



MARQUEST MUTUAL FUNDS, INC.
ENERGY SERIES FUND

ANNUAL MANAGEMENT
REPORT OF FUND PERFORMANCE
Year ended December 31, 2016

MARQUEST MUTUAL FUNDS INC. - ENERGY SERIES FUND

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A NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward looking statements. These statements primarily relate to assessments of future economic and market conditions. Such information has been included to assist readers with assessing recent developments in the Fund's operating climate and possible future developments that may affect Fund performance. All forward looking statements are based on management's current beliefs and assumptions which are subject to numerous risks and uncertainties. Statements with respect to future economic and market conditions are based on management's beliefs and assumptions with respect to a range of factors, including market conditions generally and within the sectors in which the Fund's investments operate. While management considers such beliefs and assumptions to be reasonable based on information currently available to it, no assurance can be given that such beliefs and assumptions will prove to be correct. As a result, these forward looking statements would typically include words such as "anticipates, believes, intended or estimated". Events or circumstances may cause actual results to differ materially from those expressed or implied by such forward looking statements as a result of numerous known and unknown risks and uncertainties, including, but not limited to, those associated with economic and market conditions, political stability and other risks identified in the Fund's prospectus. Most of these factors are beyond the control of the Fund and its Manager. Neither the Fund nor its Manager assumes any obligation to update any of the forward looking statements made in this report.

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Marquest Mutual Funds Inc., Energy Series Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, from the manager Marquest Asset Management Inc. (the "Manager") by calling 1-877-777-1541, by writing to us at Suite 4420, 161 Bay Street, PO Box 204, Toronto, Ontario, M5J 2S1 or by visiting our website at www.marquest.ca or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objectives and Strategies

Investment Objectives

The fundamental investment objective is to seek long-term capital growth by investing in a diversified portfolio of primarily equity securities of attractive Canadian companies in the oil and gas sector. The Fund was initially established to enable flow-through limited partnerships formed or acquired by Marquest Asset Management Inc. to complete tax-deferred rollover transactions.

Investment Strategies

The Fund may employ some or all of the following strategies:

- Analyze financial information to identify under-valued companies with high potential.
- Review indicators to identify business cycle and commodity sector trends.
- Apply qualitative analysis and management interviews to select investments with the best risk adjusted potential.
- Overweight exposure to industry sectors that demonstrate strong potential without exposing the Fund to unreasonable risk.

Risks

There are risks associated with investing in the Fund. There have been no changes to the Fund which affected the risks associated with investing in the Fund during the year. Specific risk information can be found in the Fund's prospectus available through our website at www.marquest.ca or at SEDAR's website www.sedar.com.

Results of Operations

As at December 31, 2016 the Fund's total NAV was \$370,225, a decrease of 25.54% since the prior year end (December 2015: \$497,189). The change is primarily due to net redemptions of \$137,240.

The Marquest Energy Series Fund A/Rollover Series gained 3.3% for the year ended December 31, 2016. The net returns for the other series of this Fund are similar to those of the A/Rollover Series, except for differences attributable to the management fees which is charged individually per series. This is compared to the S&P/TSX Composite Index which gained 21.1% and the S&P/TSX Energy Capped Index which was up 31.2%. The Fund's underperformance is attributable to the high cash position maintained in the Fund to manage redemptions. During the second half of the year we add a number of companies in the oil and gas services sector resulting in a 26.1% weighting in the Fund at year end. The majority of the portfolio was positioned in oil and gas producers with most of the companies having a focus on oil.

The energy sector is also in the early stages of a recovery. The challenge for the oil sector is the ability of producers to increase production as pricing improves which will likely limit the upside potential for the oil price. Our strategy has been to focus on the oil and gas service sector which has significant operating leverage to any increase in production activity.

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Recent Developments

2016 was a turning point for the economy as global growth reaccelerated in mid- year. This improvement in economic growth has had a significant impact on the capital markets. Interest rates turned up in the second half of the year as witnessed by the 84 bp increase in US 10 Year Treasury yields in the fourth quarter closing the year at 2.27%. The improved economic outlook and the strong employment conditions have given a green light to monetary authorities to finally begin normalizing monetary policy by increasing interest rates. We expect to see a series of rate hikes over the next year. The rising interest rate environment will be a challenge for bond investors.

