



Qwest Energy Canadian Resource Class



2013 Annual Management Report
of Fund Performance

Qwest Funds Corp.
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This annual management report of fund performance contains financial highlights but does not contain the complete 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 Fund Management Ltd., PO Box 11549, Suite 310, 650 West Georgia Street, Vancouver, BC V6B 4N7; by e-mailing us at info@qwestfunds.com; by viewing the information on our website at www.qwestfunds.com; or by viewing the information on SEDAR at 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

The Fund seeks to provide investors with long-term capital appreciation by investing primarily in equity securities of Canadian companies involved in the energy and natural resources sector.

The Fund will invest primarily in the energy and resource sector, which involves companies engaged in industries such as oil and gas, mining and minerals, forestry, alternative energy and other resources. In addition, the Fund may also invest in securities of companies which are dependent on, or provide services to, the energy and resource industries, such as various oilfield services, pipelines, midstream services, utilities and equipment manufacturers. The Fund may take positions in other securities, such as convertible securities, debt securities, exchange traded funds comprised of debt securities and derivative instruments based on such securities, and invest in foreign resource companies listed on major stock exchanges.

The Fund will use derivatives for hedging purposes only.

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 natural resources sector; and
- 3) the current and future outlook for energy demand and commodity prices.

There were no significant changes to the investment objective and strategies that affected the Fund’s overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund commenced operations in May, 2006. During the year ended December 31, 2013, the Fund issued 4,507,513 Series A shares and 52,481 Series F shares, and redeemed 4,806,065 Series A shares and 17,603 Series F shares. As at December 31, 2013, 6,614,867 Series A shares and 113,218 Series F shares were outstanding. During the year ended December 31, 2013, the Fund realized an accounting loss of \$6,301,685 from the disposition of securities.

For the year ended December 31, 2013, the Fund earned dividend income of \$203,000. Total expenses including commissions were \$653,000 comprised mainly of \$353,000 in management fees (calculated daily at an annual rate of 2.5% of the NAV of Series A shares and 1.5% of the NAV of Series F shares), \$88,000 in

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agency fees, \$69,000 in brokerage commissions, \$50,000 in accounting and audit, \$25,000 in administration fees, \$23,000 in legal fees, and \$18,000 in filing fees.

When compared to the previous year, dividend income increased by \$123,000 from \$80,000 to \$203,000. Net realized losses are \$6,302,000 and \$10,596,000 for December 31, 2013 and 2012 respectively. Unrealized appreciation of investments was \$5,696,000 and \$4,115,000 for December 31, 2013 and 2012 respectively.

At December 31, 2013, net assets for Series A shares was \$11,168,293 or \$1.69 per share, and net assets for Series F shares was \$527,567 or \$4.66 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 focused on companies with the potential to grow natural gas reserves and production and oil companies with the potential to generate free cash flow.

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 the growth of onshore oil supplies and widening differentials for pipeline constrained crude oil volumes. Domestically the energy sector has also dealt with significant changes to the industry landscape, the growing presence of national oil companies and lack of investment capital from traditional sources.

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 Series A shares and 1.5% of the net asset value of Series F shares of the Fund, calculated daily and payable monthly in arrears. For the year ended December 31, 2013, the Fund incurred \$353,000 in management fees of which \$27,000 was payable at December 31, 2013.

On September 16, 2011, a director of the Manager joined the board of directors of Avatar Energy Ltd. ("Avatar") which is listed on the TSX Venture Exchange under the symbol AVG.V.

On April 17, 2012, the Fund acquired 1,877,193 shares of Avatar Energy Ltd. ("Avatar") for a total of \$74,561 through the Qwest Energy 2010-II Flow-Through Limited Partnership Mutual Fund Rollover Transaction. At December 31, 2012, the Fund had 1,877,193 shares of Avatar valued at \$28,158, measured in accordance with GAAP and consistent with the Fund's accounting policies. On February 4, 2013, the common director resigned as the Director of Avatar.

Avatar went into receivership in February 2013 and as such, all of the shares of Avatar held by Qwest Energy Canadian Resource Class have been written off in February 2013

Management Fees

The Manager provides administration and portfolio advisory services to the Fund.

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) on the Series A shares 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 past five years.

