

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**

2010 Semi-Annual Financial Statements

**June 30, 2010**  
**(unaudited)**

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**

Disclosure of Auditor's Review  
June 30, 2010

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund in accordance with Canadian generally accepted auditing standards.

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**

Statement of Net Assets  
(Unaudited)

As at	June 30, 2010	(Audited) December 31, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,539,175	\$ 1,578,494
Receivable for securities sold	-	670,473
Other receivable	-	80,000
Investments – at fair value (note 2)	34,466,917	32,951,648
Prepaid expenses	606	1,213
Shares subscribed for	-	998,642
	39,006,698	36,280,470
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	51,912	105,196
Redemption payable	155,760	104,370
Due to related parties (note 8)	18,816	20,997
Management fee payable (notes 7 & 8)	86,805	155,242
	313,293	385,805
<b>Net assets</b>	<b>\$ 38,693,405</b>	<b>\$ 35,894,665</b>
<b>Number of Series A shares outstanding (note 3)</b>	<b>8,405,316</b>	<b>7,609,295</b>
<b>Net assets per Series A share (note 2)</b>	<b>\$ 4.60</b>	<b>\$ 4.72</b>

Approved on behalf of the Board of Directors of Qwest Investment Fund Management Ltd.:

(signed) “Stephen P. McCoach”

Stephen P. McCoach  
Director

(signed) “Maurice Levesque”

Maurice Levesque  
Director

See notes to accompanying financial statements.

**QE Funds Corp.**  
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Statement of Operations  
(Unaudited)

For the six-month period ended June 30,	2010	2009
Investment income		
Dividend	\$ 23,884	\$ 43,759
Other	-	178,330
Interest	24	18,431
	23,908	240,520
Expenses		
Management fee (notes 7 & 8)	528,982	386,052
Agency fees	137,424	127,226
Legal	38,371	35,185
Filing	18,004	16,358
Administrative	13,484	20,416
Custodial fees	10,529	7,705
Independent review committee fees	9,350	3,855
Accounting and audit	-	43,084
	756,144	639,881
Net investment loss	(732,236)	(399,361)
Net realized gain (loss) on investment transactions		
Net realized gain (loss) on sale of investments	3,859,646	(19,948,088)
Commissions (note 6)	(159,914)	(94,490)
	3,699,732	(20,042,578)
Change in unrealized appreciation (depreciation) of investments	(5,580,163)	20,476,210
Income tax (note 5)	(2)	(12)
Increase (decrease) in net assets from operations	\$ (2,612,669)	\$ 34,259
Weighted average number of Series A shares outstanding	8,225,454	8,153,991
Increase (decrease) in net assets from operations per Series A share	\$ (0.32)	\$ Nil

See notes to accompanying financial statements.

**QE Funds Corp.**  
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Statement of Changes in Net Assets  
(Unaudited)

For the six-month period ended June 30,	2010	2009
Net assets – Beginning of period	\$ 35,894,665	\$ 28,767,634
Distributions to investors		
From net realized gains on investments	-	(3,700,102)
	-	(3,700,102)
Increase (decrease) in net assets from operations	(2,612,669)	34,259
Shareholder transactions (note 3)		
Shares issued on reinvestment of distributions	-	3,695,729
Shares issued for roll-over from limited partnerships (note 1)	28,200,592	18,655,435
Payment for securities redeemed	(22,789,183)	(10,308,290)
	5,411,409	12,042,874
Net increase (decrease) in net assets	2,798,740	8,377,031
Net assets – End of period	\$ 38,693,405	\$ 37,144,665

See notes to accompanying financial statements.