The stronger economy will cause a significant shift in relative corporate earnings performance. The cyclical sectors which have been under pressure over the past few years due to slow growth and weak pricing will now have the benefit of stronger pricing and increasing volumes. Given the rising rate environment equity markets will be more challenging from a valuation standpoint as rising interest rates will put pressure on valuations. Therefore, superior performance in equities will depend on an improving earnings outlook. The cyclical sectors have outperformed the overall market in 2016 reflecting both the improved earnings outlook for cyclical stocks and their depressed relative valuations. We expect the cyclical sectors to continue to outperform over the next year.

The shift in the investment environment from slow growth/low interest rates to rising rates and stronger cyclical earnings will cause a significant shift in asset allocation from bonds to equities. In addition, within the equity market investors are expected to focus on the sectors with the strongest earnings outlook which will include the energy sector. We are now in the late stages of the economic cycle where interest rates rise, employment is strong, commodity prices are firm and cyclical sectors outperform. Stock selection will be a key to performance in the next year as well as smaller cap stocks tend to outperform in late cycle environments.

Termination of Corporate Series

Effective March 24, 2016, the Marquest Mutual Funds Inc., Canadian Flex™ Series Fund and the Marquest Mutual Funds Inc., Resource Flex™ Series Fund were terminated and are no longer available for subscriptions.

Taxation of Switch Fund Shares

On March 22, 2016, the federal government announced in its budget that, beginning after September 2016, an exchange of shares of a mutual fund corporation that results in the holder of such shares switching between funds will be considered for income tax purposes to be a disposition at fair market value (the "2016 Budget Proposal"). The 2016 Budget Proposal will not apply to a switch where the shares received in exchange differ only in respect of management fees or expenses to be borne by investors and otherwise derive their value from the same portfolio or fund within the mutual fund corporation. Accordingly, if the 2016 Budget Proposal is enacted into law, the conversion by a holder of shares of one Corporate Fund to shares of another Corporate Fund may result in that holder realizing a capital gain or a capital loss.

On August 3, 2016, the Department of Finance released an updated version of the Legislative Proposals Relating to Income Tax, Sales Tax and Excise Duties which changed the effective date of the proposal to January 1, 2017.

Related Party Transactions

The Manager of the Fund is responsible for managing all of the Fund's activities, including investment advisory and portfolio management services under a Management Agreement. The Management Agreement does not have a fixed termination date. The Management Agreement may be terminated on 60 days' notice by the Manager if the Fund is not in breach or default of its obligations under the Management Agreement or on 30 days' notice if the Fund is in breach or default of its obligations. The Manager may only be removed by the Fund if a certain specified events of default have occurred or by an extraordinary resolution of shareholders. Management fees are paid by the Fund as set out under "Management Fees" below.

During the year, \$10,283 in management fees (including HST) was paid to the Manager.

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Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. The information is derived from the Fund's audited annual financial statements.

| Marquest Mutual Funds Inc. - Energy Series Fund (Series A-Rollover)* | | | | | |
|--|-------------|---------------|---------------|---------------|---------------|
| Net Assets per Share (\$) ⁽¹⁾ | | | | | |
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net assets, beginning of the year ⁽²⁾ | 0.22 | 0.29 | 0.35 | 0.50 | 0.70 |
| Increase (decrease) from operations: | | | | | |
| Total revenue | - | - | 0.01 | 0.01 | - |
| Total expenses (excluding distributions) | (0.03) | (0.03) | (0.03) | (0.02) | (0.03) |
| Realized gains (losses) for the year | (0.01) | (0.22) | 0.01 | (0.27) | (0.04) |
| Unrealized gains (losses) for the year | 0.05 | 0.19 | (0.05) | 0.12 | (0.11) |
| Total increase (decrease) from operations ⁽²⁾ | 0.01 | (0.06) | (0.06) | (0.17) | (0.17) |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | - | - | - | - | - |
| From dividends | - | - | - | - | - |
| From capital gains | - | - | - | - | - |
| Return of capital | - | - | - | - | - |
| Total annual distributions ⁽³⁾ | - | - | - | - | - |
| Net assets at December 31st of year shown | 0.23 | 0.22 | 0.29 | 0.35 | 0.44 |

