

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

Financial Statements  
December 31, 2008 and 2007

## Auditors' Report

**To the Shareholders of  
QE Funds Corp.  
Qwest Energy Canadian Resource Class**

We have audited the statements of net assets of **QE Funds Corp. Qwest Energy Canadian Resource Class** as at December 31, 2008 and 2007, the statement of investment portfolio as at December 31, 2008, and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Vancouver, B.C.  
March 26, 2009

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

Statements of Net Assets

As at December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Assets</b>		
Cash and cash equivalents	1,093,814	2,140,654
Receivables for securities sold	500,304	-
Investments - at fair value (note 2)	27,541,159	29,174,416
Prepaid expenses	1,213	7,903
	<u>29,136,490</u>	<u>31,322,973</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	70,908	38,171
Redemptions payable	14,834	25,562
Income tax payable	14,428	-
Due to related parties (note 8)	24,694	-
Management fee payable (note 8)	243,992	84,062
	<u>368,856</u>	<u>147,795</u>
Net assets	<u>28,767,634</u>	<u>31,175,178</u>
Number of Series A shares outstanding (note 3)	<u>6,699,193</u>	<u>3,808,149</u>
Net assets per Series A share (note 9)	<u>4.29</u>	<u>8.19</u>
Subsequent events (note 12)		

Approved on behalf of the Board of Directors of Qwest Investment Management Corp.



Director



Director

The accompanying notes are an integral part of these financial statements.

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

Statements of Operations

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Investment income</b>		
Dividend	43,327	2,650
Other	392,043	9,516
Interest	13,160	-
	<u>448,530</u>	<u>12,166</u>
<b>Expenses</b>		
Management fees (note 7)	1,220,146	640,971
Agency fee	218,285	138,103
Accounting and audit	90,198	26,703
Administrative	42,774	13,197
Legal	41,272	49,211
Filing	23,635	16,677
Custodial fees	23,187	16,449
	<u>1,659,497</u>	<u>901,311</u>
<b>Net investment loss</b>	<u>(1,210,967)</u>	<u>(889,145)</u>
<b>Net realized loss on investment transactions</b>		
Net realized loss on sale of investments	(18,519,392)	(684,588)
Commissions (note 6)	(254,424)	(97,267)
	<u>(18,773,816)</u>	<u>(781,855)</u>
<b>Net change in unrealized depreciation of investments</b>	<u>(24,429,797)</u>	<u>(571,910)</u>
<b>Income tax</b> (note 5)	<u>(15,311)</u>	<u>-</u>
<b>Decrease in net assets from operations</b>	<u>(44,429,891)</u>	<u>(2,242,910)</u>
<b>Average number of Series A shares outstanding</b>	<u>6,087,560</u>	<u>2,958,006</u>
<b>Loss per Series A share</b>	<u>(7.30)</u>	<u>(0.76)</u>

The accompanying notes are an integral part of these financial statements.

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

Statements of Changes in Net Assets

For the years ended December 31, 2008 and 2007

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Net assets - Beginning of year - as previously reported</b>	31,175,178	13,620,419
<b>Adjustments resulting from the adoption of CICA Section 3855 (note 2)</b>	-	(112,886)
<b>Net assets - Beginning of year - adjusted</b>	31,175,178	13,507,533
<b>Decrease in net assets from operations</b>	(44,429,891)	(2,242,910)
<b>Shareholder transactions</b>		
Proceeds from issue of shares	-	27,455
Shares issued for roll-over from limited partnerships (note 1)	76,130,664	37,547,872
Payment for shares redeemed	(34,108,317)	(17,664,772)
	42,022,347	19,910,555
<b>Net (decrease) increase in net assets</b>	(2,407,544)	17,667,645
<b>Net assets - End of year</b>	28,767,634	31,175,178

