Share capital <i>[note 11]</i>	81,740,738	81,543,188
Warrants <i>[note 11]</i>	927,890	927,890
Equity component of convertible debentures <i>[note 10]</i>	229,873	232,957
Contributed surplus <i>[note 11]</i>	21,771,691	21,808,066
Deficit	(106,914,504)	(104,813,781)
Total deficiency	<u>(2,244,312)</u>	<u>(301,680)</u>
Total deficiency and liabilities	<u>3,726,309</u>	<u>3,633,208</u>
Going concern uncertainty <i>[note 1]</i>		

See accompanying notes

Quest Rare Minerals Ltd.

**INTERIM STATEMENTS OF
COMPREHENSIVE LOSS
(UNAUDITED)**

	Three months ended July 31		Nine months ended July 31	
	2016	2015 Restated - see Note 3	2016	2015 Restated - see Note 3
	\$	\$	\$	\$
REVENUES	—	—	—	—
EXPENSES				
Exploration and evaluation expenditures <i>[note 5]</i>	(94,142)	1,407,394	690,591	3,213,313
Administration expenses <i>[notes 6 and 12]</i>	147,658	436,342	594,125	1,616,676
Investor relations <i>[notes 6 and 12]</i>	40,010	120,385	135,968	448,674
Professional fees <i>[note 12]</i>	48,439	91,821	231,205	366,830
	141,965	2,055,942	1,651,889	5,645,493
Operating loss	(141,965)	(2,055,942)	(1,651,889)	(5,645,493)
Finance income	3,772	7,245	16,740	19,517
Finance expense <i>[notes 6, 8 and 10]</i>	(147,421)	(144,427)	(465,724)	(248,611)
Unrealized gain (loss) on investments held for trading <i>[note 13]</i>	(200)	50	150	(100)
	(143,849)	(137,132)	(448,834)	(229,194)
Net loss and comprehensive loss for the period	(285,814)	(2,193,074)	(2,100,723)	(5,874,687)
Net loss per share				
Basic and fully diluted	(0.00)	(0.03)	(0.02)	(0.07)
Weighted average number of outstanding shares				
Basic and fully diluted	86,429,011	83,496,509	85,894,575	80,402,066
Going concern uncertainty <i>[note 1]</i>				

See accompanying notes

Quest Rare Minerals Ltd.

**INTERIM STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)**

	Share capital		Warrants		Equity Component of Convertible Debentures	Contributed surplus	Deficit (Restated - see Note 3)	Total
	#	\$	#	\$	\$	\$	\$	\$
Balance – November 1, 2014	78,829,196	80,935,251	11,531,485	601,543	—	21,530,007	(97,501,420)	5,565,381
Issuance of shares and warrants <i>[note 11]</i>	4,579,815	356,379	4,579,815	238,997	—	—	—	595,376
Issuance of convertible debentures <i>[note 10]</i>	—	—	2,500,000	201,379	272,689	—	—	474,068
Expiry of warrants <i>[note 11]</i>	—	—	(506,000)	(72,286)	—	72,286	—	—
Share issue costs <i>[note 11]</i>	—	(18,492)	—	(12,400)	—	—	—	(30,892)
Convertible debenture issue costs <i>[note 10]</i>	—	—	—	(29,343)	(39,732)	—	—	(69,075)
Settlement of DSUs <i>[note 11]</i>	125,000	113,750	—	—	—	(113,750)	—	—
Stock-based compensation <i>[note 11]</i>	—	—	—	—	—	312,130	—	312,130
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(5,874,687)	(5,874,687)
Balance – July 31, 2015	83,534,011	81,386,888	18,105,300	927,890	232,957	21,800,673	(103,376,107)	972,301
Balance – November 1, 2015	85,034,011	81,543,188	18,105,300	927,890	232,957	21,808,066	(104,813,781)	(301,680)
Issuance of shares <i>[note 11]</i>	1,000,000	60,000	—	—	—	—	—	60,000
Settlement of RSUs <i>[note 11]</i>	255,000	69,825	—	—	—	(69,825)	—	—
Settlement of DSUs <i>[note 11]</i>	140,000	67,725	—	—	—	(67,725)	—	—
Redemption of convertible debentures <i>[note 10]</i>	—	—	—	—	(3,084)	—	—	(3,084)
Stock-based compensation <i>[note 11]</i>	—	—	—	—	—	101,175	—	101,175
Net loss and comprehensive loss for the quarter	—	—	—	—	—	—	(2,100,723)	(2,100,723)
Balance – July 31, 2016	86,429,011	81,740,738	18,105,300	927,890	229,873	21,771,691	(106,914,504)	(2,244,312)

Going concern uncertainty *[note 1]*

See accompanying notes

Quest Rare Minerals Ltd.

**INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Nine-months ended July 31	
	2016	2015
		Restated - see Note 3
	\$	\$
OPERATING ACTIVITIES		
Net loss	(2,100,723)	(5,874,687)
Items not impacting cash:		
Accretion of convertible debentures <i>[notes 6 and 10]</i>	309,653	153,974
Excess of redemption of convertible debentures <i>[notes 6 and 10]</i>	20,178	—
Unrealized (gain) loss on investments held for trading <i>[note 13]</i>	(150)	100
Stock-based compensation <i>[note 11]</i>	101,175	312,130
	(1,669,867)	(5,408,483)
Net change in non-cash working capital items	2,603,307	3,153,302
Net cash flows from operating activities	933,440	(2,255,181)
INVESTING ACTIVITIES		
Increase in non-current assets <i>[note 7]</i>	(10,650)	(59,550)
Net cash flows from investing activities	(10,650)	(59,550)
FINANCING ACTIVITIES		
Increase in loans payable <i>[note 8]</i>	105,000	—
Proceeds from issuance of shares and warrants <i>[note 11]</i>	60,000	595,376
Proceeds from issuance of convertible debentures <i>[note 10]</i>	—	2,500,000
Redemption of convertible debentures <i>[note 10]</i>	(158,000)	—
Share issue costs <i>[note 11]</i>	(3,712)	(30,892)
Convertible debenture issue costs <i>[note 10]</i>	—	(364,367)
(Decrease) increase in loan facility	—	(169,932)
Interest paid	(92,000)	(94,596)
Net cash flows from financing activities	(88,712)	2,435,589
Net (decrease) increase in cash	834,078	120,858
Cash, beginning of period	208,925	1,281,706
Cash, end of period	1,043,003	1,402,564

Going concern uncertainty *[note 1]*

See accompanying notes

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Quest Rare Minerals Ltd. [“Quest” or the “Parent”] was incorporated under the *Canada Business Corporations Act* on June 6, 2007. The registered office of Quest is located at 1155 University Street, Suite 906, Montreal, Québec, H3B 3A7. Quest is a publicly-listed Corporation and its shares are listed on the Toronto Stock Exchange under the symbol “QRM”.

Quest is a Canadian-based exploration and evaluation company which is focused on the development of its Strange Lake rare earth deposit in northeastern Québec as described in note 5 while at the same time planning the engineering and construction of a processing facility in Bécancour in southern Québec.

Going Concern Uncertainty

These condensed 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 Preliminary Economic Assessment (“PEA”) and future development activities in relation to its Strange Lake project look promising, there can be no assurance that the results of its planned Pre-feasibility study will confirm the existence of economically viable quantities of ore or that the project will ultimately go into production.

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY [Cont'd]

The Corporation reported a net loss and total comprehensive loss in the nine-months ended July 31, 2016 and the year ended October 31, 2015 of \$2,100,723 and \$7,312,361, respectively. As at July 31, 2016, the Corporation's current liabilities exceeded its current assets by \$3,910,560 [October 31, 2015 – \$568,597]. These recurring losses and the need for continued financing to further successful exploration and development activities indicate the existence of a material uncertainty that may cast significant doubt as to the Corporation's ability to continue as a going concern.

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

2. BASIS OF PREPARATION

Statement of Compliance

The condensed interim financial statements of the Corporation for the three and nine-months ended July 31, 2016 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these condensed interim financial statements as were followed in the preparation of the financial statements for the year ended October 31, 2015. 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, 2015 which have been prepared in accordance with IFRS.