Notes:

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. Periods beginning on or after January 1, 2013 follow International Financial Reporting Standards (IFRS) and prior to January 1, 2013 follow Canadian Generally Accepted Accounting Principles (Canadian GAAP). The net assets attributable to holders of redeemable units per unit presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to financial statements, if applicable.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were paid in cash or re-invested in additional units of the Fund, or both.

*Series A-Rollover shares were first issued on May 1, 2006.

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Financial Highlights (continued)

| Marquest Mutual Funds Inc. - Energy Series Fund (Series A-Regular)* | | | | | |
|---|-------------|---------------|---------------|---------------|---------------|
| Net Assets per share (\$) ⁽¹⁾ | | | | | |
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net assets, beginning of the year ⁽²⁾ | 0.28 | 0.38 | 0.45 | 0.64 | 0.66 |
| Increase (decrease) from operations: | | | | | |
| Total revenue | - | - | 0.01 | 0.01 | - |
| Total expenses (excluding distributions) | (0.04) | (0.03) | (0.04) | (0.03) | (0.01) |
| Realized gains (losses) for the year | (0.02) | (0.28) | 0.04 | (0.32) | (0.02) |
| Unrealized gains (losses) for the year | 0.07 | 0.21 | (0.12) | 0.15 | (0.05) |
| Total increase (decrease) from operations ⁽²⁾ | 0.01 | (0.10) | (0.11) | (0.19) | (0.08) |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | - | - | - | - | - |
| From dividends | - | - | - | - | - |
| From capital gains | - | - | - | - | - |
| Return of capital | - | - | - | - | - |
| Total annual distributions ⁽³⁾ | - | - | - | - | - |
| Net assets at December 31st of year shown | 0.29 | 0.28 | 0.38 | 0.45 | 0.57 |

Notes:

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. Periods beginning on or after January 1, 2013 follow International Financial Reporting Standards (IFRS) and prior to January 1, 2013 follow Canadian Generally Accepted Accounting Principles (Canadian GAAP). The net assets attributable to holders of redeemable units per unit presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to financial statements, if applicable.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were paid in cash or re-invested in additional units of the Fund, or both.

*Series A-Regular shares were first issued on September 9, 2010.

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Financial Highlights (continued)

| Ratios and Supplemental Data | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Series A-Rollover* | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total net asset value (000's) ⁽¹⁾ | \$ 368 | \$ 495 | \$ 858 | \$ 1,151 | \$ 2,353 |
| Number of shares outstanding ⁽¹⁾ | 1,612,324 | 2,240,329 | 2,981,909 | 3,309,521 | 4,724,201 |
| Management expense ratio ⁽²⁾ | 14.61% | 9.61% | 6.11% | 5.63% | 4.80% |
| Management expense ratio before waivers or absorption ⁽⁵⁾ | 14.61% | 9.61% | 6.11% | 5.63% | 5.71% |
| Trading expense ratio ⁽³⁾ | 0.29% | 0.10% | 0.96% | 1.57% | 1.00% |
| Portfolio turnover rate ⁽⁴⁾ | 60.06% | 41.92% | 148.29% | 86.50% | 111.80% |
| Net asset value per share ⁽¹⁾ | \$0.23 | \$0.22 | \$0.29 | \$ 0.35 | \$0.50 |
| Series A-Regular** | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total net asset value (000's) ⁽¹⁾ | \$ 2 | \$ 2 | \$ 3 | \$ 2 | \$ 3 |
| Number of shares outstanding ⁽¹⁾ | 7,524 | 7,524 | 7,524 | 5,267 | 5,267 |
| Management expense ratio ⁽²⁾ | 14.37% | 10.13% | 5.96% | 5.32% | 2.60% |
| Management expense ratio before waivers or absorption ⁽⁵⁾ | 14.37% | 10.13% | 5.96% | 5.32% | 2.74% |
| Trading expense ratio ⁽³⁾ | 0.29% | 0.10% | 0.96% | 1.40% | 0.10% |
| Portfolio turnover rate ⁽⁴⁾ | 60.06% | 41.92% | 148.29% | 86.50% | 111.80% |
| Net asset value per share ⁽¹⁾ | \$0.29 | \$0.28 | \$0.38 | \$ 0.45 | \$0.64 |