**QE Funds Corp.**  
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Statement of Cash Flows  
(Unaudited)

For the six-month period ended June 30,	2010	2009
Cash flows from operating activities		
Increase (decrease) in net assets from operations	\$ (2,612,669)	\$ 34,259
Adjustments to determine net cash used in operating activities		
Purchase of investment securities	(15,645,137)	(6,914,995)
Proceeds from sale of investment securities	33,512,772	15,461,277
Increase (decrease) in non-cash balances related to operations	1,677,210	(2,821,542)
Net realized loss on sale of investments	(3,859,646)	19,948,088
Change in unrealized (appreciation) depreciation of investments	5,580,163	(20,476,210)
	18,652,693	5,230,877
Cash flows from financing activities		
Dividend paid	-	(4,373)
Consideration paid for redemption of Class A Shares	(22,789,183)	(10,308,290)
Cash received on roll-over from limited partnerships (note 1)	7,097,171	8,103,554
	(15,692,012)	(2,209,109)
Increase in cash and cash equivalents	2,960,681	3,021,768
Cash – Beginning of period	1,578,494	1,093,814
Cash – End of period	\$ 4,539,175	\$ 4,115,582
Supplemental cash flow information:		
Income tax paid	\$ 2	\$ 14,440

Non-cash transactions  
Exchange of net assets per Series A shares (note1)

See notes to accompanying financial statements.

**QE Funds Corp.**  
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Statement of Investment Portfolio

As at June 30, 2010

(Unaudited)

Portfolio of Investments	Number of shares / subscription receipts/ warrants	Cost \$	Fair value \$	Net assets %
<b>Equities</b>				
<b>Energy</b>				
Emerge Oil & Gas Inc.	950,000	2,828,887	2,973,500	7.69
Whitecap Resources Inc.	5,831,000	1,596,000	2,798,880	7.23
Legacy Oil + Gas Inc.	233,416	2,349,541	2,665,611	6.89
Pacific Rubiales Energy Corp.	100,000	1,569,667	2,384,000	6.16
Wild Stream Exploration Inc.	380,000	1,998,729	2,147,000	5.55
Surge Energy Inc.	372,000	2,678,400	2,101,800	5.43
Renegade Petroleum Ltd.	643,000	1,840,760	2,025,450	5.24
Crew Energy Inc.	120,000	1,532,014	1,804,800	4.66
TriOil Resource Ltd.	423,124	2,013,078	1,696,727	4.40
Secure Energy Services Inc.	475,000	1,644,250	1,686,250	4.36
Gran Tierra Energy Inc.	310,583	1,028,366	1,646,090	4.25
Petrominerales Ltd.	48,000	1,574,400	1,190,400	3.08
Alange Energy Corp.	3,048,243	2,058,332	1,066,885	2.76
C&C Energia Ltd.	118,400	1,006,400	867,872	2.24
Arsenal Energy Inc.	1,053,000	721,970	821,340	2.12
Reliables Energy Ltd.	2,775,000	832,500	804,750	2.08
TimberRock Energy Corp. <sup>(1)</sup>	407,000	439,560	508,750	1.31
Value Creation Inc. <sup>(1)</sup>	265,969	2,011,273	398,954	1.03
Angle Energy Inc.	50,000	396,340	356,500	0.92
Forent Energy Ltd.	1,469,907	344,641	323,379	0.84
Argosy Energy Inc.	321,468	468,474	315,039	0.81
Eagle Ranch Resources Ltd. <sup>(1)</sup>	420,000	411,600	168,000	0.43
Compass Petroleum Ltd.	58,800	360,150	62,328	0.16
First West Petroleum Inc. <sup>(1)</sup>	500,000	550,000	-	-
Vanguard Exploration Corp. <sup>(1)</sup>	1,000,000	125,000	-	-
Vanquish Oil & Gas Corp. <sup>(1)</sup>	444,444	-	-	-
		32,380,332	30,814,305	79.64
<b>Mining</b>				
Aura Minerals Inc.	347,000	1,146,039	1,388,000	3.59
Rubicon Minerals Corp.	310,000	1,355,400	1,128,400	2.92
Forum Uranium Corp.	4,755,000	889,850	380,400	0.98
Fission Energy Corp.	375,000	255,000	176,250	0.46
		3,646,289	3,073,050	7.95
<b>Total Equity</b>		36,026,621	33,887,355	87.59
<b>Subscription receipts</b>				
GASFRAC Energy Services Inc. <sup>(2)</sup>	100,000	500,000	500,000	1.29

