



# MARQUEST CANADIAN EQUITY INCOME FUND

ANNUAL REPORT

Year ended December 31, 2016

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**STATEMENTS OF FINANCIAL POSITION**

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As at December 31,

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current Assets</b>  |                     |                     |
| Investments at fair value (note 4)                                     | \$ 3,538,176        | \$ 3,991,945        |
| Cash   | 65,214              | 70,345              |
| Dividends and interest receivable                                      | 18,362              | 31,323              |
|  | <u>3,621,752</u>    | <u>4,093,613</u>    |
| <b>Liabilities</b>   |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| Accounts payable and accrued liabilities                               | 35,064              | 42,712              |
| Distributions payable (note 11)  | 34,679              | 41,214              |
| Written covered call options at fair value (note 4)                    | -                   | 6,705               |
|  | <u>69,743</u>       | <u>90,631</u>       |
| <b>Net Assets attributable to Holders of Redeemable Units</b>          | <u>\$ 3,552,009</u> | <u>\$ 4,002,982</u> |
| <b>Number of Redeemable Units outstanding (note 6)</b>                 | <u>594,844</u>      | <u>706,929</u>      |
| <b>Net Assets attributable to Holders of Redeemable Units per Unit</b> | <u>\$ 5.97</u>      | <u>\$ 5.66</u>      |

Approved on behalf of the Board of Directors of Marquest Asset Management Inc., the Manager

"Gerry L. Brockelsby"

Gerry L. Brockelsby

Director

Marquest Asset Management Inc.

"Andrew A. McKay"

Andrew A. McKay

Director

Marquest Asset Management Inc.

*The accompanying notes are an integral part of the financial statements*

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**STATEMENTS OF COMPREHENSIVE INCOME**

| For the years ended December 31,  | 2016              | 2015                  |
|---|-------------------|-----------------------|
| <b>Investment Income</b>  |                   |                       |
| Dividend income   | \$ 183,210        | \$ 380,544            |
| Interest for distribution purposes  | 637               | 967                   |
| Capital gain on income trusts   | 1,315             | 242                   |
| Net realized gain (loss) on sale of investments   | (241,167)         | (1,457,664)           |
| Net realized gain (loss) on foreign currency transactions   | (196)             | 625                   |
| Net realized gain (loss) on options   | 44,394            | 166,799               |
| Change in unrealized appreciation (depreciation) of investments   | 921,114           | (207,709)             |
| Change in unrealized appreciation (depreciation) of foreign currency translations                             | (87)              | 152                   |
|   | <u>909,220</u>    | <u>(1,116,044)</u>    |
| <b>Expenses</b>   |                   |                       |
| Management fees (note 9)  | 27,571            | 55,484                |
| Custodial fees  | 93,923            | 89,739                |
| Audit fees  | 9,428             | 9,018                 |
| Legal fees  | 16,353            | 19,209                |
| Securityholder reporting costs  | 35,174            | 33,590                |
| Dealer service fees (note 9)  | 15,677            | 35,815                |
| Independent Review Committee fees   | 525               | 988                   |
| Foreign withholding taxes   | 645               | 1,479                 |
| Transaction costs (note 10)   | 12,271            | 27,071                |
| Total expenses  | <u>211,567</u>    | <u>272,393</u>        |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>          | <u>\$ 697,653</u> | <u>\$ (1,388,437)</u> |
| <b>Weighted average redeemable units outstanding during the year</b>  | <u>697,717</u>    | <u>1,182,287</u>      |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit</b> | <u>1.00</u>       | <u>(1.17)</u>         |

*The accompanying notes are an integral part of the financial statements*

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS**

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| For the years ended December 31,  | 2016                | 2015                |
|---|---------------------|---------------------|
| Net assets attributable to holders of redeemable units, beginning of year                     | <u>\$ 4,002,982</u> | <u>\$ 9,326,857</u> |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations | <u>697,653</u>      | <u>(1,388,437)</u>  |
| Distributions to holders of redeemable units  |                     |                     |
| Return of capital   | <u>(488,033)</u>    | <u>(825,726)</u>    |
|   | <u>(488,033)</u>    | <u>(825,726)</u>    |
| Redeemable unit transactions  |                     |                     |
| Amounts paid on redemption of redeemable units  | <u>(660,593)</u>    | <u>(3,109,712)</u>  |
|   | <u>(660,593)</u>    | <u>(3,109,712)</u>  |
| Net assets attributable to holders of redeemable units, end of year                           | <u>\$ 3,552,009</u> | <u>\$ 4,002,982</u> |

