

QE Funds Corp.
Qwest Energy Canadian Resource
Class

Financial Statements
December 31, 2009 and 2008

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, 2009 and 2008, the statement of investment portfolio as at December 31, 2009, 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, 2009 and 2008 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
March 25, 2010

QE Funds Corp.
Qwest Energy Canadian Resource Class

Statements of Net Assets
As at December 31

	2009	2008
	\$	\$
Assets		
Cash and cash equivalents	1,578,494	1,093,814
Receivables for securities sold	670,473	500,304
Other receivable	80,000	-
Investments - at fair value (note 2)	32,951,648	27,541,159
Prepaid expenses	1,213	1,213
Shares subscribed for (note 12)	998,642	-
	<hr/>	<hr/>
	36,280,470	29,136,490
Liabilities		
Accounts payable and accrued liabilities	105,196	70,908
Redemption payable	104,370	14,834
Income tax payable (note 5)	-	14,428
Due to related parties (note 8)	20,997	24,694
Management fee payable (notes 7 and 8)	155,242	243,992
	<hr/>	<hr/>
	385,805	368,856
Net assets	<hr/>	<hr/>
	35,894,665	28,767,634
Number of Series A shares outstanding (note 3)	<hr/>	<hr/>
	7,609,295	6,699,193
Net asset value per Series A share (note 9)	<hr/>	<hr/>
	4.72	4.29
Subsequent events (note 12)		

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

(signed) Maurice Levesque Director (signed) Stephen McCoach 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

	2009	2008
	\$	\$
Investment income		
Dividend	113,576	43,327
Other	285,680	392,043
Interest	24,427	13,160
	<u>423,683</u>	<u>448,530</u>
Expenses		
Management fees (notes 7 and 8)	867,966	1,220,146
Agency fee	252,272	218,285
Accounting and audit	113,637	90,198
Legal	42,816	41,272
Administrative	40,889	42,774
Independent review committee fees	18,388	-
Filing	17,799	23,187
Custodial fees	16,568	23,635
Interest	128	-
	<u>1,370,463</u>	<u>1,659,497</u>
Net investment loss	<u>(946,780)</u>	<u>(1,210,967)</u>
Net realized loss on investment transactions		
Net realized loss on sale of investments	(17,873,900)	(18,519,392)
Commissions (note 6)	(252,599)	(254,424)
	<u>(18,126,499)</u>	<u>(18,773,816)</u>
Change in net unrealized appreciation (depreciation) of investments	<u>29,556,603</u>	<u>(24,429,797)</u>
Income tax	<u>(14)</u>	<u>(15,311)</u>
Increase (decrease) in net assets from operations	<u>10,483,310</u>	<u>(44,429,891)</u>
Weighted average number of Series A shares outstanding	<u>8,580,985</u>	<u>6,087,560</u>
Increase (decrease) in net assets from operations per Series A shares	<u>1.22</u>	<u>(7.30)</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

	2009	2008
	\$	\$
Net assets - Beginning of year	28,767,634	31,175,178
Distributions to investors		
From net investment income	(113,578)	-
From net realized gains on investments	(3,700,102)	-
	(3,813,680)	-
Increase (decrease) in net assets from operations	10,483,310	(44,429,891)
Shareholder transactions (note 3)		
Shares issued on reinvestment of distributions	3,809,110	-
Shares issued for roll-over from limited partnerships (note 1)	18,655,435	76,130,664
Payment for securities redeemed	(22,007,144)	(34,108,317)
	457,401	42,022,347
Net increase (decrease) in net assets	7,127,031	(2,407,544)
Net assets - End of year	35,894,665	28,767,634