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Statement of Investment Portfolio

As at June 30, 2010

(Unaudited)

Portfolio of Investments (continued)	Number of shares / subscription receipts/ warrants	Cost \$	Fair value \$	Net assets %
<b>Warrants</b>				
Argosy Energy Inc. (September 8, 2011, strike price \$2.25)	160,734	56,514	9,136	0.02
Argosy Energy Inc. (June 30, 2011, strike price \$2.25)	47,616	16,742	1,267	-
Fission Energy Corp. (April 7, 2012, strike price \$1.00)	187,500	45,000	31,144	0.08
Forent Energy Ltd. (April 28, 2011, strike price \$0.17)	830,000	76,775	24,920	0.07
Hawthorne Gold Corp. (August 27, 2010, strike price \$0.40)	417,000	-	-	-
Mega Uranium Ltd. (February 22, 2012, strike price \$7.90)	20,000	-	95	-
Norsemont Mining Inc. (April 30, 2011, strike price \$2.75)	50,000	26,285	13,000	0.03
Potash North Resource Corporation (July 9, 2010, strike price \$4.00)	300,000	-	-	-
		221,316	79,562	0.20
Total portfolio of investments		36,747,937	34,466,917	89.08
Cash and cash equivalents			4,539,175	11.73
Other net assets			(312,687)	(0.81)
Net assets			38,693,405	100.00

<sup>(1)</sup> private corporation

<sup>(2)</sup> illiquid security

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

June 30, 2010

(Unaudited)

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### 1. General

QE Funds Corp. (the "Corporation") is a mutual fund corporation incorporated under the laws of Canada on March 8, 2006. The authorized capital of the Corporation consists of an unlimited number of Class A shares, Class B shares, and special shares. Qwest Energy Canadian Resource Class (the "Fund") is the only class of special shares that have been issued by the Corporation, although the Corporation may offer additional classes of special shares in the future.

On May 31, 2010, the Corporation appointed Qwest Investment Fund Management Ltd. (the "Manager") as the manager of the Fund. The Manager is responsible for providing or arranging for the provision of administrative services required by the Fund and also serves as a portfolio adviser to the Fund.

The fundamental investment objective of the Fund is to provide long-term capital appreciation by investing primarily in equity securities of Canadian companies involved in the energy and natural resource sector.

Each year, the Manager offers for sale a limited number of units in one or more limited partnerships ("Partnerships"). The objective of the Partnerships is to invest in the flow-through securities of resource companies. Investors in the Partnerships are entitled to claim certain deductions and credits for income tax purposes. In the third year following their establishment, the Partnerships transfer net assets to the Fund at fair value determined under the Partnerships' prospectus and the Partnership is dissolved ("Mutual Fund Rollover Transaction"). The Partnerships investors receive shares in the Corporation in exchange for their Partnership units on a pro-rata basis on the date of transfer.

The Fund is currently not open to new investors except through the transfer of net assets to the Fund through a Mutual Fund Rollover Transaction.

The Corporation received the following subscriptions in exchange for net assets transferred to the Corporation on April 8, 2010:

Partnership	Net assets Received \$	Shares issued
Qwest Energy 2008 Flow-Through Limited Partnership	8,403,650	1,594,832
Qwest Energy 2008-II Flow-Through Limited Partnership	19,796,942	3,757,035
	28,200,592	5,351,867

# **QE Funds Corp.**

## **Qwest Energy Canadian Resource Class**

Notes to Financial Statements

June 30, 2010

(Unaudited)

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### **2. Summary of significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The following is a summary of significant accounting policies used by the Corporation:

#### **Investments in publicly traded equity securities**

The fair value of equity securities which are traded in an active market is measured using the closing bid price at the period end date. When current bid prices or quotations are not readily available, valuations are established based upon a valuation technique in order to determine what the fair value would be in an arms length transaction motivated by normal business considerations. These may include use of the most recent publicly traded price or a price established by the Manager in accordance with its valuation policy.