The Board of Directors approved these condensed interim financial statements effective September 6, 2016.

3. CHANGE IN ACCOUNTING POLICY

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

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

3. CHANGE IN ACCOUNTING POLICY [Cont'd]

The Corporation has applied the change in accounting policy on a retrospective basis and has therefore restated its 2015 comparatives as follows:

Statement of Comprehensive Loss

For the three-month period ended July 31, 2015	Note	As previously Reported \$	Effect of Change \$	Restated \$
Revenues		—	—	—
Expenses				
Exploration and evaluation expenditures	(i)	—	1,407,394	1,407,394
Administration expenses		436,342	—	436,342
Investor relations		120,385	—	120,385
Professional fees		91,821	—	91,821
		<u>648,548</u>	<u>1,407,394</u>	<u>2,055,942</u>
Operating loss		(648,548)	(1,407,394)	(2,055,942)
Finance income		7,245	—	7,245
Finance expense		(144,427)	—	(144,427)
Unrealized loss on investments held for trading		50	—	50
		<u>(137,132)</u>	<u>—</u>	<u>(137,132)</u>
Net loss and comprehensive loss for the period		<u>(785,680)</u>	<u>(1,407,394)</u>	<u>(2,193,074)</u>
Net loss per share - basic and fully diluted		<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.03)</u>

(i) Expensing of exploration and evaluation expenditures as incurred, net of tax credits, with a corresponding offset to deficit.

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

3. CHANGE IN ACCOUNTING POLICY [Cont'd]

Statement of Comprehensive Loss

For the nine-month period ended July 31, 2015	Note	As previously Reported \$	Effect of Change \$	Restated \$
Revenues		—	—	—
Expenses				
Impairment of exploration and evaluation assets	(i)	13,740	(13,740)	—
Exploration and evaluation expenditures	(ii)	—	3,213,313	3,213,313
Administration expenses		1,616,676	—	1,616,676
Investor relations		448,674	—	448,674
Professional fees		366,830	—	366,830
		<u>2,445,920</u>	<u>3,199,573</u>	<u>5,645,493</u>
Operating loss		(2,445,920)	(3,199,573)	(5,645,493)
Finance income		19,517	—	19,517
Finance expense		(248,611)	—	(248,611)
Unrealized loss on investments held for trading		(100)	—	(100)
		<u>(229,194)</u>	<u>—</u>	<u>(229,194)</u>
Net loss and comprehensive loss for the period		<u>(2,675,114)</u>	<u>(3,199,573)</u>	<u>(5,874,687)</u>
Net loss per share - basic and fully diluted		<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.07)</u>

(i) Impairment of exploration and evaluation expenditures is reversed with a corresponding offset to deficit.

(ii) Expensing of exploration and evaluation expenditures as incurred, net of tax credits, with a corresponding offset to deficit.

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

3. CHANGE IN ACCOUNTING POLICY [Cont'd]

Statement of Cash Flows

For the nine-month period ended July 31, 2015	Note	As previously Reported \$	Effect of Change \$	Restated \$
OPERATING ACTIVITIES				
Net loss		(2,675,114)	(3,199,573)	(5,874,687)
Items not impacting cash:				
Accretion of convertible debentures	(i)	153,974	—	153,974
Impairment of exploration and evaluation assets	(i)	13,740	(13,740)	—
Unrealized loss on investments held for trading		100	—	100
Stock-based compensation	(ii)	292,770	19,360	312,130
		(2,214,530)	(3,193,953)	(5,408,483)
Net change in non-cash working capital items	(iii)	396,301	2,757,001	3,153,302
Net cash flows used in operating activities		(1,818,229)	(436,952)	(2,255,181)
INVESTING ACTIVITIES				
Investment in exploration and evaluation assets	(iii)	(3,543,892)	3,543,892	—
Government tax credits	(iii)	3,106,940	(3,106,940)	—
Increase in non-current assets		(59,550)	—	(59,550)
Net cash flows used in investing activities		(496,502)	436,952	(59,550)
FINANCING ACTIVITIES				
Proceeds from issuance of shares and warrants		595,376	—	595,376
Proceeds from issuance of convertible debentures		2,500,000	—	2,500,000
Share issue costs		(30,892)	—	(30,892)
Convertible debenture issue costs		(364,367)	—	(364,367)
(Decrease) in loan facility		(169,932)	—	(169,932)
Interest paid		(94,596)	—	(94,596)
Net cash flows from financing activities		2,435,589	—	2,435,589
Net increase in cash		120,858	—	120,858
Cash, beginning of period		1,281,706	—	1,281,706
Cash, end of period		1,402,564	—	1,402,564

- (i) Impairment of exploration and evaluation expenditures recognized in accounting period is reversed.
- (ii) Expensing of share-based payments qualifying as exploration and evaluation expenditures which were capitalized as exploration and evaluation assets in the statements of financial position under the previous accounting policy.
- (iii) As a result of the change in accounting policy, changes in accounts payable and accrued liabilities, exploration and evaluation expenditures and government tax credits are no longer investing activities and are now considered operating activities.

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

4. INCOME TAXES

A reconciliation of income tax charge applicable to accounting loss before income tax at the weighted average statutory income tax rate to income tax charge at the Corporation's effective income tax rate for the three and nine-month periods ended July 31 is as follows:

	Three-month period ended July 31		Nine-month period ended July 31	
	2016 \$	2015 \$	2016 \$	2015 \$
Loss before income tax	(285,814)	(2,193,074)	(2,100,723)	(5,874,687)
Income tax recovery at the combined Federal and Provincial tax rate 26.98% [2015– 26.68%]	(76,809)	(591,684)	(564,547)	(1,584,970)
Stock based compensation	1,651	3,622	27,190	84,212
Other non-deductible or non-taxable expenses	(82,267)	(50,522)	45,270	11,083
Changes in valuation allowance	157,425	638,584	492,087	1,489,675
Tax charge at effective income tax rate	—	—	—	—

The deferred tax asset and liability of the Corporation consist of the following:

	July 31, 2016 \$	October 31, 2015 \$
Future income tax assets		
Exploration and evaluation expenditures	15,513,041	15,308,139
Non-capital loss carry-forwards	6,162,194	5,823,045
Share issue costs	188,878	253,953
Investments	5,670	5,691
	21,869,783	21,390,828
Future income tax liabilities		
Convertible debentures	(73,617)	(86,749)
Net future income tax assets	21,796,166	21,304,079
Unrecognized deferred tax assets	(21,796,166)	(21,304,079)
Net future income tax liabilities	—	—

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

5. EXPLORATION AND EVALUATION EXPENDITURES

The following is a breakdown by project of the exploration and evaluation expenditures incurred, net of tax credits and government grants earned, for the nine-month period ended July 31:

	2016	2015
	\$	\$
Strange Lake (Québec)	683,945	3,180,214
Misery Lake (Québec)	—	12,218
Other projects (Canada)	—	1,521
Total exploration and evaluation expenditures before stock-based compensation	683,945	3,193,953
Stock-based compensation <i>[note 11[e]]</i>	6,646	19,360
Total expenditures incurred	690,591	3,213,313

Strange Lake Property, (Québec)

The Corporation's 100%-owned Strange Lake property is located adjacent to Lac Brisson situated within the George River belt located 220 km northeast of Schefferville, Québec and 125 km west of the Voisey's Bay Nickel-Copper-Cobalt Mine, and covers an area of approximately 9,367 hectares. The property is a rare earth mineralized zone and consists of 211 mining claims, all of which are in Québec.