*The accompanying notes are an integral part of the financial statements*

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**STATEMENTS OF CASH FLOWS**

| For the years ended December 31,   | 2016               | 2015                  |
|--|--------------------|-----------------------|
| <b>Cash flows from (used in) operating activities</b>  |                    |                       |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b> | <b>\$ 697,653</b>  | <b>\$ (1,388,437)</b> |
| Adjustments for:   |                    |                       |
| Net realized loss (gain) on sale of investments  | 241,167            | 1,457,664             |
| Net realized loss (gain) on options  | (44,394)           | (166,799)             |
| Change in unrealized depreciation (appreciation) of investments                                      | (921,114)          | 207,709               |
| Purchase of investments  | (6,765,198)        | (7,848,589)           |
| Proceeds from sale of investments  | 7,936,603          | 11,778,897            |
| Change in non-cash working capital   | 5,313              | (68,388)              |
|  | <b>452,377</b>     | <b>5,360,494</b>      |
| <b>Cash flows from (used in) financing activities</b>  |                    |                       |
| Distributions to holders of redeemable units   | (494,568)          | (855,831)             |
| Redemption of redeemable units   | (660,593)          | (3,109,712)           |
|  | <b>(1,155,161)</b> | <b>(3,965,543)</b>    |
| Net increase (decrease) in cash  | (5,131)            | 6,514                 |
| Cash - beginning of year   | 70,345             | 63,831                |
| <b>Cash - end of year</b>  | <b>\$ 65,214</b>   | <b>\$ 70,345</b>      |
| <b>Supplemental cash flow information relating to operating activities</b>                           |                    |                       |
| Dividends, net of foreign withholding taxes  | 196,841            | 405,659               |
| Interest received  | 637                | 967                   |

*The accompanying notes are an integral part of the financial statements*

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**SCHEDULE OF INVESTMENT PORTFOLIO**

