

MARQUEST MUTUAL FUNDS, INC.
FLEX DIVIDEND AND INCOME
GROWTH™ SERIES FUND

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

**MARQUEST MUTUAL FUNDS INC. -
FLEX DIVIDEND AND INCOME GROWTH™ 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. 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. Flex Dividend and Income Growth™ 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 toll-free 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 appreciation by investing primarily in large-cap, and secondarily in small- and mid-cap, high yield securities. It is expected that 75% of the Fund's portfolio will be invested in a combination of dividend-paying and income bearing investments.

Investment Strategies

The primary method of selection for securities applies the value approach to high yield investments. This involves some and/or all of the following:

- Selecting organizations that offer superior long-term earnings and cash flow per share growth.
- Selecting organizations that have a consistently proven strong position in the market, quality management and balance sheet strength.
- Actively managing asset mix allocations between equity, fixed income and cash.
- Overweight favoured sectors and individual securities and reduce or eliminate unfavourable investment exposure.
- Choose to focus on areas of best probability through fluid and active asset allocation as well as focused industry and security selection.

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 \$11,662,667, an increase of 18.59% since the prior year end (December 2015: \$9,834,402). The change is due to net subscriptions of \$1,433,131, dividend income of \$265,042, net realized gain on sale of investment of \$475,866 and unrealized appreciation of investments of \$119,853. These were partially offset by foreign exchange loss of \$125,298, management fees of \$213,287, transaction costs of \$69,188 and operating fees of \$52,565.

The Marquest Flex Dividend and Income Growth Series Fund Series A-Regular had a gain of 3.7% for the year ended December 31, 2016. The net returns for the other series of this Fund are similar to those of Series A-Regular, except for differences attributable to the management fee expense which is charged individually per series. The S&P/TSX Composite Index was up 21.1% in 2016. The Fund's underperformance was due to the Fund's underweighting in the resource sectors which strongly outperformed in 2016.

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Results of Operations (continued)

As at year end the Fund had a dividend yield of 4.5% compared to the S&P/TSX Composite Index which had a yield of 2.8%. The portfolio is well diversified across several industry sectors. The largest sectors as at December 31, 2016 were Industrials 22.1%, Utilities 19.1% and Financials 13.6%. The Fund also had a 6.1% position in US equities. The stock selection strategy during the year was to own dividend paying stocks that had good value and had prospects for improving earnings which could support an increase in the dividend.

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. 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.

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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 unitholders. Management fees are paid by the Fund as set out under "Management Fees" below.

During the year, \$213,387 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. - Flex Dividend and Income Growth Series Fund (Series A-Regular)*					
Net Assets per Share (\$) ⁽¹⁾					
	2016	2015	2014	2013	2012
Net assets, beginning of the year ⁽²⁾	13.80	13.85	14.08	12.82	12.57
Increase (decrease) from operations:					
Total revenue	0.43	0.35	0.41	0.47	0.47
Total expenses (excluding distributions)	(0.60)	(1.02)	(1.00)	(0.53)	(0.55)
Realized gains (losses) for the year	0.50	0.17	1.80	0.30	(0.22)
Unrealized gains (losses) for the year	0.20	0.32	(1.41)	0.93	0.44
Total increase (decrease) from operations ⁽²⁾	0.53	(0.18)	(0.20)	1.17	0.26
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	14.31	13.80	13.85	14.08	12.80

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 shares were first issued on May 19, 2009.

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Financial Highlights (continued)

Marquest Mutual Funds Inc. - Flex Dividend and Income Growth Series Fund (Series F)*					
Net Assets per Share (\$) ⁽¹⁾					
	2016	2015	2014	2013	2012
Net assets, beginning of the year ⁽²⁾	13.00	12.83	12.89	11.61	11.28
Increase (decrease) from operations:					
Total revenue	0.39	0.30	0.38	0.75	0.69
Total expenses (excluding distributions)	(0.41)	(0.76)	(0.77)	(0.84)	(0.81)
Realized gains (losses) for the year	0.53	0.08	1.60	0.47	(0.32)
Unrealized gains (losses) for the year	0.01	0.57	(1.39)	1.50	0.66
Total increase (decrease) from operations ⁽²⁾	0.52	0.19	(0.18)	1.88	0.39
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	13.63	13.00	12.83	12.89	11.60

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 F shares were first issued on November 13, 2009.