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

5. EXPLORATION AND EVALUATION EXPENDITURES [Cont'd]

A breakdown of exploration and evaluation expenditures incurred on the Strange Lake project are set out below:

	Three-Month period ended July 31, 2016	Three-Month period ended July 31, 2015	Nine-Month period ended July 31, 2016	Nine-Month period ended July 31, 2015	From Inception
			\$	\$	\$
Acquisition costs	-	11,302	—	22,366	201,135
Geochemical Surveys	-	-	—	—	42,027
Geophysical Surveys	-	-	—	—	288,651
Geological Surveys	15,625	431	53,125	8,757	13,037,117
Drilling	9,375	4,651	28,125	32,114	15,095,042
Prospecting	-	-	—	718	264,174
Prefeasibility Studies	54,066	865,417	245,392	2,058,152	31,517,012
Feasibility Studies	-	-	—	—	5,110,525
Metallurgical Work	-	-	—	-	2,851,112
Environmental & Permitting	53,778	376,868	221,261	446,424	2,713,534
Project Management & Support	244,090	288,320	767,818	750,794	2,094,241
Other	-	(111)	—	117,601	2,425,206
Government Tax Credits	77,746	(148,000)	(81,837)	(256,712)	(14,175,325)
Government Grant <i>[note 9]</i>	(549,939)	-	(549,939)	—	(549,939)
Net expenditures incurred	(95,259)	1,398,878	683,945	3,180,214	60,914,512

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

6. EXPENSES BY NATURE

The following is a breakdown of the nature of expenses included in administration expenses, investor relations and finance expenses for the three and nine-month periods ended July 31:

	Three-month period ended July 31		Nine-month period ended July 31	
	2016	2015	2016	2015
Administration expenses:				
Office expenses:				
Salaries and other employee benefits	40,676	40,104	141,728	311,822
Directors' fees	57,500	61,250	180,000	145,372
Directors' and officers' insurance	11,264	26,226	54,885	77,889
Rent	14,203	22,578	42,592	110,977
Telephone and internet	3,925	3,679	13,063	20,709
Travel costs	3,000	3,580	22,021	12,482
IT services	4,765	4,883	18,716	18,246
Equipment lease/rental	2,673	—	7,951	—
Other office expenses	3,029	11,494	8,367	18,624
Bank charges	1,254	1,886	4,339	5,946
Foreign exchange loss	342	1,533	1,359	1,621
Stock-based compensation <i>[note 11[e]]</i>	5,027	4,909	94,529	292,770
Restructuring expenses:				
Separation and termination benefits	—	49,874	3,141	390,474
Other	—	204,346	1,434	209,744
Total	147,658	436,342	594,125	1,616,676

As at July 31, 2016 the restructuring expenditures incurred on separation and termination benefits and other that were unpaid and included in accounts payable and accrued liabilities amounted to \$115,594 and \$119,004 respectively [July 31, 2015 – \$172,706 and \$250,963].

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

6. EXPENSES BY NATURE [Cont'd]

	Three-month period ended July 31		Nine-month period ended July 31	
	2016	2015	2016	2015
Investor relations:				
Advertising	3,902	19,603	11,701	26,197
Conferences	—	—	—	13,618
Consulting services	—	—	—	20,983
Investor relations fees	3,825	31,956	10,500	132,276
Listing and stock transfer fees	7,421	18,907	46,564	91,523
Meetings	22,463	17,214	54,416	81,137
Printing and filing	2,140	8,463	3,536	21,949
Salaries and other employee benefits	—	—	—	6,202
Travel related costs	—	23,766	8,486	49,357
Other	259	476	765	5,432
Total	40,010	120,385	135,968	448,674
Finance expense:				
Interest on loan facility	—	—	—	27,281
Interest on loans payable <i>[note 8]</i>	2,334	—	5,526	—
Interest on convertible debentures <i>[note 10]</i>	41,322	44,110	130,368	67,315
Other interest	—	—	—	41
Accretion of convertible debentures <i>[note 10]</i>	103,765	100,317	309,652	153,974
Excess of redemption of convertible debentures <i>[note 10]</i>	—	—	20,178	—
Total	147,421	144,427	465,724	248,611

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

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7. OTHER NON-CURRENT ASSETS

A breakdown of other non-current assets as at July 31, 2016 and October 31, 2015 are as follows:

	July 31, 2016	October 31, 2015
	\$	\$
SPIP Agreement – lease payments	409,080	296,364
Fraenkel Agreement – option payments	241,174	145,291
Total	650,254	441,655

8. LOANS PAYABLE

On December 15, 2015, the Corporation entered into loan agreements with a number Directors, Officers or their related parties and others (collectively “the Lenders”) under which the Lenders agreed to loan to the Corporation a total of \$105,000 for the purposes of providing working capital. The loaned amounts are repayable at the earlier of receipt of certain commodity taxes receivables, future private placements, future government grants, or one year from the date of the loan and bear interest at a rate of 8.5% per annum, compounded monthly. The Corporation provided security to each Lender by way of a hypothec, in the amount 120% of the principal loan amount, over all input tax credits or input tax refunds, due from the Government of Québec, present or future, including those related to the nine-month period ended July 31, 2016.

During the nine-months ended July 31, 2016, interest expense pursuant to these loans amounted to \$5,526 [July 31, 2015 – nil] [note 6].

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

9. GOVERNMENT GRANT

On July 28, 2016, the Corporation entered into a Contribution Agreement (the “Agreement”) with Sustainable Development Technology Canada (“SDTC”). Under the terms of the agreement, SDTC will provide Quest with a grant to support Quest’s operation of a large pilot plant to produce mixed rare earth metal oxides. The grant is for a maximum of \$4,935,000 based on eligible expenditures, as defined under the Agreement.

Government grants are recognized where there is reasonable assurance that the grant will be received and all conditions will be complied with. As at July 31, 2016, all of the conditions under the Agreement were met or are expected to be met by the Corporation.

Since the grant relates to eligible expenditures, the amount is recognized as a reduction of the related expenditures in the interim statements of comprehensive loss when the related expenditures are incurred.

Grants received for which eligible expenditures are not incurred are deferred and recorded as deferred government grant on the interim balance sheets.

A breakdown of Government grant receivable representing the holdback amount and deferred government grant as at July 31, 2016 and October 31, 2015 and the respective changes during the nine-month period and the year then ended are summarized as follows:

	Nine-month period ended July 31, 2016	
	Government Grant Receivable	Deferred Government Grant
	\$	\$
Outstanding, beginning of period	—	—
Received during the period	—	(1,013,802)
Earned during the period [note 5]	54,994	494,945
Outstanding, end of period	54,994	(518,857)
Current	—	(518,857)
Non-current	54,994	—

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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10. CONVERTIBLE DEBENTURES

A breakdown of convertible debentures as at July 31, 2016 and October 31, 2015 are as follows:

	Host Debt Component \$	Common Share Purchase Warrants \$	Equity Component of Convertible debentures feature \$	Total \$
Balance, November 1, 2014	—	—	—	—
Debentures issued during the year	2,025,932	201,379	272,689	2,500,000
Issue costs	(295,192)	(29,343)	(39,732)	(364,267)
Accretion	256,498	—	—	256,498
Balance, October 31, 2015	1,987,238	172,036	232,957	2,392,231
Accretion	309,652	—	—	309,652
Redemptions during the period	(134,738)	—	(3,084)	(137,822)
Balance, July 31, 2016	2,162,152	172,036	229,873	2,564,061

On March 11, 2016, the Corporation completed a partial redemption of its convertible debenture portfolio in the amount of \$158,000. At the time of the redemption the corporation determined that the fair value of the equity component of convertible debenture feature redeemed amounted to \$3,084. The excess of redemption amount and the host debt and equity components were recorded in the statement of comprehensive loss as part of finance expenses [note 6].

11. SHARE CAPITAL

Authorized

Common

An unlimited number of no par value shares.

Preferred

An unlimited number of shares issuable in series, non-voting, conditions to be determined by the Board of Directors.

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

11. SHARE CAPITAL [Cont'd]

[a] Common shares

Issuances during the three and nine-month periods ended July 31, 2016

- [i] On January 20, 2016, the Corporation issued 255,000 common shares in relation to the exercise of 255,000 RSUs [note 11 [d]].
- [ii] On February 9, 2016, the Corporation completed a private placement with an individual investor by issuing 1,000,000 common shares at an exercise price of \$0.06 per share for gross proceeds of \$60,000.
- [iii] On April 25, 2016, the Corporation issued 140,000 common shares in relation to the exercise of 140,000 DSUs [note 11 [d]].

