

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

***Financial Statements***

**June 30, 2006**

**(Unaudited – See Notice to Reader)**

## **Notice to Reader**

The statement of net assets of QE Funds Corp. Canadian Resource Class as at June 30, 2006 and the statements of operations and changes in net assets for the period from commencement of operation on May 16, 2006 to June 30, 2006 were compiled by management. These financial statements have not been audited or reviewed by the company's auditors. Readers are cautioned that these statements may not be appropriate for their purposes.

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

Statement of Net Assets

As at June 30, 2006

---

**Assets**

**Current assets**

Investment, at market value	\$	19,986,962
Cash and short-term investments		1,819,332
Accrued investment income and other receivables		720
Prepaid expense		1,289
Deferred costs - current portion (Note 3)		1,963
		<hr/>
		21,810,266

**Long term assets**

Deferred costs (Note 3)		17,180
-------------------------	--	--------

---

**Total Assets** 21,827,446

---

**Liabilities**

Accounts payable and accrued liabilities		3,763
Redemption payable		395,272
Due to related parties		2,764
Management fee payable		126,015

---

**Total liabilities** 527,814

---

**Net assets** \$ 21,299,632

---

**Number of Series A shares outstanding (Note 4)** 2,285,640

---

**Net asset value per Series A share** \$ 9.32

---

See accompanying notes to financial statements.

Approved on behalf of by the Board of Directors of Qwest Energy Investment Management Corp:

Director

Director

(signed) "Maurice Levesque"

---

(signed) "Stephen McCoach"

---

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

Statement of Operations

For the period from May 16, 2006 to June 30, 2006

---

<b>Investment income</b>		
Dividend	\$	18,690
Interest, net of interest expense		13,182
		<hr/>
		31,872
		<hr/>
<b>Expenses</b>		
Administrative		18,819
Agency		12,427
Custodial fees		3,228
Filing		132
Management fees (Note 8)		92,951
		<hr/>
		127,557
		<hr/>
<b>Net investment gain (loss)</b>	\$	(95,685)
		<hr/>
<b>Net realized gain (loss) on investment transactions</b>		(827,535)
<b>Net change in unrealized appreciation (depreciation) of investments</b>		(1,377,405)
<b>Net gain (loss) on investments</b>		<hr/>
		(2,204,940)
		<hr/>
<b>Net increase (decrease) in assets from investment operations</b>		(2,300,625)
		<hr/>
<b>Average number of Series A shares outstanding</b>		2,991,748
		<hr/>
<b>Gain (loss) per Series A share</b>	\$	(0.77)

See accompanying notes to financial statements.

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

Statement of Changes in Net Assets

For the period from May 16, 2006 to June 30, 2006

---

<b>Net assets, beginning of period</b>	\$	-
<b>Net increase (decrease) in assets from investment operations</b>		<b>(2,300,625)</b>
<b>Securityholder transactions</b>		
Proceeds from issue of securities		44,463,561
Payment for securities redeemed		(20,863,304)
Reinvestment of distributions		-
		<hr/>
		23,600,257
		<hr/>
<b>Net assets, end of period</b>	\$	<b>21,299,632</b>

See accompanying notes to financial statements.

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

Statement of Cash Flow

For the period from May 16, 2006 to June 30, 2006

---

Increase (decrease) in cash

**Cash flows from operating activities**

Decrease in net assets from operations \$ (2,300,625)

**Adjustments to determine net cash used in operating activities**

Purchase of investment securities (568,542)

Proceed from sale of investment securities 10,310,105

Net change in non-cash working capital 506,662

Net realized gain on sales of investments (573,888)

Change in unrealized depreciation of investments 1,377,405

---

**Net cash used in operating activities** 8,751,117

**Cash flow from financing activities**

Proceeds from issue of Class A shares 10,800

Consideration paid for redemption of Class A shares (20,863,304)