The amounts at which publicly traded investments could be disposed of currently may differ from carrying value based on closing bid prices, as the value at which significant ownership positions are sold is often different than the quoted price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

#### **Investments in privately held equity securities**

For financial instruments not traded in an active market, the Corporation establishes fair value by using a valuation technique in order to estimate what the transaction price would have been on the measurement date in a third party arm's length transaction motivated by normal business considerations. The initial transaction price is considered to be fair value on the date of the purchase transaction.

The Manager emphasizes the principle of using a reasonable estimable exit price in prevailing market conditions at the period-end date. The Manager places significant emphasis on the valuation process and controls which are in place throughout the period and seeks to incorporate all the factors that market participants would reasonably consider in estimating the fair value of private investments. The Manager periodically calibrates prices to take account of current market prices, where a valuation takes account of probable and proved reserves or significant market transaction events. Where a significant financing is taken into account, the Manager considers the transaction size relative to the overall investment and the potential motivation of the parties involved. The Manager seeks to make maximum use of market prices and other available information such as reserve reports in its estimate of fair value. In applying a discounted cash flow or use of industry benchmarks approach, the Manager makes maximum use of third party information in determining likely cash flows and market discount rates. Management makes an assessment of estimated fair value at each reporting date. In applying any valuation technique, the greatest emphasis is placed on the most observable and objective information available with lesser emphasis placed on subjective or management-determined inputs.

The resulting values for non-publicly traded investments may differ from values that would be determined had an active market existed. In addition, the amounts at which the Corporation's privately-held investments could be disposed of currently may differ from the carrying values assigned, and the differences could be material.

#### **Warrants**

Warrants are recorded at their estimated fair value using a recognized valuation model. For private companies, management makes maximum use of publicly available inputs, such as comparable companies with appropriate adjustments to reflect the individual company circumstances to establish volatility and other inputs to the model.

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Notes to Financial Statements

June 30, 2010

(Unaudited)

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**2. Summary of significant Accounting Policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and deposits with original maturities of three months or less and are held with a Canadian chartered bank.

**Revenue and expense recognition**

Dividend income is recognized at the ex-dividend date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of operations and calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains and losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. Interest is recorded on an accrual basis. All costs directly attributable to operating activities are expensed as incurred.

Purchases and sales of securities are accounted for on a trade date basis.

**Transaction costs**

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments, are recorded as an expense in the statement of operations.

**Foreign currency translation**

The market value of foreign investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

**Increase (decrease) in net assets from operations per Series A share**

Increase (decrease) in net assets from operation per Series A share is determined by dividing the increase (decrease) in net assets from operations by the weighted average number of Series A shares outstanding during the reporting period.

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those reported and the differences could be material. Significant areas involving the use of estimates include determining the estimated fair value of private investments, illiquid securities and the fair value of warrants. In calculating estimated fair value, the Manager makes maximum use of publicly available market-based inputs.

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(Unaudited)

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**2. Summary of significant Accounting Policies (continued)**

**Future accounting changes**

On January 1, 2011, International Financial Reporting Standard (“IFRS”) will replace GAAP. For the Corporation’s financial reporting, the transition date of January 1, 2010 requires a restatement for comparative purposes of amount reported by the Corporation as at December 31, 2009. The Corporation is currently assessing the impact on the adoption of IFRS on its financial statements.