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Financial Highlights (continued)

Marquest Mutual Funds Inc. - Flex Dividend and Income Growth Series Fund (Series I)*					
Net Assets per Share (\$) ⁽¹⁾					
	2016	2015	2014	2013	2012
Net assets, beginning of the year ⁽²⁾	15.92	15.59	15.49	13.80	13.25
Increase (decrease) from operations:					
Total revenue	0.47	0.37	0.46	0.64	0.95
Total expenses (excluding distributions)	(0.46)	(0.86)	(0.75)	(0.72)	(1.11)
Realized gains (losses) for the year	0.54	0.11	1.98	0.40	(0.44)
Unrealized gains (losses) for the year	0.25	0.71	(1.59)	1.27	0.90
Total increase (decrease) from operations ⁽²⁾	0.80	0.33	0.10	1.59	0.53
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	16.71	15.92	15.59	15.49	13.78

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 I share were first issued on October 28, 2008.

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Financial Highlights (continued)

Ratios and Supplemental Data					
Series A-Regular*	2016	2015	2014	2013	2012
Total net asset value (000's) ⁽¹⁾	\$ 9,118	\$ 7,374	\$ 7,200	\$ 7,595	\$ 10,897
Number of shares outstanding ⁽¹⁾	637,044	534,273	519,896	539,535	849,931
Management expense ratio ⁽²⁾	3.57%	6.51%	6.30%	4.32%	3.80%
Management expense ratio before waivers or absorption ⁽⁵⁾	3.57%	6.51%	6.30%	4.32%	4.78%
Trading expense ratio ⁽³⁾	0.68%	0.21%	0.56%	1.12%	0.50%
Portfolio turnover rate ⁽⁴⁾	225.16%	167.18%	163.24%	168.56%	66.10%
Net asset value per share ⁽¹⁾	\$14.31	\$13.80	\$13.85	\$ 14.07	\$12.82
Series F**	2016	2015	2014	2013	2012
Total net asset value (000's) ⁽¹⁾	\$ 2,461	\$ 2,380	\$ 2,371	\$ 2,144	\$ 184
Number of shares outstanding ⁽¹⁾	180,507	183,172	184,864	166,301	15,804
Management expense ratio ⁽²⁾	2.54%	5.16%	5.19%	4.66%	3.50%
Management expense ratio before waivers or absorption ⁽⁵⁾	2.54%	5.16%	5.19%	4.66%	4.93%
Trading expense ratio ⁽³⁾	0.68%	0.21%	0.56%	1.96%	0.80%
Portfolio turnover rate ⁽⁴⁾	225.16%	167.18%	163.24%	168.56%	66.10%
Net asset value per share ⁽¹⁾	\$13.63	\$13.00	\$12.83	\$ 12.88	\$11.61
Series I***	2016	2015	2014	2013	2012
Total net asset value (000's) ⁽¹⁾	\$ 84	\$ 80	\$ 78	\$ 77	\$ 83
Number of shares outstanding ⁽¹⁾	5,000	5,000	5,000	5,000	6,000
Management expense ratio ⁽²⁾	2.37%	4.79%	4.06%	2.55%	2.70%
Management expense ratio before waivers or absorption ⁽⁵⁾	2.37%	4.79%	4.06%	2.55%	4.36%
Trading expense ratio ⁽³⁾	0.68%	0.21%	0.56%	1.40%	0.90%
Portfolio turnover rate ⁽⁴⁾	225.16%	167.18%	163.24%	168.56%	66.10%
Net asset value per share ⁽¹⁾	\$16.71	\$15.92	\$15.59	\$ 15.48	\$13.80

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 shares were first issued on May 19, 2009.

**Series F shares were first issued on November 13, 2009.

***Series I shares were first issued on October 28, 2008.

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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 /Regular Shares	2.00%	42.11%	57.89%
Series F Shares	1.00%	0.00%	100.00%
Series I Shares	Negotiated	0.00%	100.00%

The Fund will incur a performance fee equal to 20% x (Series % gain *minus* Benchmark % gain) x (Series Average NAV). The benchmark is 5% 60 day Canadian treasury bill rate, 10% BMO Nesbitt Burns Preferred Share index, 10% S&P TSX Utilities Index, 15% S&P TSX Income Trust Index, 20% S&P TSX Capped Financials Index and 40% S&P TSX 60 Index. See Simplified Prospectus for details. No performance fees were paid during the year ended December 31, 2016.