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Decrease in net assets from operations	(44,429,891)	(2,242,910)
Adjustments to determine net cash flows from operating activities		
Purchase of investments	(20,333,071)	(4,388,848)
Proceeds from sale of investments	45,166,767	15,302,092
(Decrease) increase in non-cash balances related to operations	(272,553)	63,916
Net realized loss on sale of investments	18,519,392	684,588
Change in unrealized depreciation of investments	24,429,797	571,910
	<u>23,080,441</u>	<u>9,990,748</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of Class A shares	-	27,356
Cash received on roll-over from limited partnerships (note 1)	9,981,036	8,208,109
Consideration paid for redemption of Class A shares	(34,108,317)	(17,664,772)
	<u>(24,127,281)</u>	<u>(9,429,307)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	(1,046,840)	561,441
<b>Cash and cash equivalents - Beginning of year</b>	<u>2,140,654</u>	<u>1,579,213</u>
<b>Cash and cash equivalents - End of year</b>	<u>1,093,814</u>	<u>2,140,654</u>
<b>Supplementary cash flow information</b>		
Taxes paid	<u>883</u>	<u>-</u>

The accompanying notes are an integral part of these financial statements.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Statement of Investment Portfolio

As at December 31, 2008

Canadian equities	Number of shares	Average cost \$	Fair value \$	Net assets %
<b>Energy</b>				
Celtic Exploration Ltd.	201,000	3,978,118	2,478,330	8.61
Tristar Oil & Gas Limited	208,131	3,045,504	2,351,880	8.18
Vero Energy Inc.	400,441	4,270,110	2,166,386	7.53
Breaker Energy Ltd.	352,300	3,599,191	1,803,776	6.26
Baytex Energy Trust	120,000	3,571,620	1,737,598	6.04
Encana Corp.	28,590	2,301,307	1,622,492	5.64
Delphi Energy Corp.	1,199,900	3,286,323	1,175,902	4.09
Crew Energy Inc.	219,250	3,661,787	1,151,063	4.00
Bonavista Energy Trust Ltd.	65,000	2,312,000	1,096,550	3.81
Gran Tierra Energy Inc.	303,083	1,060,791	991,081	3.45
Fairborne Energy Trust	150,000	1,924,500	877,500	3.05
NuVista Energy Ltd.	105,492	2,109,840	874,529	3.04
Value Creation Inc. <sup>(1)</sup>	105,200	770,411	762,700	2.65
TUSK Energy Corporation	730,450	2,300,918	657,405	2.29
Galleon Energy Inc. Class A	103,425	1,979,348	524,365	1.82
Suncor Energy Inc.	20,000	1,062,828	474,400	1.65
TimberRock Energy Corp. <sup>(1)</sup>	407,000	439,560	366,300	1.27
Delavaco Energy Inc. <sup>(1)</sup>	700,000	1,400,000	350,000	1.22
Westfire Energy Ltd. <sup>(1)</sup>	70,000	420,000	254,800	0.89
Dorado Energy Ltd. <sup>(1)</sup>	350,000	388,500	210,000	0.73
Saxony Petroleum Ltd. <sup>(1)</sup>	1,529,198	2,386,940	198,796	0.69
Eagle Ranch Resources Ltd. <sup>(1)</sup>	420,000	411,600	176,400	0.61
Compass Petroleum Ltd. <sup>(1)</sup>	100,000	612,500	147,000	0.51
Wilderness Energy Corp. <sup>(1)</sup>	250,000	375,000	142,500	0.50
Pienza Petroleum Ltd. <sup>(1)</sup>	164,700	245,403	136,701	0.48
Canadian Phoenix Resources Corp.	3,052,446	343,745	122,098	0.42
First West Petroleum Inc. <sup>(1)</sup>	500,000	550,000	90,000	0.31
Open Range Energy Corp.	34,700	213,378	38,864	0.14
Vanguard Exploration Corp. <sup>(1)</sup>	1,000,000	125,000	-	-
Ravenwood Energy Corp. <sup>(1)</sup>	5,970	16,000	-	-
Vanquish Oil & Gas Corp. <sup>(1)</sup>	444,444	-	-	-
		49,162,222	22,979,416	79.88
<b>Mining</b>				
Goldcorp Inc.	37,000	1,352,618	1,419,320	4.93
Barrick Gold Corp.	30,000	1,106,814	1,340,400	4.66
Agnico-Eagle Mines Ltd.	20,000	752,200	1,254,200	4.36
Diamonds North Resources Inc.	407,000	462,051	120,065	0.42
Forum Development Corp.	1,055,000	390,350	42,200	0.15
		4,064,033	4,176,185	14.52

The accompanying notes are an integral part of these financial statements.

