

Q3-2014 Management's Discussion and Analysis





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## Management's Discussion and Analysis

For the three and nine months ended September 30, 2014

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The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of QMX Gold Corporation ("we", "our", "us", "QMX", or the "Company") for the three and nine months ended September 30, 2014 and should be read in conjunction with the Company's Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2014, as well as the Audited Annual Consolidated Financial Statements and MD&A for the year ended December 31, 2013. The financial statements and related notes of QMX have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain non-GAAP measures are discussed in this MD&A which are clearly disclosed as such. Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at [www.sedar.com](http://www.sedar.com).

This MD&A reports our activities through November 28, 2014 unless otherwise indicated. References to the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2014 or Q1-, Q2- and Q3-2014, and the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2013 or Q1-, Q2- and Q3-2013 mean the three months ended March 31, June 30 and September 30, 2014 and 2013 respectively.

**Unless otherwise noted all amounts are recorded in Canadian dollars.**

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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Except for statements of historical fact relating to QMX, certain information contained herein constitutes "forward-looking information" under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to mine-out plan at Lac Herbin; the potential sale of Snow Lake; the development potential of the Company's properties; the future price of gold and other minerals; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; future costs of production; future capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made. Estimates regarding the anticipated timing, amount and cost of mining at the Lac Herbin are based on assumptions underlying mineral reserve and mineral resource estimates, the results of feasibility studies on the properties and the realization of such estimates are set out herein. Capital and operating cost estimates are based on extensive research of the Company, costs incurred at the projects to date, purchase orders placed by the Company to date, recent estimates of construction and mining costs and other factors that are set out herein. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks outlined in the annual information form of the Company. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

## About QMX

QMX is a Canadian publicly traded mining company concentrating on exploration and mine development. The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol "QMX-V" effective the date of this report. The Company's shares were delisted from the Toronto Stock Exchange ("TSX") on February 19, 2014 due to the market value of the publicly held common shares of the Company falling below levels required under TSX listing requirements. The Company's focus is to grow through the exploration, development and acquisition of mineral properties, directly and indirectly through joint ventures and other opportunities. QMX is now in its sixth year as a junior gold-producing company. The Company holds a significant property position with 200 km<sup>2</sup> in Canada's richest mining camps: the Abitibi District of Québec, Canada –historically the 3rd richest gold producing region in the world. QMX undertakes exploration across these properties searching for new world class discoveries, while maintaining a focus on growing QMX to become a mid-tier gold producer. For more information, please visit the Company's website [www.qmxgold.ca](http://www.qmxgold.ca).

Technical programs and information included in this report have been supervised, compiled, reviewed and approved by Patrick Sévigny, Eng., the Company's Vice President of Operations, Québec, and a Qualified Person as defined under NI 43-101.

## Strategic Goals

QMX Gold Corporation is committed to increasing shareholder value and senior management has implemented a three-phased plan to that effect:

- **Phase 1: Complete the sale of Snow Lake and repay bridge facility**
  - The proposed sale of Snow Lake to Northern Sun Mining Corp. ("Northern Sun") announced in August of 2013 was not extended at its expiry on September 30, 2014.
  - The Company will now engage in an orderly sale process in connection with the terms of a forbearance agreement to be entered into with Third Eye Capital.
- **Phase 2: Mine-out Lac Herbin and increase custom milling**
  - QMX will continue to process its own ore through the balance of 2014 and into Q1-2015 as it completes the mine-out of Lac Herbin.
  - The Company has signed a custom milling contract with Abcourt Mines Inc. for the treatment of 50,000 tonnes of gold over a six-month period beginning in October of 2014.
- **Phase 3: Develop a new deposit**
  - QMX is actively seeking new deposits to acquire and develop in order to replace the Lac Herbin mine.
- **Ongoing Priority: Maintaining sustainable, safe environments**
  - QMX continues to focus on safe work practices with the goal of achieving industry leading work safety records.
  - Our operations are managed to ensure that sustainable environmental standards are maintained.

## Selected Financial and Other Highlights

QMX Gold Corporation	Three months ended	Three months ended	Nine months ended	Nine months ended
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
Tonnes of ore mined	53,473	48,585	172,440	123,957
Grade per tonne mined	2.50	4.59	3.13	4.45
Total gold ounces mined	4,302	7,170	17,339	17,718
Tonnes of ore milled	58,002	40,403	172,914	113,936
Grade per tonne milled	2.67	4.62	3.16	4.39
Total gold ounces milled	4,972	5,995	17,542	16,090
Average recovery rate	92.7%	92.6%	90.9%	93.0%
Gold ounces poured	4,611	5,549	15,947	14,965
Gold ounces sold	4,450	5,885	16,222	15,351
Average realized gold price (per oz CAD)**	\$1,389	\$1,362	\$1,407	\$1,469
Revenue from mining operations (net of royalties and refining charges CAD 000's)	\$5,859	\$8,113	\$21,625	\$21,888
Mine operating expenses (excludes depletion and amortization - CAD 000's)	\$5,404	\$5,757	\$17,658	\$19,072
Amortization and depletion (CAD 000's)	\$1,068	\$1,722	\$4,348	\$4,210
Gross (loss)/income (CAD 000's)	(\$613)	\$634	(\$382)	(\$1,394)
Net (loss) (CAD 000's)	(\$2,757)	(\$31,852)	(\$6,443)	(\$42,271)
Basic and diluted (loss) per share (CAD)	(\$0.07)	(\$0.98)	(\$0.17)	(\$1.34)
Cash flow from operating activities before working capital adjustments (CAD 000's)***	(\$21)	\$1,480	\$2,505	\$571
Working capital adjustments (CAD 000's)***	\$144	\$544	\$1,073	\$4,999
Cash flow from operating activities (CAD 000's)	\$123	\$2,024	\$3,578	\$5,570
Cost of sales per ounces sold (CAD)*	\$1,214	\$978	\$1,089	\$1,242

\*see Non GAAP Measures and comments under "Executive Summary - Third Quarter" section, regarding Cost of Sales at Lac Herbin  
\*\*see Non GAAP Measures and comments under "Executive Summary - Third Quarter" section, regarding Average realized gold price at Lac Herbin  
\*\*\*see Non GAAP Measures and comments under "Executive Summary - Third Quarter" section, regarding Cash flow from operations

## Executive Summary - Third Quarter September 30, 2014

During the three months ended September 30, 2014 the following occurred at QMX:

- Total revenue of \$5.86 million was generated, 28% lower than in Q3-2013. The Company poured 17% less gold this quarter compared to Q3-2013 and sold 24% less gold this quarter compared to the same period last year. The Company mined 10% more ore tonnage during Q3-2014 compared to Q3-2013 with grades per tonne that were 45% lower. Additional tonnage was mined to compensate for the lower grades however the impact to revenues was still evident. The Company's original budget planned for the end of production in Q3-2014. However, the Company has extended the mine life to Q1-2015 by milling lower grade ore during this period.