As at December 31, 2016

| Number of<br>Shares/Units     | Description                               | Average<br>Cost (\$) | Fair<br>Value (\$) | % of Net Assets<br>Attributable<br>to Holders of<br>Redeemable Units |
|-------------------------------|---|----------------------|--------------------|--|
| <b>Equity Investments</b>     |   |                      |                    |  |
| <b>Energy</b>                 |   |                      |                    |  |
| 1,692                         | AltaGas Ltd.                              | 58,350               | 57,359             | 1.6  |
| 258                           | Bonterra Energy Corp.                     | 10,114               | 7,505              | 0.2  |
| 3,114                         | Enbridge Inc.                             | 164,792              | 175,941            | 5.0  |
| 1,321                         | Ensign Energy Services, Inc.              | 12,085               | 12,391             | 0.3  |
| 993                           | Freehold Royalties Ltd.                   | 15,207               | 14,071             | 0.4  |
| 1,475                         | Gibson Energy Inc.                        | 28,830               | 27,995             | 0.8  |
| 3,637                         | Inter Pipeline Ltd.                       | 105,400              | 107,801            | 3.0  |
| 1,849                         | Keyera Corp.                              | 75,125               | 74,811             | 2.1  |
| 744                           | Pason Systems Inc.                        | 14,409               | 14,612             | 0.4  |
| 4,062                         | Pembina Pipeline Corporation              | 162,038              | 170,441            | 4.8  |
| 1,717                         | PEYTO Exploration & Development Corp.     | 56,755               | 57,022             | 1.6  |
| 1,306                         | Superior Plus Corporation                 | 14,646               | 16,651             | 0.5  |
| 2,908                         | TransCanada Corporation                   | 168,352              | 176,050            | 5.0  |
| 1,216                         | Vermilion Energy, Inc.                    | 63,828               | 68,692             | 1.9  |
|                               |   | <u>949,931</u>       | <u>981,342</u>     | <u>27.6</u>  |
| <b>Materials</b>              |   |                      |                    |  |
| 815                           | Dominion Diamond Corporation              | 9,036                | 10,603             | 0.3  |
| 620                           | Labrador Iron Ore Royalty Corporation     | 10,094               | 11,544             | 0.3  |
| 2,903                         | Nevsun Resources Ltd.                     | 10,689               | 12,048             | 0.4  |
| 600                           | Russel Metals Inc.                        | 14,181               | 15,348             | 0.4  |
| 3,647                         | Western Forest Products Inc.              | 6,929                | 6,893              | 0.2  |
|                               |   | <u>50,929</u>        | <u>56,436</u>      | <u>1.6</u>   |
| <b>Industrials</b>            |   |                      |                    |  |
| 625                           | Chemtrade Logistics Income Fund           | 12,590               | 11,837             | 0.3  |
| 246                           | Exchange Income Corp.                     | 10,362               | 10,271             | 0.3  |
| 504                           | Morneau Shepell, Inc.                     | 9,456                | 9,672              | 0.3  |
|                               |   | <u>32,408</u>        | <u>31,780</u>      | <u>0.9</u>   |
| <b>Consumer Discretionary</b> |   |                      |                    |  |
| 1,425                         | Aimia Inc.                                | 20,877               | 12,654             | 0.4  |
| 1,050                         | Corus Entertainment Inc. Cl. B Non-Voting | 20,485               | 13,230             | 0.4  |
| 243                           | Dorel Industries Inc. Cl. B Sub. Voting   | 8,176                | 9,428              | 0.3  |
| 455                           | North West Company, Inc.                  | 13,190               | 12,522             | 0.3  |
| 3,799                         | Shaw Communications Inc. Cl. B Non-Voting | 100,577              | 102,345            | 2.9  |
|                               |   | <u>163,305</u>       | <u>150,179</u>     | <u>4.3</u>   |
| <b>Health Care</b>            |   |                      |                    |  |
| 815                           | Extencicare Inc.                          | 6,863                | 8,052              | 0.2  |
| <b>Financials</b>             |   |                      |                    |  |
| 205                           | Alaris Royalty Corp.                      | 5,899                | 4,910              | 0.1  |
| 1,858                         | Bank of Montreal                          | 160,457              | 179,427            | 5.1  |
| 1,947                         | Brookfield Property Partners LP           | 59,589               | 57,105             | 1.6  |
| 1,589                         | Canadian Imperial Bank of Commerce        | 166,625              | 174,091            | 4.9  |
| 1,747                         | Chartwell Retirement Residences           | 19,337               | 25,593             | 0.7  |
| 1,541                         | CI Financial Corp.                        | 44,166               | 44,489             | 1.3  |
| 1,010                         | Enbridge Income Fund Holdings Inc.        | 30,453               | 35,118             | 1.0  |
| 1,270                         | First Capital Realty Inc.                 | 27,051               | 26,251             | 0.7  |
| 224                           | Genworth MI Canada Inc.                   | 7,252                | 7,540              | 0.2  |
| 1,551                         | Great-West Lifeco Inc.                    | 54,867               | 54,549             | 1.5  |
| 460                           | IGM Financial Inc.                        | 19,545               | 17,572             | 0.5  |
| 190                           | Laurentian Bank of Canada                 | 10,241               | 10,969             | 0.3  |
| 1,885                         | National Bank of Canada                   | 97,106               | 102,789            | 2.9  |
| 2,053                         | Power Corporation of Canada               | 62,028               | 61,692             | 1.7  |
| 1,361                         | Power Financial Corporation               | 46,988               | 45,675             | 1.3  |
| 1,972                         | Royal Bank of Canada                      | 159,616              | 179,195            | 5.1  |
| 2,330                         | The Bank of Nova Scotia                   | 154,133              | 174,191            | 4.9  |
|                               |   | <u>1,125,353</u>     | <u>1,201,156</u>   | <u>33.8</u>  |

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**SCHEDULE OF INVESTMENT PORTFOLIO**

