



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

2010 Semi-Annual Management Report of  
Fund Performance

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This semi-annual management report of fund performance contains financial highlights but does not contain the complete semi-annual financial statements of Qwest Energy Canadian Resource Class (the "Fund"). You can get a copy of the financial statements at no cost in the following ways; by calling us at (604) 602-1142 or 1-866-602-1142; by writing to us at Qwest Investment Management Corp., PO Box 11549, Suite 1601, 650 West Georgia Street, Vancouver, BC V6B 4N7; by e-mailing us at [info@qwestfunds.com](mailto:info@qwestfunds.com); by viewing the information on our website at [www.qwestfunds.com](http://www.qwestfunds.com); or by viewing the information on SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure records, or quarterly portfolio disclosures.

## **Management Discussion of Fund Performance**

### **Investment Objective and Strategies**

QE Funds Corp. (the "Corporation") is a mutual fund corporation offering Series A shares of the Fund. The Fund was set up to provide former investors of Qwest Energy Limited Partnerships with a liquid investment in a diversified portfolio of equity holdings of resource issuers, with a view to achieving income and capital appreciation. On May 31, 2010, the Corporation appointed Qwest Investment Fund Management Ltd. (the "Manager"), a company related to the Fund by common directors, as the manager of the Fund. The Manager is responsible for managing the overall business and operations of the Fund and providing investment advisory services for the Fund.

### **Risk**

The main areas of risk for the Fund fall into three categories:

- 1) activities in the broad stock market due to global and domestic economic and financial market changes;
- 2) changes in trend for the energy market and to a lesser extent, mining stocks; and
- 3) the current and future outlook for energy demand and prices and to a lesser extent, metals demand and prices.

The energy sector is cyclical and variable, as it is related not only to the fundamental reality of commodity supply and demand, but also to the expectations and perceptions thereon. In the past few years, the sector has been buffeted by everything from warm weather and natural gas inventory overhang, to supply shortages and extreme price swings. The energy sector has also dealt with the impact of changing federal and provincial government policies on both income trusts and royalties.

In the latter half of 2010, management expects a stable environment for oil prices as demand continues to grow and work through high Organization for Economic Co-operation and Development ("OECD") inventories and spare OPEC capacity. The same demand/supply equation holds true for base metals. Management sees sustainability in this balance through the remainder of 2010 as demand growth is supported by affordable commodity prices and producers are price incentivized to continue development and exploration.

Risks to this outlook exist from a number of factors, including the risk of default or perceived default on sovereign debt. The perception or reality of central banks introducing monetary tightening policies could spread concerns of sustainability of demand growth and shake confidence in the pace and strength of global economic recovery. This could temporarily soften the outlook for the resource sector as demand

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would be weakened. Management's long term outlook for commodities continues to be positive as energy and materials represent key input factors to drive growth in an environment of ongoing OECD economic recovery and emerging market growth. Gold, oil and base metals have enjoyed some additional price strength from being used as a hedge against adverse currency movements, in addition to growing in popularity as independent investment classes.

Management remains cautious on natural gas prices through the remainder of 2010. Continued strength in United States supply from technological advancements in unconventional gas accumulations, increasing liquid natural gas deliveries, high storage levels and slower than expected recovery in North American industrial demand will likely keep the prices low and range bound through 2010 and beyond.

**Results of Operations**

The Fund commenced operations in May, 2006. During the period ended June 30, 2010, the Fund issued 5,351,867 shares and redeemed 4,555,846 shares. As at June 30, 2010, 8,405,316 shares were outstanding. During the period ended June 30, 2010, the Fund realized an accounting gain of \$3,860,000 from the disposition of securities.

For the period ended June 30, 2010, the Fund earned dividend income of \$24,000. Total expenses including commissions were \$916,000 comprised mainly of \$529,000 in management fees (calculated daily at an annual rate of 2.5% of NAV), \$160,000 in brokerage commissions, \$137,000 in agency fees, and \$38,000 in legal fees.

When compared to the previous period, dividend income decreased by \$20,000 from \$44,000 to \$24,000 and other income decreased by \$178,000 from \$178,000 to \$nil. Realized gains (losses) was \$3,860,000 and (\$19,948,000) for June 30, 2010 and 2009 respectively. Unrealized appreciation (depreciation) of investments was (\$5,580,000) and \$20,476,000 for June 30, 2010 and 2009 respectively. As for expenses, management fees increased by \$143,000 from \$386,000 to \$529,000 primarily due to additional assets of approximately \$10 million rolled into the Fund from limited partnerships.

Net assets of the Fund at June 30, 2010 were \$38.7 million or \$4.60 per share.

