



**MARQUEST MUTUAL  
FUNDS INC.**

ANNUAL REPORT

Year ended December 31, 2019

## TABLE OF CONTENTS

Auditor's Report	2
Marquest Mutual Funds Inc. - Explorer Series Fund	4
Marquest Mutual Funds Inc. - Flex Dividend and Income Growth™ Series Fund	10
Notes to the Financial Statements	16

## Independent auditor's report

To the Shareholders of

**Marquest Mutual Funds Inc. – Explorer Series Fund**

**Marquest Mutual Funds Inc. – Flex Dividend and Income Growth™ Series Fund**

[collectively, the “Funds”]

### Opinion

We have audited the financial statements of the Funds, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable shares and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2019 and 2018, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards [“IFRSs”].

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance of the Funds. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance of the Funds prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Funds' financial reporting process.



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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada  
March 30, 2020

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



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# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF FINANCIAL POSITION (CDN \$)

As at

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Assets</b>		
<b>Current Assets</b>		
Investments at fair value	5,164,831	7,243,235
Cash	941,428	1,875,530
Receivable for investments sold	54,453	19,660
Refundable taxes receivable (Note 5)	891,889	1,106,598
Prepaid fees	16,309	16,293
<b>Total Assets</b>	<b>7,068,910</b>	<b>10,261,316</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Management fees payable	2,980	3,467
Other payables and accrued expenses	25,387	22,873
Payable on redemption of redeemable shares	4,726	90,383
<b>Total Liabilities</b>	<b>33,093</b>	<b>116,723</b>
<b>Net Assets Attributable to Holders of Redeemable Shares (Note 3)</b>	<b>7,035,817</b>	<b>10,144,593</b>
<b>Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A-Rollover	6,957,517	9,352,613
Series A-Regular	6,050	8,495
Series F	72,250	783,485
<b>Net Assets Attributable to Holders of Redeemable Shares per Share (Note 3)</b>		
Series A-Rollover	0.40	0.43
Series A-Regular	0.43	0.47
Series F	0.40	0.43

Approved on behalf of the Board of Directors of Marquest Mutual Funds Inc.

"Gerry L. Brockelsby"

Gerry L. Brockelsby  
Director

"Andrew A. McKay"

Andrew A. McKay  
Director

The accompanying notes form an integral part of the financial statements

# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF COMPREHENSIVE INCOME (CDN \$)

For the years ended

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Income</b>		
Dividends	6,043	52,087
Interest for distribution purposes	21,009	17,253
Securities lending income (Note 7)	129	10,376
Foreign exchange gain (loss) on cash	(2)	3
Net realized gain (loss) on sale of investments	(367,611)	(2,763,705)
Net change in unrealized appreciation (depreciation) on investments	58,834	(743,783)
<b>Total Income (Loss)</b>	<b>(281,598)</b>	<b>(3,427,769)</b>
<b>Expenses (Note 4)</b>		
Management fees	182,487	299,970
Transaction costs (Note 6)	99,294	145,253
Interest charges	23	36
Operating fees	204,292	157,958
Audit fees	45,304	17,583
Custodian fees	35,196	38,969
Legal fees	5,043	32,654
Independent Review Committee fees	13,889	3,142
Unitholder reporting costs	8,593	12,085
<b>Total Expenses</b>	<b>594,121</b>	<b>707,650</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	<b>(875,719)</b>	<b>(4,135,419)</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations per Series</b>		
Series A-Rollover	(851,599)	(3,836,888)
Series A-Regular	(337)	(3,279)
Series F	(23,783)	(295,252)
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations per Share</b>		
Series A-Rollover	(0.04)	(0.15)
Series A-Regular	(0.02)	(0.18)
Series F	(0.13)	(0.15)

The accompanying notes form an integral part of the financial statements

# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES (CDN \$)

For the years ended December 31

	<u>2019 (\$)</u>	<u>2018 (\$)</u>	<u>2019 (\$)</u>	<u>2018 (\$)</u>
	<u>Series A-Rollover</u>		<u>Series A-Regular</u>	
<b>Net Assets Attributable to Holders of Redeemable Shares, Beginning of Year</b>	9,352,613	15,656,403	8,495	12,079
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	(851,599)	(3,836,888)	(337)	(3,279)
<b>Redeemable Share Transactions (Note 3)</b>				
Issuance of shares	14,317,481	27,296,820	-	-
Redemption of shares	(15,860,978)	(29,763,722)	(2,108)	(305)
Net increase (decrease) from redeemable share transactions	(1,543,497)	(2,466,902)	(2,108)	(305)
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares</b>	(2,395,096)	(6,303,790)	(2,445)	(3,584)
<b>Net Assets Attributable to Holders of Redeemable Shares, End of Year</b>	6,957,517	9,352,613	6,050	8,495

  

	<u>2019 (\$)</u>	<u>2018 (\$)</u>	<u>2019 (\$)</u>	<u>2018 (\$)</u>
	<u>Series F</u>		<u>Total</u>	
<b>Net Assets Attributable to Holders of Redeemable Shares, Beginning of Year</b>	783,485	1,484,540	10,144,593	17,153,022
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	(23,783)	(295,252)	(875,719)	(4,135,419)
<b>Redeemable Share Transactions (Note 3)</b>				
Issuance of shares	1,283,380	77,959	15,600,861	27,374,779
Redemption of shares	(1,970,832)	(483,762)	(17,833,918)	(30,247,789)
Net increase (decrease) from redeemable share transactions	(687,452)	(405,803)	(2,233,057)	(2,873,010)
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares</b>	(711,235)	(701,055)	(3,108,776)	(7,008,429)
<b>Net Assets Attributable to Holders of Redeemable Shares, End of Year</b>	72,250	783,485	7,035,817	10,144,593

The accompanying notes form an integral part of the financial statements

# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF CASH FLOW (CDN \$)

For the years ended

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Cash Flows from Operating Activities</b>		
Increase (Decrease) in net assets attributable to holders of redeemable :	(875,719)	(4,135,419)
Adjustments for:		
Foreign exchange loss (gain) on cash	2	(3)
Net realized loss (gain) on sale of investments	367,611	2,763,705
Net change in unrealized depreciation (appreciation) on investments	(58,834)	743,783
Purchases of investments	(3,021,553)	(5,364,941)
Proceeds from sale and maturity of investments	13,181,537	18,685,486
Refundable taxes receivable	214,709	(305,991)
Prepaid fees	(16)	(370)
Receivable from other corporate series	-	102,607
Management fees payable	(487)	1,450
Other payables and accrued expenses	2,514	(61,288)
<b>Net Cash from Operating Activities</b>	<b>9,809,764</b>	<b>12,429,019</b>
<b>Cash Flows used in Financing Activities</b>		
Issuance of shares	7,175,711	13,377,602
Redemption of shares	(17,919,575)	(30,176,245)
<b>Net Cash used in Financing Activities</b>	<b>(10,743,864)</b>	<b>(16,798,643)</b>
<b>Increase (Decrease) in Cash during the Year</b>	<b>(934,100)</b>	<b>(4,369,624)</b>
Foreign exchange gain (loss) on cash	(2)	3
<b>Cash at Beginning of Year</b>	<b>1,875,530</b>	<b>6,245,151</b>
<b>Cash (Bank Overdraft) at End of Year</b>	<b>941,428</b>	<b>1,875,530</b>
<b>Supplementary disclosures on cash flow from operating activities:</b>		
Dividends received	6,043	52,087
Interest received	21,009	17,253
Interest paid	(23)	(36)