- The Company sold 4,450 ounces of gold at an average realized price of \$1,389/oz (USD\$1,275/oz.), compared to 5,885 ounces sold during Q3-2013 at an average realized price of \$1,362/oz (USD\$1,312/oz). See Non-GAAP Measures for a description of the calculation of average realized price per ounce.
- The Company's Lac Herbin Mine in Val-d'Or poured 4,611 ounces of gold, a 17% decrease compared to 5,549 ounces in Q3-2013.
- Cash cost of sales per ounce (see Non-GAAP Measures) of the Lac Herbin gold sold was \$1,214/oz Au for Q3-2014 compared to \$978/oz for Q3-2013. Lower grades are responsible for the higher cash costs per ounce sold as the Company mined higher tonnages with less gold output.
- Cash flow from operations, before working capital adjustments (see Non-GAAP Measures), used \$0.02 million during Q3-2014 compared to providing \$1.48 million during Q3-2013. Working capital adjustments provided \$0.14 million during Q3-2014 (Q3-2013: \$0.54 million).
- Production guidance for the 2014 has been estimated at 16,500 to 19,000 ounces of gold.
- In 2013, the Company decided to suspend its capital development initiatives at the Lac Herbin Mine for an undetermined period of time. This ended development of the main ramp below the 42 level and all exploration expenditures at this time. The Company will continue to mine the known mineralized lenses above the 42 level and expects this to continue into the first quarter of 2015.

## Overview & Outlook

QMX is implementing a three-phased plan: the first phase is to complete the sale of the Snow Lake asset and repay the bridge facility. The second is to complete the mine-out of Lac Herbin and seek additional custom milling opportunities. The third is a longer term strategy focused on exploration and new mine discovery that leverages the Company's existing assets.

## Summarized Financial Results

### Liquidity and Capital Resources

As at September 30, 2014, the Company had a working capital deficiency of \$33.11 million compared to a working capital deficiency of \$33.53 million at December 31, 2013.

The Company is carrying a short-term loan facility with an original face value of US\$17,500,000 and maturity date of November 28, 2013. The Company was required to pay cash interest payments at a rate of US\$250,000 per month. The Company entered into an amending agreement that provided for the extension of the original maturity date at the lender's option subject to a monthly monitoring fee of US\$100,000. The Company sold its shares in Falco Pacific Resource Group Inc. ("Falco") and applied the proceeds against the principal of the loan. (See below.) As at September 30, 2014, the carrying balance of the term loan is approximately US\$16.39 million (\$18.36 million). The maturity of this loan was extended to September 30, 2014 as a result of a sixth amending agreement signed in August 2014.

Subsequent to the end of the quarter, the Company is negotiating a binding term sheet with the lender in respect of this loan facility which sets out the key terms of a forbearance agreement in respect of the loan facility and remains subject to the execution by the Company and the lender of a definitive forbearance agreement. On October 8, 2014, the lender delivered to the Company a notice of intention to enforce security pursuant to section 244 of *Bankruptcy and Insolvency Act* (Canada) (the "Act") but has not taken any action under the Act.

Subject to the terms of the forbearance agreement that the Company expects to execute in due course, for a period until March 31, 2015 (the "Forbearance Period"), the lender will forbear against the enforcement of its security relating to defaults by the Company of the loan facility. During the Forbearance Period, the Company will cooperate in an orderly sales process for its Snow Lake Property in Manitoba, as the agreement to sell the Snow Lake Property to Northern Sun Mining Corp. was not

extended at its expiry on September 30, 2014. In addition, the Company is engaged in a strategic review of all options available in respect of its Quebec operations.

At September 30, 2014, the Company was carrying convertible debentures with a face value of \$4,210,000 which matured on April 28, 2014. The Company has negotiated an extension of these debentures to October 1, 2014 and is seeking a further extension as a condition of the Forbearance Agreement.

In March 2014, the Company converted US\$1,552,454 of royalties payable to Forbes & Manhattan, Inc. to a debenture which matures on December 31, 2015 (see Transactions with Related Parties). The debenture is non-interest bearing and is secured by all the assets and property of the Company subject to security held by the short-term loan facility described above and certain other assets.

The Company applies for refundable tax credits to certain Quebec government bodies at each taxation year end and records the expected amounts as amounts receivable. The Company is no longer eligible for tax credits from one of the government bodies in Quebec as new legislation has come into force. At September 30, 2014, \$0.23 million in Quebec tax credits are recorded on the Consolidated Statements of Financial Position. During Q2-2014, the Company received \$0.13 million in tax credits as a result of a successful appeal related to rejected 2011 claims. Subsequent to the end of the quarter, the Company received \$0.25 million for tax credits accrued relating to 2012.

In July 2014, the Company entered into an agreement to sell its 7,000,000 shares in Falco to a private company for gross proceeds of \$2.58 million, which reflected the highest bid received during a bidding process for the block of shares held freely and in escrow. The Company received a deposit of \$200,000 upon signing the agreement. The agreement was amended such that three parties became the buyers. As at September 30, 2014, 5,068,265 shares were sold generating \$2.06 million in proceeds. The balance of the shares was sold subsequent to the end of the quarter. The majority of the proceeds were applied against the Company's short-term debt.

The Company received 328,000 units of Falco in June 2013 in lieu of cash for rental payments due to the Company. Each unit is comprised of one common share of Falco and one-half purchase warrant. Each whole purchase warrant allows the Company to acquire one common share of Falco at a price of \$0.45 per share until December 14, 2014. In January 2014, the Company sold the 328,000 shares of Falco for net proceeds of \$0.17 million. The warrants were exercised subsequent to the end of the quarter as a result of Falco declaring its accelerated expiry option. The shares received upon exercised were sold in August 2014 for net proceeds of \$0.08 million.