As at December 31, 2016

| Number of<br>Shares/Units                                     | Description  | Average<br>Cost (\$) | Fair<br>Value (\$) | % of Net Assets<br>Attributable<br>to Holders of<br>Redeemable Units |
|---|--|----------------------|--------------------|--|
| <b>Information Technology</b>                                 |  |                      |                    |  |
| 711   | Computer Modelling Group Ltd.                              | 7,039                | 6,477              | 0.2  |
| 1,003   | DH Corporation   | 25,305               | 22,347             | 0.6  |
|   |  | <u>32,344</u>        | <u>28,824</u>      | <u>0.8</u>   |
| <b>Telecommunication Services</b>                             |  |                      |                    |  |
| 3,018   | BCE Inc.   | 177,809              | 175,135            | 4.9  |
| 4,152   | TELUS Corporation  | 174,307              | 177,498            | 5.0  |
|   |  | <u>352,116</u>       | <u>352,633</u>     | <u>9.9</u>   |
| <b>Utilities</b>  |  |                      |                    |  |
| 2,536   | Algonquin Power & Utilities Corp.                          | 22,040               | 28,885             | 0.8  |
| 1,047   | Brookfield Renewable Energy Partners LP                    | 35,184               | 41,723             | 1.2  |
| 794   | Capital Power Corp.  | 17,104               | 18,445             | 0.5  |
| 1,876   | Emera Incorporated   | 87,650               | 85,152             | 2.4  |
| 977   | Enercare, Inc.   | 14,896               | 17,430             | 0.5  |
| 882   | Innergex Renewable Energy Inc.                             | 9,699                | 12,374             | 0.3  |
| 863   | Just Energy Group, Inc.                                    | 7,217                | 6,334              | 0.2  |
| 1,054   | Northland Power Inc.                                       | 20,416               | 24,558             | 0.7  |
| 994   | Parkland Fuel Corporation                                  | 21,186               | 27,961             | 0.8  |
| 835   | TransAlta Renewables Inc.                                  | 10,155               | 11,974             | 0.3  |
| 3,196   | Veresen Inc.   | 36,561               | 41,900             | 1.2  |
|   |  | <u>282,108</u>       | <u>316,736</u>     | <u>8.9</u>   |
| <b>Real Estate Investment Trusts</b>                          |  |                      |                    |  |
| 791   | Allied Properties Real Estate Investment Trust             | 28,826               | 28,436             | 0.8  |
| 1,375   | Artis Real Estate Investment Trust                         | 17,074               | 17,463             | 0.5  |
| 344   | Boardwalk Real Estate Investment Trust                     | 16,885               | 16,736             | 0.5  |
| 1,239   | Canadian Apartment Properties Real Estate Investment Trust | 34,107               | 38,867             | 1.1  |
| 666   | Canadian Real Estate Investment Trust                      | 30,820               | 30,836             | 0.9  |
| 1,599   | Cominar Real Estate Investment Trust                       | 24,857               | 23,537             | 0.7  |
| 803   | Crombie Real Estate Investment Trust                       | 11,191               | 10,905             | 0.3  |
| 1,153   | Dream Global Real Estate Investment Trust                  | 9,991                | 10,896             | 0.3  |
| 1,004   | Dream Office Real Estate Investment Trust                  | 18,461               | 19,628             | 0.5  |
| 434   | Granite Real Estate Investment Trust                       | 17,577               | 19,456             | 0.5  |
| 2,603   | H&R Real Estate Investment Trust                           | 57,811               | 58,229             | 1.6  |
| 437   | Northview Apartment Real Estate Investment                 | 9,098                | 8,771              | 0.2  |
| 2,257   | Pure Industrial Real Estate Trust                          | 11,970               | 12,617             | 0.4  |
| 3,018   | RioCan Real Estate Investment Trust                        | 79,389               | 80,369             | 2.3  |
| 1,062   | Smart Real Estate Investment Trust                         | 34,225               | 34,292             | 1.0  |
|   |  | <u>402,282</u>       | <u>411,038</u>     | <u>11.6</u>  |
| <b>Total investments</b>                                      |  | <u>3,397,639</u>     | <u>3,538,176</u>   | <u>99.6</u>  |
| <b>Liabilities less other assets</b>                          |  |                      | 13,833             | 0.4  |
| <b>Net Assets Attributable to Holders of Redeemable Units</b> |  |                      | <u>3,552,009</u>   | <u>100.0</u>   |

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**1. Formation of Fund**

Marquest Canadian Equity Income Fund (the "Fund") is a closed-end investment fund established under the laws of the Province of Ontario pursuant to a declaration of trust dated April 28, 2011. Marquest Asset Management Inc. ("Marquest" or the "Manager") is the trustee, manager and promoter of the Fund. The Fund's investment activities and administrator is managed by the Manager. The Fund's custodian is State Street Global Services. The Fund's investment objectives are to provide holders with monthly distributions and the opportunity for long-term capital appreciation. On May 9, 2011, the Fund issued 2,315,555 Units at \$10.00 per Unit. Total gross proceeds raised were \$23,155,550.

The Fund's registered office is 161 Bay Street, Suite 4420, P.O. Box 204, Toronto, Ontario M5J 2S1. The Fund's invests in equity securities, fixed incomes, and short-term government debt of Canada investments as well as derivatives (covered call options). Most of the Fund's investments are listed and traded on stock exchange markets in Canada.

These financial statements were authorized for issue by the Manager on March 31, 2017.

**2. Significant Accounting Policies**

**(a) Basis of Preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a going concern basis using the historical-cost convention. However, the Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Fund's accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the Net Asset Value for transactions with unitholders. The Fund's Net Asset Value per security is the same as the Net Assets attributable to Holders of Redeemable Units per Unit for each period and therefore no reconciliation is presented.