Issuances during the three and nine-month periods ended July 31, 2015

[iv] 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 of which \$356,379 was allocated to common shares and \$238,997 to warrants based on relative fair value. 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.

The fair value of the warrants was determined based on the Black-Scholes option pricing model using the weighted average assumptions as follows:

Risk-free interest rate	0.59%
Expected volatility	84%
Dividend yield	Nil
Expected life [in years]	4.0
Share Price	\$0.21
Fair value at grant date	\$0.14

In connection with this private placement, the Corporation incurred professional fees and expenses of \$30,692 which has been pro-rated between the share capital and warrants of \$18,372 and \$12,320 respectively.

[v] On May 21, 2015, and June 1, 2015 the Corporation issued 50,000 and 75,000 common shares respectively in relation to the exercise of 125,000 Deferred Share Units (refer note 11 [d]). The DSUs became exercisable on the resignation of two of the Directors on the Corporation.

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
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July 31, 2016

11. SHARE CAPITAL [Cont'd]

[b] Stock Options

The outstanding options, excluding broker options and units, as at July 31, 2016 and October 31, 2015 and the respective changes during the nine-month period and the year then ended are summarized as follows:

	Nine-month period ended July 31, 2016		Year ended October 31, 2015	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of period	5,301,000	2.42	4,167,499	3.31
Granted	1,920,000	0.07	1,736,000	0.18
Exercised	—	—	—	—
Expired/cancelled	(400,000)	(4.09)	(602,499)	(2.14)
Outstanding, end of period	6,821,000	1.66	5,301,000	2.42

The following options, excluding broker options and units, are outstanding and exercisable as at July 31, 2015:

Options outstanding					
Range of exercise price \$	Number outstanding #	Weighted average remaining contractual life (in years)	Weighted average exercise price \$	Number exercisable #	Weighted average exercise price \$
0.00 to 0.749	4,181,000	3.80	0.16	3,530,999	0.18
1.50 to 2.249	205,000	4.04	2.11	205,000	2.11
2.25 to 2.999	595,000	4.48	2.73	595,000	2.73
3.75 to 4.499	1,240,000	4.26	4.43	1,240,000	4.43
4.50 to 5.249	350,000	4.22	4.69	350,000	4.69
5.25 to 5.999	250,000	4.44	5.72	250,000	5.72
0.00 to 5.999	6,821,000	4.00	1.66	6,170,999	1.82

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
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July 31, 2016

11. SHARE CAPITAL [Cont'd]

No stock options were granted during the three month period ended July 31, 2016. The fair value of stock options granted during the nine-month period ended July 31, 2016 and 2015 were estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Nine-month period ended July 31	
	2016	2015
Risk-free interest rate	0.72%	0.87%
Forfeiture rate	6.44%	5.49%
Expected volatility	59%	78%
Dividend yield	Nil	Nil
Expected life [in years]	5.00	5.00
Fair value at grant date	\$0.05	\$0.10

[c] Warrants

The outstanding warrants as at July 31, 2016 and October 31, 2015 and the respective changes during the quarter and year then ended are summarized as follows:

	Nine-month period ended July 31, 2016		Year ended October 31, 2015	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Outstanding balance, beginning of year	18,105,300	0.30	11,531,485	0.42
Granted	—	—	7,079,815	0.15
Exercised	—	—	—	—
Expired	—	—	(506,000)	0.80
Outstanding balance, end of year	18,105,300	0.30	18,105,300	0.30

As at July 31, 2016, the warrants outstanding had a weighted average life of 1.64 years [October 31, 2015 – 2.39 years]. All warrants are exercisable.

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

11. SHARE CAPITAL [Cont'd]

[d] Restricted and Deferred Share Unit Plans

On March 9, 2012, the Board of Directors adopted the Restricted Share Unit ["RSU"] Plan and the Deferred Share Unit ["DSU"] Plan to complement the 2012 Stock Option Plan. Under these plans, RSUs may be granted to executives and key employees, and DSUs may be granted to directors and key executives, as part of their long-term compensation packages.

RSUs vest over the period of a "Performance Cycle", defined as the period from the date of grant of the unit to the end of the Corporation's second fiscal year after the fiscal year in which the unit was granted [a period of up to three years]. DSUs vest immediately, and DSU awards can be settled only when the holder ceases to be an employee of the Corporation.

RSUs and DSUs entitle the holder to receive a payout, at the Corporation's discretion in either: [i] common shares, on the basis of one common share per RSU or DSU vested in the holder's account or [ii] cash, based on the Corporation's share price at the relevant time. The value of the cash payout, if elected by the Corporation, is determined by multiplying the RSUs and DSUs vested at the payout date by the average closing price of the Corporation's shares over the last ten days prior to the payout date. DSU awards can be settled only when the holder ceases to be an employee of the Corporation.

Each of the RSU and DSU Plans provides that a maximum of 750,000 common shares can be issued thereunder. All RSUs and DSUs granted are classified as equity instruments in accordance with IFRS as their terms provide for settlement in either equity or cash at the sole discretion of the Corporation.

Quest Rare Minerals Ltd.

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

July 31, 2016

11. SHARE CAPITAL [Cont'd]

The outstanding RSUs and DSUs as at July 31, 2016 and October 31, 2015 and the respective changes during the nine-month period and year then ended are summarized as follows:

	Restricted Share Units			
	Nine-month period ended July 31, 2016		Year ended October 31, 2015	
	Number of units #	Fair value at grant date \$	Number of units #	Fair value at grant date \$
Outstanding, beginning of period	530,000	0.21	110,000	0.48
Granted	—	—	430,000	0.14
Exercised	(255,000)	0.24	—	—
Expired/cancelled	—	—	(10,000)	0.48
Outstanding, end of period	275,000	0.18	530,000	0.21
Units exercisable	—	—	255,000	0.24

	Deferred Share Units			
	Nine-month period ended July 31, 2016		Year ended October 31, 2015	
	Number of units #	Fair value at grant date \$	Number of units #	Fair value at grant date \$
Outstanding, beginning of period	620,000	0.48	325,000	1.06
Granted	—	—	420,000	0.16
Exercised	(140,000)	(0.48)	(125,000)	(0.91)
Expired/cancelled	—	—	—	—
Outstanding, end of period	480,000	0.48	620,000	0.48
Units exercisable	—	—	140,000	0.48

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

11. SHARE CAPITAL [Cont'd]

[e] Stock-based compensation

For the three-month period ended July 31, 2016, the amount of stock-based compensation expenditures from all sources, included in administration expenses and exploration and evaluation expenditures in the statements of comprehensive loss, were \$5,027 and \$1,117 respectively [2015 – \$4,909 and \$8,517]. For the nine-month period ended July 31, 2016, the amount of stock-based compensation expenditures from all sources, included in administration expenses and exploration and evaluation expenditures in the statements of comprehensive loss, were \$94,529 and \$6,646 respectively [2015 – \$292,770 and \$19,360].

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in note 8, the following related party transactions occurred in the normal course of operations.

- [a] The Corporation retains the services of certain directors of the Corporation to carry out professional activities. During the three and nine-month periods ended July 31, 2016, the total amount charged for professional services by directors of the Corporation and recorded in exploration and evaluation expenditures was nil and nil respectively [2015 – nil and \$26,667 respectively].
- [b] During the three and nine-month periods ended July 31, 2016, the Corporation incurred fees to a law firm in which a director of the Corporation is a partner. In addition, during the three and nine-month periods ended July 31, 2016, the Corporation incurred fees to a second law firm, to which a Director of the Corporation has a related party association. For the three-month period ended July 31, 2016, the total amount for such services provided was \$3,794, of which \$1,253 was recorded in professional fees, \$1,713 was recorded in issue costs, \$828 to investor relations, and nil was recorded in exploration and evaluation assets [2015 – \$6,774, \$3,712, nil and \$130,644 respectively]. For the nine-month period ended July 31, 2016, the total amount for such services provided was \$82,853, of which \$43,525 was recorded in professional fees, \$1,713 was recorded in issue costs, \$9,695 was recorded in investor relations, nil was recorded in prepaid expenses and deposits and \$27,920 was recorded in exploration and evaluation assets [2015 – \$72,206, \$115,175, \$19,410, \$5,000 and \$207,068 respectively]. As at July 31, 2016, an amount of \$363,440 [October 31, 2015 – \$288,333] owing to these law firms was included in accounts payable and accrued liabilities in respect of these fees.