The Company has and expects to utilize its working capital to meet exploration funding obligations as described under the Significant Future Obligations section of this report, to fund its Lac Herbin mine, its Lac Pelletier project care and maintenance expenses, and to fund its corporate and operating overheads.

The Company has a need for equity for working capital for the development and exploration of its properties. Because of continuing operating losses, a working capital deficiency and the maturity of significant amounts of debt, the Company's continuance as a going concern is dependent upon its ability to obtain adequate short-term financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

### **Significant Future Obligations**

The Company has several agreements to fund exploration on certain properties as follows:

#### **Val-d'Or**

- **Aurbel (including Lac Herbin and Aurbel Gold Mill)**

Pursuant to the acquisition of a 100% interest in the Aurbel property from Teck Cominco Ltd. (formerly Aur Resources Inc.) ("Teck"), the Company is required to make its final \$500,000 payment upon acceptance of the Aurbel Closure Plan by the Quebec Mining Authorities, which was submitted by Teck to the respective Quebec Mining Authorities in 2006. Production from this property is subject to an aggregate 4.5% NSR.

## Rouyn-Noranda

- **Lac Pelletier Property Acquisition**

The Company has exceeded the required \$1,000,000 option work commitment required to earn its 100% interest. QMX had the option to earn its 100% interest by making a commitment prior to September 1, 2010 to bring the deposit into production. Production from the current Lac Pelletier property is subject to a 3.5% NSR. The Lac Pelletier property hosts the past-producing Stadacona mine. Production from potential ore bodies lying outside the current property but mined through the historical Stadacona mine workings are subject to a \$1 per tonne toll charge.

During the third quarter of 2010, the Company issued a production commitment notice to Thundermin, thereby exercising its option to acquire the Lac Pelletier Property. Thundermin had initiated an arbitration proceeding pursuant to which it has claimed that the purported exercise by the Company of its option to acquire a 100% interest in the property is invalid, and accordingly, the option agreement and the Company's rights under the agreement have terminated. Arbitration proceedings took place in August 2013. Subsequent to the end of the quarter, the Arbitrator delivered its binding decision that the Company's exercise of this option was valid as of August 31, 2010. The Arbitrator has set out a series of deadlines whereby the parties must agree on the ultimate date for the achievement of commercial production. If commercial production is not achieved before August 31, 2015, the Company will be required to make advance royalty payments of \$75,000 annually until commercial production is achieved.

The Company also carries a 100% interest in four mining claims located near Lac Pelletier, subject to a 2% NSR. The Company has the option to purchase, at any time, 50% of the NSR for US\$1,000,000. These claims will be included in the Lac Pelletier property package with Thundermin Resources Ltd.

## Herblet Lake, Manitoba

In November 2010, the Company entered into an agreement to acquire a 100% interest in certain mining claims in the Herblet Lake area. This agreement was amended in July 2013 and again in November 2013 for a fee of \$50,000. In March 2014, the Company further amended the agreement extending the due dates of certain payments to May 31, 2014. The Company and the optionor agreed to suspend the terms of the agreement to September 30, 2014 allowing for the sale of the Snow Lake property. To date, the Company and the optionor are in negotiations in terms of a further extension. To acquire this 100% interest, the Company was required to make total cash payments of \$300,000 and incur total exploration expenditures of \$3,000,000 according the following schedule:

	Commitment		
	<u>Cash Payment (\$)</u>	<u>Expenditures (\$)</u>	
November 19, 2010	50,000	-	**Paid December 2010
November 19, 2011	50,000	200,000	**Paid October 2011, expenditures met
November 19, 2012	50,000	300,000	**Paid November 2012, expenditures met
November 19, 2013	-	500,000	**expenditures met
May 31, 2014	100,000	-	suspended till September 30, 2014
November 19, 2014	50,000	-	
November 19, 2015	50,000	-	
November 19, 2016	-	1,000,000	
November 19, 2017	-	1,000,000	
	<u>350,000</u>	<u>3,000,000</u>	

The exercise of the option is subject to an NSR of 3% payable from the date of commencement of commercial production. Upon exercise of the option, the Company will be required to make advanced royalty payments of \$50,000 annually up to \$250,000 to be credited against future NSR payments. The Company has the right to purchase up to 50% of the NSR for a total of \$1,500,000, each 0.5% of the 3% NSR requiring a \$500,000 payment. As of June 30, 2014, the Company is in good standing with respect to its obligations under this agreement.

This option is included in Assets held for sale on the Company's Condensed Interim Consolidated Financial Statements.

## **Results of Operations**

### **For the quarter ended September 30, 2014**

The Company sold 4,450 ounces of gold and generated \$5.86 million in revenue from mining operations during the 3<sup>rd</sup> quarter of 2014. QMX averaged a gold sale price of \$1,389 per ounce during Q3-2014 (See Non-GAAP measures). During Q3-2013, 5,885 ounces of gold were sold generating \$8.11 million in revenue. The average sale price realized during Q3-2013 was \$1,362 per ounce (See Non-GAAP measures). The Company poured 17% less gold in Q3-2014 compared to Q3-2013. The Company was processing low-grade ore and consequently increased the tonnage mined during Q3-2014 to bring production to budgeted levels. Mine operating expenses were \$5.40 million (Q3-2013: \$5.76 million) and depreciation and depletion amounted to \$1.07 million (Q3-2013: \$1.72 million). Gross loss was \$0.61 million during Q3-2014 compared to gross income of \$0.63 million during Q3-2013. Revenue from mining operations includes \$6.18 million from gold sales (Q3-2013: \$8.02 million) reduced by \$0.32 million in refining and royalty charges (Q3-2013: \$0.40 million). The Company is subject to an NSR of 4.5% on Lac Herbin gold sales. The cost of sales per ounce sold during the current quarter, excluding depreciation and depletion, was \$1,214 per ounce compared to \$978 per ounce during the comparative quarter (see Non GAAP Measures). Lower grade ore increases the cash cost per ounce.