**(b) Significant accounting judgments, estimates and assumptions**

The preparation of these financial statements requires the Manager to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates*

The Fund periodically holds financial instruments that are not quoted in active markets, including derivatives. Fair values may be determined using reputable pricing vendors (for derivatives) or indicative prices from market makers/brokers. Broker quotes as obtained from pricing sources may be indicative and not executable or binding.



**MARQUEST CANADIAN EQUITY INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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*Assessment as investment entity*

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are, as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund's prospectus details the objective of providing investment management services to investors, which includes investing in equities, fixed income securities, private equity and property investments for the purpose of returns in the form of investment income and capital appreciation.

The Fund's report to its investors via quarterly investor information, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by IFRS in the Fund's financial statements. The Fund has a clearly documented exit strategy for all of its investments.

The manager has also concluded that the Fund meets the additional characteristics of an investment entity, in that it has more than one investment; it has more than one investor and its investors are not related parties.

These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

**(c) Functional currency and foreign currency translation**

These financial statements are presented in Canadian dollars (CAD). The Fund's subscriptions and redemptions are denominated in Canadian dollars (CAD), which is also its functional and presentation currency.

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses on the sale of investments are included in "Net realized gain (loss) on sale of investments". Unrealized foreign exchange gains and losses are included in "Change in unrealized appreciation (depreciation) of investments".

**(d) Financial instruments**

The Fund recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

The Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

*Financial assets and liabilities at fair value through profit or loss*

The category of financial assets and liabilities at fair value through the profit or loss is sub-divided into:

- Financial assets and liabilities held for trading: financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes derivatives which include written call options. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. The Fund's policy is not to apply hedge accounting.

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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- Financial instruments designated as at fair value through profit or loss upon initial recognition: these include redeemable shares of the Fund are carried at the residual value and equities. These financial assets and liabilities are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's prospectus.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statements of Financial Position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. In circumstances where the close price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value. All transaction costs for such instruments are recognized directly in profit or loss.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include discounted cash flow analysis and option pricing models, which considers factors such as the market value of the underlying security, strike price, volatility and terms of the warrants or options.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statements of Comprehensive Income within 'Change in unrealized appreciation (depreciation) of investments' in the period in which they arise. Interest and dividend earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense.

The average cost of portfolio investments represents the sum of the average cost of each portfolio investments. For the purposes of determining the average cost of each portfolio investment, the purchase price of portfolio investments acquired by a Fund is added to the average cost of the particular portfolio investment immediately prior to the purchase. The average cost of a portfolio investment is reduced by the number of shares or units sold multiplied by the average cost of the portfolio investment at the time of the sale. The average cost per share or unit of each portfolio investment sold is determined by dividing the average cost of the portfolio investment by the number of shares or units held immediately prior to the sale transaction. Transaction costs incurred in portfolio transactions are excluded from the average cost of investments and are recognized immediately in net income and are presented as a separate expense item in the financial statements. Realized gains and losses from the sale of portfolio investments are also calculated based on the average costs, excluding transaction costs, of the related investment.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are measured at amortized cost. Transaction costs are included in the initial carrying amount of the asset.

*Other financial assets and liabilities*

This category includes all financial assets and liabilities, other than those classified at fair value through profit or loss. These include cash, dividend and interest receivable, amounts receivable for investments sold, accounts payable and accrued liabilities, bank overdraft, amounts payable for investments purchased, and distributions payable. Financial assets and liabilities classified as such are subsequently measured at amortized cost, which is an approximation of the fair value. Transaction costs are included in the initial carrying amount of the assets and liabilities.

The Company's financial assets include investments at fair value, cash, dividend and interest receivable, and amounts receivable for investments sold. The Company's other financial liabilities include accounts payables and accrued liabilities, distributions payable, bank overdraft, amounts payable for investments purchased and written covered call options at Fair value. Classification of these financial instruments is as follows:

**MARQUEST CANADIAN EQUITY INCOME FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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|  |                             |
|--|-----------------------------|
| Derivatives (including written covered call options) | HFT                         |
| Equities   | Designated at FVTPL         |
| Cash   | HFT                         |
| Dividends and interest receivable                    | Loans and receivables       |
| Amounts receivable for investments sold              | Loans and receivables       |
| Amounts receivable for redeemable units issued       | Loans and receivables       |
| Accounts payable and accrued liabilities             | Other financial liabilities |
| Bank overdraft                                       | Other financial liabilities |
| Amounts payable for investments purchased            | Other financial liabilities |
| Distributions payable                                | Other financial liabilities |

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as in note 4, based on the lowest level input that is significant to the fair value measurement as a whole.