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

July 31, 2016

12. RELATED PARTY TRANSACTIONS [Cont'd]

[c] During the three and nine-month periods ended July 31, 2016, 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 nine-month periods ended July 31, 2016, the total amounts for such services provided was \$30,000 and \$90,000 respectively, which were recorded in professional fees [2015 – \$30,000 and \$47,419 respectively]. As at July 31, 2016, an amount of \$113,900 [October 31, 2015 – nil] owing to this firm was included in accounts payable and accrued liabilities in respect of these fees.

[d] During the three and nine-month periods ended July 31, 2016, 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 July 31, 2016, 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 [2015 – \$12,500 and \$67,455 respectively]. For the nine-month period ended July 31, 2016, the total amount for such services provided was \$256,516, of which \$37,500 was recorded in directors fees and \$219,016 was recorded in exploration and evaluation expenditures [2015 – \$12,500 and \$205,455 respectively]. As at July 31, 2015, an amount of \$287,243 [October 31, 2015 – \$24,000] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

[e] Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the three and nine-month periods ended July 31, 2016 and 2015, the Corporation recorded the following compensation for key management personnel and the Board of Directors:

	Three-month period ended July 31		Nine-month period ended July 31	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries and employee benefits	73,606	61,117	224,336	291,455
Separation benefits	—	—	—	306,806
Directors' fees	45,000	48,750	142,500	132,872
Stock compensation	2,480	13,738	49,700	278,043
Total	121,086	123,605	416,536	1,009,176

Quest Rare Minerals Ltd.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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13. FINANCIAL INSTRUMENTS

Principles of risk management

The Corporation's objectives when managing capital are to safeguard its ability to continue its operations as well as its acquisition and exploration programs. As such, the Corporation has relied primarily 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 raise additional funds as needed. The Corporation has not paid any dividends. As well, the Corporation does not have any externally-imposed capital requirements, either regulatory or contractual, to which it is subject.

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 impact on the Corporation's ability to raise equity financing for its capital requirements.

The Corporation's financial instruments consist of cash, tax credits and other receivables, investments, accounts payable and accrued liabilities, Government grants and convertible debentures. Due to the short-term nature of cash, tax credits and other receivables and accounts payable and accrued liabilities, the fair value of these financial instruments approximates their carrying value.

The Corporation's investments are classified as follows:

Classification	Fair value level	July 31, 2016		October 31, 2015		
		Carrying value \$	Fair Value \$	Carrying value \$	Fair value \$	
Financial assets						
Investments –						
Canadian stocks	Held-for-trading	I	800	800	650	650
Financial liabilities						
Convertible						
debentures	Other liabilities	I	2,162,152	2,323,407	1,987,238	2,236,171

The Corporation does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

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13. FINANCIAL INSTRUMENTS [Cont'd]

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counter-party to a financial instrument fails to meet its contractual obligations; the Corporation's maximum exposure to credit loss is the book value of its financial instruments.

The Corporation is not exposed to any significant credit risk as at July 31, 2016. The Corporation's cash is deposited with a major Canadian chartered bank and is held in highly-liquid investments.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. All of the Corporation's financial liabilities are due within one year.

As at July 31, 2016, the Corporation had a total of \$1,043,003 in cash. The Corporation manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities have contractual maturities of 30 – 90 days or less and are subject to normal trade terms, and amounts due to related parties are due on demand

Market risk analysis

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's only market risk exposure is to interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation does not carry any significant interest rate exposure on its cash balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at September 6, 2016

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition of Quest Rare Minerals Ltd. ("Quest" or the "Corporation") covers the three and nine-month periods ended July 31, 2016, 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, 2015 and the condensed interim financial statements for the three and nine-month periods ended July 31, 2016.

The condensed interim financial statements for the three and nine-month periods ended July 31, 2016 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, 2015 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, 2015, which is available on SEDAR at www.sedar.com and could cause actual events or results to differ materially from those projected in any forward-looking statements. The Corporation does not intend, nor does it undertake any obligation, to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events or circumstances or otherwise, except if required by applicable law.

CORPORATE OVERVIEW

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

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

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

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

All of these activities are in progress and the status and plans for each 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) and outlined in the Preliminary Economic Assessment (PEA) filed in June 2014. The work since then includes both scaling up and improving the process parameters of each process step (with the exception of the separation process). Quest’s pilot programs will be partially financed by a \$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 significantly reduces the mass of material to be treated, resulting in smaller process plant footprint at Bécancour and reduced energy requirements when compared to previous flowsheets
- Selective Thermal Sulphation (STS) roasting and leaching, which targets recovery of REE+Y to solution, with minimum recovery of impurity elements, including Al, Fe, and Zr (they mostly remain in residue). The selective sulphation process greatly reduces acid consumption and dramatically improves 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% - a 57% reduction in average mineral concentrate production from the 578,000 dry mt reported in the June 2014 PEA to about 250,000 dry mt. This will result in significant savings in the cost of transportation of flotation concentrate from the mine site to the Bécancour processing plant. The large reduction in volume of concentrate will also result in significant capital and operating cost savings on processes downstream of beneficiation.

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

In addition, Quest continues to evaluate sensor-based ore sorting (XRT, radiometric, photometric). A program to evaluate sensor ore sorting was completed at TOMRA's laboratory in Wedel, Germany with 10 dry mt of ore sample from the Strange Lake B-Zone. The economic viability of using sensor ore sorting as the first step in ore mass reduction is currently being evaluated. It is possible that ore sorting can potentially reduce the volume of material needed to be milled by 20% – 30%, the footprint of the flotation plant as well as the consumption of reagents in the flotation process. The sorted material and other unsorted ore samples (totaling about 100 dry mt) will be piloted through flotation to generate about 20 dry mt of mineral concentrate to feed the 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 at Québec City, Québec. The main objective of the flotation pilot program is to confirm the established process parameters for achieving a mass pull to concentrate of about 20% with rare earth oxide recoveries of approximately 80% at a large scale. Crushing and homogenization of samples from the deposit to feed the flotation pilot program are completed with production of a 20% mass pull flotation concentrate scheduled for the beginning of the 4th quarter. The flotation concentrate will feed the STS pilot program slated to begin in Q4 of 2016 or Q1 2017.

Hydrometallurgy

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

The STS process was successfully tested during this period 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 drastically improves the quality of the leach solution, leading to reduced operating costs and allowing for 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 approximately 87% in the new process.

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

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

Mini plant piloting of the 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 to Q4 of 2016. Options to further improve the purity of the mixed rare earth concentrate including base metal control and cerium removal have been developed on the bench and are being evaluated. The Corporation is in discussions with a potential technology provider for the full piloting of the STS Process scheduled to be completed in 2017.

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

It should be noted that piloting at the scale of 100 tonnes is a substantial and costly undertaking. Other companies processing rare earths have chosen not to pilot to this extent and have then had challenges in ramping up commercial production. Quest's full piloting program is designed to minimize the scale up risk and ensure seamless commissioning and start-up of the commercial scale facilities. Quest's staged piloting from bench to mini plant to full piloting, combined with extensive modeling of the process, has been designed and executed in a rigorous manner to ensure the Corporation has a detailed and complete picture of all the process parameters. In addition, mixed rare earth oxide output from the full pilot is intended to provide definitive proof that Quest's process works and produces a product that meets and, in fact, exceeds specifications established by separation refiners. Quest management believes that its full piloting program is an essential step in its plan to build a world class rare earth processing plant at Bécancour.

The Corporation is also undertaking a series of activities to improve the current resource model of the Strange Lake deposit with the ultimate goal of upgrading the resource assessment from indicated to measured. This work started this summer with geologists from Renaud Geological Consulting on site at Strange Lake and will continue into 2017.

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 STS 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 has signed a memorandum of understanding (MOU) with Tugliq Energy Company 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. No significant additional engineering work was commenced or completed during the quarter ended July 31, 2016.