The accompanying notes form an integral part of the financial statements



# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## AUDITED FINANCIAL STATEMENTS

### SCHEDULE OF INVESTMENT PORTFOLIO (CDN \$)

As at December 31 2019

	Number of Shares, Units or Warrants	Expiry Date	Exercise Price per Warrant \$	Average Cost \$	Fair Value \$
<b>CANADIAN EQUITIES (73.41%)</b>					
<b>Precious Metals (56.09%)</b>					
Aurelius Minerals Inc.	5,360,000			107,200	268,000
Berkwood Resources Ltd., Warrants	777,778	27/12/2020	0.15	1	1
Braveheart Resources Inc.	333,333			50,000	40,000
Braveheart Resources Inc., Warrants	166,667	18/06/2021	0.21	-	-
Chibougamau Independent Mines Inc.	215,500			20,473	36,635
Dios Exploration Inc.	2,653,846			145,962	132,692
Emgold Mining Corp.	1,247,692			71,742	87,338
Emgold Mining Corp., Warrants	1,153,845	26/12/2020	0.25	1	1
Excellon Resources Inc., Warrants	50,000	26/08/2021	1.40	5,003	10,750
Galleon Gold Corp.	1,744,147			218,569	165,694
Galway Metals Inc.	2,504,239			776,314	838,920
Galway Metals Inc., Warrants	434,783	06/07/2020	0.35	-	-
Golden Predator Mining Corp.	156,250			50,000	61,719
Goliath Resources Ltd.	2,734,543			225,600	82,036
Goliath Resources Ltd., Warrants	4,999,998	31/05/2020	0.30	6	5
Goliath Resources Ltd., Warrants	454,545	31/05/2020	0.22	-	-
Imperial Mining Group Ltd.	2,333,333			70,000	105,000
Juggernaut Exploration Ltd.	435,986			273,070	100,277
Juggernaut Exploration Ltd., Warrants	740,740	20/04/2020	6.00	-	1
Juggernaut Exploration Ltd., Warrants	152,778	06/12/2020	3.60	-	-
Juggernaut Exploration Ltd., Warrants	750,000	20/04/2021	5.00	-	1
Juggernaut Exploration Ltd., Warrants	178,571	20/06/2021	5.60	-	-
Laurion Mineral Exploration Inc.	372,167			55,825	57,686
Laurion Mineral Exploration Inc., Warrants	3,888,888	02/08/2020	0.12	4	136,111
Laurion Mineral Exploration Inc., Warrants	1,777,778	28/12/2020	0.12	142,222	62,222
Lomiko Metals Inc.	5,000,000			150,000	137,500
Melkior Resources Inc.	9,360,072			276,509	280,802
ML Gold Corp., Warrants	625,000	26/06/2020	0.12	-	1
ML Gold Corp., Warrants	1,750,000	26/06/2020	0.14	3	2
New Age Metals Inc.	533,332			36,376	26,667
New Age Metals Inc., Warrants	833,333	07/05/2020	0.15	-	1
New Age Metals Inc., Warrants*	250,000	04/09/2021	0.10	-	-
New Age Metals Inc.*	500,000			25,000	24,250
Nubian Resources Ltd., Warrants	200,000	24/07/2020	0.40	-	-
Orford Mining Corp.	2,206,776			177,225	99,305
Pancontinental Resources Corp.	6,000,000			195,000	135,000
Pancontinental Resources Corp., Warrants	5,357,143	19/06/2020	0.12	5	5
Prosper Gold Corp.	1,500,000			82,500	75,000
Prosper Gold Corp., Warrants	1,250,000	17/12/2020	0.17	2	1
QMX Gold Corp.	2,931,778			146,589	293,178
QMX Gold Corp., Warrants	6,388,888	28/11/2020	0.11	4	6
Rockcliff Metals Corp., Warrants	2,222,222	16/08/2020	0.20	2	2
Romios Gold Resources Inc.	1,840,692			73,628	55,221
Sage Gold Inc.	2,272,727			-	-
Sphinx Resources Ltd.	8,692,769			295,132	260,783
Stelmine Canada Ltd.	1,089,166			154,135	95,302
Stelmine Canada Ltd., Warrants	83,333	01/02/2021	0.20	-	-
Trifecta Gold Ltd.	1			-	-
Zonte Metals Inc.	843,417			253,025	278,328
				4,077,127	3,946,443
<b>Base Metals (16.29%)</b>					
Argex Titanium Inc.	10,000,000			-	-
Argex Titanium Inc., Warrants	5,000,000	29/11/2020	0.05	5	5
Auxico Resources Canada Inc.	1,209,500			237,351	57,451
Altair Resources Inc., Warrants	845,000	18/04/2020	0.26	-	1
Fieldex Exploration Inc.	700,000			115,500	35,000
Fieldex Exploration Inc., Warrants	7,500,000	27/04/2021	0.10	-	8
Fieldex Exploration Inc., Warrants	1,000,000	01/06/2021	0.10	-	1

\*These securities are subject to temporary trading restrictions.  
The accompanying notes form an integral part of the financial statements