QMX recorded a net loss for the quarter ended September 30, 2014 of \$2.76 million compared to a net loss of \$31.85 million for the quarter ended September 30, 2013. In Q3-2014, the Company recorded a reversal of impairment of \$0.88 million on the Snow Lake property (Q3-2013: an impairment charge of \$31.74 million). Expenses were \$3.02 million during Q3-2014 (Q3-2013: \$0.94 million) as described below.

<b>General and Administrative expenses</b>				
(CAD 000's)	Q3-2014 \$	Q3-2013 \$	Favourable (unfavourable) \$	Change %
Professional, consulting and management fees	382	692	310	45%
Stock-based compensation	-	23	23	100%
Other general and administrative expenses	82	126	44	35%
Finance costs	1,377	1,799	422	23%
Finance income	(17)	(19)	(2)	(11%)
Other (gains) and losses: Foreign exchange	1,205	(413)	(1,618)	(392%)
Other (gains) and losses: General exploration	1	0	(1)	(100%)
Other (gains) and losses: Sale of asset	(38)	-	38	100%
Other (gains) and losses: Sale of investment	(854)	-	854	100%
Other (gains) and losses: Unrealized, investments (FVTPL)	886	(1,265)	(2,151)	(170%)

Professional, consulting and management costs decreased by \$0.31 million or 45% during the quarter ended September 30, 2014 compared to the quarter ended September 30, 2013. The Company accrued a severance cost during the prior year's quarter resulting in the majority of this variance. As well, the Company did not incur special financing costs in Q3-2014 where in Q3-2013, the Company incurred financing costs for strategic consultants.

Stock-based compensation is a non-cash expense included in professional, consulting and management costs on the Consolidated Statement of Operations and Comprehensive Loss. The Company applies the fair value method of accounting for stock-based compensation. During Q3-2014, no stock options were granted and no expense was incurred. In Q3-2013, the Company did not grant options however previously granted options vested during the quarter resulting in a charge of \$0.02 million to the Statement of Operations and Comprehensive Loss.

Other general and administrative expenses decreased by 35% during Q3-2014 compared to Q3-2013 as a result of lower costs in general at the corporate level, particularly with respect to travel, as the Company worked to sell the Snow Lake Property prior to the agreement with Northern Sun in 2013, and investor relations costs.

Finance costs decreased by \$0.42 million or 23% compared to Q3-2013. In Q3-2014, the Company incurred interest expense and monitoring fees of US\$350,000 per month in relation to its short-term loan facility which was originally due in November 2013 and has been extended by agreement. In Q3-2013, the Company was accreting costs associated with this short-term loan facility at an effective interest rate of 23%, and accruing interest related to this loan.

Finance income for Q3-2014 and Q3-2013 was earned on term deposits. The Company did not carry significant cash balances throughout either period to generate significant interest income.

The Company sold 5,068,265 of its shares in Falco during Q3-2014 resulting in a gain on the shares original book value of \$0.85 million. As a result, the Company recognized a loss related to unrealized gains of \$0.89 million as the shares were previously adjusted for fair value and the gains were reclassified as realized.

The Company recorded foreign exchange losses of \$1.21 million during Q3-2014 compared to gains of \$0.41 million during Q3-2013. The bridge loan, long-term debt and royalties payable are denominated in US dollars, which strengthened during the current period, resulting in foreign exchange losses.

#### For the nine months ended September 30, 2014

The Company sold 16,222 ounces of gold and generated \$21.62 million in revenue from mining operations during the the nine months ended September 30, 2014. QMX averaged a gold sale price of \$1,407 per ounce during 2014 (See Non-GAAP measures). During 2013, 15,351 ounces of gold were sold generating \$21.89 million in revenue. The average sale price realized during 2013 was \$1,469 per ounce (See Non-GAAP measures). The Company poured 7% more gold in 2014 compared to 2013. During 2014, the Company benefited from stope development done in late 2013. The decrease in revenue is a result of the decrease in gold prices. Mine operating expenses were \$17.66 million (2013: \$19.07 million) and depreciation and depletion amounted to \$4.35 million (2013: \$4.21 million). Gross loss was \$0.38 million during 2014 compared to a gross loss of \$1.39 million during 2013. Revenue from mining operations includes \$22.82 million from gold sales (2013: \$22.56 million) reduced by \$1.20 million in refining and royalty charges (2013: \$1.16 million). The Company is subject to an NSR of 4.5% on Lac Herbin gold sales. The cost of sales per ounce sold during the current quarter, excluding depreciation and depletion, was \$1,089 per ounce compared to \$1,242 per ounce during the comparative period (see Non GAAP Measures).

QMX recorded a net loss for the nine months ended September 30, 2014 of \$6.44 million compared to a net loss of \$42.27 million for the nine months ended September 30, 2013. In 2014, the Company recorded a reversal of impairment of \$0.45 million on the Snow Lake property (2013: an impairment charge of \$31.72 million). Expenses were \$6.51 million during 2014 (2013: \$9.33 million) as described below.

General and Administrative expenses (CAD 000's)	Nine months ended September 30,		Favourable (unfavourable) \$	Change %
	2014 \$	2013 \$		
Professional, consulting and management fees	984	1,548	564	36%
Stock-based compensation	-	281	281	100%
Other general and administrative expenses	419	507	88	17%
Finance costs	3,725	4,879	1,154	24%
Finance income	(59)	(62)	(3)	(5%)
Other (gains) and losses: Foreign exchange	1,274	676	(598)	(88%)
Other (gains) and losses: General exploration	7	5	(2)	(40%)
Other (gains) and losses: Sale of asset	(45)	(36)	9	25%
Other (gains) and losses: Sale of investment	(888)	-	888	100%
Other (gains) and losses: Unrealized, investments (FVTPL)	1,904	1,536	(442)	(29%)

Professional, consulting and management costs decreased by \$0.56 million or 36% during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This is in part a result of the Company's cost reduction efforts, which included a reduction of approximately \$0.19 million in consulting fees. During the prior year, the Company recorded a severance charge which also contributed to the increase. As well, the Company did not incur special financing costs in 2014 whereas in 2013, the Company incurred financing costs for strategic consultants to help sell the Snow Lake Property.