**Recent Developments**

There are no changes to the strategic position of the Fund and its focus on the Canadian natural resource sector. The Fund continues to position itself in high quality energy companies. Within the energy sector the fund is predominantly oil focused, with companies operating in both Western Canada and internationally. The fund continues to have exposure to gold and base metal companies.

The Fund is positioned to have key weights in companies focused on light oil growth plays, and/or with material exposure to unconventional resource plays. Companies focused in Western Canadian play types have enjoyed strong share price appreciation, as the use of horizontal drilling and multi-stage fracture completion techniques have demonstrated strong production growth with impressive returns on investment. The Fund will continue to invest in companies that seek to deploy this technology to play types previously exploited exclusively via conventional methods. In addition the Fund intends to have exposure to companies operating in areas likely to enjoy continued mergers and acquisitions activity.

Independent Review Committee

Under the provisions of National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107"), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Fund, maintain an independent review committee ("IRC"). The IRC assists the Fund by providing independent advice to, and oversight of the Manager, solely with respect to conflicts of interest and potential conflicts of interest identified by the Manager.

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NI 81-107 further mandates that the IRC be composed of at least three independent members and requires that it conducts assessments and regularly report to the Manager and securityholders in respect of its duties.

The Manager has appointed a three-person IRC and has fully implemented all the necessary policies and procedures of NI 81-107. The members of the Fund's IRC are Gary Arca, CA, David M. Douglas, CA, and Peter Jarvis, LLB.

**Related Party Transactions**

Pursuant to the master management agreement, the Manager is entitled to an annual management fee of 2.5% of the net asset value of the Fund, calculated daily and payable monthly in arrears. For the period ended June 30, 2010, the Fund incurred \$529,000 in management fees of which \$87,000 was payable at June 30, 2010.

**Management Fees**

Out of the annual management fees paid to the Manager, 40% of the management fees (1.0% of the net asset value of the Fund) were paid to dealers for trailer fees.

See also "Related Party Transactions" with respect to management fees payable to the Manager in accordance with the master management agreement.

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**Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year. This information is derived from the Fund's annual financial statements for the period ended June 30, 2010 and the year ended December 31, 2009.

**Net Assets per mutual fund share <sup>(2)</sup>**

	<b>2010 <sup>(1)</sup></b>	<b>2009 <sup>(1)</sup></b>
<b>Initial NAV</b>	\$ 4.72	\$ 4.29
<b>Increase (decrease) from operations:</b>		
Total revenue	-	0.05
Total expenses	(0.11)	(0.19)
Realized gains (losses)	0.47	(2.08)
Unrealized gains (losses)	(0.68)	3.44
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>(0.32)</b>	<b>1.22</b>
<b>Distributions:</b>		
From dividends	-	0.01
From capital gains	-	0.60
<b>Total distributions <sup>(3)</sup></b>	<b>-</b>	<b>0.61</b>
<b>Net assets at period end</b>	<b>\$ 4.60</b>	<b>\$ 4.72</b>

<sup>(1)</sup> Results are for the period ended June 30, 2010 and the year ended December 31, 2009.

<sup>(2)</sup> This information is derived from the Fund's 2010 semi-annual financial statements and 2009 audited annual financial statements. The net assets per Series A Share presented in the financial statements differ from the net asset value calculated for pricing purposes. A reconciliation of these differences is included in the notes to the financial statements.

<sup>(3)</sup> Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

**Ratios and Supplemental Data**

	<b>2010 <sup>(1)</sup></b>	<b>2009 <sup>(1)</sup></b>
Net assets (000's)	\$ 37,930	\$ 36,966
Number of mutual fund shares outstanding	8,405,316	7,609,295
Management expense ratio <sup>(2)</sup>	3.75%	4.15%
Portfolio turnover rate <sup>(3)</sup>	80.50%	92.76%
Trading expense ratio <sup>(4)</sup>	0.79%	0.77%
Net asset value per share	4.51	4.76

<sup>(1)</sup> This information is provided as at June 30, 2010 and December 31, 2009.

<sup>(2)</sup> Management expense ratio ("MER") is based on total expenses for the stated period and is expressed as an annualized percentage of average net assets during the period.

<sup>(3)</sup> The portfolio turnover rate indicates how actively the Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate is in a year, the greater the trading costs payable by the Fund in the year, and the greater the change of an investor receiving taxable capital gain in the year. There is not necessarily a relationship between turnover rate and the performance of a portfolio.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the period.