# MARQUEST MUTUAL FUNDS INC. - EXPLORER SERIES FUND

## AUDITED FINANCIAL STATEMENTS

### SCHEDULE OF INVESTMENT PORTFOLIO (CDN \$) (CONT'D)

As at December 31 2019

	Number of Shares, Units or Warrants	Expiry Date	Exercise Price per Warrant \$	Average Cost \$	Fair Value \$
<b>CANADIAN EQUITIES (CONT'D) (73.41%)</b>					
<b>Base Metals (Cont.) (16.29%)</b>					
Focus Graphite Inc., Warrants	1,970,000	30/09/2020	0.12	-	2
Focus Graphite Inc. Warrants	12,500,000	27/12/2020	0.06	13	13
Focus Graphite Inc., Warrants	1,333,300	24/03/2021	0.10	-	1
Gaia Metals Corp.	216,000			27,000	18,360
Gaia Metals Corp., Warrants	250,000	27/12/2021	1.00	-	-
Go Metals Corp.	1,275,777			89,304	51,031
Go Metals Corp., Warrants	1,777,777	20/12/2020	0.40	1	2
Murchison Minerals Ltd.	1,176,500			96,654	158,828
Noront Resources Ltd., Warrants	540,625	23/09/2020	0.40	52	1
Noront Resources Ltd., Warrants	125,000	23/09/2020	0.50	-	-
Power Metals Corp.	983,741			298,249	59,024
Power Metals Corp., Warrants	517,242	27/06/2020	0.85	-	1
Purepoint Uranium Group Inc.	1,944,444			106,945	106,944
Purepoint Uranium Group Inc., Warrants	4,444,444	14/12/2020	0.13	5	4
Saville Resources Inc.	3,299,000			164,950	90,723
Seahawk Ventures Inc.	1,940,250			531,145	426,855
Signature Resources Ltd.	1,706,092			135,281	102,366
Stria Lithium Inc.	3,500,000			26,250	17,500
Stria Lithium Inc., Warrants,	3,500,000	27/12/2020	0.06	4	4
The Magpie Mines Inc.	3,771,428			849,999	21,874
Trigon Metals Inc., Warrants	166,666	01/06/2020	0.40	-	-
Xmet Inc.	2,000,000			10,000	2
				2,688,708	1,146,001
<b>Energy (1.03%)</b>					
CanAlaska Uranium Ltd., Warrants	206,288	20/06/2020	0.51	-	-
CanAlaska Uranium Ltd., Warrants	181,819	16/05/2024	0.60	-	-
Vertical Exploration Inc.	2,227,272			66,818	72,386
Vertical Exploration Inc., Warrants	1,363,636	18/12/2020	0.20	1	1
				66,819	72,387
<b>TOTAL CANADIAN EQUITIES</b>				6,832,654	5,164,831
<b>Total cost and fair value of investments (73.41%)</b>				6,832,654	5,164,831
<b>Less: Transaction costs included in average cost (Note 6)</b>				(2,100)	-
<b>Total investments</b>				6,830,554	5,164,831
<b>Other Assets Less Liabilities (26.59%)</b>				1,870,986	1,870,986
<b>Net assets attributable to holders of redeemable units</b>				8,701,540	7,035,817

\*These securities are subject to temporary trading restrictions.

### PORTFOLIO CONCENTRATION (CDN \$)

Portfolio by Category	% of Net Assets Attributable to Holders of Redeemable Units	
	December 31, 2019	December 31, 2018
Precious Metals	56.09%	39.03%
Base Metals	16.29%	31.99%
Energy	1.03%	0.38%
Other Assets Less Liabilities	26.59%	28.60%
Total	100.00%	100.00%

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF FINANCIAL POSITION (CDN \$)

As at

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Assets</b>		
<b>Current Assets</b>		
Investments at fair value	4,236,655	3,769,930
Cash	449,652	994,405
Accrued dividend receivable	20,708	21,479
Receivable for investments sold	214,258	-
Refundable taxes receivable (Note 5)	750,923	931,695
Prepaid fees	16,309	16,293
<b>Total Assets</b>	<b>5,688,505</b>	<b>5,733,802</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Management fees payable	1,931	1,646
Other payables and accrued expenses	130,279	130,856
Payable on redemption of redeemable shares	10,227	-
<b>Total Liabilities</b>	<b>142,437</b>	<b>132,502</b>
<b>Net Assets Attributable to Holders of Redeemable Shares (Note 3)</b>	<b>5,546,068</b>	<b>5,601,300</b>
<b>Net Assets Attributable to Holders of Redeemable Shares per Series</b>		
Series A-Regular	3,302,823	3,419,223
Series F	2,162,141	2,110,579
Series I	81,104	71,498
<b>Net Assets Attributable to Holders of Redeemable Shares per Share</b>		
Series A-Regular	13.43	11.97
Series F	13.23	11.67
Series I	16.22	14.30

Approved on behalf of the Board of Directors of Marquest Mutual Funds Inc.

"Gerry L. Brockelsby"  
Gerry L. Brockelsby  
Director

"Andrew A. McKay"  
Andrew A. McKay  
Director

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF COMPREHENSIVE INCOME (CDN \$)

For the years ended

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Income (Loss)</b>		
Dividends	230,861	246,527
Interest for distribution purposes	9,280	5,719
Securities lending income (Note 7)	24,917	17,803
Foreign exchange gain (loss) on cash	(11,937)	12,042
Net realized gain (loss) on sale of investments	116,971	(866,180)
Net change in unrealized appreciation (depreciation) on investments	568,462	(277,243)
<b>Total Income (Loss)</b>	<b>938,554</b>	<b>(861,332)</b>
<b>Expenses (Note 4)</b>		
Management fees	105,307	132,825
Foreign taxes withheld (Note 5)	295	3,319
Transaction costs (Note 6)	27,183	29,805
Interest charges	11	135
Operating fees	63,246	66,484
Audit fees	21,594	13,207
Custodian fees	10,294	8,263
Legal fees	3,650	18,476
Independent Review Committee fees	10,691	1,584
Unitholder reporting costs	5,210	5,996
<b>Total Expenses</b>	<b>247,481</b>	<b>280,094</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	<b>691,073</b>	<b>(1,141,426)</b>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations per Series</b>		
Series A-Regular	403,968	(735,674)
Series F	277,499	(392,584)
Series I	9,606	(13,168)
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations per Share</b>		
Series A-Regular	1.52	(2.21)
Series F	1.57	(2.08)
Series I	1.92	(2.63)

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES (CDN \$)

For the years ended December 31

	<u>2019 (\$)</u>	<u>2018 (\$)</u>	<u>2019 (\$)</u>	<u>2018 (\$)</u>
	Series A-Regular		Series F	
<b>Net Assets Attributable to Holders of Redeemable Shares, Beginning of Year</b>	3,419,223	5,713,375	2,110,579	3,337,130
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	403,968	(735,674)	277,499	(392,584)
<b>Redeemable Share Transactions (Note 3)</b>				
Issuance of shares	-	13,236	88,653	104,360
Redemption of shares	(520,368)	(1,571,714)	(314,590)	(938,327)
Net increase (decrease) from redeemable share transactions	(520,368)	(1,558,478)	(225,937)	(833,967)
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares</b>	(116,400)	(2,294,152)	51,562	(1,226,551)
<b>Net Assets Attributable to Holders of Redeemable Shares, End of Year</b>	3,302,823	3,419,223	2,162,141	2,110,579
	<u>2019 (\$)</u>	<u>2018 (\$)</u>	<u>2019 (\$)</u>	<u>2018 (\$)</u>
	Series I		Total	
<b>Net Assets Attributable to Holders of Redeemable Shares, Beginning of Year</b>	71,498	84,666	5,601,300	9,135,171
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations</b>	9,606	(13,168)	691,073	(1,141,426)
<b>Redeemable Share Transactions (Note 3)</b>				
Issuance of shares	-	-	88,653	117,596
Redemption of shares	-	-	(834,958)	(2,510,041)
Net increase (decrease) from redeemable share transactions	-	-	(746,305)	(2,392,445)
<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares</b>	9,606	(13,168)	(55,232)	(3,533,871)
<b>Net Assets Attributable to Holders of Redeemable Shares, End of Year</b>	81,104	71,498	5,546,068	5,601,300