**Reconciliation of net asset values**

For financial statement purposes, the Partnership follows CICA Handbook Section 3855, which requires the use of bid prices for securities owned and traded in an active market, to determine the fair value of its investments. For trading purposes, the Corporation determines the net asset value of its investments in accordance with National Instrument 81-106 (“NI 81-106”), which values the listed securities at their last trade price. A reconciliation of the net asset values calculated according to Section 3855 and NI 81-106 is as follows:

	<b>Per share June 30, 2010 \$</b>	<b>Per share December 31, 2009 \$</b>
NAV per NI 81-106	4.51	4.76
Difference resulting from Section 3855	0.09	(0.04)
NAV per Section 3855	4.60	4.72

**3. Share transactions**

The Fund is divided into Series A, F and O, and the number of shares of each series that may be issued is unlimited. Currently, only Series A shares of the Fund are offered in all provinces and territories in Canada. Additional Series A are currently only available on exchange to holders of partnership units of Partnerships related to the Manager on completion of Mutual Fund Rollover Transaction which takes place on the dissolution of the Partnerships (see note 1). Shares may be redeemed at their net asset value per share, on any valuation day. If the shares are redeemed or switched within 90 days of purchase the shareholder may be charged a short-term trading fee of 2% of the value of the shares redeemed.

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**3. Share transactions (continued)**

The number of Series A shares issued and redeemed at net asset value is summarized as follows:

	<b>For the six- month period ended June 30, 2010</b>	<b>For the year ended December 31, 2009</b>
Share issued and outstanding at beginning of period	7,609,295	6,699,193
Share issued on reinvestment of distributions	-	1,129,607
Shares issued during the period for rollover from limited partnerships	5,351,867	5,524,263
Shares redeemed during the period	(4,555,846)	(5,743,768)
Shares issued and outstanding at end of period	8,405,316	7,609,295

**4. Distributions**

The Corporation may pay annually to shareholders ordinary dividends and capital gains dividends. Ordinary dividends will generally be paid in December and capital gains dividends will generally be paid in February. Dividends may be paid at other times determined by the Manager.

**5. Income Taxes**

The Corporation qualifies as a mutual fund corporation as defined in the Income Tax Act (Canada). A mutual fund corporation is subject to a special 33 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 33 1/3% tax is refundable at the rate of \$1 for every \$3 of ordinary dividends paid. All the tax on net taxable realized capital gains is refundable on a formula basis when shares are redeemed or capital gains dividends are paid.

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. When the fair value of a security in the Corporation exceeds its cost base, a future income tax liability arises. When the cost base of a security exceeds its fair value, a future income tax asset exists but a full valuation allowance is offset against the future income tax asset when the expected realization of the future income tax asset does not meet the more likely than not realization test. The general income tax rules associated with a public corporation also apply to a mutual fund corporation with the exception that income taxes payable on capital gains are refundable on a formula basis when shares are redeemed or capital gains dividends are paid.

**QE Funds Corp.**  
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Notes to Financial Statements

June 30, 2010

(Unaudited)

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**6. Expenses**

The Corporation is responsible for all charges and expenses incurred in connection with its operations, including regulatory, printing, legal and audit expenses.

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2010, is \$159,914 (June 30, 2009 - \$94,490). For the period ended June 30, 2010 (June 30, 2009 - \$nil), there were no soft dollar amounts paid.

**7. Management fee**

The management fee is calculated at 2.5% per annum of the daily net asset value of the Corporation, paid monthly. The fees are payable to the Manager (see note 1).

**8. Related party balances and transactions**

Balances and transactions are as follows:

<b>For the six-month period ended June 30,</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Heritage Bancorp Ltd. ("Heritage")		
Reimbursement for the Corporation's expenses paid by Heritage	14,931	4,899
Qwest Investment Management Corp.		
Management fee	442,177	386,052
Reimbursement of Manager expenses	143,322	131,648
Qwest Investment Fund Management Ltd.		
Management fee	86,805	-
<b>As of</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>\$</b>	<b>\$</b>
Qwest Investment Management Corp.		
Management fee payable	-	155,242
Accounts payable	18,816	20,997
Qwest Investment Fund Management Ltd.		
Management fee payable	86,805	-

All amounts payable are due on demand and non-interest bearing.