Stock-based compensation is a non-cash expense included in professional, consulting and management costs on the Consolidated Statement of Operations and Comprehensive Loss. The Company applies the fair value method of accounting for stock-based compensation. During 2014, no stock options were granted and no expense was incurred. In 2013, the Company granted 1,872,500 stock options which vested over nine months and consequently \$0.28 million was charged to the Statement of Operations and Comprehensive Loss.

Other general and administrative expenses decreased by 17% during 2014 compared to 2013 as a result cost cutting measures at the corporate level, particular with respect to travel and investor relations costs. These were in part offset by mining duties paid to the government of Quebec.

Finance costs decreased by \$1.15 million or 24% compared to 2013. In 2014, the Company incurred interest expense and monitoring fees of approximately US\$350,000 per month in relation to its short-term loan facility which was originally due in November 2013 and has been extended by agreement. In 2013, the Company was accreting costs associated with this short-term loan facility at an effective interest rate of 23%, and accruing interest related to this loan.

Finance income for 2014 and 2013 was earned on term deposits. The Company did not carry significant cash balances throughout either period to generate significant interest income.

The Company sold 5,396,265 of its shares in Falco during 2014 resulting in a gain on the shares original book value of \$0.88 million. As a result, the Company recognized a loss related to unrealized gains of \$1.09 million as the shares were previously adjusted for fair value and the gains were reclassified as realized.

The Company recorded foreign exchange losses of \$1.27 million during 2014 compared to \$0.68 million during 2013. The bridge loan, long-term debt and royalties payable are denominated in US dollars, which strengthened during the period, resulting in foreign exchange losses.

**Quarterly information**  
**Summary Financial Information for the Eight Quarters Ended September 30, 2014**

	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4-2012
Revenue from mining operations (CAD 000's)	\$ 5,859	\$ 6,670	\$ 9,095	\$ 8,727	\$ 8,113	\$ 7,375	\$ 6,400	\$ 6,337
Mine operating expenses (CAD 000's)	\$ 5,404	\$ 5,031	\$ 7,222	\$ 5,967	\$ 5,757	\$ 6,886	\$ 6,429	\$ 7,988
Net income (loss) (CAD 000's)	\$(2,757)	\$(2,282)	\$(1,404)	\$ (101)	\$(31,852)	\$ (6,380)	\$ (4,039)	\$ (4,192)
Net income (loss) per share, basic and diluted (CAD)	\$ (0.07)	\$ (0.06)	\$ (0.04)	\$ (0.00)	\$ (0.98)	\$ (0.20)	\$ (0.13)	\$ (0.14)
Cash flow from operating activities before working capital adjustments (CAD 000's)*	\$ (21)	\$ 1,118	\$ 1,409	\$ 2,318	\$ 1,480	\$ (166)	\$ (744)	\$ (2,538)
Working capital adjustments (CAD 000's)*	\$ 144	\$ 61	\$ 868	\$(2,429)	\$ 544	\$ 1,394	\$ 3,061	\$ 881
Cash provided by (used in) operations (CAD 000's)	\$ 123	\$ 1,178	\$ 2,277	\$ (111)	\$ 2,024	\$ 1,228	\$ 2,317	\$ (1,657)
Gold ounces sold	4,450	5,038	6,734	6,858	5,885	5,366	4,100	3,982
*Average realized gold price (per ounce) (CAD)	\$ 1,389	\$ 1,401	\$ 1,423	\$ 1,337	\$ 1,393	\$ 1,456	\$ 1,641	\$ 1,698
*Cost of sales per ounce (CAD)	\$ 1,214	\$ 999	\$ 1,072	\$ 870	\$ 978	\$ 1,283	\$ 1,568	\$ 2,006
Total assets (CAD 000's)	\$65,459	\$66,893	\$69,731	\$70,094	\$ 70,275	\$101,920	\$105,707	\$105,855
Long-term financial liabilities (CAD 000's)	\$ 4,595	\$ 3,731	\$ 3,620	\$ 2,613	\$ 6,406	\$ 6,360	\$ 10,695	\$ 10,508

\* see Non GAAP Measures

A turnaround plan had been initiated resulting in increased production quarter over quarter translating steadily into increasing revenues during most of 2012. Q4-2012 and Q1-2013 saw a dip in production from lower grades mined. However, production increased in Q2-2013 and Q3-2013 as the Company began mining areas with improved grades. During Q4-2013 and 2014, grades were lower, but the Company mined out larger areas generating increased tonnage to continue the increasing trend in gold sales. In Q2-2014 and Q3-2013, grades were lower as the Company processed lower grade ore to extend the mine life into the first quarter of 2015. Mining costs increased during Q4-2012 as a result of an inventory impairment charge. Costs were lower in 2013 as the Company implemented various cost-cutting strategies. In Q1-2014, costs were higher as a result of increased mining efforts in a lower grade zone to continue to generate gold production. Low grades during Q2- and Q3-2014

contributed to the higher cost per ounce. The large loss in Q3-2013 is a result of the Company recording an impairment charge on the Snow Lake properties of \$31.76 million.

Stock-based compensation is a non-cash expense representing an estimate of the fair value of options granted to directors, officers, employees and consultants of the Company calculated by applying the Black-Scholes option pricing model. This can generate fluctuations in net loss quarter over quarter.

The large decline in total assets in Q3-2013 is a result of the impairment charge on the Snow Lake properties. The Company is currently not investing in capital assets. Long-term liabilities decreased in Q4-2013 as a result of the reclamation deposit on the Snow Lake property being reclassified as liabilities for assets held for sale which is a current liability. In Q1-2014, long-term liabilities increased as a result of the debenture to Forbes and Manhattan, Inc. Long-term liabilities increased further with adjustments to reclamation liabilities for the properties in Quebec.

The value of the Company's provision for reclamation costs is being revalued each period at prevailing discount rates. Consequently, there can be significant variation in this value quarter to quarter.

### **Cash Flows for the nine months ended September 30, 2014**

Cash provided by operating activities for the nine months ended September 30, 2014 was \$3.58 million compared to \$5.57 million for the nine months ended September 30, 2013. During 2014, mining operations provided \$3.97 million, administrative expenses and interest income used \$1.46 million and non-cash working capital provided \$1.07 million. During 2013, mining operations provided \$2.82 million, administrative expenses and interest income used \$2.25 million and non-cash working capital provided \$5.00 million. The net change in non-cash working capital reported on the cash flow statement identifies the changes in current assets and current liabilities that occurred during the period. An increase in a liability (or a decrease in an asset) is a source of funds; while a decrease in a liability (or an increase in an asset) account is a use of funds.