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### STATEMENTS OF CASH FLOW (CDN \$)

For the years ended

	December 31, 2019 (\$)	December 31, 2018 (\$)
<b>Cash Flows from in Operating Activities</b>		
Increase (Decrease) in net assets attributable to holders of redeemable shares from operations	691,073	(1,141,426)
Adjustments for:		
Foreign exchange loss (gain) on cash	11,937	(12,042)
Net realized loss (gain) on sale of investments	(116,971)	866,180
Net change in unrealized depreciation (appreciation) on investments	(568,462)	277,243
Purchases of investments	(8,331,081)	(11,102,287)
Proceeds from sale and maturity of investments	8,335,531	12,620,003
Accrued dividend receivable	771	16,436
Refundable taxes receivable	180,772	(10,701)
Prepaid fees	(16)	(370)
Payable to other corporate series	-	(101,564)
Management fees payable	285	729
Other payables and accrued expenses	(577)	10,940
<b>Net Cash from in Operating Activities</b>	<b>203,262</b>	<b>1,423,141</b>
<b>Cash Flows used in Financing Activities</b>		
Issuance of shares	88,653	117,596
Redemption of shares	(824,731)	(2,510,041)
<b>Net Cash used in Financing Activities</b>	<b>(736,078)</b>	<b>(2,392,445)</b>
<b>Increase (Decrease) in Cash during the Year</b>	<b>(532,816)</b>	<b>(969,304)</b>
Foreign exchange gain (loss) on cash	(11,937)	12,042
<b>Cash at Beginning of Year</b>	<b>994,405</b>	<b>1,951,667</b>
<b>Cash at end of Year</b>	<b>449,652</b>	<b>994,405</b>
<b>Supplemental disclosures on cash flows:</b>		
Dividends received	231,632	262,963
Foreign taxes paid	(295)	(3,319)
Interest received	9,280	5,719
Interest paid	(11)	(135)

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### SCHEDULE OF INVESTMENT PORTFOLIO (CDN \$)

As at December 31, 2019

	Number of Shares	Average Cost \$	Fair Value \$
<b>CANADIAN EQUITIES (69.66%)</b>			
<b>Energy (15.57%)</b>			
Cardinal Energy Ltd.	62,543	157,921	162,612
Gibson Energy Inc.	6,500	117,872	172,835
Keyera Corp.	4,586	154,622	156,016
Parkland Fuel Corp.	4,024	147,546	191,985
Pembina Pipeline Corp.	3,740	163,214	180,006
		<u>741,175</u>	<u>863,454</u>
<b>Real Estate (12.90%)</b>			
American Hotel Income Properties REIT LP	29,631	194,748	208,602
Crombie Real Estate Investment Trust	11,367	164,868	181,190
H&R Real Estate Investment Trust	7,430	172,020	156,773
True North Commercial Real Estate Investment Trust	23,145	155,504	168,727
		<u>687,140</u>	<u>715,292</u>
<b>Consumer Discretionary (9.12%)</b>			
Boston Pizza Royalties Income Fund	9,045	157,418	121,746
Park Lawn Corp.	7,946	153,758	232,738
Pizza Pizza Royalty Corp.	15,508	154,313	151,513
		<u>465,489</u>	<u>505,997</u>
<b>Financials (8.36%)</b>			
Alaris Royalty Corp.	8,072	149,308	177,019
Bank of Nova Scotia	1,957	147,539	143,546
Royal Bank of Canada	1,394	147,474	143,234
		<u>444,321</u>	<u>463,799</u>
<b>Industrials (7.15%)</b>			
Aecon Group Inc.	8,233	150,739	144,242
Thomson Reuters Corp.	2,716	233,587	252,290
		<u>384,326</u>	<u>396,532</u>
<b>Utilities (6.45%)</b>			
AltaGas Ltd.	10,082	180,260	199,422
Canadian Utilities Ltd.	4,044	126,268	158,403
		<u>306,528</u>	<u>357,825</u>
<b>Consumer Staples (5.02%)</b>			
High Liner Foods Inc.	17,234	146,349	141,836
North West Co Inc.	4,997	151,458	136,568
		<u>297,807</u>	<u>278,404</u>
<b>Communication Services (2.59%)</b>			
BCE Inc.	2,384	148,936	143,421
		<u>148,936</u>	<u>143,421</u>
<b>Healthcare (2.50%)</b>			
Chartwell Retirement Residences	9,986	155,461	138,805
		<u>155,461</u>	<u>138,805</u>
<b>TOTAL CANADIAN EQUITIES</b>		<u>3,631,183</u>	<u>3,863,529</u>
<b>UNITED STATES EQUITIES (6.73%)</b>			
<b>Utilities (4.35%)</b>			
Brookfield Renewable Partners LP	3,999	178,514	241,140
		<u>178,514</u>	<u>241,140</u>
<b>Real Estate (2.38%)</b>			
Brookfield Property Partners LP	5,562	147,491	131,986
		<u>147,491</u>	<u>131,986</u>
<b>TOTAL UNITED STATES EQUITIES</b>		<u>326,005</u>	<u>373,126</u>
<b>Total cost and fair value of investments (76.39%)</b>		3,957,188	4,236,655
<b>Less: Transaction costs included in average cost (Note 6)</b>		(5,432)	-
<b>Total investments</b>		<u>3,951,756</u>	<u>4,236,655</u>
<b>Other Assets Less Liabilities (23.61%)</b>		1,309,413	1,309,413
<b>Net assets attributable to holders of redeemable shares</b>		<u>5,261,169</u>	<u>5,546,068</u>

The accompanying notes form an integral part of the financial statements

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

## ANNUAL AUDITED FINANCIAL STATEMENTS

### PORTFOLIO CONCENTRATION (CDN \$)

Portfolio by Category	% of Net Assets Attributable to Holders of Redeemable Units	
	December 31, 2019	December 31, 2018
Energy	15.57%	15.39%
Real Estate	15.28%	0.00%
Consumer Discretionary	9.12%	3.27%
Financials	8.36%	11.10%
Industrials	7.15%	10.32%
Utilities	10.80%	16.49%
Consumer Staples	5.02%	3.39%
Communication Services	2.59%	2.28%
Healthcare	2.50%	2.44%
Materials	0.00%	2.63%
Other Assets Less Liabilities	23.61%	32.69%
Total	100.00%	100.00%

The accompanying notes form an integral part of the financial statements



# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 1. THE FUNDS

Marquest Mutual Funds Inc. (the "Corporation") was incorporated by articles of incorporation under the laws of Ontario on September 24, 2004. In addition to ten common shares issued upon incorporation, the Corporation has two series of mutual fund shares. The Funds are referred to individually as a "Fund" and collectively as the "Funds". The Funds' registered office is located at 161 Bay Street, 27<sup>th</sup> Floor, Toronto, Ontario, M5J 2S1. The Funds invest in Canadian and U.S. securities, Canadian and U.S. fixed income securities, Canadian short-term debt securities and derivatives. Most of the Funds' equity investments are listed and traded on stock exchange markets in Canada and the U.S., although the Funds may also invest in private equity securities.