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(Unaudited)

**9. Fair value measurement**

The following table illustrates the classification of the Corporation's financial instruments within the fair value hierarchy as at June 30, 2010. The three levels of the fair value hierarchy are:

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

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Equities	32,811,651	-	1,575,704	34,387,355
Warrants	13,000	-	66,562	79,562
	<u>32,824,651</u>	<u>-</u>	<u>1,642,266</u>	<u>34,466,917</u>

The following table reconciles the Corporation's Level 3 fair value measurements from December 31, 2009 to June 30, 2010:

	<b>Equity</b>	<b>Warrants</b>
	\$	\$
Balance as at December 31, 2009	6,256,517	70,691
Purchases	3,163,200	(21,546)
Sales	(1,905,643)	159,614
Unrealized loss	(753,430)	(129,197)
Transfers out	(5,184,940)	(13,000)
	<u>1,575,704</u>	<u>66,562</u>

During the period ended June 30, 2010, equity investments with a carrying value of \$5,184,940 and warrant with a carrying value of \$13,000 were transferred out of Level 3 into Level 1 as the issuers were acquired by a public company which traded actively at June 30, 2010.

The Manager applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments of \$1,642,266 as of June 30, 2010. The unobservable inputs used in the valuation of these financial instruments primarily include key variables, current market conditions and recent financings by the company, if any. These securities are affected by market activity in their relevant sectors and therefore fluctuate similarly. If relevant market-related inputs increased or decreased by 5%, with all other variables remaining constant, net assets would have possibly increased or decreased by approximately \$84,000.

# QE Funds Corp.

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Notes to Financial Statements

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(Unaudited)

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### 10. Financial instruments risk management

The Corporation's activities expose it to a variety of financial instrument risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The Corporation's overall risk management strategy focuses on the unpredictability of performance of early stage public and private resource investments and seeks to minimize potential adverse effects on the Fund's financial performance. The Corporation uses diversification to moderate risk exposures associated with a concentration of investments.

The Corporation's investment objective is to provide shareholders of the Corporation with an investment in a diversified portfolio of shares of resource issuers with a view to achieving capital appreciation and profits. The principal business of the resource issuers are mineral, oil or gas exploration, development or production, and projects in renewable energy and the development of energy efficiency technologies.

The Corporation may take small positions in other securities, such as convertible securities, high-yield debt securities and derivative instruments, and invest in foreign resource companies listed on major stock exchanges. The Corporation will use derivatives for hedging purposes only. The Corporation may hold a portion of its assets in cash or short-term money market securities while seeking investment opportunities or for defensive purposes to reflect adverse market, economic, political or other conditions. The Corporation acquires a substantial portion of assets from certain limited partnerships organized by companies that are related to the Manager or former limited partners of such limited partnerships. These assets are transferred to the Corporation on a tax-deferred basis in exchange for shares of the Corporation.

Proceeds from the sale of flow-through shares may be invested in other flow-through shares, in equity securities of senior listed issuers, in bonds and debentures issued by senior listed issuers and government issues or in index-based securities, or may be used to exercise warrants.

#### Market risk

##### a) Price risk

The Corporation's investment are exposed to market price risk due to changing market conditions for equities as well as specific industry changes in the energy sector such as changes in commodity prices and the level of market demand as well as any changes to the tax environment in which the investee entities operate. The privately held investments may be early stage investments with unproven mineral, oil or gas reserves. All investments in equity securities have inherent risk of a loss of capital. The maximum risk resulting from financial instrument investments is determined by the fair value of the financial instruments. The Manager seeks to manage market risks by careful selection of securities prior to making an investment in an early stage company and by regular ongoing monitoring of the investment performance of the individual investee companies. The Manager also sets thresholds on individual investments to mitigate the risk of exposure to any one investment. The Corporation's overall market positions are monitored on a daily basis by the Manager and are reviewed on a quarterly basis by the Board of Directors.