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership. The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in Statements of Comprehensive Income.

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is 'impaired' if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payment status of the borrowers.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

**(e) Cash**

Cash is comprised of cash on deposit. Cash are held for trading and carried at fair market value.

**MARQUEST CANADIAN EQUITY INCOME FUND**  
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**(f) Increase (decrease) in Net Assets Attributable to Holders of Redeemable Units Per Unit**

Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit is based on the increase (decrease) in net assets attributable to holders of redeemable units from operations attributable divided by the weighted average number of units outstanding during the period.

**(g) Classification of redeemable units issued by the Fund**

IAS 32 Financial Instruments presentation requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability.

**(h) Investment Income Recognition**

*Dividend Income and Expense*

Dividend income is recognized in profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statements of Comprehensive Income.

*Interest Income and Expense*

Interest for distribution purposes as disclosed in Statements of Comprehensive Income on debt securities at fair value through profit or loss is recognized on accrual basis and represents the coupon interest received accounted for on an accrual basis.

*Distribution income from investment trust*

Distributions from income trusts, mutual funds and REIT's are recognized on the ex-distribution date and are recorded as income, capital gains or a return of capital, based on best information available to the Manager. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment.

*Realized and unrealized gains and losses*

Realized gains and losses on investments, and unrealized appreciation and depreciation on investments, are calculated on an average cost basis.

**(i) Options and Income from Options**

Written covered call options traded on recognized exchanges are categorized as held for trading and valued at fair value, which means the latest trade price. Premiums received from writing options are recorded as "Written covered call options at fair value" as a liability in the Statements of Financial Position. The change in the difference between the proceeds and fair value, as recorded in the accounts, is shown in the change in unrealized appreciation (depreciation) of investments. Gains or losses realized upon expiration, exercise or repurchase of the options are included in net realized gain (loss) on options in the Statements of Comprehensive Income.

**(j) Transaction Costs**

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are recognized in the Statements of Comprehensive Income in the period in which they are incurred.

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**3. Income and Withholding Taxes**

The Fund qualifies as a Mutual Fund Trust within the meaning of the Income Tax Act (Canada). The Fund is subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders during the year. Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year are paid to Unitholders so that the Fund will not be liable for income taxes under Part I of the Income Tax Act (Canada).

The Fund holds Canadian securities which pay U.S. dividends which may be subject to withholding tax, which are the taxes imposed for the dividends received from these securities. Withholding taxes are accrued based on the accrual of the related to the dividend and are included in "Withholding taxes" on the Statements of Comprehensive Income and "Accrued liabilities" on the Statements of Financial Position.

The Fund has accumulated net realized capital and non-capital carry forward losses. As at December 31, 2016 the Fund has net realized capital loss carry forward of \$1,589,077 (2015 - \$1,044,832) and non-capital loss carry forward of \$24,398 (2015- \$599). Non-capital losses may be carried forward to reduce future taxable income for up to twenty years and net realized capital losses may be applied to future capital gains indefinitely.

**4. Fair Value of Financial Instruments**

IFRS 13 Fair Value Measurement requires a disclosure of the Fund's investments based on a fair value hierarchy framework with the following levels:

Level 1 – unadjusted quoted prices in active markets for identical assets and liabilities

Level 2 – inputs other than quoted in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs are not based on observable market data (unobservable inputs).

The following tables illustrate the classification of the Funds' financial instruments within the fair value hierarchy as at December 31, 2016 and December 31, 2015.

**December 31, 2016**

| <b>Investments</b>               | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>        |
|----------------------------------|---------------------|----------------|----------------|---------------------|
| <b>Assets at Fair Value</b>      |                     |                |                |                     |
| Equity Investments               | \$ 3,538,176        | -              | -              | \$ 3,538,176        |
| <b>Liabilities at Fair Value</b> |                     |                |                |                     |
| Written Call Options             | -                   | -              | -              | -                   |
| <b>Total Investments</b>         | <b>\$ 3,538,176</b> | <b>-</b>       | <b>-</b>       | <b>\$ 3,538,176</b> |

**December 31, 2015**

| <b>Investments</b>               | <b>Level 1</b>      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>        |
|----------------------------------|---------------------|----------------|----------------|---------------------|
| <b>Assets at Fair Value</b>      |                     |                |                |                     |
| Equity Investments               | \$ 3,991,945        | -              | -              | \$ 3,991,945        |
| <b>Liabilities at Fair Value</b> |                     |                |                |                     |
| Written Call Options             | \$ (6,705)          | -              | -              | \$ (6,705)          |
| <b>Total Investments</b>         | <b>\$ 3,985,240</b> | <b>-</b>       | <b>-</b>       | <b>\$ 3,985,240</b> |

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2016 or the year ended December 31, 2015.