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

Statement of Investment Portfolio... *continued*

As at December 31, 2008

	Number of debentures/ warrants	Average cost \$	Fair value \$	Net assets %
<b>Debentures</b>				
Nexstar Energy Inc - convertible debenture (November 21, 2010, 8% per annum)	380,000	372,400	365,000	1.27
<b>Warrants</b>				
Bridge Resources Corp. - warrants (January 10, 2010, strike price \$1.35)	325,000	129,197	9,214	0.03
Mega Uranium Ltd. - warrants (February 2, 2012, strike price \$7.90)	20,000	-	10,780	0.04
Advanced Exploration - warrants (October 16, 2009, strike price \$2.00)	137,500	-	10	-
Full Metal Minerals Ltd. - warrants (October 25, 2009, strike price \$3.00)	85,000	41,567	6	-
Labrador Iran Mines Holdings Ltd. - warrants (December 2, 2009, strike price \$5.00)	36,500	29,200	548	-
Purepoint Uranium Group Inc. - warrants (March 9, 2009, strike price \$2.00)	172,000	-	-	-
Terra Ventures Inc. - warrants (April 3, 2009, strike price \$1.40)	136,500	-	-	-
U.S. Silver Corporation - warrants (December 5, 2009, strike price \$1.25)	200,000	-	-	-
		199,964	20,558	0.07
<b>Total portfolio of investments</b>		<u>53,798,619</u>	27,541,159	95.74
Cash and cash equivalents			1,093,814	3.80
Other net assets			132,661	0.46
<b>Net assets</b>			<u>28,767,634</u>	100.00

(1) Private corporation

The accompanying notes are an integral part of these financial statements.

# **QE Funds Corp.**

## **Qwest Energy Canadian Resource Class**

Notes to Financial Statements

**December 31, 2008 and 2007**

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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.

The manager of the Fund is Qwest Investment Management Corp. (the "Manager"). The Manager is responsible for providing or arranging for the provision of administrative services required by the Fund. The Manager has retained Qwest Investment Fund Management Ltd. as portfolio adviser (the "Portfolio Adviser").

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 Partnership investors receive shares in the Corporation in exchange for their Partnership units on a pro-rata basis on the date of transfer.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

December 31, 2008 and 2007

The Corporation received the following subscriptions in exchange for net assets transferred to the Corporation during the years ended December 31, 2008 and 2007:

<b>Year ended December 31, 2008</b>		<b>Net assets received \$</b>	<b>Shares issued</b>
<b>Date</b>	<b>Partnership</b>		
June 19, 2008	Qwest Energy 2006 Flow-Through Limited Partnership	45,936,445	4,520,410
June 19, 2008	Qwest Energy 2006-II Flow-Through Limited Partnership	30,194,219	2,971,285
		76,130,664	7,491,695
<b>Year ended December 31, 2007</b>		<b>Net assets received \$</b>	<b>Shares issued</b>
<b>Date</b>	<b>Partnership</b>		
June 25, 2007	Qwest Energy 2005 Flow-Through Limited Partnership	8,558,820	995,395
June 25, 2007	Qwest Energy 2005-II Flow-Through Limited Partnership	16,705,498	1,942,837
June 25, 2007	Qwest Energy 2005-III Flow-Through Limited Partnership	12,283,554	1,428,586
		37,547,872	4,366,818

## 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 year-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.

# **QE Funds Corp.**

## **Qwest Energy Canadian Resource Class**

Notes to Financial Statements

**December 31, 2008 and 2007**

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

For financial instruments not traded in an active market, the Corporation establishes fair value by the use of 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 reasonably estimable exit price in prevailing market conditions at the year-end date. The Manager places significant emphasis on the valuation process and controls which are in place throughout the year 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. Given the inherent complexity in establishing fair value, the Manager applies two valuation techniques, where possible, to the valuation of these investments in order to determine an appropriate overall estimated fair value. 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 a ready 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.

### **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.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

December 31, 2008 and 2007

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### 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 statements 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 fair 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 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.

### Loss per Series A share

Loss 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 year.

### 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 and the fair value of warrants. In calculating estimated fair value, the Manager makes maximum use of publicly available market-based inputs.