Project Economics

In addition to scaling up and improving the process parameters, the other reason for the above described piloting and engineering work is to improve the project's economics. In the PEA filed in June 2014, the reported cash operating cost was \$34.25 per kg of separated rare earth oxide produced and the initial capital cost was \$1,631 million (including the cost of a separation plant). The development and piloting work described above is anticipated to have a number of economic benefits and management is targeting a cash operating cost per kg of \$27 or less than \$20 before separation. At current foreign exchange rates (Can\$1.30 to US\$1), that would be less than US\$15/kg. This target cost level would be highly competitive with other potential projects and even certain Chinese producers. The work as well as a number of other initiatives will also contribute to lower capital costs and management is targeting a substantial reduction in initial capital from the PEA estimate. Quest plans to establish its processing facilities in the Bécancour Industrial Park located on the waterfront of the Saint-Lawrence River. To this effect, Quest has signed an option agreement with Société du parc industriel et portuaire de Bécancour ("SPIP") 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 SPIP and looks forward to working closely with the Parc Industriel and the Bécancour communities as it builds its business.

Environmental Impact & Assessment (EIA)

The Government of Québec officially issued Mine Site EIA directives to Quest in March 2016. This is being considered in Quest's planning of next steps for project development.

For the road and port in Newfoundland and Labrador, Quest has completed all Project Description documents, which have been provided in their current form to the concerned governments. Their official submission to initiate the EIA for these project components will be completed in Q4 – in support of continued discussions between the governments of Nunatsiavut, Newfoundland and Labrador, and Canada on a project-specific EIA harmonization agreement.

The EIA Project Notice/Description for the processing facility in Bécancour (southern Québec) has been completed. This will be officially submitted to Québec authorities after the Labrador EIA Project Description document has been accepted.

Project Descriptions for all components have been shared with the Canadian Environmental Assessment Agency (CEAA) and will be officially submitted in Q4-2016 as a joint document. This will allow for a determination of project aspects in both provinces which are subject to a federal-level EIA.

Project updates were provided in Q3-2016 to a selection of Aboriginal leaders and potential regional suppliers. In support of EIA initiation, Quest plans a series of information sessions in Q4-2016 to continue familiarizing local communities and stakeholders in both provinces with the project's potential benefits and its approach to mitigating any environmental impacts.

Working Capital Requirements

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

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

Quest has been awarded a grant from SDTC in the amount of \$4.9 million 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.

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

Risks

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

1) Pricing and Chinese industry dominance

The rare earth industry is currently dominated by producers based in China who represent more than 90% of global production. The Chinese government views the rare earth sector as an important strategic industry for the country and over the years has put in place various policies that have impacted the sector. These included export quotas (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 and prices continue to be under pressure. Many observers believe that the Chinese industry will, in time, begin to experience shortages of certain heavy rare earths and may need to begin to import them by the end of this decade.

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

2) Poor performance of Molycorp and Lynas

The two producers outside of China, Molycorp and Lynas, have had significant operational difficulties and are financial challenges. 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. Lynas has finally started to produce close to capacity but has yet to demonstrate that it can generate sufficient cash to repay its debts. Quest continues to point out that its project is expected to produce a very different and more valuable mix of rare earth products than either Molycorp or Lynas. While this gives Quest management confidence in the competitive robustness of its project, the performance of Molycorp and Lynas is making it more difficult to communicate this message to the investment community.

3) Financing

To execute on its plans to develop a Bankable Feasibility Study and to subsequently build and construct the whole project, substantial financing will be required. Management estimates it will require approximately \$65 million to complete the Bankable Feasibility Study. The Corporation is pursuing a

variety of avenues and options to obtain financing, including strategic investors, private investors, governments and the public markets. The Corporation is well aware that the current environment for attracting financing is challenging. While the Corporation is convinced of the merits of its project, obtaining financing in a timely manner is a recognized risk.

4) Delays

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

5) Scale up generates unanticipated issues

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

Additional risks are outlined in the Risk Factors section of the MD&A and in the Corporation's 2015 Annual Information Form and Short Form Prospectus dated July 9, 2014 entitled "Risk Factors" where there is a discussion of the risk factors applicable to the Corporation and its business.

Change in Accounting Policy

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

The Corporation has applied the change in accounting policy on a retrospective basis and has therefore restated its 2015 comparative statement.

Going Concern Uncertainty

These condensed 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 Preliminary Economic Assessment ("PEA") and future development activities in relation to its Strange Lake project look promising, there can be no assurance that the results of its planned Pre-feasibility study will confirm the existence of economically viable quantities of ore or that the project will ultimately go into production.

The Corporation reported a net loss and total comprehensive loss in the nine-months ended July 31, 2016 and the year ended October 31, 2015 of \$2,100,723 and \$7,312,361, respectively. As at July 31, 2016, the Corporation's current liabilities exceeded its current assets by \$3,910,560 [October 31, 2015 – \$568,597]. These recurring losses and the need for continued financing to further successful exploration and development activities indicate the existence of a material uncertainty that may cast significant doubt as to the Corporation's ability to continue as a going concern.

These condensed interim financial statements do not give effect to any adjustments to the carrying values and classifications 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 nine-month periods ended July 31, 2016, Quest had incurred a total of \$376,934 and \$1,315,721 respectively in exploration expenditures before government grants and tax credits on the Québec Strange Lake Project compared to \$1,546,878 and \$3,436,926 respectively for the three and nine-months period ended July 31, 2015. The following table breaks down the expenditures by its material components.

	Three-month period ended		Nine-month period ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
	\$	\$	\$	\$
Acquisition costs	-	11,302	-	22,366
Geophysical Surveys	-	-	-	-
Geological Surveys	15,625	431	53,125	8,757
Drilling	9,375	4,651	28,125	32,114
Prospecting	-	-	-	718
Prefeasibility Studies	54,066	865,417	245,392	2,058,152
Feasibility Studies	-	-	-	-
Metallurgical Work	-	-	-	-
Environmental & Permitting	53,778	376,868	221,261	446,424
Project Management & Support	244,090	288,320	767,818	750,794
Other	-	(111)	-	117,601
Total	376,934	1,546,878	1,315,721	3,436,926

Misery Lake, Québec

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

As at October 31, 2014, the Corporation recorded an impairment loss of \$7,106,609 on the property, writing down the carrying value to nil on the basis that no further expenditures were planned on this project. During the six-month period ended April 30, 2015, further residual expenses incurred on the project, net of government tax credits receivable, amounting to \$12,218, were written off as incurred.

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

Summary of Quarterly Results

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

	Year ending October 31, 2016			Year ended October 31, 2015				Year ended October 31, 2014
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Revenues		-	-	-	-	-	-	-
Net loss and total comprehensive loss	(285,814)	(799,196)	(1,015,713)	(1,437,674)	(2,193,074)	(2,210,911)	(1,470,702)	(2,460,000)
Basic and fully diluted net income (loss) per share	(0.00)	(0.01)	(0.01)	(0.02)	(0.03)	(0.03)	(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 July 31, 2016 compared with the quarter ended July 31, 2015

Expenses for the quarter ended July 31, 2016, as detailed in the Interim Statements of Comprehensive Loss, totaled \$141,965 as compared to \$2,055,942 for the quarter ended July 31, 2015.

For the quarter ended July 31, 2016, the Corporation reported a net loss of \$285,814 as compared to a net loss of \$2,193,074 for the quarter ended July 31, 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 \$141,965 (2015 - \$2,055,942). The decrease of \$1,913,977 related to the following variations:

- Exploration and evaluation expenses decreased by \$1,501,536 to (\$94,142) (2015 - \$1,407,394) mainly due to lower prefeasibility studies costs and environmental & permitting costs offset partly by higher geological survey costs in turn offset by a substantial government grant in 2016 amounting to \$1,013,802.
- Professional fees decreased by \$43,382 to \$48,439 and related mainly to lower legal and consulting fees during the quarter as compared \$91,821 for the same quarter in 2015.
- Investor relations expenses totaled \$40,010 compared to \$120,385 for the quarter ended July 31, 2015. The main components of this net decrease of \$80,375 as detailed in note 6 to the condensed interim financial statements related mainly to the reduction in: investor relations fees; listing and stock transfer fees, meetings and printing and filing costs.
- Administration expenses decreased by \$288,684 to \$147,658 for the quarter ended July 31, 2016 (2015 – \$436,342). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related to Directors' and officers' insurance, rent and other office expenses.