Cash used by financing activities was \$4.45 million during the nine months ended September 30, 2014 compared to \$1.35 million during the nine months ended September 30, 2013. In 2014, the Company made payments against its short-term loan facility of \$1.33 million (2013: \$nil) and paid \$3.16 million in interest and monitoring fees related to this loan (2013: \$1,30 million). Interest on the loan was not payable until June 2013. The Company paid \$0.01 million in finance lease payments during 2014 compared to \$0.05 million during 2013.

Cash provided by investing activities was \$1.59 million during the nine months ended September 30, 2014 compared to the use of \$4.16 million during the nine months ended September 30, 2013. The Company incurred \$0.09 million in 2014 on their exploration properties in Quebec to keep them in good standing, but exploration programs were deferred. The Company spent \$0.03 million in property, plant and equipment expenditures, specifically on building ventilation, during 2014. The Company also incurred \$0.91 million in 2014 in costs related to the Snow Lake property that have been treated as assets held for sale. These costs included the acquisition of vehicles through lease terminations as well as care and maintenance costs. During the comparative quarter, the Company incurred \$3.92 million on exploration costs at both their Quebec properties and the Snow Lake property, as well as acquiring property, plant and equipment for \$0.41 million. Working capital adjustments provided \$0.17 million in 2014 compared to using \$1.31 million in 2013. The Company received \$0.13 million in exploration tax credits in 2014 compared to \$1.39 million during 2013. The Company sold equipment in 2014 generating net proceeds of \$0.09 million compared to net proceeds of \$0.10 million in 2013. During 2014, the Company exercised its Falco warrants using \$0.07 million and acquiring 164,000 additional shares of Falco. On a year-to-date basis, the Company sold 5,560,265 of its Falco shares for net proceeds of \$2.31 million (2013: \$nil).

## **New Accounting Policies**

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014.

IAS 32 – Financial Instruments: Presentation (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Adoption of this amendment had no significant impact on the Company’s financial statements.

IAS 36 – Impairments of Assets (“IAS 36”) was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. Adoption of this amendment had no significant impact on the Company’s financial statements.

IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) was amended by the IASB in June 2013 to clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. Adoption of this amendment had no significant impact on the Company’s financial statements.

IFRIC 21 – Levies (“IFRIC 21”) was issued in May 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Adoption of this standard had no significant impact on the Company’s financial statements.

## **Future accounting changes**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2014 or later periods. Updates are not applicable or are not consequential to the Company have been excluded thereof. The Company has not yet determined the potential impact of these changes on the consolidated financial statements.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

## **Transactions with Related Parties**

During the nine months ended September 30, 2014, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Purchases of goods and services			
	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
2227929 Ontario Inc.	\$ 42,091	\$ 53,350	\$ 136,429	\$ 165,657
Forbes & Manhattan, Inc.	196,972	219,470	671,300	663,009

The Company shares office space with other companies who may have officers or directors in common with the Company. The costs associated with this space, including the provision of office equipment and supplies, and certain other services are administered by 2227929 Ontario Inc. to whom the Company pays a fee. Other companies who share officers and directors with the Company may have similar arrangements with 2227929 Ontario Inc.

Mr. Stan Bharti is the Executive Chairman of Forbes & Manhattan, Inc. Mr. Bharti was a director of the Company until his resignation on March 6, 2012; however as the Company is part of the Forbes & Manhattan Group of Companies, it continues to receive the benefits of such membership, including access to mining professionals, advice from Mr. Bharti, and strategic advice from the Forbes & Manhattan Board of Advisors. An administration fee of \$25,000 per month is charged by Forbes & Manhattan, Inc. pursuant to a consulting agreement. As well, a 2% royalty on gold sales from the Aurbel properties (including Lac Herbin) is payable to Forbes & Manhattan, Inc. As mentioned previously in this report, the Company converted US\$1,552,454 of royalties owed to Forbes & Manhattan, Inc. to a debenture that matures on December 15, 2015.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
2227929 Ontario Inc.	\$ 18,000	\$ 18,000	\$ 225,152	\$ 127,018
Forbes & Manhattan, Inc.	\$ -	\$ -	\$ 835,747	\$ 1,964,545
Forbes & Manhattan, Inc.*	\$ -	\$ -	\$ 1,738,748	\$ -
Directors and officers	\$ -	\$ -	\$ 167,000	\$ 60,000

\* The Forbes & Manhattan, Inc. debenture is non-interest bearing and is secured by all the assets and property of the Company subject to security held by the short-term loan facility.

The other amounts outstanding are unsecured, non-interest-bearing with no fixed terms of payments. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

Mr. David Rigg, Chairman of the Board of the Company, is the President and CEO of Northern Sun. As well, Mrs. Deborah Battiston, CFO of the Company, is also the CFO of Northern Sun.

#### *Compensation of key management personnel of the Company*

The remuneration of directors and other members of key management personnel during the period were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Short-term benefits	\$ 277,806	\$ 246,996	\$ 842,690	\$ 1,010,935
Share-based payments	-	-	-	194,400

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

#### **Subsequent Events**

In October 2014, the Company is negotiating a binding term sheet with the lender in respect of its loan facility which sets out the key terms of a forbearance agreement in respect of the loan facility and remains subject to the execution by the Company and the lender of a definitive forbearance agreement. See Liquidity and Capital Resources above.

In November 2014, the Company signed a custom milling agreement with Abcourt Mines Inc. ("Abcourt") to process ore from Abcourt's mine in Val d'Or, Quebec. The term of the agreement is for six months and a minimum of 50,000 tonnes of ore delivered by Abcourt.

## Outstanding Share Data

As at the date of this report, 38,325,574 common shares of the Company are outstanding. Of the options to purchase common shares issued under the share option plan of the Company, 2,173,875 remain outstanding with exercise prices ranging from \$0.24 to \$8.50 and with expiry dates ranging between December 21, 2014 and January 10, 2018. If exercised, 2,173,875 common shares would be issued generating \$2.20 million in proceeds.