---

**Net cash provided by financing activities** (20,852,504)

---

**Net increase in cash flow and short term investments** (12,101,387)

**Cash and short term investments, beginning of period** -

**Cash and short term initially received at inception of fund in  
exchange for Class A shares** 13,920,719

---

**Cash and short term investments, end of period** \$ 1,819,332

---

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

Statement of Net Assets  
As at June 30, 2006

	Number of shares	Average Cost \$	Market Value \$	% of Net Asset Value
<b>CANADIAN EQUITIES</b>				
<b>Energy</b>				
Crew Energy Inc.	100,000	1,490,000	1,340,000	6.29
Angle Energy Inc. <sup>(1)</sup>	333,000	999,000	1,248,750	5.86
Galleon Energy Inc. 'A'	55,500	1,269,100	1,203,240	5.65
Real Resources Inc.	50,000	1,150,000	1,033,000	4.85
Caribou Resources Corporation	500,475	1,196,135	975,925	4.58
Mission Oil & Gas Inc.	64,000	844,800	911,360	4.28
Storm Exploration Inc.	157,500	976,500	867,825	4.07
Stylus Energy Inc.	159,165	596,870	676,453	3.18
Rider Resources Limited	45,000	694,350	639,000	3.00
Breaker Energy Limited 'A' <sup>(1)</sup>	100,000	680,000	615,000	2.89
Los Altos Resources Limited <sup>(1)</sup>	350,000	612,500	612,500	2.88
Atlas Energy Limited	120,000	614,400	600,000	2.82
Orleans Energy Limited	100,000	590,000	585,000	2.75
Rally Energy Corporation	250,000	585,965	582,500	2.73
Tusk Energy Corporation	150,000	609,000	517,500	2.43
Cirrus Energy Corporation	400,000	460,000	500,000	2.35
Trimox Energy Inc.	200,000	498,000	470,000	2.21
Cork Exploration Inc.	125,000	500,000	468,750	2.20
Rosetta Exploration Inc.	1,285,100	636,125	462,636	2.17
Gentry Resources Limited	100,000	512,000	453,000	2.13
Clear Energy Inc.	125,000	562,500	445,000	2.09
Grand Banks Energy Corporation	236,800	402,560	440,448	2.07
Delphi Energy Corporation	100,000	505,000	420,000	1.97
West Energy Limited	100,000	424,000	413,000	1.94
Breakside Energy Limited	525,000	393,750	393,750	1.85
Duvernay Oil Corporation	10,000	401,600	391,900	1.84
Bulldog Resources Inc.	150,000	337,500	350,250	1.64
Grand Petroleum Inc.	75,000	348,750	336,750	1.58
Waveform Energy Limited 'B'	76,000	307,800	319,200	1.50
Waveform Energy Limited 'A'	350,000	406,000	315,000	1.48
Trimox Energy Inc. 'B'	45,000	292,500	309,375	1.45
Cinch Energy Corporation	103,200	219,816	198,144	0.93
Geocan Energy Inc.	105,000	195,300	178,500	0.84
Fairquest Energy Limited	18,048	122,907	90,240	0.42
Cyries Energy Inc.	6,250	79,375	64,688	0.30
Castle Rock Petroleum Limited 'B'	22,500	84,375	59,063	0.28
Castle Rock Petroleum Limited 'A'	100,000	56,000	33,000	0.15
G2 Resources Inc.	26,850	30,609	29,535	0.14
Caribou Resources Corporation Warrants	51,000	-	-	-
		20,685,087	19,550,282	91.79

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

Statement of Net Assets  
As at June 30, 2006

	<b>Number of shares</b>	<b>Average Cost \$</b>	<b>Market Value \$</b>	<b>% of Net Asset Value</b>
<b>Basic Materials</b>				
Winslow Resources Inc.	2,426,000	679,280	436,680	2.05
		679,280	436,680	2.05
Total Canadian Equities		21,364,367	19,986,962	93.84
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>21,364,367</b>	<b>19,986,962</b>	<b>93.84</b>
Other Assets Net of Liabilities		1,312,670	1,312,670	6.16
<b>TOTAL NET ASSETS</b>		<b>22,677,037</b>	<b>21,299,632</b>	<b>100.00</b>

Note <sup>(1)</sup> - Private companies

**QE Funds Corp.  
Qwest Energy Canadian Resource Class  
Notes to the Financial Statements  
June 30, 2006 (unaudited)**

**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.

The manager of the Fund is Qwest Energy Investment Management Corp. (the "Manager"). It is responsible for providing or arranging for the provision of administrative services required by 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.

**2. Summary of significant accounting policies**

These financial statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). A summary of the significant accounting policies is summarized below.

**(a) Valuation of investments**

Investments are recorded in the accounts at their market value, determined as follows:

Securities listed on a recognized public securities exchange are valued at their closing sale price. Securities listed but not traded on a particular date are valued at the average of the closing bid and ask price. Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities are valued at fair value as determined in good faith by, or under the supervision of, the Manager.

Short-term notes are recorded at cost, which together with accrued interest approximates market value.

The difference between market value and the average cost is shown as the net change in unrealized appreciation (depreciation) of investments

**(b) Deferred Set-up Costs**

The initial costs incurred to set up the recordkeeping system, as well as the programming costs incurred to perform the rollover of the opening assets have been capitalized as deferred set-up costs and are amortized on a straight line basis over 5 years. The amortization of these charges is included under administrative expenses.

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
**Notes to the Financial Statements**  
**June 30, 2006 (unaudited)**

**(c) Security transactions and income recognition**

Security transactions are accounted for as of the trade date. Income and expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned. Realized gains and losses from security transactions are calculated using the average cost basis.