Marquest Asset Management Inc. is the manager (the "Manager") of the Funds. The Funds' investment activities and administration are managed by the Manager. The Funds' custodian is RBC Investor and Treasury Services.

The Funds' commencement dates of operations are as follows:

Name of Fund	Series A-Rollover	Series A-Regular	Series F	Series I
Explorer Series Fund	31-Jan-05	05-Sep-08	24-Mar-08	-
Flex Dividend and Income Growth™ Series Fund	-	19-May-09	13-Nov-09	28-Oct-08

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of annual financial statements as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

These financial statements were authorized for issue by the Manager on March 30, 2020.

### (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 income and expenses during the reporting periods. Actual outcomes could differ from these estimates. Significant estimates include the valuation of investments and derivatives, and significant judgments include the determination of functional currency, classification of redeemable units, classification and measurement of investments and classification of the Fund as an investment entity. The impacts of such estimates 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 Funds hold financial instruments that are not quoted in active markets, including derivatives. Fair values may be determined using reputable pricing vendors (for derivatives) or indicated prices from market makers/brokers. Broker quotes as obtained from pricing sources may be indicative and not executable or binding. Securities not listed upon a recognized public stock exchange, or securities for which a last sale or closing price is unavailable or securities for which market quotations are, in the Manager's opinion, inaccurate, unreliable or not reflective of all available material information, are valued at their estimated fair value, determined by using appropriate and accepted industry valuation techniques including valuation models. The estimated fair value of a security determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. The estimates include consideration of liquidity and model inputs related to items such as credit risk (both own and counterparty) and volatility. Changes in assumption about these factors could affect the reported fair value of financial instruments and the level where the instruments are disclosed in the fair value hierarchy. To assess the significance, the Funds perform sensitivity analysis of these estimates to the fair value of the Funds' holdings (see Note 10).

#### Classification and measurement of investments

The Manager has assessed the business models of the Funds and has determined that the Funds' portfolio of financial assets and financial liabilities is managed and performance is evaluated on a fair value basis in accordance with the Funds' risk management and investment strategies; therefore, classification and measurement of investments is Fair value through profit and loss (FVTPL).

### (c) Investments in Associates, Joint Ventures, Subsidiaries, and Structured Entities

Consolidated financial statements are required to be prepared where an entity has control over the entity or entities in which it invests, in accordance with IFRS 10, Consolidated Financial Statements ("IFRS 10"). As the Funds satisfy the criteria to meet the definition of an "investment entity" under IFRS 10, any investments in subsidiaries, other than those that provide services to the Funds, are accounted for and measured at FVTPL. The Funds have also designated any investments in associates, joint ventures, and structured entities, structured as mutual or exchange traded funds, at FVTPL.

### (d) Functional and Presentation Currency

These financial statements are presented in Canadian dollars (CAD), which is the Funds' functional currency. The Funds' subscriptions and redemptions are denominated in Canadian dollars (CAD).

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. The effects of exchange rate fluctuations on investments and foreign currency transactions are included in the "Foreign exchange gain (loss)" in the Statements of Comprehensive Income.

### (e) Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for investments, which are measured at fair value in the Statements of Financial Position.

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

**Recognition and derecognition**

All financial instruments are recognized at fair value upon initial recognition when a fund becomes a party to the contractual requirements of the financial instruments. A financial asset is derecognized when the right to receive cash flows from the asset has expired or the Funds have substantially transferred all risk and rewards of ownership. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

**Classification and measurement**

In classifying and measuring financial instruments held by the Funds, the manager is required to assess the Funds' business model, the manner in which all financial assets and financial liabilities are managed and performance evaluated as a group on a fair value basis and the contractual cash flow characteristics of these financial instruments. The Funds' portfolio of financial assets is managed and evaluated on a fair value basis. Consequently, the funds classify and measure all investments and derivatives at Fair value through profit and loss (FVTPL).

All other assets and liabilities are subsequently measured at amortized cost in accordance with IFRS 9. Financial Instruments (IFRS 9).

The Funds' obligations for net assets attributable to unitholders are classified as financial liabilities in accordance with the requirements of IAS 32, Financial Instruments: Presentation and are presented at the redemption amount.

The Funds classify each financial instrument into one of the three fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities, either directly (i.e. derived from prices); or indirectly (i.e. derived from prices); and

Level 3 - for inputs that are based on unobservable market data.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

All fair value measurements are recurring. For financial instruments whose fair values approximate their carrying values, given their short term nature, the carrying values of financial instruments measured at amortized costs approximate their fair values. Fair values as classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

The models used to determine fair value measurements included in the financial statements of the Funds including Level 3 measurements, if any, are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The Manager considers and reviews the appropriateness of the valuation models, the valuation results, as well as any adjustments to the prices or estimates used by these models. At each financial reporting date, the Manager reviews and approves all Level 3 fair value measurements.

The breakdown into the three-level hierarchy is provided in Note 10.

(g) Redeemable Participating Shares

Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities. They are measured at the redeemable amount.

The value at which shares are issued or redeemed is the net asset value per share. Net asset value per share for each series is calculated at the end of each day on which the Funds' Manager is open for business ("valuation day") by dividing the net asset value ("Transactional NAV") of each series by its outstanding shares. The net asset value of each series is computed by calculating the value of the series' proportionate share of the Fund's assets less the series' proportionate share of the Fund's common liabilities and less series-specific liabilities. Expenses directly attributable to a series are charged to that series, while common Fund expenses are allocated to each series in a reasonable manner as determined by the Manager. Other income and realized and unrealized gains and losses are allocated to each series of the Fund based on that series' pro rata share of total net asset value of that Fund. Amounts received on the issuance of shares and amounts paid on the redemption of shares are included on the Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares. Distributions on redeemable shares are presented as an expense within the Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares.

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Shares from Operations per Share

Increase (decrease) in net assets attributable to holders of redeemable shares from operations per share is based on the increase (decrease) in net assets attributable to holders of redeemable shares from operations attributable to each series of the Fund divided by the weighted average number of shares of that series outstanding during the year.

### (i) Income Recognition

#### Dividend Income

Dividend income is recognized in the Statements of Comprehensive Income 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 gross of withheld tax.

#### Interest for distribution purposes

Interest for distribution purposes as disclosed in the Statements of Comprehensive Income on debt securities at FVTPL is recognized on an accrual basis and represents the coupon interest received by the Funds accounted for on an accrual basis. The Funds do not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight line basis.

#### Distribution income

Distributions from income trusts, mutual funds and REITs are recognized on the ex-distribution date and are recorded as income, capital gains or a return of capital, based on the 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 sale of investments, and unrealized appreciation and depreciation on investments, are calculated on an average cost basis.