As at the date of this report, there were 2,900,000 share purchase warrants outstanding with an exercise price of \$0.0465 expiring on November 28, 2015. If exercised, 2,900,000 common shares would be issued generating \$0.13 million in proceeds.

## Non-GAAP Measures

The Company has included certain Non-GAAP performance measures, namely cash costs per gold ounce sold, working capital and average realized gold price, throughout this document. In the gold mining industry, these are common Non-GAAP performance measures but do not have any standardized meaning. The Company believes that, in addition to conventional measures prepared in accordance with GAAP, we and certain investors use this information to evaluate the Company's performance and ability to generate cash, profits and meet financial commitments. These Non-GAAP measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The following tables provide 1) a reconciliation of working capital to the financial statements for the nine months ended September 30, 2014 and the year ended December 31, 2013, 2) a reconciliation of cash cost per gold ounce sold for the three and nine months ended September 30, 2014 and 2013, 3) a reconciliation of the average realized gold price for the three and nine months ended September 30, 2014 and 2013 and 4) a reconciliation of cash flows provided by or used in operating activities for the three and nine months ended September 30, 2014 and 2013.

## Working Capital

(CAD 000's)	<u>September 30, 2014</u>	<u>December 31, 2013</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,139	\$ 415
Amounts receivable	229	330
Tax credits receivable	233	233
Inventory	2,262	2,801
Prepaid expenses	1,280	1,643
Investments	527	6
	<b>5,670</b>	5,428
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 9,866	\$ 11,118
Deposit on sale of property	1,120	1,064
Liabilities of assets held for sale	4,844	4,133
Current portion of finance lease obligations	-	7
Short-term loan	18,360	18,453
Convertible debenture	4,593	4,181
	<b>38,783</b>	38,956
Working capital/(deficit) (current assets less current liabilities)	<b>(\$33,113)</b>	(\$33,528)

### Cash cost per ounces sold

	Three months ended		Nine months ended	
	<b>September 30, 2014</b>	September 30, 2013	<b>September 30, 2014</b>	September 30, 2013
<b>Ounces sold</b>	<b>4,450</b>	5,885	<b>16,222</b>	15,351
<b>Mine operating expenses (CAD 000's)</b>	<b>\$5,404</b>	\$5,757	<b>\$17,658</b>	\$19,072
Cash cost per ounce sold (CAD) (mine operating expenses divided by ounces sold)	<b>\$1,214</b>	\$978	<b>\$1,089</b>	\$1,242

### Average realized gold price (CDN\$)

	Three months ended		Nine months ended	
	<b>September 30, 2014</b>	September 30, 2013	<b>September 30, 2014</b>	September 30, 2013
<b>Gross Revenue</b>				
From commercial production ounces (CAD 000's) before refining and royalty charges	<b>\$6,180</b>	\$8,016	<b>\$22,822</b>	\$22,557
<b>Ounces sold</b>	<b>4,450</b>	5,885	<b>16,222</b>	15,351
Average realized gold price (CDN\$) (Gross revenue divided by ounces sold)	<b>\$1,389</b>	\$1,362	<b>\$1,407</b>	\$1,469

### Net cash flow from operating activities

	Three months ended		Nine months ended	
	<b>September 30, 2014</b>	September 30, 2013	<b>September 30, 2014</b>	September 30, 2013
Cash flow provided by (used in) operating activities before working capital adjustments (CAD 000's)	<b>(\$21)</b>	(\$166)	<b>\$2,505</b>	(\$910)
Cash flow provided by (used in) working capital adjustments (CAD 000's)	<b>\$144</b>	\$1,394	<b>\$1,073</b>	\$4,455
<b>Net cash flow from operating activities (CAD 000's)</b>	<b>\$123</b>	\$2,317	<b>\$3,578</b>	\$3,546

## **Contractual Obligations and Contingencies**

The following table summarizes the Company's contractual obligations over the next five years and thereafter.

Contractual Obligation	Total	Payments due by period:			
		< 1 year	1 - 3 years	4 - 5 years	> 5 years
Contractual commitments	1,260,236	1,260,236	-	-	-
	1,260,236	1,260,236	-	-	-

The Company is party to certain management contracts. These contracts contain clauses requiring additional payments of up to \$3.60 million be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contractual commitments remaining under the agreements are approximately \$1.26 million, all due within one year.

The Company's mining and exploration activities are subject to various law and regulations governing the protection of the environment. These law and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Arbitration proceedings have taken place with Thundermin with respect to the Lac Pelletier property. The Arbitrator delivered its decision that the Company's exercise of this option was valid as of August 31, 2010. The Arbitrator has set out a series of deadlines whereby the parties must agree on the ultimate date for the achievement of commercial production. If commercial production is not achieved before August 31, 2015, the Company will be required to make advance royalty payments of \$75,000 annually until commercial production is achieved.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax-related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

## **Risks and Uncertainties**

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration, development and operation of mining properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information relating to the Company.

### *Nature of Mining, Mineral Exploration and Development Projects*

Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in the mineral exploration, development and production, including environmental hazards, explosions, unusual or unexpected geological formations or pressures and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, reserve and resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. Indeed, current market conditions are forcing many mining operations to increase capital and operating cost estimates. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of

production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

#### *Revenues*

The Company is in commercial production on its Herbin property. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years in relation to the engagement of consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Company's properties. The development of the Company's properties will require the commitment of substantial resources to conduct time-consuming development. There can be no assurance that the Company will generate sufficient revenues or achieve profitability.

#### *Liquidity Concerns, Future Financings and Indebtedness*

The Company will require significant capital and operating expenditures in connection with the development of its properties. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

The Company is subject to certain debt covenants, and is in default of several of its debt covenants. There can be no assurance that the Company will be successful in repaying all of its indebtedness or that its secured creditor will not take action to enforce its security. The Company's level of indebtedness could have important consequences for its operations, including:

- The Company will need to use a large portion of its cash flow to repay principal and pay interest on its debt, which will reduce the amount of funds available to finance its operations and other business activities;
- The Company's debt level may limit its ability to pursue other business opportunities, borrow money for operations or capital expenditures in the future, or implement its business strategy.