**(d) Valuation of fund shares**

Net Asset Value in respect of the Fund and each Series of shares is calculated by the Manager (or its agent) as at the close of business each NAV Valuation Day (the "Valuation Day") by subtracting the aggregate amount of the Fund's liabilities attributable to that Series from the aggregate value of the Fund's assets attributable to that Series. A Valuation Day is any day on which the Toronto Stock Exchange is open for trading.

The Net Asset Value per share of each Series is the amount obtained by dividing the Net Asset Value attributable to that Series by the total number of shares of that Series outstanding on that date.

**(e) Foreign currency translation**

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

**(f) Use of estimates**

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates.

**(g) Earnings (loss) per share**

Earnings (Loss) per share amounts are determined by dividing the net increase/(decrease) in net assets from operations for each series by the weighted average number of shares outstanding during the reporting period for each series.

**3. Deferred set-up costs**

Deferred set-up costs	\$ 19,634
Less: accumulated amortization	<u>(491)</u>
	19,143
Less: current portion	<u>(1,963)</u>
	<u>\$ 17,180</u>

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
**Notes to the Financial Statements**  
**June 30, 2006 (unaudited)**

#### **4. 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.

Series A shares of the Fund are offered on a continuous basis in all provinces and territories in Canada, except Quebec, through a registered dealer. Shares may be purchased, switched or redeemed at their net asset value per share, on any valuation day. If the shares are redeemed or switched within 90 days of purchase, shareholder may be charged a short-term trading fee of 2% of the value of the shares redeemed.

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

Shares issued	4,446,470
Shares redeemed	<u>(2,160,830)</u>
Shares issued and outstanding as at June 30, 2006	<u><u>2,285,640</u></u>

#### **5. Distributions**

The Fund 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.

#### **6. Income Taxes**

In each taxation year, the Corporation is taxable at corporate tax rates applicable to a mutual fund corporation on its taxable income and is also subject to a 33 $\frac{1}{3}$ % refundable tax (the "Refundable Tax") on taxable dividends received by it from taxable Canadian corporations. Corporation will also be subject to Large Corporations Tax under Part I.3 of the Tax Act on, generally, the amount by which its taxable capital exceeds its capital deduction.

In the future, the Corporation may offer additional classes of shares. If additional classes of shares are offered, the Corporation's tax position will include, among other things, the revenues, deductible expenses, capital gains and capital losses of all of its investment portfolios. For example, net losses or net capital losses in respect of the investment portfolio of a particular class may be applied to reduce the net income or net realized capital gains of the Corporation as a whole. Generally, this will benefit the investors in the classes other than the particular class. The Corporation will, on a discretionary basis, allocate its income or loss and the applicable taxes payable to each class. The Corporation may pay capital gains dividends to shareholders of any class so that it can receive a refund of capital gains taxes it has paid. Capital gains taxes may arise when a shareholder of one class switches shares to another class. In particular, significant capital gains taxes may arise when a shareholder of the Fund switches to another class, as the Corporation may be required to realize capital gains on

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
**Notes to the Financial Statements**  
**June 30, 2006 (unaudited)**

property which accrued prior to the property being owned by the Corporation. This results from tax-deferred transfers of property to the Corporation from various limited partnerships.

## **7. Expenses**

The Fund 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, 2006 was \$59,946.

## **8. Management fee**

The management is calculated at 2.5% per annum of the net asset value of the Fund, and it's paid monthly.

## **9. Related party balances and transactions**

The Manager has retained Heritage Bancorp Ltd. (Heritage), a company related to the Manager by common directors, to perform certain administrative functions on behalf of the Manager.

Balances and transactions are as follows:

	<b>June 30, 2006</b>
Heritage Bancorp Ltd.	
Administration fee	\$ 16,953
Accounts payable	2,764
Qwest Energy Investment Management Corp.	
Accounts payable	\$ 126,015

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

## **10. Statement of portfolio transactions**

A Statement of Portfolio Transactions (unaudited) for the period ended June 30, 2006 for the Fund may be obtained without charge by writing to:

*Qwest Energy Fund Management Ltd.*  
*Suite 1601 – 650 W. Georgia Street*

**QE Funds Corp.  
Qwest Energy Canadian Resource Class  
Notes to the Financial Statements  
June 30, 2006 (unaudited)**

*PO Box 11549  
Vancouver, BC V6B 4N7*

**11. Commission paid or payable**

During the period ended June 30, 2006, \$59,021 was paid to dealers for brokerage services provided to the Fund.

**12. Comparative information**

The Fund was formed on March 8, 2006, and commenced operations on May 16, 2006. This is the first quarter of operations. For this reason, no comparative figures are provided.