Net Assets per mutual fund share ⁽¹⁾

Net Assets Per Series A	2013	2012	2011	2010	2009
Initial NAV	\$ 1.92	\$ 2.94	\$ 6.22	\$ 4.72	\$ 4.29
Increase (decrease) from operations:					
Total revenue	0.03	0.01	0.01	0.00	0.05
Total expenses	(0.09)	(0.13)	(0.22)	(0.25)	(0.19)
Realized gains (losses)	(0.81)	(1.29)	0.64	1.07	(2.08)
Unrealized gains (losses)	0.74	0.50	(2.75)	0.26	3.44
Total decrease from operations ⁽²⁾	(0.13)	(0.91)	(2.32)	1.08	1.22
Distributions:					
From dividends	0.03	0.01	-	-	0.01
From capital gains	-	0.25	0.85	-	0.60
Total distributions ⁽²⁾	0.03	0.26	0.85	-	0.61
Net assets at end of period	\$ 1.69	\$ 1.92	\$ 2.94	\$ 6.22	\$ 4.72

Net Assets Per Series F	2013	2012	2011
Initial NAV	\$ 5.23	\$ 7.90	\$ -
Increase (decrease) from operations:			
Total revenue	0.07	0.02	0.00
Total expenses	(0.19)	(0.25)	(0.10)
Realized gains (losses)	(3.89)	(1.43)	0.51
Unrealized gains (losses)	3.52	0.56	(2.18)
Total decrease from operations ⁽²⁾	(0.49)	(1.10)	(1.77)
Distributions:			
From dividends	0.08	0.02	-
From capital gains	-	0.65	-
Total distributions ⁽²⁾	0.08	0.67	-
Net assets at end of period	\$ 4.66	\$ 5.23	\$ 7.90

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets per Series A and per Series F 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.

⁽²⁾ 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. The distributions were paid in a combination of cash and reinvested in additional shares of the Fund.

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Ratios and Supplemental Data

Series A	2013	2012	2011	2010	2009
Total net asset value (000's) ⁽¹⁾	\$ 11,228	\$ 13,356	\$ 17,422	\$ 37,207	\$ 36,188
Number of mutual fund shares outstanding	6,614,867	6,913,419	5,896,628	6,384,729	7,609,295
Management expense ratio ⁽²⁾	4.52%	4.78%	4.09%	3.91%	4.15%
Portfolio turnover rate ⁽³⁾	34.73%	24.46%	47.22%	118.30%	92.76%
Trading expense ratio ⁽⁴⁾	0.53%	0.71%	0.70%	1.12%	0.77%
Net asset value per share	1.69	1.93	2.95	5.83	4.76

Series F	2013	2012
Total net asset value (000's) ⁽¹⁾	\$ 530	\$ 414
Number of mutual fund shares outstanding	113,218	78,340
Management expense ratio ⁽²⁾	3.41%	3.74%
Portfolio turnover rate ⁽³⁾	34.73%	24.46%
Trading expense ratio ⁽⁴⁾	0.53%	0.71%
Net asset value per share	4.68	5.28

⁽¹⁾ Net assets are used for pricing purposes and calculated in accordance with NI 81-106. For a reconciliation of net assets to GAAP NAV, refer to the notes to the annual financial statements.

⁽²⁾ Management expense ratio ("MER") is based on total expenses net of issue costs, commissions and taxes for the stated period and is expressed as a percentage of daily average net assets during the period.

⁽³⁾ 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 chance 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.