The Company expects to obtain the funds to pay its operational and capital expenditures in 2014 through its future cash flows from the Lac Herbin Mine operations as well as private equity ventures. The Company's ability to meet its payment obligations will depend on its future financial performance, which will be affected by financial, business, economic and other factors. The Company will not be able to control many of these factors, such as economic conditions in the markets in which it operates. The Company cannot be certain that its existing capital resources and future cash flows from operations will be sufficient to allow it to pay principal and interest on the Company's debt and meet its other obligations. If these amounts are insufficient or if there is a contravention of its debt covenants, the Company may be required to refinance all or part of its existing debt, sell assets, borrow more money or issue additional equity. The ability of the Company to access the bank public debt or equity capital markets on an efficient basis may be constrained by the dislocation in the credit markets, capital and/or liquidity constraints in the banking markets and equity conditions at the time of issuance.

#### *Foreign Exchange*

Gold is sold in United States dollars and consequently, the Company is subject to foreign exchange risks relating to the relative value of the Canadian dollar as compared to the US dollar. To the extent QMX generates revenue it will be subject to foreign exchange risks as revenues will be received in US dollars while operating and capital costs will be incurred primarily in Canadian dollars. A decline in the US dollar would result in a decrease in the real value of QMX's revenues and adversely affect its financial performance. As well, the Company carries short and long term debt denominated in US dollars.

#### *Mineral Resource and Mineral Reserve Estimates May be Inaccurate*

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the control of the Company. Such estimates are a subjective process, and the accuracy of any mineral resource or mineral reserve estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of mineral recovery from such deposits may be different. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect on the Company's financial position and results of operations.

Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, and actual events could have a material adverse effect on the Company's mineral reserve estimates.

#### *Licences and Permits, Laws and Regulations*

The Company's exploration and development activities, including mine, mill, road, rail and port facilities, require permits and approvals from various government authorities, and are subject to extensive federal, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. There can be no guarantee that QMX will be able to maintain or obtain all necessary licences, permits and approvals that may be required to explore and develop its properties, commence construction or operation of mining facilities.

#### *Gold and Base Metal Prices*

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and result of operations.

#### *Environmental*

The Company's activities are subject to extensive federal, provincial and local laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are also increasingly stringent. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Further, any failure by the Company to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations.

#### *Title to Properties*

The acquisition of title to resource properties is a very detailed and time-consuming process. The Company holds its interest in certain of its properties through mining claims. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired. There may be challenges to the title of the properties in which the Company may have an interest, which, if successful, could result in the loss or reduction of the Company's interest in the properties.

#### *Uninsured Risks*

The Company maintains insurance to cover normal business risks. In the course of exploration and development of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including explosions, rock bursts, cave ins, fire and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the common shares of the Company.

#### *Competition*

QMX competes with many other mining companies that have substantially greater resources than the Company. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

#### *Dependence on Outside Parties*

QMX has relied upon consultants, engineers and others and intends to rely on these parties for development, construction and operating expertise. Substantial expenditures are required to construct mines, to establish mineral reserves through drilling, to

carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on QMX.

#### *Qualified Personnel*

Recruiting and retaining qualified personnel in the future is critical to the Company's success. As the Company develops the Lac Herbin and Lac Pelletier properties, the need for skilled labour will increase. The number of persons skilled in the exploration and development of mining properties is limited and competition for this workforce is intense. The development of the Company's properties may be significantly delayed or otherwise adversely affected if the Company cannot recruit and retain qualified personnel as and when required.

#### *Availability of Reasonably Priced Raw Materials and Mining Equipment*

QMX will require a variety of raw materials in its business as well as a wide variety of mining equipment. To the extent these materials or equipment are unavailable or available only at significantly increased prices, the Company's production and financial performance could be adversely impacted.

#### *Failure to Meet Production Targets and Cost Estimates*

The Company prepares future production and capital cost estimates. Actual production and costs may vary from the estimates for a variety of reasons such as estimates of grade, tonnage, dilution and metallurgical and other characteristics of the ore varying from the actual ore mined, revisions to mine plans, risks and hazards associated with mining, adverse weather conditions, unexpected labour shortages or strikes, equipment failures and other interruptions in production capabilities. Production costs may also be affected by increased mining costs, variations in predicted grades of the deposits, increases in level of ore impurities, labour costs, raw material costs, inflation and fluctuations in currency exchange rates. Failure to achieve production targets or cost estimates could have a material adverse impact on the Company's sales, profitability, cash flow and overall financial performance. In the event that the Company obtains debt financing, repayment terms associated with such financing will likely be based on production schedule estimates. Any failure to meet such timelines or to produce amounts forecast may constitute defaults under such debt financing, which could result in the Company having to repay loans.

#### *Share Price Fluctuations*

The market price of securities of many companies, particularly development stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur.

#### *Internal Controls*

QMX has invested resources to document and analyze its system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

#### *Insurance*

The Company believes that it currently maintains insurance in such amounts as it considers to be reasonable to protect against certain risks and hazards related to its operations. However, no assurance can be given that the current insurance coverage will continue to be available at economically reasonable premiums in the future or that the current insurance coverage provides sufficient coverage against all potential losses. Any deficiency in insurance coverage could result in the Company incurring significant costs that could have a material adverse effect upon its financial performance and results of operations.

#### *Litigation*

Legal proceedings may arise from time to time in the course of the Company's business. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. The process of defending such claims could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or one or more of its subsidiaries may become subject could have a material effect on the Company's financial position and results of operations.

### *Reliance on Limited Number of Properties*

Currently, the Company relies on a limited number of property interests. As a result, unless the Company acquires additional property interests, any adverse developments affecting any of the current properties could have a material adverse effect upon the Company and would materially and adversely affect the potential production, profitability, financial performance and results of operations.

### *Conflicts of Interest*

Certain of the directors and officers of the Company may serve from time to time as directors, officers, promoters and members of management of other companies involved in natural resource exploration and development and therefore it is possible that a conflict may arise between their duties as a director or officers of the Company and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and the directors and officers will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

### **Critical Accounting Estimates**

The preparation of the Company's Consolidated Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and reported amounts of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for provisions for reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock based compensation and the valuation of income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

### **Off Balance Sheet items**

The Company does not have any off balance sheet items.

November 28, 2014