### (j) Distributions to Shareholders

Distributions are recorded by the Funds on the business day immediately following the record date.

### (k) Transaction Costs

Transaction costs are expensed and are included in "Transaction costs" in the Statements of Comprehensive Income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

## 3. REDEEMABLE PARTICIPATING SHARES

The Funds are authorized to issue an unlimited number of shares as follows:

Name of Fund	Series available
Explorer Series Fund	A-Rollover, A-Regular, F
Flex Dividend and Income Growth™ Series Fund	A-Regular, F, I

During the years ended December 31, 2019 and 2018, the following shares were issued (including transfers from other series) and redeemed (including transfers to other series):

December 31, 2019	Outstanding beginning of year	Shares issued	Shares redeemed	Outstanding end of year
Explorer Series Fund				
Series A-Rollover	21,657,036	34,766,799	(39,149,494)	17,274,341
Series A-Regular	18,269	-	(4,171)	14,098
Series F	1,837,483	3,256,819	(4,913,492)	180,810
Flex Dividend and Income Growth™ Series Fund				
Series A	285,604	-	(39,633)	245,971
Series F	180,928	6,743	(24,274)	163,397
Series I	5,000	-	-	5,000
December 31, 2018	Outstanding beginning of year	Shares issued	Shares redeemed	Outstanding end of year
Explorer Series Fund				
Series A-Rollover	26,586,916	56,595,445	(61,525,325)	21,657,036
Series A-Regular	18,846	-	(577)	18,269
Series F	2,554,848	138,182	(855,547)	1,837,483
Flex Dividend and Income Growth™ Series Fund				
Series A	398,436	1,043	(113,875)	285,604
Series F	241,576	7,754	(68,402)	180,928
Series I	5,000	-	-	5,000

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 4. EXPENSES AND RELATED PARTY TRANSACTIONS

The following summarizes the annual management fee for the Funds paid yearly based on the average net asset value:

	Series A/Rollover and Regular	Series F	Series I
Explorer Series Fund	2.0%	1.0%	n/a
Flex Dividend and Income Growth™ Series Fund	2.0%	1.0%	Negotiated

The Funds are dependent on the Manager for administration and management of all matters relating to their operations.

The Funds bear all of their own expenses relating to their operation and the carrying on of their businesses. These items include legal and audit fees, interest, and administrative costs relating to the issue and redemption of shares as well as the cost of financial and other reports and compliance with all applicable laws, regulations and policies. Commissions paid on security transactions are shown as "Transaction costs" in the Statements of Comprehensive Income.

The Manager has, at its discretion, the ability to absorb certain expenses associated with some of the Funds. No fees were absorbed during the years ended December 31, 2019 and 2018.

Amounts payable to and receivable from other corporate series are non-interest bearing and due on demand. These balances arose as a result of the Explorer Series Fund remitting the Corporation's aggregate taxes owing on behalf of the Flex Dividend and Income Growth™ Series Fund and itself. These transactions are measured at the exchange amounts, and occur within the normal course of business.

Included in the each of the Funds' expenses in the Statements of Comprehensive Income is the corresponding component of sales tax. The Harmonized Sales Tax (HST) combines the GST rate of 5% with the Provincial Sales Tax of certain provinces. Each Fund's HST rate is calculated using the proportionate investment holding by unitholder's provincial residency as at September 30 of the prior year. HST rates are determined for expenses attributable to a Fund's individual class/series, where applicable.

From time to time, the Manager may earn fees and commissions on securities transactions in which the Fund participates. The fees and commissions are based on standard agreements at market prices. For the year ended December 31, 2019, \$18,229 (2018 – \$37,625) was received by the Manager in related fees and commissions under the standing instructions given by the Independent Review Committee ("IRC").

In accordance with National Instrument 81-107, *Independent Review Committee for Investment Funds*, the Fund Manager has established an IRC for all of the Funds. The mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest, which the Manager is subject to when managing the Funds. The IRC reports annually to unitholders of the Funds on its activities, and the annual report is available on or after December 31 in each year. The Manager charges compensation paid to the IRC members and the costs of the ongoing administration of the IRC to the Funds. These amounts are recorded in the Statements of Comprehensive Income.

## 5. TAXATION AND DISTRIBUTIONS

### (a) Taxation of Open-End Mutual Fund Corporations

Under the *Income Tax Act* (Canada), the Corporation qualifies as a mutual fund corporation and computes its net income (loss) and net capital gains (losses) for income tax purposes as a single entity. A mutual fund corporation is subject to a special 38 1/3% tax on taxable dividends received from corporations resident in Canada and to tax at normal corporate rates on other income and net taxable realized capital gains for the year. The special 38 1/3% tax is refundable on payments of taxable dividends to shareholders at the rate of \$1 for each \$2.61 of such dividend paid. All the tax on net taxable realized capital gains is refundable when the gains are distributed to shareholders as capital gains dividends or through redemption of shares at the request of shareholders.

While the Corporation is taxed as a single legal entity, the individual mutual fund share series recognize, for accounting purposes, the impact of current and future taxes based on the net income (loss) and increase (decrease) in net assets from realized and unrealized gains (losses), respectively, of each series. The mutual fund share series offsets the future tax liability for refundable taxes payable with the refund expected upon payment of capital gains or ordinary dividends or upon redemption of shares. As a result, the future tax liability for refundable taxes payable is eliminated. The mutual fund share series with negative taxable income does not recognize a tax asset for unused tax losses as future utilization is not probable and a full valuation allowance has been recorded. Further, unused tax losses of one mutual fund share series may be used to offset taxable income of another series. Therefore, where a mutual fund share series has positive net taxable income, the current tax liability has been offset with the utilization of unused tax losses from other series to the extent possible. Any residual taxable income would be refundable upon payment of capital gains or ordinary dividends by the Corporation.

### (b) Losses Carried Forward

Certain Funds have accumulated net realized capital and non-capital losses. Non-capital losses may be carried forward to reduce future taxable income for up to twenty years. Capital losses are available to be carried forward indefinitely and applied against future capital gains. There are no capital losses carry-forwards as of December 31, 2019 (2018 – nil) and non-capital losses carry-forwards as of December 31, 2019 (2018 – nil).

### (c) Withholding Taxes

Certain Funds holding foreign securities may be subject to withholding tax, which are the taxes imposed by certain foreign countries for the investment income received from these securities. Withholding taxes are accrued based on the accrual of the related foreign investment income and are included in "Withholding taxes" on the Statements of Comprehensive Income and "Accrued liabilities" on the Statements of Financial Position.

## 6. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS

Certain Funds have incurred brokerage commissions, a portion of which may have been received by the Funds' investment advisers in the form of investment or research services. For the year ended December 31, 2019, the total soft dollar benefits received for the Explorer Series Fund and Flex Dividend and Income Growth™ Series Fund were \$11,928 and \$3,823 respectively (2018 – \$14,105 and \$3,261 respectively).