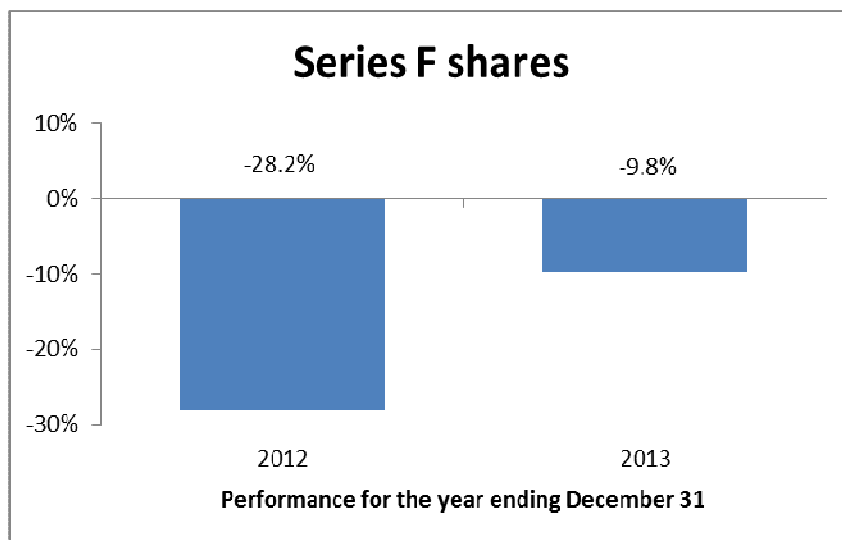
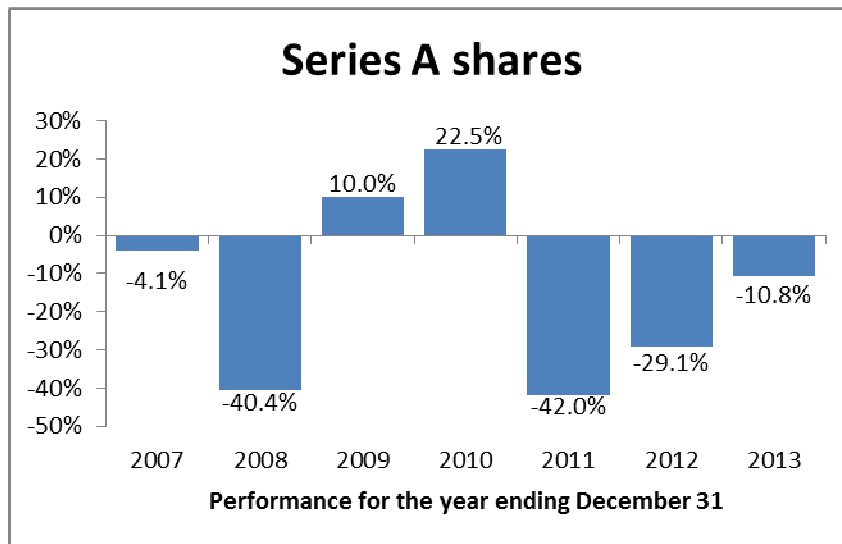
⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of average net assets during the period.

Past Performance

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 charts show the performance of the investment portfolio for the years shown and illustrates how the investment portfolio's performance has changed from year to year. The charts show, 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.



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Annual Compound Returns

The table below compares the investment portfolio's compound return to the S&P/TSX Composite Index for the same time period.

	One-year	Three-year	Five-year	Since Inception
Qwest Energy Canadian Resources Class – Series A	-10.8%	-28.4%	-12.3%	-16.5%
Qwest Energy Canadian Resources Class – Series F	-9.8%	NA	NA	-22.8%
S&P/TSX Composite index	9.6%	0.4%	8.7%	0.9%

The S&P/TSX Composite Index is a broad-based securities market index that statistically measures the state of the stock market based on the performance of certain stocks listed on the Toronto Stock Exchange. The performance of the index is typically viewed as a broad indicator of the direction of the economy.

The Fund's investment portfolio is comprised mostly of junior oil and gas companies and a comparison of the Fund's performance to a broad-based securities market index may not necessarily be relevant as only certain mature large corporations are included in the S&P/TSX Composite Index.

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Summary of Investment Portfolio

As at December 31, 2013, the net assets of the Fund was \$11,695,860. Below is a breakdown of the investment portfolio as at December 31, 2013, by sector and as a percentage of the aggregate net asset value of the top 25 securities in the investment portfolio:

Top Holdings	% of Net Assets
Whitecap Resources Inc.	8.22
Long Run Exploration Ltd.	7.82
Canacol Energy Ltd.	7.54
Strad Energy Services Ltd.	7.21
Twin Butte Energy Ltd.	5.80
Canelson Drilling Inc.	5.71
Crew Energy Inc.	5.40
Lynden Energy Corp.	5.13
Iona Energy Inc.	4.70
Bellatrix Exploration Ltd.	3.65
Canyon Services Group Inc.	3.63
Nordegg Resources Inc.	3.15
Bernum Petroleum Ltd.	2.78
TimberRock Energy Corp.	2.73
Tamarack Valley Energy Ltd.	2.66
Marquee Energy Ltd.	2.03
Dolomite Energy Inc.	1.93
Miramar Hydrocarbons Ltd.	1.93
DeeThree Exploration Ltd.	1.87
Artek Exploration Ltd.	1.24
Suroco Energy Inc.	0.96
Value Creation Inc.	0.57
Valeura Energy Inc.	0.52
Strategic Oil & Gas Ltd.	0.46
Arpetrol Ltd.	0.25
Sector/Subgroup	% of Net Assets
Energy	87.91
Cash	12.92
Other assets – net of liabilities	(0.83)
	100.00

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.

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.