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 units are mainly attributable to management fees charged to each series.

Year-by-Year Returns

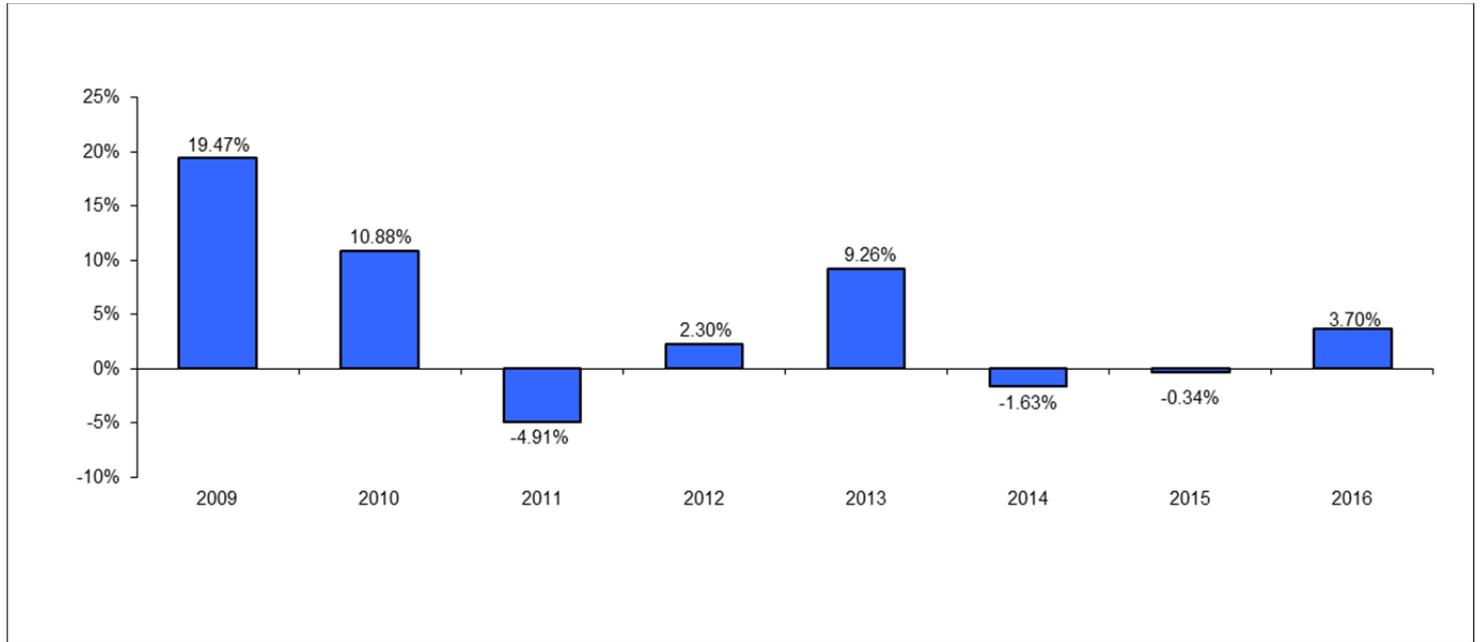
The following bar charts show the Fund's annual Series A, Series F and Series I units performance for each of the periods shown, and illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar chart shows how much an investment made on the first day of each financial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