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**5. Financial Instrument Risks**

The Fund's overall risk management program seeks to minimize potentially adverse effects of these risks on the Fund's financial performance by employing professional, experienced portfolio advisers, by monitoring daily the Fund's positions and market events and by diversifying the investment portfolio within the constraints of the investment guidelines. To assist in managing risk, the Manager maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulations.

**(a) Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

All transactions are settled or paid upon delivery through approved brokers. The risk of default is considered minimal as securities sold are delivered only after the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party defaults on its obligation.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. All securities in which the Fund has invested as at December 31, 2016 and 2015 were publicly listed in an active market.

**(c) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or the fair values of financial instruments.

Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. As at December 31, 2016 and 2015, the Fund has minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates.

**(d) Currency Risk**

Currency risk is the risk that the value of investments which are denominated in a currency other than the Canadian Dollar will fluctuate due to changes in exchange rates. As at December 31, 2016 and 2015, the Fund invests in Canadian Dollar securities and therefore has minimal exposure to foreign currencies.

**(e) Other Price Risk**

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or foreign exchange risk). The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is equivalent to the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through diversification of the investment portfolio.

The most significant exposure to other price risk arises from its investments in equity securities. As of December 31, 2016 and 2015, had the prices on the respective stock exchanges for these securities raised or lowered by 10%, with all other variables held constant, net assets would potentially increase or decrease \$355,201 and \$400,298 respectively.

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**(f) Concentration Risk**

The Manager analyzes concentration risk based on the counterparty, industry and/or geographical location of the financial assets that the Fund holds. The concentration risk is mitigated by the monitoring of the investment portfolio to ensure compliance with its investment guidelines. The Manager regularly monitors the Fund's positions and market events, and mitigates the concentration risk by diversifying the investment portfolio within the constraints of the investment guidelines. The following is a summary of the portfolio concentration as at December 31, 2016 and December 31, 2015:

| Sector                                 | % of Net Assets |                   |
|--|-----------------|-------------------|
|  | December, 2016  | December 31, 2015 |
| Financials                             | 33.8            | 24.5              |
| Energy                                 | 27.6            | 29.3              |
| Real Estate Investment Trusts          | 11.6            | 7.5               |
| Telecommunication Services             | 9.9             | 6.7               |
| Utilities                              | 8.9             | 13.4              |
| Consumer Discretionary                 | 4.3             | 8.7               |
| Materials                              | 1.6             | 7.9               |
| Industrials                            | 0.9             | 1.0               |
| Information Technology                 | 0.8             | -                 |
| Health Care                            | 0.2             | 0.7               |
| Written Covered Call Options           | -               | (0.2)             |
| Cash and Other Assets Less Liabilities | 0.4             | 0.5               |
| Total                                  | 100%            | 100%              |

**6. Unitholders' Equity**

The Fund is authorized to issue an unlimited number of units. On May 9, 2011, the Fund issued 2,315,555 Units for gross proceeds of \$23,155,550 from which agency and issuance fees totaling \$1,562,732 were deducted. Units are redeemable annually and monthly.

**Annual Redemptions**

Units may be redeemed on the last business day in November of each year at a redemption price per Unit equal to the NAVPU less any costs associated with the redemptions including commissions and other costs related to liquidating any portion of the Portfolio required to fund such redemption.

**Monthly Redemptions**

Unitholders whose Units are surrendered for redemption on a monthly basis other than November will be entitled to receive a redemption price per Unit equal to the lesser of: (i) 95% of the Trading Price (as defined below) of the Units; and (ii) the Market Price (as defined below). For these purposes, "Trading Price" means the weighted average trading price on the Toronto Stock Exchange ("TSX") or such other stock exchange on which the Units may be listed for the ten trading days immediately preceding the relevant Redemption Date; and "Market Price" means the closing price of the Units on the TSX or such other stock exchange on which the Units may be listed on the Redemption Date or, if there was no trade during the relevant period preceding a monthly Redemption Date, the average of the last bid and the last asking prices of the Units on the TSX or such other stock exchanges on which the Units may be listed for each day during the relevant period.

The issued and outstanding Units represent the capital of the Fund. The capital is managed according to the investment objectives and policies of the Fund.