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

	2009 \$	2008 \$
Cash flows from operating activities		
Increase (decrease) in net assets from operations	10,483,310	(44,429,891)
Adjustments to determine net cash used in operating activities		
Purchase of investment securities	(30,667,154)	(20,333,071)
Proceeds from sale of investment securities	47,491,249	45,166,767
Decrease in non-cash balances related to operations	(1,231,862)	(272,553)
Net realized loss on sale of investments	17,873,900	18,519,392
Change in unrealized (appreciation) depreciation of investments	(29,556,603)	24,429,797
	<u>14,392,840</u>	<u>23,080,441</u>
Cash flows from financing activities		
Dividend paid	(4,570)	-
Consideration paid for redemption of Series A shares	(22,007,144)	(34,108,317)
Cash received on roll-over from limited partnerships (note 1)	8,103,554	9,981,036
	<u>(13,908,160)</u>	<u>(24,127,281)</u>
Increase (decrease) in cash and cash equivalents	484,680	(1,046,840)
Cash and cash equivalents - Beginning of year	<u>1,093,814</u>	<u>2,140,654</u>
Cash and cash equivalents - End of year	<u>1,578,494</u>	<u>1,093,814</u>
Supplemental cash flow information		
Taxes paid	<u>14,442</u>	<u>883</u>
Non-cash transactions		
Exchange of net assets per Series A shares (note 1)		

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

QE Funds Corp.

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Statement of Investment Portfolio

As at December 31, 2009

Canadian equities	Number of shares	Average cost \$	Fair value \$	Net assets %
Energy				
Alange Energy Corp.	4,047,343	2,802,928	2,549,826	7.10
Nexstar Energy Ltd.	6,574,300	357,875	2,465,362	6.87
Cequence Energy Ltd.	623,500	2,461,020	2,244,600	6.25
Legacy Oil + Gas Inc.	205,416	1,634,530	1,974,048	5.50
Gran Tierra Energy Inc.	310,583	1,028,366	1,863,498	5.19
Crew Energy Inc.	125,000	949,804	1,812,500	5.05
Crescent Point Energy Corp.	40,000	1,118,425	1,578,000	4.40
Pacific Rubiales Energy Corp.	100,000	1,432,000	1,540,000	4.29
NuVista Energy Ltd.	100,492	1,532,891	1,248,111	3.48
Wild Stream Exploration Inc.	220,000	1,030,000	946,000	2.64
Value Creation Inc. ⁽¹⁾	265,969	2,011,273	909,614	2.53
Serrano Energy Ltd. ⁽¹⁾	287,138	838,443	717,845	2.00
Second Wave Petroleum Ltd.	440,000	616,000	717,200	2.00
Arcan Resources Ltd.	500,000	625,000	700,000	1.95
Arsenal Energy Inc.	1,000,000	500,000	690,000	1.92
Argosy Energy Inc.	430,732	574,051	538,415	1.50
TimberRock Energy Corp. ⁽¹⁾	407,000	439,560	468,050	1.30
Forent Energy Ltd.	1,716,111	271,971	429,028	1.20
Dorado Energy Inc. ⁽¹⁾	350,000	388,500	304,500	0.85
Compass Petroleum Ltd. ⁽¹⁾	100,000	612,500	175,000	0.49
Eagle Ranch Resources Ltd. ⁽¹⁾	420,000	411,600	147,000	0.41
First West Petroleum Inc. ⁽¹⁾	500,000	550,000	-	-
Vanguard Exploration Corp. ⁽¹⁾	1,000,000	125,000	-	-
Vanquish Oil & Gas Corp. ⁽¹⁾	444,444	-	-	-
		22,311,737	24,018,597	66.92
Mining				
Inmet Mining Corp.	20,350	1,042,566	1,291,207	3.60
Aura Minerals Inc.	280,000	811,004	1,268,400	3.53
Agnico-Eagle Mines Ltd.	22,000	995,220	1,248,720	3.48
Rubicon Minerals Corp.	165,000	750,750	815,100	2.27
Capstone Mining Corp.	200,000	572,040	562,000	1.57
Forum Uranium Corp.	1,055,000	390,350	142,425	0.40
		4,561,930	5,327,852	14.85
Total equity		26,873,667	29,346,449	81.77

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

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Statement of Investment Portfolio... *continued*