Notes:

⁽¹⁾ The information is provided as at December 31st of the year shown.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

⁽⁵⁾ Waivers and absorption of certain expenses associated with the Fund are at the Manager's discretion and may be terminated at any time.

*Series A-Rollover shares were first issued on May 1, 2006.

**Series A-Regular shares were first issued on September 9, 2010.

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Management and Performance Fees

The Management fees for each applicable series are calculated daily and are based on the Fund's ending total NAV per series; cumulative daily totals are then paid on a monthly basis. The Manager uses these management fees to pay sales and trailing commissions to registered dealers on the distribution of the Fund shares, as well as for the general investment management expenses.

| | Maximum Annual Management Fee Rate (%) | As a percentage of Management fees | |
|---------------------------|--|------------------------------------|---|
| | | Sales & Trailer Commissions (%) | Investment Advisory and Portfolio Management Services (%) |
| Series A /Rollover Shares | 2.00% | 19.51% | 80.49% |
| Series A/Regular Shares | 2.00% | 22.75% | 77.25% |

There are no performance fees or incentive fees in the case of the Fund.

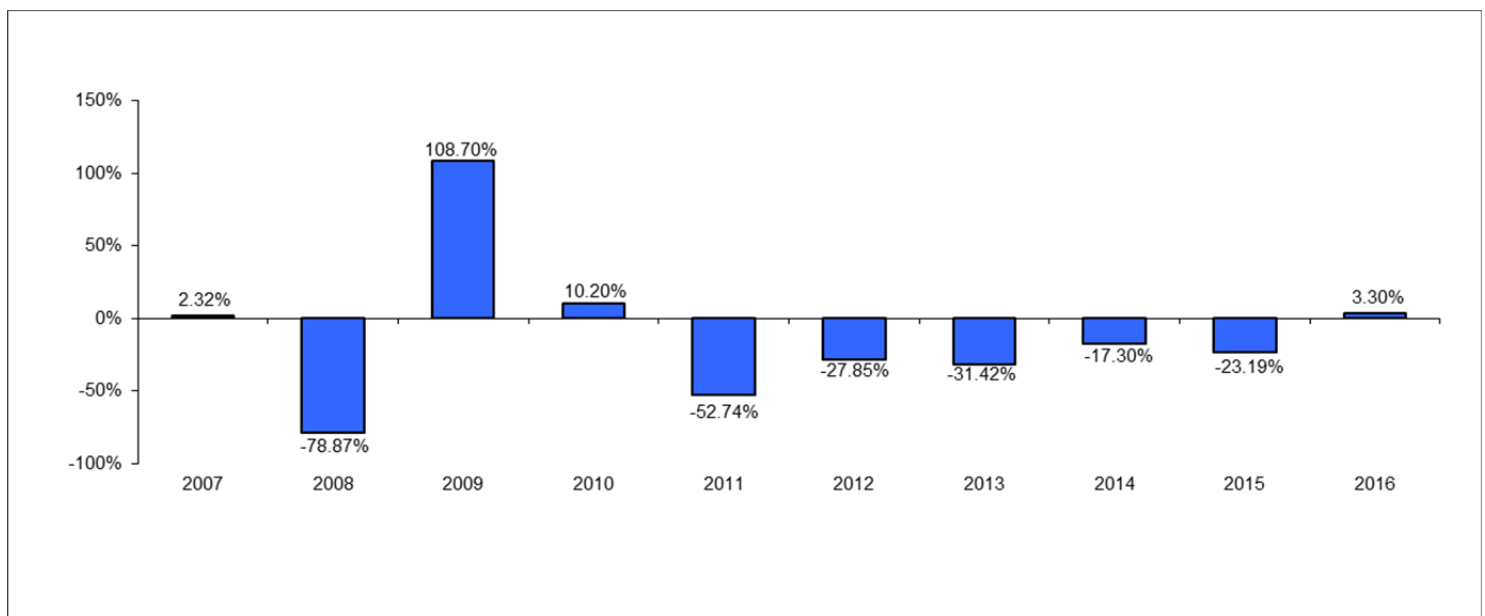
Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future. Performance differences between series of shares are mainly attributable to management fees charged to each series.