No soft dollar services were included in the transaction costs on the Statements of Comprehensive Income.

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 7. SECURITIES LENDING TRANSACTIONS

The Funds have entered into a securities lending program with their custodian, RBC Investor and Treasury Services. The aggregate fair value of all securities loaned by a Fund cannot exceed 50% of the assets of the Fund. The Funds receive collateral of at least 102% of the value of the securities on loan. Collateral may comprise cash and/or securities.

The aggregate fair value of securities loaned and collateral held under securities lending transactions at December 31, 2019 and 2018 is as follows:

December 31, 2019	Securities on loan \$	Collateral amount \$	Collateral as percentage of securities loaned %
Flex Dividend and Income Growth™ Series Fund	769,124	807,583	105%

  

December 31, 2018	Securities on loan \$	Collateral amount \$	Collateral as percentage of securities loaned %
Flex Dividend and Income Growth™ Series Fund	791,500	831,077	105%

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge that the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

December 31, 2019	Gross securities lending income \$	Securities lending charge \$ %	Net securities lending income \$	Withholding taxes \$	Net income received \$
Explorer Series Fund	198	69 35	129	-	129
Flex Dividend and Income Growth™ Series Fund	38,391	13,437 35	24,954	37	24,917

  

December 31, 2018	Gross securities lending income \$	Securities lending charge \$ %	Net securities lending income \$	Withholding taxes \$	Net income received \$
Explorer Series Fund	18,258	6,390 35	11,868	1,492	10,376
Flex Dividend and Income Growth™ Series Fund	27,995	9,755 35	18,240	437	17,803

## 8. FUND MERGERS

The acquisition method of accounting was adopted for the merger of mutual funds whereby the continuing fund is the acquiring fund and the terminated fund is the acquired fund. This identification was based on aspects of the continuing fund such as investment objectives and portfolio composition.

Effective as of the close of business, as set out below, the continuing funds acquired the portfolio assets of the corresponding terminated funds in exchange for shares in the continuing fund. The value of the shares of the continuing fund issued in connection with these mergers was equal to the fair value of the investments transferred from the respective terminated fund.

Terminating fund	Merger date	Continuing fund	Series	Net assets acquired \$	Shares issued	Exchange ratio %
Marquest Mining 2017 - I Super Flow Through LP- National Class	05/04/2018	Explorer Series Fund	A-Rollover	8,574,577	16,672,325	27.53
Marquest Mining 2017 - I Super Flow Through LP- Quebec Class	05/04/2018	Explorer Series Fund	A-Rollover	8,924,051	17,351,839	19.21
Marquest Mining 2017-I Super Flow-Through LP	11/16/2018	Explorer Series Fund	A-Rollover	1,935,882	4,459,529	101.28
Marquest Mining Québec 2017-I Super Flow-Through LP	11/16/2018	Explorer Series Fund	A-Rollover	7,862,306	18,111,739	126.14
Marquest Mining 2018-I Super Flow-Through LP	04/12/2019	Explorer Series Fund	A-Rollover	1,009,070	2,319,702	125.80
Marquest Mining Québec 2018-I Super Flow-Through LP	04/12/2019	Explorer Series Fund	A-Rollover	4,454,980	10,241,334	137.49
Marquest Mining 2018-II Super Flow-Through LP, Class A	11/1/2019	Explorer Series Fund	A-Rollover	1,617,532	4,057,016	188.70
Marquest Mining 2018-II Super Flow-Through LP, Class F	11/1/2019	Explorer Series Fund	F	114,570	290,861	203.40
Marquest Mining Québec 2018-II Super Flow-Through LP, Class A	11/1/2019	Explorer Series Fund	A-Rollover	7,235,900	18,148,733	129.86
Marquest Mining Québec 2018-II Super Flow-Through LP, Class F	11/1/2019	Explorer Series Fund	F	1,156,275	2,935,453	139.78

As a result of the mergers, in accordance with the *Income Tax Act* (Canada), all unrealized losses and certain elected unrealized gains of the terminating funds' portfolios were realized on the merger date. The financial statements of the continuing funds do not include the operating results of the terminated funds prior to the merger date.

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 9. CAPITAL MANAGEMENT DISCLOSURES

Shares issued and outstanding represent the capital of the Funds. The Funds have no restrictions or specific capital requirements and are authorized to issue an unlimited number of redeemable, transferable shares of each Series available, as specified in the Funds' Simplified Prospectus. Restrictions and specific requirements on capital for each fund Series are only applicable for minimum subscriptions as outlined in the Simplified Prospectus. The Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares and note 3 outline the relevant changes in each of the Fund's shares for the year. In accordance with the Funds' investment objectives, portfolio management of the Funds' capital will encompass appropriate investing of subscriptions and the maintenance of sufficient liquidity levels for capital redemptions.

## 10. FINANCIAL INSTRUMENTS

### (a) Fair Value

Financial instruments of the Funds include investments at fair value. There are no significant differences between the carrying values of these financial instruments and their fair values due to their short term nature. Investments are carried at their fair values as described below.

- I. Securities listed upon a recognized public stock exchange are valued at their close price on the valuation 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.
- II. Securities not listed upon a recognized public stock exchange, or securities for which a close price, last sale or bid price are unavailable or securities for which market quotations are, in the Manager's opinion, inaccurate, unreliable or not reflective of all available material information, are valued at their estimated fair value, determined by using appropriate and accepted industry valuation techniques including valuation models. The estimated fair value of a security determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the estimated fair value of a security may be determined using valuation techniques that are not supported by observable market data.
- III. Warrants that do not have a quoted close price are carried at the difference between the exercise price and the quoted close price of the underlying security if the exercise price is lower than the quoted close price; if no quoted close price is available, then the management will determine the point within the bid-ask spread most representative of the fair value.
- IV. Securities that are restricted or limited by law (including by investment letter, escrow provisions or other representation, undertaking or agreement) will be subject to temporary trading restrictions and cannot be sold until the applicable holding period expires. The fair value of those securities for the duration of the holding period shall be the reported market value of the same class of shares of that security which is not subject to a restriction based on reported quotations in common use less an appropriate discount.

The following tables present the Funds' financial instruments measured at fair value classified by the fair value hierarchy set out in IFRS 13, *Fair Value Measurements* as of December 31, 2019 and 2018:

	Level 1	Level 2	Level 3	Total
December 31, 2019	\$	\$	\$	\$
Explorer Series Fund	4,885,300	-	279,531	5,164,831
Flex Dividend and Income Growth™ Series Fund	4,236,655	-	-	4,236,655
	Level 1	Level 2	Level 3	Total
December 31, 2018	\$	\$	\$	\$
Explorer Series Fund	6,220,751	871,108	151,376	7,243,235
Flex Dividend and Income Growth™ Series Fund	3,769,930	-	-	3,769,930

During the year ended December 31, 2019, \$0 (2018 – \$261,274) was transferred between Level 1 and Level 2 for the Explorer Series Fund.