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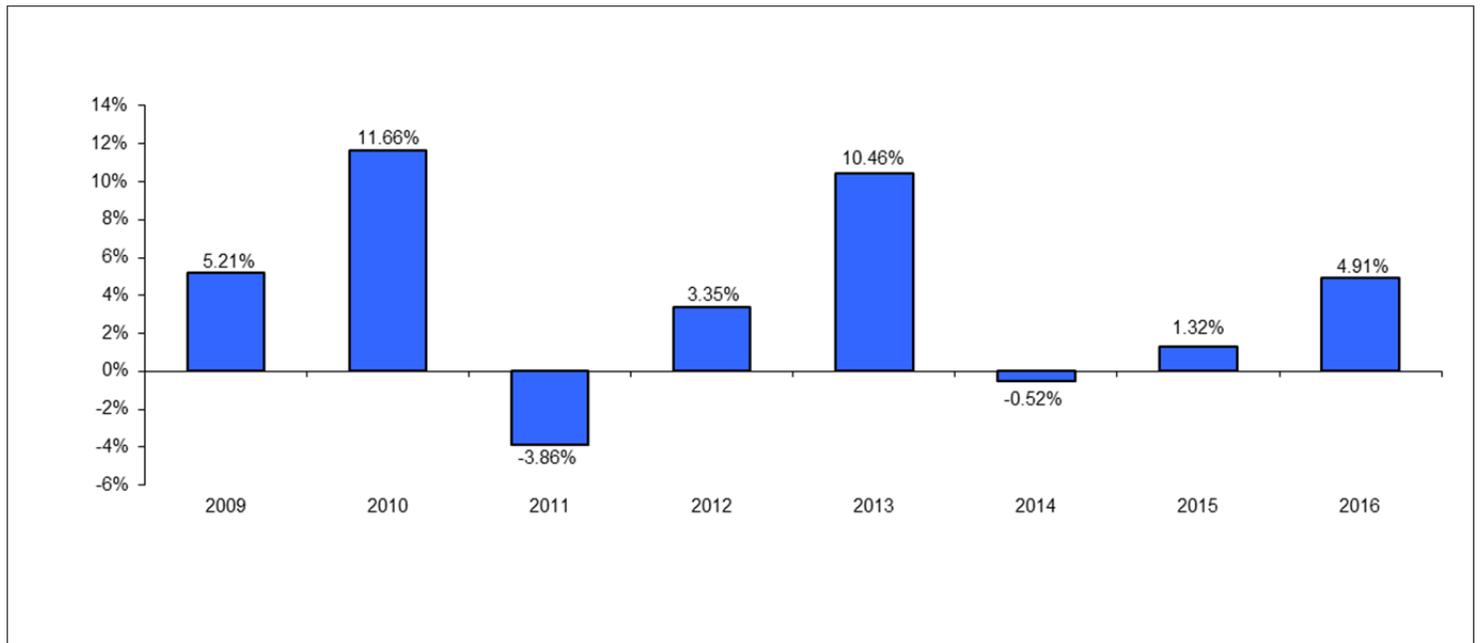
Past Performance (continued)

Series A Regular



*Inception date for Series A Regular shares was December 1, 2008.

Series F



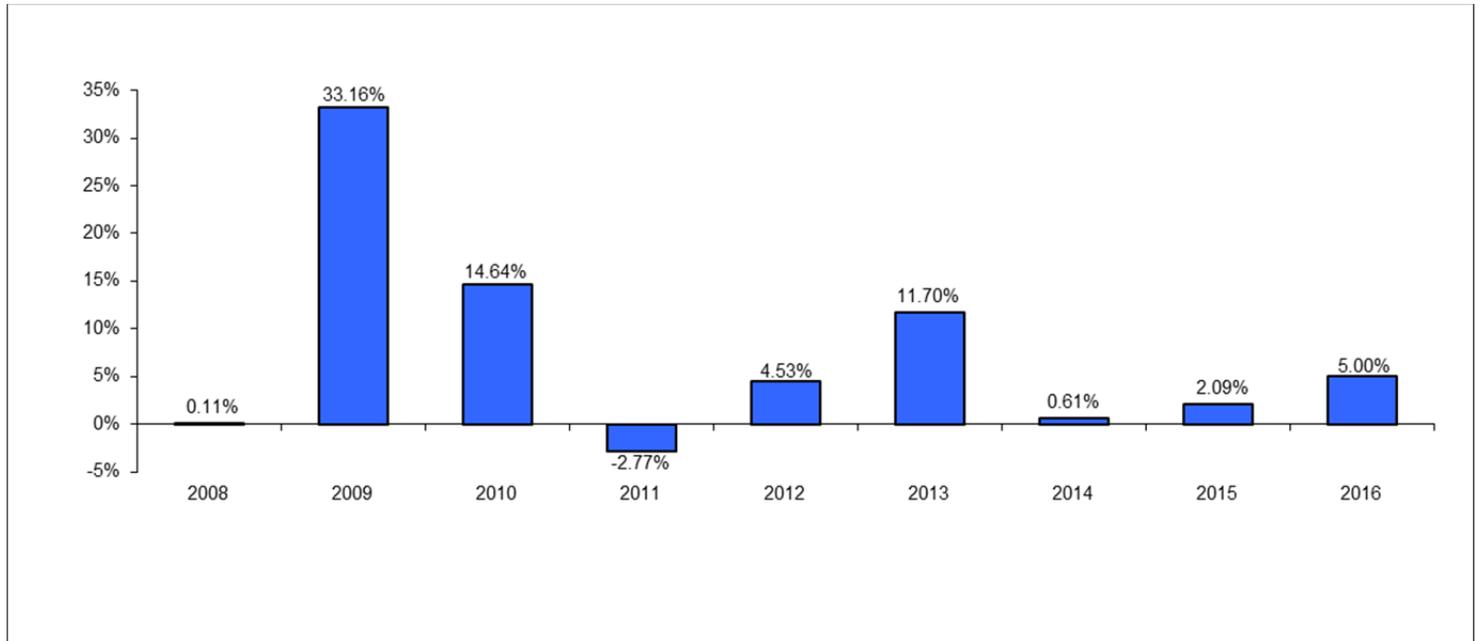
*Inception date for Series F shares was December 1, 2008.