### Adoption of financial instruments accounting standards

On April 1, 2005, the Canadian Institute of Chartered Accountants (“CICA”), issued *Section 3855, Financial Instruments - Recognition and Measurement* (Section “3855”). The Corporation adopted Section 3855 on January 1, 2007. An adjustment of \$112,886 was recorded to the January 1, 2007 opening net assets as a result of a change from the use of closing prices to bid prices used for the purpose of recording publicly available securities at fair value.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements  
December 31, 2008 and 2007

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### Current year accounting changes

The Corporation adopted the CICA Handbook *Section 3862, Financial Instruments - Disclosures* (*Section “3862”*) and *Section 3863, Financial Instruments - Presentation* (*Section “3863”*) for the year ended December 31, 2008. Sections 3862 and 3863 significantly increase the level of disclosure within an investment fund’s financial statements. Its objective is to provide financial statement users with more information about the nature and extent of financial assets and liabilities, their associated risks and how the Fund manages those risks. *Section 1535, Capital Disclosures* establishes standards for disclosing information about an entity’s capital and how it is managed. The adoption of the new presentation and disclosure standards is disclosed in notes 10 and 11 respectively, and did not impact the reported net assets of the Corporation.

### Future Accounting Changes

The Canadian Accounting Standards Board has confirmed that the *International Financial Reporting Standards* (“IFRS”) will replace Canadian GAAP for fiscal periods beginning or after January 1, 2011 for publicly accountable enterprises. The Corporation’s transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Corporation for the year ending December 31, 2010. Management has established a plan to adopt IFRS in 2011 and has assigned resources to implement the plan. While the Corporation has begun assessing the impact of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### Reconciliation of net asset value (NAV) note

The Corporation determines the fair value of its investments for purposes of preparing financial statements by following the recommendations contained in CICA Handbook Section 3855, which, as described above, requires the use of bid prices for securities owned and traded in an active market. Pursuant to *National Instrument 81-106*, an investment fund must also follow Canadian GAAP when determining its net assets for all other purposes. The Canadian Securities Administrators (“CSA”) interim relief from complying with Section 3855, for the purposes of calculating and reporting of net asset value for other than GAAP NAV (referred to as “NAV”) was incorporated into the amended *National Instrument 81-106 Investment Funds: Continuous Disclosure* issued in September 2008. Accordingly, the net asset value computed by the Corporation for all other purposes follows its historic methods of valuing listed securities at their last traded price. A reconciliation as at December 31, 2008 between the NAV and the net assets per Series A share calculated in accordance with Section 3855 of an investment fund (“GAAP NAV”) has been provided in note 9.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

December 31, 2008 and 2007

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### 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 at the dissolution of 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.

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

	2008	2007
Shares issued and outstanding at beginning of year	3,808,149	1,595,491
Shares issued during the year	7,491,695	4,370,152
Shares redeemed during the year	(4,600,651)	(2,157,494)
	<hr/>	<hr/>
Shares issued and outstanding at end of year	6,699,193	3,808,149

### 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. See note 12.

### 5 Income tax

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.

# **QE Funds Corp.**

## **Qwest Energy Canadian Resource Class**

Notes to Financial Statements

**December 31, 2008 and 2007**

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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 or capital gains are refundable on a formula basis when shares are redeemed or capital gains dividends are paid. In the current year, the Corporation incurred a \$15,311 income tax expense on Canadian dividend income as the Manager elected not to distribute the related taxable dividends.

### **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 year ended December 31, 2008 is \$254,424 (2007 - \$97,267). There were no soft dollar amounts paid during the year (2007 - \$nil).

### **7 Management fees**

Management fees are calculated at 2.5% per annum of the daily net asset value of the Corporation, paid monthly. The fees are payable to Qwest Investment Management Corp.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

December 31, 2008 and 2007

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### 8 Related party balances and transactions

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

Balances and transactions are as follows:

	2008	2007
	\$	\$
Heritage Bancorp Ltd.		
Reimbursement for the Corporation's expenses paid by Heritage	334	22
Qwest Investment Management Corp.		
Management fee	1,220,146	640,971
Management fee payable	243,992	84,062
Accounts payable	24,694	-
Reimbursement of Manager expenses	239,841	138,882

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

#### *Value Creation Inc. transaction*

On May 28, 2008, the Corporation sold a total of 176,800 shares of Value Creation Inc., ("VCI"), a Canadian private oil and gas company, to Qwest Energy 2007 Flow-Through Limited Partnership (85,660 shares), (the "2007 Partnership"), and to Qwest Energy 2007-II Flow-Through Limited Partnership (91,140 shares), (the "2007-II Partnership"), (collectively, the "2007 Partnerships"). The Corporation is related to the 2007 Partnerships through common ownership and directors of each of the general partners, Qwest Energy 2007 Flow-Through Management Corp. and to Qwest Energy 2007-II Flow-Through Management Corp., respectively, (collectively, the "General Partners"), and through Qwest Investment Fund Management Ltd., ("QIFM"). QIFM is a Canadian investment counsel and fund management firm which provides investment advisory services to both the Corporation and to the General Partners of the 2007 Partnerships and is related through common ownership and directors. The VCI shares were sold to the 2007 Partnerships at a fair market value of \$7.25 per share for total consideration of \$1,281,800.