Realized and unrealized gains and losses related to Level 3 securities are included in the Statements of Comprehensive Income under "Net realized gain (loss) on the sale of investments including foreign exchange gain (loss)" and "Change in unrealized appreciation (depreciation) on investments" respectively. Transfers in and out of Level 3 are due to the changes in the observability of market data, such as a recent new transaction or due to the passage of time, respectively. The following tables summarizes the changes in Level 3 securities for the years ended December 31, 2019 and 2018:

	Explorer Series Fund
	\$
Total Level 3 value, December 31, 2018 and 2017	151,376
Purchased	25
Transfers in	232,509
Net realized gain (loss) on sale of investments	(127,672)
Change in unrealized appreciation (depreciation) in value	23,293
Total Level 3 value, December 31, 2019	279,531

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 10. FINANCIAL INSTRUMENTS (continued)

### (a) Fair Value (continued)

Certain Funds hold Level 3 securities in which there is uncertainty in estimating the fair value stemming from current financial issues and lack of market quotations. Level 3 requires significant unobservable data in its determination of fair value. The Explorer Series Fund holds halted equity investments classified as Level 3.

The fair value of the level 3 securities during the year are calculated using a key number of valuation techniques and unobservable inputs, which may include financial analysis of the company's financial statements, financial disclosures, non-listed transaction prices, analysis of underlying commodity or sector prices and overall prevailing market and economic conditions.

### (b) Risk Management and Disclosures

The Funds' investment activities expose them to a variety of financial risks. The Schedule of Investment Portfolios presents the securities held by the Funds as at December 31, 2019, and groups the securities by asset type, geographic region and/or market segment. Significant risks that are relevant to the Funds are discussed below. The sensitivity analyses shown in the notes below may differ from actual trading, and the differences could be material.

The Manager seeks to minimize potential adverse effects of these risks on the Funds' performance by employing professional, experienced portfolio advisers, daily monitoring of the Funds' positions and market events, by diversifying the investment portfolios within the constraints of the investment objectives. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Funds' investment activities and monitors compliance with the Funds' stated investment strategies and securities regulations.

#### (i) Market Risk

##### *Foreign exchange risk*

Foreign exchange risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Funds invest in securities and other investments that are denominated in currencies other than the Canadian dollar. Accordingly, the value of the Funds' assets may be affected favourably or unfavourably by fluctuations in currency rates, and therefore the Funds will necessarily be subject to foreign exchange risks.

The primary purpose of the Funds' foreign currency economic hedging activities is to protect against the volatility associated with investments and other assets and liabilities denominated in foreign currencies in the normal course of business.

The tables below indicate the foreign currencies to which the Funds have significant exposure as at December 31, 2019 and 2018. The table also illustrates the potential impact to the Funds' net asset value, as a result of a 5% change in these currencies relative to the Canadian dollar, the functional currency, with all other variables held constant.

December 31, 2019	Currency	Fair value \$	% of Net assets attributable to holders of redeemable units %	Potential impact on net assets \$
Explorer Series Fund	United States dollars	35	-	2
Flex Dividend and Income Growth™ Series Fund	United States dollars	20,878	0.4	1,044

December 31, 2018	Currency	Fair value \$	% of Net assets attributable to holders of redeemable units %	Potential impact on net assets \$
Explorer Series Fund	United States dollars	37	-	2
Flex Dividend and Income Growth™ Series Fund	United States dollars	378,163	6.8	18,908

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Funds are not exposed to interest rate risk.

# Marquest Mutual Funds Inc.

Notes to Financial Statements (expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

## 10. FINANCIAL INSTRUMENTS (continued)

### (b) Risk Management and Disclosures (continued)

#### Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The investments of the Funds 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 Funds 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 Funds' market price risk is managed through diversification of the investment portfolio.

The most significant exposure to other price risk arises from the Funds' investments in equity securities. As of December 31, 2019 and 2018, had the prices on the respective stock exchanges for these securities raised or lowered by 10%, with all other variables held constant, net assets attributable to holders of redeemable shares would have increased or decreased respectively as follows:

December 31, 2019	Fair value of Investments in equity securities \$	% of net assets attributable to holders of redeemable shares %	Potential impact on net assets attributable to holders of redeemable shares \$
Explorer Series Fund	5,164,831	73.4	516,483
Flex Dividend and Income Growth™ Series Fund	4,236,655	76.4	423,666

  

December 31, 2018	Fair value of investments in equity securities \$	% of net assets attributable to holders of redeemable shares %	Potential impact on net assets attributable to holders of redeemable shares \$
Explorer Series Fund	7,243,235	71.4	724,324
Flex Dividend and Income Growth™ Series Fund	3,769,930	67.3	376,993

### (ii) Liquidity Risk

Liquidity risk is defined as the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Funds may invest in securities, which are not actively traded on a stock exchange. The fair values of these securities may not be indicative of what the Funds could realize on the immediate sale as it may take a significant amount of time to liquidate positions without causing a significant negative impact on the fair value. There can be no assurance that an active trading market for these securities will exist at all times, or that the prices at which these securities trade accurately reflect their values. Additionally for net asset value purposes, in accordance with securities regulation, the Funds must maintain at least 85% of their assets in liquid investments (i.e. investments that are traded in an active market including management fees payable, other payable and accrued expenses and payable on redemption of redeemable shares. These financial liabilities are all current and are due within 30 days. Redeemable shares are redeemable on demand at the shareholder's option. However, management does not expect that all of the shares will be redeemed immediately as holders of these instruments typically retain them for a longer period.

Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. On a weekly basis, quantitative monitoring measures are used to screen the Fund's portfolio for securities that may be considered for potential reclassification as illiquid. In addition, the Fund aims to retain sufficient cash to maintain liquidity. Accordingly, the Fund's liquidity risk is considered minimal.

### (iii) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds. The Funds' exposure to credit risk includes cash, investments, dividends receivable and receivables for investment securities sold. The Funds reduce their credit risk associated with cash by maintaining their primary bank accounts at large international financial institutions. All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once 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 fails to meet its obligation. The Funds do not have a significant exposure to credit risk.

### (iv) Concentration Risk

Portfolio concentration risk is the risk of loss in the total value of the portfolio investments of the Fund due to an over-concentration of investments in a particular instrument, sector or country. A summary of the portfolio's concentration risk by industry sector as at December 31, 2019 and 2018 is shown in Fund's Schedule of Investment Portfolio.

## 10. SUBSEQUENT EVENT

Subsequent to year end, COVID-19 became a global pandemic and resulted unprecedented actions by governments around the world to curtail the spread of the disease. These events have resulted in a high level of uncertainty and volatility in the financial markets, and have had an enormous impact on businesses and consumers in all sectors. The outcome and timeframe is highly unpredictable and as such, the financial impact to investments cannot be estimated.



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