For the quarter ended July 31, 2016, finance income totaled \$3,772 compared to \$7,245 for the quarter ended July 31, 2015. The net decrease of \$3,473 was as a result of the decrease in funds on deposit offset by interest earned on tax refunds for the quarter ended July 31, 2016 as compared to the quarter ended July 31, 2015. Finance expenses totaled \$147,421 for the quarter ended July 31, 2016 compared to \$144,427 for the quarter ended July 31, 2015 of which \$103,765 (2015 – \$100,317) related to accretion with respect to the convertible debentures as detailed in note 10 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 July 31, 2016, the fair value of the investments held for trading was \$800 resulting in an unrealized loss on investments held for trading of \$200 compared to an unrealized gain on investments held for trading of \$50 for the quarter ended July 31, 2015.

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

The Corporation also has Government grants which are recognized when there is reasonable assurance that the grant will be received and all conditions will be complied with. As at July 31, 2016, all of the conditions under the Agreement were met or are expected to be met by the Corporation.

Management judgment is applied in determining whether the mining exploration expenses are eligible for claiming such credits or grants. 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 nine-month period ended July 31, 2016, the Corporation recognised tax credits receivable related to Québec resource tax credits ("QRTC"), QMD and SR&ED amounting to \$256,712.

Quarter ended July 31, 2015 compared with the quarter ended July 31, 2014

Expenses for the quarter ended July 31, 2015, as detailed in the Interim Consolidated Statements of Comprehensive Loss, totaled \$2,055,942 as compared to \$2,018,086 for the quarter ended July 31, 2014.

For the quarter ended July 31, 2015, the Corporation reported a net loss of \$2,193,074 as compared to a net loss of \$2,046,442 for the quarter ended July 31, 2014. The Corporation expects to record losses until such time as an economic ore body is defined and developed and there are revenues from mineral production.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled \$2,055,942 (2014 - \$2,018,086). The increase of \$37,856 related to the following variations:

- Exploration and evaluation expenditures increased by \$76,059 to \$1,407,394 (2014 - \$1,331,335) as the Corporation maintained programs to verify and improve the various processes to extract and produce rare earth oxides from its Strange Lake deposit
- Professional fees increased by \$19,697 to \$91,821 and related mainly to higher consulting fees offset by lower legal and accounting fees incurred during the quarter as compared \$72,124 for the same quarter in 2014.
- Investor relations expenses totaled \$120,385 compared to \$199,748 for the quarter ended July 31, 2014. The main components of this net decrease of \$79,363 as detailed in note 6 to the condensed interim financial statements related mainly to the reduction in: salaries and other employee benefits, listing and stock transfer fees; conference expenses, consulting services, dues and subscriptions, meeting and travel related costs offset by higher advertising and investor relation fees.
- Administration expenses increased by \$21,462 to \$436,342 for the quarter ended July 31, 2015 (2014 – \$414,880). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related to restructuring expenses of \$254,220 offset by reductions in salaries and other benefits of \$105,961 and stock based compensation of \$76,659.

During the three-month period ended July 31, 2015, the Corporation recognised tax credits receivable related to Québec resource tax credits (“QRTC”) and QMD pertaining to 2015 expenditures, amounting to \$3,000 and \$145,000 respectively.

For the quarter ended July 31, 2015, finance income totaled \$7,245 compared to \$9,038 for the quarter ended July 31, 2014. The net decrease of \$1,793 was as a result of the decrease in funds on deposit during the quarter ended July 31, 2015 as compared to the quarter ended July 31, 2014. Finance expenses totaled \$144,427 for the quarter ended July 31, 2015 compared to \$92,943 for the quarter ended July 31, 2014 of which \$44,100 (2014 – nil) and \$100,317 related to accretion (2014 – nil) with respect to the convertible debentures issued during the three-month period ended July 31, 2015 as detailed in note 8 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 July 31, 2015 and October 31, 2014, the fair value of the investments held for trading was \$850 resulting in an unrealized gain on investments held for trading of \$50 compared to an unrealized loss on investments held for trading of \$250 for the quarter ended July 31, 2014.

Nine-month period ended July 31, 2016 compared with the six-month period ended July 31, 2015

Expenses for the nine-month period ended July 31, 2016, as detailed in the Interim Statements of Comprehensive Loss, totaled \$1,651,889 as compared to \$5,645,493 for the nine-month period ended July 31, 2015.

For the nine-month period ended July 31, 2016, the Corporation reported a net loss of \$2,100,723 as compared to a net loss of \$5,874,687 for the nine-month period ended July 31, 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 \$1,651,889 (2015 - \$5,645,493). The decrease of \$3,993,604 related to the following variations:

- Exploration and evaluation expenses decreased by \$2,522,722 to \$690,591 (2015 - \$3,213,313) mainly due to lower prefeasibility studies, environmental & permitting and other costs offset partly by higher geological survey and in turn offset by a substantial government grant in 2016.
- Professional fees decreased by \$135,625 to \$231,205 and related mainly to lower legal, accounting and consulting fees incurred during the nine-month period ended July 31, 2016 as compared \$366,830 for the nine-month period ended July 31, 2015.
- Investor relations expenses totaled \$135,968 compared to \$448,674 for the nine-month period ended July 31, 2015. The main components of this net decrease of \$312,706 as detailed in note 6 to the condensed interim financial statements related mainly to the reduction in: investor relation fees, salaries and other employee benefits, printing and filing expenses, listing and stock transfer fees, meetings, consulting services, advertising and travel related costs.
- Administration expenses decreased by \$1,022,551 to \$594,125 for the nine-month period ended July 31, 2016 (2015 – \$1,616,676). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related to restructuring expenses, stock based compensation expenses, salaries and other benefits, rent and Directors' and officers' insurance.

During the nine-month period ended July 31, 2016, the Corporation received refunds amounting \$213,593 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 fiscal 2103 and 2014 pertaining to the Corporation’s Strange Lake project.

For the nine-month period ended July 31, 2016, finance income totaled \$16,740 compared to \$19,517 for the nine-month period ended July 31, 2015. The net decrease of \$2,777 was as a result of the decrease in funds on deposit offset by interest earned on tax refunds received during the nine-month period ended July 31, 2016 as compared to the nine-month period ended July 31, 2015.

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 July 31, 2016 the fair value of the investments held for trading was \$800 resulting in an unrealized gain on investments held for trading of \$150 compared to an unrealized loss on investments held for trading of \$100 for the nine-month period ended July 31, 2015.

Nine-month period ended July 31, 2015 compared with the nine-month period ended July 31, 2014

Expenses for the nine-month period ended July 31, 2015, as detailed in the Interim Consolidated Statements of Comprehensive Loss, totaled \$5,645,493 as compared to \$9,384,227 for the nine-month period ended July 31, 2014.

For the nine-month period ended July 31, 2015, the Corporation reported a net loss of \$5,874,687 as compared to a net loss of \$9,300,627 for the nine-month period ended July 31, 2014. The Corporation expects to record losses until such time as an economic ore body is defined and developed and there are revenues from mineral production.

Exploration and evaluation expenditures, professional fees, investor relations and administration expenses totaled \$5,645,493 (2014 - \$9,384,227). The decrease of \$3,738,734 related to the following variations:

- Exploration and evaluation expenditures decreased by \$3,825,144 to \$3,213,313 (2014 - \$7,038,457) mainly due to a significant reduction in engineer costs
- Professional fees decreased by \$21,550 to \$366,830 and related mainly to lower legal and accounting fees incurred during the nine-month period ended July 31, 2015 as compared \$388,380 for the nine-month period ended July 31, 2014.
- Investor relations expenses totaled \$448,674 compared to \$750,061 for the nine-month period ended July 31, 2014. The main components of this net decrease of \$301,387, as detailed in note 6 to the condensed interim financial statements related mainly to the reduction in: salaries and other employee benefits, printing and filing expenses, dues and subscriptions, consulting services, and advertising costs offset by higher investor relation fees.
- Administration expenses increased by \$409,346 to \$1,616,676 for the nine-month period ended July 31, 2015 (2014 – \$1,207,330). The main components of this variation, as detailed in note 6 to the condensed interim financial statements, related to restructuring expenses of \$600,218 and stock based compensation expenses of \$292,770 offset by reductions office salaries and other benefits of \$123,927, directors' fees of \$21,462, IT services of \$42,375 and other office and administration expenses of \$31,644.