At June 30, 2010, the Corporation's market risk is impacted directly by changes in equity prices and indirectly by changes in oil and gas and other commodity prices. The immediate impact on equities of a 5% increase or decrease in the fair value of investments assuming all other variables remain constant would be approximately \$1,725,000.

# QE Funds Corp.

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Notes to Financial Statements

June 30, 2010

(Unaudited)

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### 10. Financial instruments risk management (continued)

#### Market risk (continued)

##### b) Interest rate risk

The substantial majority of the Corporation's financial assets and liabilities are non-interest bearing. As a result, the Corporation is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. The Corporation's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarizes the Corporation's exposure to interest rate risks at June 30, 2010. It includes the Corporation's assets and liabilities at carrying values, categorized by the earlier of contractual re-pricing or maturity dates.

	Due in less than 3 months \$	Non-interest bearing \$	Total \$
Cash	4,539,175	-	4,539,175
Investments	-	34,466,917	34,466,917
Prepaid expenses	-	606	606
Liabilities	-	(313,293)	(313,293)
	<u>4,539,175</u>	<u>34,154,230</u>	<u>38,693,405</u>

The Corporation's exposure to interest rate changes results from the difference between assets and liabilities and their respective maturities or interest rate repricing dates. Based on current differences as at June 30, 2010, the Corporation estimates that an immediate and sustained 100 basis point change in interest rates would impact net interest income by approximately \$45,000.

##### c) Currency risk

The monetary financial assets and liabilities of the Corporation are all denominated in Canadian dollars. Consequently, the Corporation has no significant direct exposure to currency risk.

#### Credit risk

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

When the Corporation trades in listed or unlisted securities which are settled upon delivery using approved brokers, the risk of default is considered minimal since delivery of securities 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 Corporation only transacts with reputable, highly credit-rated brokers.

The Manager monitors the Corporation's credit position regularly, and the Board of Directors reviews it on a periodic basis. The Corporation has not identified any past due assets or receivables as at June 30, 2010.

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**

Notes to Financial Statements

June 30, 2010

(Unaudited)

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**10. Financial instruments risk management (continued)**

**Liquidity risk**

The Corporation invests in early stage energy resource companies which may be publicly listed securities but thinly traded or in privately held companies. The resulting values for such securities may differ from values that would be realized had a ready market existed.

As the Corporation invests in investments that are not traded in an active market or are thinly traded, the Corporation may be exposed to liquidity risk. Investments in privately held investments may not be able to be liquidated quickly at an amount close to their fair value to meet the Corporation's liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular investee entity. As at June 30, 2010, approximately 3% of the Corporation's net assets were in private company investments. Although the Corporation manages its assets to cover any redemption risks, there is a risk that the Corporation's investment in private company investments could make it difficult for the Corporation to meet redemption requests. Securities purchased by the Corporation may be subject to resale restrictions such as hold periods. During periods when resale restrictions apply, the Corporation may dispose of such securities only pursuant to certain statutory exemptions.

As the Fund is open to daily redemptions, management manages liquidity risk using a variety of methods which include placing restrictions on the amounts of privately held securities which may be held by the Corporation.

**11. Corporation capital**

Shares of the Corporation issued and outstanding represent the capital of the Fund. The Fund is currently not issuing new shares except through a liquidity event such as a roll-over of Partnerships from eligible limited partnerships organized by companies that are related to the Manager or former limited partners of such limited partnerships. The Manager manages the capital of the Corporation in accordance with the investment objectives of the Corporation. There are no externally imposed restrictions on the Corporation's capital.