Year-by-Year Returns

The following bar charts show the Fund's annual Series A Rollover and Series A Regular shares performance for each of the periods shown, and illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar chart shows how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

Series A Rollover



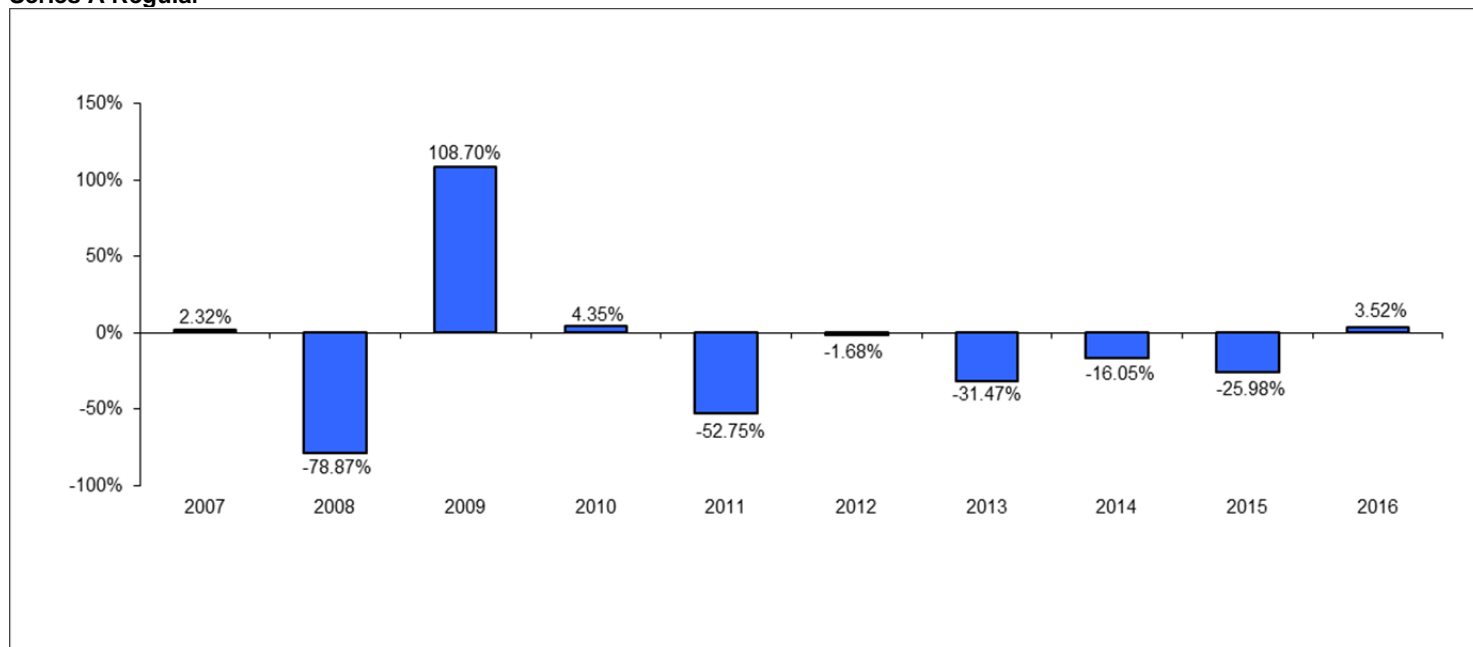
*Inception date for Series A Rollover shares was November 27, 2007

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Past Performance (continued)

Series A Regular



*Inception date for Series A Regular shares was November 27, 2007.