During the nine-month period ended July 31, 2015, management revised the estimated tax credits receivable related to Québec mining duties credits (“QMD”) in respect of claim years 2010 to 2014 inclusive and decreased them by \$84,407 with a corresponding increase in exploration and evaluation assets. The review was conducted based on the results of Revenu Québec’s assessments of the 2010, 2011 and 2012 QMD claims, which were settled on February 24, 2015. The adjustments related in large part to the allocation of expenses for those years between exploration activities versus pre-production activities. In addition, during the nine-month period ended July 31, 2015, the Corporation recognised tax credits receivable related to Québec resource tax credits (“QRTC”) and QMD pertaining to 2015 expenditures, amounting to \$55,000 and \$225,000 respectively.

In addition, during the nine-month period ended July 31, 2015, the Corporation received payments amounting \$62,122 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 2012 pertaining to the Corporation’s Strange Lake project.

For the nine-month period ended July 31, 2015, finance income totaled \$19,517 compared to \$34,702 for the nine-month period ended July 31, 2014. The net decrease of \$15,185 was as a result of the decrease in funds on deposit during the nine-month period ended July 31, 2015 as compared to the nine-month period ended July 31, 2014.

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 July 31, 2015 the fair value of the investments held for trading was \$850 resulting in an unrealized loss on investments held for trading of \$100 compared to an unrealized gain on investments held for trading of \$300 for the nine-month period ended July 31, 2014.

Liquidity and Capital Resources

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

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

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

Quest is actively exploring financing options to cover its expected expenditures for fiscal 2016 and 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.

On July 17, 2016, the 613,008 broker compensation units expired.

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. On June 20, 2016, received a refund of \$62,006 representing the Newfoundland and Labrador portion of the SR&ED refund for fiscal 2014.

Nine-month period ended July 31, 2016 compared with the nine-month period ended July 31, 2015

As at July 31, 2016, the Corporation had a total of \$1,043,003 in cash compared to \$1,402,564 in cash as at July 31, 2015 and \$800 (2015 - \$850) 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 nine-month periods ended July 31, 2016 and 2015, no stock options or warrants had been exercised.

Nine-month period ended July 31, 2015 compared with the nine-month period ended July 31, 2014

As at July 31, 2015, the Corporation had a total of \$1,402,564 in cash compared to \$3,617,412 in cash and cash equivalents and investments held-to-maturity as at July 31, 2014 and \$850 (2014 - \$1,900) 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.

As noted above, during the nine-month period ended July 31, 2015 the Corporation received payment of the refundable QMD for its fiscal years 2010 to 2012 in an amount of \$3,044,818 and issued convertible debentures totaling \$2,500,000 plus an equivalent number of warrants regarding the closing of the first and second tranches of the securities purchase agreement with Ekagrata. In addition, the Corporation completed a private placement with Ressources Québec Inc. for gross proceeds of \$595,376. Each unit was comprised of one common share and one common share purchase warrant.

During the nine-month periods ended July 31, 2015 no stock options or warrants had been exercised. During the nine-month period ended July 31, 2014, the Corporation raised cash of \$31,667 from the exercise of stock options.

Outstanding Share Data

As at September 6, 2016, there were 86,429,011 common shares, stock options in respect of 6,821,000 common shares, 480,000 deferred share units, 275,000 restricted share units, 18,105,300 warrants outstanding.

Off-Balance Sheet Arrangements

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

Related Party Transactions

In addition to the related party transaction disclosed in note 8 to the condensed interim financial statements, the following related party transactions occurred in the normal course of operations.

The Corporation retains the services of certain directors of the Corporation to carry out professional activities. During the three and nine-month periods ended July 31, 2016, the total amount charged for professional services by directors of the Corporation and recorded in exploration and evaluation expenditures was nil and nil respectively [2015 – nil and \$26,667 respectively].

During the three and nine-month periods ended July 31, 2016, the Corporation incurred fees to a law firm in which a director of the Corporation is a partner. In addition, during the three and nine-month periods ended July 31, 2016, the Corporation incurred fees to a second law firm, to which a Director of the Corporation has a related party association. For the three-month period ended July 31, 2016, the total amount for such services provided was \$3,794, of which \$1,253 was recorded in professional fees, \$1,713 was recorded in issue costs, \$828 to investor relations, and nil was recorded in exploration and evaluation assets [2015 – \$6,774, \$3,712, nil and \$130,644 respectively]. For the nine-month period ended July 31, 2016, the total amount for such services provided was \$82,853, of which \$43,525 was recorded in professional fees, \$1,713 was recorded in issue costs, \$9,695 was recorded in investor relations, nil was recorded in prepaid expenses and deposits and \$27,920 was recorded in exploration and evaluation assets [2015 – \$72,206, \$115,175, \$19,410, \$5,000 and \$207,068 respectively]. As at July 31, 2016, an amount of \$363,440 [October 31, 2015 – \$288,333] owing to these law firms was included in accounts payable and accrued liabilities in respect of these fees.

During the three and nine-month periods ended July 31, 2016, 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 nine-month periods ended July 31, 2016, the total amounts for such services provided was \$30,000 and \$90,000

respectively, which were recorded in professional fees [2015 – \$30,000 and \$47,419 respectively]. As at July 31, 2016, an amount of \$113,900 [October 31, 2015 – nil] owing to this firm was included in accounts payable and accrued liabilities in respect of these fees.

During the three and nine-month periods ended July 31, 2016, 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 July 31, 2016, 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 [2015 – \$12,500 and \$67,455 respectively]. For the nine-month period ended July 31, 2016, the total amount for such services provided was \$256,516, of which \$37,500 was recorded in directors fees and \$219,016 was recorded in exploration and evaluation expenditures [2015 – \$12,500 and \$205,455 respectively]. As at July 31, 2015, an amount of \$287,243 [October 31, 2015 – \$24,000] 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 nine-month periods ended July 31, 2016 and 2015, the Corporation recorded the following compensation for key management personnel and the Board of Directors:

	Three-month period ended July 31		Nine-month period ended July 31	
	2016 \$	2015 \$	2016 \$	2015 \$
Salaries and employee benefits	73,606	61,117	224,336	291,455
Separation benefits	—	—	—	306,806
Directors' fees	45,000	48,750	142,500	132,872
Stock compensation	2,480	13,738	49,700	278,043
Total	121,086	123,605	416,536	1,009,176

Financial Instruments

The Corporation is not exposed to any significant credit risk as at July 31, 2016. The Corporation's cash is deposited with a major Canadian chartered bank.

The rates as at July 31, 2016 for Canadian and U.S. funds were 0.75% and 0.05% [October 31, 2015 – 0.90% and 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 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 and has not paid any dividends. As well, the Corporation does not have any externally imposed capital requirements, either regulatory or contractual.

Critical Accounting Estimates

The Corporation's condensed interim financial statements include estimates and assumptions made by management. Actual results may vary from these estimates. Critical accounting estimates are discussed under Note 2 of the financial statements for the year ended October 31, 2015.

Changes in Significant Accounting Policies

The Corporation's significant accounting policies are disclosed under the note 2 of the financial statements for the year ended October 31, 2015. There have been no changes in the Corporation's significant accounting policies during the quarter ended July 31, 2016.

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

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

Disclosure Controls and Internal Controls over Financial Reporting

No changes were made to the Corporation's internal controls over financial reporting during the three-month period ended July 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls 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* ("NI 43-101"). NI 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 NI 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 NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported by Quest in compliance with NI 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.