The sale of the VCI shares to both the 2007 Partnership and the 2007-II Partnership, (collectively, the "VCI Trades"), were reviewed and authorized by the Independent Review Committee (the "IRC"), an independent oversight committee established for the benefit of the Corporation under applicable securities regulations to ensure proper oversight with respect to any potential conflicts of interest, including ensuring that all trades between any related party funds are transacted at prices considered fair and reasonable to both the Corporation and the 2007 Partnerships.

See note 12.

# QE Funds Corp.

## Qwest Energy Canadian Resource Class

Notes to Financial Statements

December 31, 2008 and 2007

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### 9 Reconciliation of net asset value

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the NAV and the GAAP NAV of an investment fund is required for financial reporting purposes. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investment sold short) to be used in the fair valuation of investments, rather than the use of closing prices currently used for the purposes of determining NAV. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment fund industry. These changes account for the difference between NAV and GAAP NAV as follows:

	<b>Per share 2008 \$</b>	<b>Per share 2007 \$</b>
NAV	4.88	8.20
Difference resulting from Section 3855	(0.59)	(0.01)
GAAP NAV	<u>4.29</u>	<u>8.19</u>

### 10 Financial instrument 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. 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.

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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, as well as 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 instruments 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 Portfolio Adviser and are reviewed on a quarterly basis by the Board of Directors.

During 2008, global stock markets have experienced significant turbulence due to a convergence of adverse credit, liquidity and economic developments. As the Corporation predominantly invests in equity securities, the Corporation has been negatively impacted by the general market downturn.

At December 31, 2008, 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 \$1,377,000.

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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 December 31, 2008. It includes the Corporation's assets and liabilities at carrying values, categorized by the earlier of contractual re-pricing or maturity dates.

	<b>Due less than 3 months \$</b>	<b>Due more than 12 months \$</b>	<b>Non-interest bearing \$</b>	<b>Total \$</b>
Cash	1,093,814	-	-	1,093,814
Receivables due from brokers	-	-	500,304	500,304
Investments	-	365,000	27,176,159	27,541,159
Prepaid expenses	-	-	1,213	1,213
Liabilities	-	-	(368,856)	(368,856)
	<u>1,093,814</u>	<u>365,000</u>	<u>27,308,820</u>	<u>28,767,634</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 December 31 2008, the Corporation estimates that an immediate and sustained 100 basis point change in interest rates would impact net interest income by approximately \$11,000.

c) Foreign currency risk

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

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### **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 December 31, 2008.

### **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 December 31, 2008, approximately 10% 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.

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### **11 Corporation capital**

Units of the Corporation issued and outstanding represent the Capital of the Fund. The Fund is currently not issuing new units 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 "Mutual Fund Roll-Over Transaction"). 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.

### **12 Subsequent events**

#### **Payment of capital gain dividend**

On February 26, 2009, the Corporation paid a capital gains dividend to all Series A shareholders of record as of February 24, 2009.

#### **Value Creation Inc. transaction**

In February 2009, it was determined that the VCI Trades were not permissible under the terms of the limited partnership agreements governing each of the Qwest Energy 2007 Partnerships. Therefore, the IRC met on February 4, 2009 to review the transactions and authorized the VCI Trades to be reversed at a fair market value of \$7.25 per share. The VCI Trades were unwound on February 9, 2009 and, in total, 160,769 VCI shares were sold back to the Corporation from the 2007 Partnerships for cash proceeds of \$1,165,575. A \$44,406 gain previously recognized by the 2007-II Partnership on a partial disposition of 16,031 VCI shares in November 2008 was reversed and credited as a gain to the Corporation. The reversal transactions were not material to both the NAV or GAAP NAV of the Corporation.