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Past Performance (continued)

Series I



*Inception date for Series I shares was December 1, 2008.

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Annual Compound Returns

The table below compares the annual compounded return of the Series A Regular, Series F and Series I shares of the Fund against the S&P/TSX Composite TR and a blended index which is comprised: 5% 60 day Canadian treasury bill rate, 10% BMO Nesbitt Burns Preferred Share index, 10% S&P TSX Utilities Index, 15% S&P TSX Income Trust Index, 20% S&P TSX Capped Financials Index and 40% S&P TSX 60 Index. The S&P/TSX Composite TR is a market capitalization weighted, total return index comprising of stocks within the S&P/TSX Completion Index. It is calculated in Canadian dollars and is comprised of stock (equity) prices of small and mid-sized capitalized companies. It encompasses a broad spectrum of economic sectors and is a benchmark that is designed to measure equity market performance in Canadian markets. For performance purposes, the indices assume the reinvestment of all dividends.

As the indices 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-Regular	3.7%	0.6%	2.6%	-	4.5%
S&P/TSX Composite TR	21.1%	7.1%	8.2%	-	10.9%
Blended index	26.2%	4.6%	1.5%	-	7.7%
Series F	4.9%	1.9%	3.8%	-	3.9%
S&P/TSX Composite TR	21.1%	7.1%	8.2%	-	10.9%
Blended index	26.2%	4.6%	1.5%	-	7.7%
Series I	5.0%	2.6%	4.7%	-	8.1%
S&P/TSX Composite TR	21.1%	7.1%	8.2%	-	10.9%
Blended index	26.2%	4.6%	1.5%	-	7.7%

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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.

Total Net Asset Value: **\$ 11,662,667**

Portfolio Allocation

	% of Fund's Net Asset Value
Industrials	23.34%
Utilities	17.76%
Materials	14.78%
Energy	12.12%
Consumer Discretionary	8.73%
Financials	6.88%
Net Other Assets (Liabilities)	5.92%
Cash	3.20%
Healthcare	3.04%
Consumer Staples	2.98%
Information Technology	1.25%
	100.00%

Top 25 Holdings

Long Position	% of Fund's Net Asset Value
1 Manulife Financial Corp.	3.89%
2 New Flyer Industries Inc.	3.38%
3 Labrador Iron Ore Royalty Corp.	3.21%
4 Capital Power Corp.	3.20%
5 Whitecap Resources Inc.	3.20%
6 Cash	3.20%
7 Ensign Energy Services Inc.	3.18%
8 Superior Plus Corp.	3.11%
9 Extendicare Inc.	3.04%
10 The Dow Chemical Co.	3.02%
11 Canadian Imperial Bank of Commerce	2.99%
12 KP Tissue Inc.	2.98%
13 WSP Global Inc.	2.97%
14 Intertape Polymer Group Inc.	2.97%
15 AltaGas Ltd.	2.93%
16 Algonquin Power & Utilities Corp.	2.91%
17 AG Growth International Inc.	2.90%
18 Exchange Income Corp.	2.90%
19 Brookfield Renewable Partners LP	2.88%
20 Valener Inc.	2.86%
21 Wajax Corp.	2.84%
22 Morneau Shepell Inc.	2.84%
23 Potash Corp of Saskatchewan Inc.	2.81%
24 EnerCare Inc.	2.81%
25 ARC Resources Ltd.	2.81%
	75.83%

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.- Flex Dividend and Income Growth™ Fund are available on the internet www.sedar.com.

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