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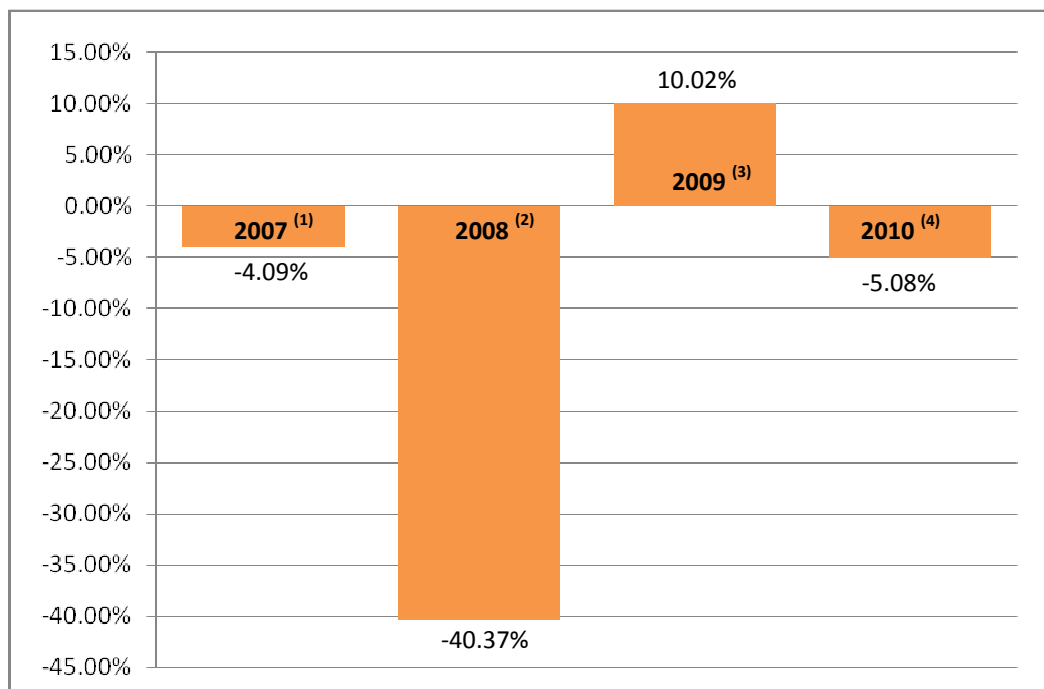
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**Past Performance**

Below indicates the annual compounded returns of the investment portfolio as at June 30, 2010. The performance information shown assumes that all distributions made by the Fund were reinvested in additional securities of the investment portfolio. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance of the investment portfolio does not necessarily indicate its future performance.

**Year-by-Year Returns**

The chart shows the performance of the investment portfolio for each of the years shown and illustrates how the investment portfolio's performance has changed from year to year. The chart shows, in percentage terms, how an investment made on the first day of each financial year would have grown or decreased by December 31 of that year and also for the six month period ending June 30, 2010.



<sup>(1)</sup> Performance for the year ending December 31, 2007  
<sup>(2)</sup> Performance for the year ending December 31, 2008  
<sup>(3)</sup> Performance for the year ending December 31, 2009  
<sup>(4)</sup> Performance for the six-month period ending June 30, 2010

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**Summary of Investment Portfolio**

Below is a breakdown of the investment portfolio as at June 30, 2010, by sector and as a percentage of the aggregate net asset value of the top 25 securities in the investment portfolio:

<b>Top Holdings</b>	<b>% of Net Assets</b>
Emerge Oil & Gas Inc.	7.69
Whitecap Resources Inc.	7.23
Legacy Oil + Gas Inc.	6.89
Pacific Rubiales Energy Corp.	6.16
Wild Stream Exploration Inc.	5.55
Surge Energy Inc.	5.43
Renegade Petroleum Ltd.	5.24
Crew Energy Inc.	4.66
TriOil Resource Ltd.	4.40
Secure Energy Services Inc.	4.36
Gran Tierra Energy Inc.	4.25
Aura Minerals Inc.	3.59
Petrominerales Ltd.	3.08
Rubicon Minerals Corp.	2.92
Alange Energy Corp.	2.76
C&C Energia Ltd.	2.24
Arsenal Energy Inc.	2.12
Reliables Energy Ltd.	2.08
TimberRock Energy Corp. <sup>(1)</sup>	1.31
GASFRAC Energy Services Inc. – subscription receipts <sup>(2)</sup>	1.29
Value Creation Inc. <sup>(1)</sup>	1.03
Forum Uranium Corp.	0.98
Angle Energy Inc.	0.92
Forent Energy Ltd.	0.84
Argosy Energy Inc.	0.81

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

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

<b>Sector/Subgroup</b>	<b>% of Net Assets</b>
Energy	81.02
Mining	8.06
Cash	11.73
Other assets – net of liabilities	(0.81)
	100.00

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The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund and an update is available at [www.qwestfunds.com](http://www.qwestfunds.com).

**Caution Regarding Forward-looking Statements**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts, but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest in and the risks detailed from time to time in the Fund's simplified prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, management of the Fund does not undertake, and specifically disclaims any intention or obligation to update or revise any forward-looking statements, future events or otherwise, unless required by applicable law.