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The following Units were issued and redeemed during the years indicated:

|  | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--|--------------------------|--------------------------|
| Units outstanding – Beginning of year  | 706,929                  | 1,223,315                |
| Units Issued                           | -                        | -                        |
| Units Redeemed                         | (112,085)                | (516,386)                |
| <b>Units outstanding – End of year</b> | <b>594,844</b>           | <b>706,929</b>           |

**7. Bank Overdraft**

The cash balance of the Fund may from time to time fall below \$0. Amounts in overdraft bear interest at 3.25% as determined based on the agreement with the custodian of the Fund. The maximum overdraft amount for the Fund during the period is \$nil (December 31, 2015 - \$20,440). The Fund does not employ leverage-based strategies or other bank indebtedness as a part of its normal course of operations.

**8. Normal Course Issuer Bid**

Under a normal course issuer bid, the Fund had the ability to repurchase Units up to a maximum of 10% of the public float at the time the bid commenced. Under the bid, Units are repurchased at their market prices, through the facilities of the TSX, and then cancelled. During the year ended December 31, 2016, the Company repurchased and cancelled no additional Units (December 31, 2015 – nil) at a price of \$nil (December 31, 2015 - \$nil) pursuant to the normal course issuer bid.

**9. Management and Other Fees**

The Manager is entitled to an annual fee of 0.60% of the NAV payable monthly. Management fees are accrued daily and paid monthly to the Manager.

In addition, the Manager is entitled to an amount equal to the service fee payable to dealers, which is equal to 0.40% annually of the NAV of the Fund held by clients of the sales representatives of dealers. This fee is calculated daily and paid quarterly in arrears.

The Fund is responsible for all expenses relating to the operation and the carrying on of its business, including legal fees and audit fees, interest, taxes and administrative costs relating to the redemption of securities as well as the cost of financial and other reports and compliance with applicable laws, regulations and policies.

**10. Soft Dollar Commissions**

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager.

No such research services were included in commissions paid to brokers for the years ended December 31, 2016 and 2015.

**11. Distributions of the Fund**

The Fund's objective is to make monthly distributions to the Unitholders of record on the last business day of each month. The amount of cash distributions may fluctuate from month to month and there can be no assurance that the Fund will make any distributions in any particular month or months. There can be no assurance given as to the amount of targeted distributions in the future.



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**12. Capital Management**

The Fund's capital includes net assets attributable to holders of redeemable units.

The Fund's objectives in managing its capital with respect to the Units are to provide Unitholders with monthly distributions, the opportunity to participate in the capital appreciation of the Portfolio and lower overall volatility of the Portfolio returns that would be experienced by owning a portfolio of securities of the S&P/TSX Equity Income Index.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 5 while maintaining sufficient liquidity to meet distributions and redemptions. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to Unitholders.

**13. Related Party Transactions**

*Manager of the Funds*

The Manager charges a management fee for investment management and portfolio advisory services to the Fund. These services are in the normal course of operations and are recorded at the amount of the consideration determined by the management fee rates. Management fees are reported in the Statements of Comprehensive Income. Amounts due to/from Manager at period end, if any, are reported in the Statements of Financial Position.

As at December 31, 2016, the Fund had management fee payable of \$2,063 (December 31, 2015 - \$2,515) included in accounts payable and accrued liabilities.

*Independent Review Committee*

The Manager has appointed the Independent Review Committee (IRC) as required by National Instrument 81-107 Independent Review Committee for Investment Funds. The mandate of the IRC is to review, and provide input on, the Manager's written policies and procedures that deal with conflict of interest matters in respect of the Fund's. The fees for services rendered to the Fund's are reported in the Statements of Comprehensive Income.

**14. Future Accounting Pronouncements**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9.

**TORONTO**

161 Bay Street  
Suite 4420, P.O. Box 204  
Toronto, ON M5J 2S1  
Phone 416.777.7350  
Toll Free 1.877.777.1541

**MONTREAL**

1155 Robert-Bourassa Boulevard  
Suite 905  
Montreal, QC H3B 3A7  
Phone 514.227.0666  
Toll Free 1.866.687.9363

**VANCOUVER**

1055 West Hastings  
Suite 300  
Vancouver, BC V6E 2E9  
Phone 604.895.7281

**CLIENT SERVICES**

Phone 416.365.4077  
Toll free 1.888.964.3533  
[clientservices@marquest.ca](mailto:clientservices@marquest.ca)

[WWW.MARQUEST.CA](http://WWW.MARQUEST.CA)