Annual Compound Returns

The table below compares the annual compounded return of the Series A Rollover and Series A Regular shares of the Fund against the S&P/TSX Capped Energy Index. The S&P/TSX Capped Energy Index is a modified cap-weighted index, whose equity weights are capped at 25%. This index's constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks. Sector Classification is based on the Global Industry Classification Standard (GICS).

As the index is made up of a group of securities from various asset classes and market capitalizations, they do not share the same holdings or the same weighted proportions as the Fund and compounded total returns between the two may differ. For greater in-depth discussion regarding the Fund's asset class holdings and performance over the year please see the Results of Operations – Investment Portfolio" section of the MRFP.

| | 1 Year % | 3 Years % | 5 Years % | 10 Years % | Since Inception % |
|-----------------------------|----------------|-----------------|-----------------|------------------|-------------------------|
| Series A-Rollover | 3.3% | -13.1% | -20.2% | - | -24.6% |
| S&P/TSX Capped Energy Index | 39.6% | -3.9% | -0.9% | - | -1.3% |
| Series A-Regular | 3.5% | -13.7% | -15.4% | - | -22.7% |
| S&P/TSX Capped Energy Index | 39.6% | -3.9% | -0.9% | - | -1.3% |

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Summary of Investment portfolio

The tables below provide information about the investment portfolio of the Fund, including a breakdown of the Fund's portfolio into subgroups and the Top 25 positions held by the Fund as a percentage of NAV. The Fund held less than 25 holdings as at the end of the year.

Total Net Asset Value: \$ 370,225

Portfolio Allocation

| | % of Fund's Net Asset Value |
|--------------------------------|--------------------------------|
| Oil & Gas | 49.05% |
| Net Other Assets (Liabilities) | 27.73% |
| Oil & Gas Services | 18.42% |
| Cash | 4.80% |
| | <hr/> 100.00% |

Top 25 Holdings

| | % of Fund's Net Asset Value |
|---|--------------------------------|
| 1 Canadian Energy Services & Technology Corp. | 6.10% |
| 2 TransCanada Corp. | 5.61% |
| 3 Cash | 4.80% |
| 4 Kelt Exploration Ltd. | 4.71% |
| 5 Keyera Corp. | 4.39% |
| 6 Seven Generations Energy Ltd. | 4.08% |
| 7 Crew Energy Inc. | 3.85% |
| 8 Calfrac Well Services Ltd. | 3.76% |
| 9 Paramount Resources Ltd. | 3.42% |
| 10 Canyon Services Group Inc. | 3.37% |
| 11 Vermilion Energy Inc. | 2.79% |
| 12 Painted Pony Petroleum Ltd. | 2.74% |
| 13 Athabasca Oil Corp. | 2.57% |
| 14 Birchcliff Energy Ltd. | 2.53% |
| 15 Whitecap Resources Inc. | 2.42% |
| 16 Suncor Energy Inc. | 2.37% |
| 17 Spartan Energy Corp. | 2.37% |
| 18 Tamarack Valley Energy Ltd. | 2.36% |
| 19 Trican Well Service Ltd. | 2.35% |
| 20 Ensign Energy Services Inc. | 2.28% |
| 21 Savanna Energy Services Corp. | 2.27% |
| 22 Birch Lake Energy Inc. | 1.13% |
| 23 Golden Coast Energy Corp. | 0.00% |
| | <hr/> 72.27% |

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund and a quarterly update is available at www.marquest.ca. The weightings of the positions are calculated based on total NAV of the portfolio as at December 31, 2016. The Fund does not hold short positions. The prospectus and other information of Marquest Mutual Fund Inc.- Energy Series Fund are available on the internet www.sedar.com.

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