As at December 31, 2009

	Number of special warrants/ subscription receipts/ warrants	Average cost \$	Fair value \$	Net assets %
Special warrants				
Emerge Oil & Gas Inc. ⁽¹⁾	550,000	1,100,000	1,446,500	4.03
Result Energy Inc. ⁽²⁾	2,635,500	737,940	1,225,508	3.41
		1,837,940	2,672,008	7.44
Subscription receipts				
Colonia Energy Corp. ⁽²⁾	3,750,000	750,000	862,500	2.40
Warrants				
Argosy Energy Inc. - warrants (June 18, 2011, strike price \$2.25)	47,616	16,742	17,759	0.05
Bridge Resources Corp. - warrants (January 10, 2010, strike price \$1.35)	325,000	129,197	-	-
Forent Energy Ltd. (April 28, 2011, strike price \$0.17)	415,000	18,675	33,200	0.09
Norsemont Mining Inc. (April 30, 2011, strike price \$2.75)	50,000	26,285	18,000	0.05
Mega Uranium Ltd. (February 22, 2012, strike price \$7.90)	20,000	-	1,732	-
		190,899	70,691	0.19
Total portfolio of investments		<u>29,652,506</u>	32,951,648	91.80
Cash and cash equivalents			1,578,494	4.40
Other net assets			1,364,523	3.80
Net assets			<u>35,894,665</u>	100.00

(1) Private corporation

(2) Illiquid security

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

QE Funds Corp.

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Notes to Financial Statements

December 31, 2009 and 2008

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.

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 during the years ended December 31, 2009 and 2008:

Year ended		Net assets	Shares
December 31, 2009		received	issued
		\$	
Date	Partnership		
May 6, 2009	Qwest Energy 2007 Flow-Through Limited Partnership	9,735,966	2,883,023
May 6, 2009	Qwest Energy 2007-II Flow-Through Limited Partnership	8,919,469	2,641,240
		<hr/>	<hr/>
		18,655,435	5,524,263

QE Funds Corp.

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Notes to Financial Statements

December 31, 2009 and 2008

Year ended December 31, 2008		Net assets received \$	Shares issued
Date	Partnership		
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
		<u>76,130,664</u>	<u>7,491,695</u>

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.

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December 31, 2009 and 2008

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.

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.

QE Funds Corp.

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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.

Current year changes in accounting policies

Credit Risk and Fair Value

The Corporation has adopted Emerging Issues Committee Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities* ("EIC-173") which was issued by the Accounting Standards Board ("AcSB") on January 20, 2009. The abstract clarifies that the credit risk of a counterparty or an entity's own credit risk should be taken into account in the measure, presentation and disclosure of the fair value of financial assets and financial liabilities, respectively. In instances where a quoted market price or rate does not take into account changes in an entity's own or counterparty's credit risk or where a valuation technique using observable and/or unobservable market inputs is used to estimate the fair value of a financial instrument which is not traded in an active market, credit risk and changes in credit risk are required to be taken into account in establishing the estimated fair value of the financial instrument. The impact of EIC-173 on the measurement and disclosure of the Corporation's financial instruments is not significant.

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Notes to Financial Statements

December 31, 2009 and 2008

Financial Instruments - Disclosures

The Corporation has adopted amendments to the CICA Handbook Section 3862, *Financial Instrument - Disclosures* (“Section 3862”) in its fiscal 2009 financial statements. The amendments require an entity to provide disclosure on financial instruments measured at fair value using a fair value hierarchy that reflects the extent to which quoted prices or other market or non-market inputs are used in the valuation of those financial instruments. The adoption of the above disclosure changes has been incorporated into note 8.

Future accounting changes

On January 1, 2011, International Financial Reporting Standard (“IFRS”) will replace Canada Generally Accepted Account Principles. 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:

	Per share 2009 \$	Per share 2008 \$
NAV per NI 81-106	4.76	4.88
Difference resulting from Section 3855	(0.04)	(0.59)
	<hr/>	<hr/>
NAV per Section 3855	4.72	4.29

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.

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

	2009	2008
Shares issued and outstanding at beginning of year	6,699,193	3,808,149
Share issued on reinvestment of distributions	1,129,607	-
Shares issued during the year for rollover from limited partnerships	5,524,263	7,491,695
Shares redeemed during the year	(5,743,768)	(4,600,651)
Shares issued and outstanding at end of year	<u>7,609,295</u>	<u>6,699,193</u>

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.

On February 26, 2009, the Corporation paid a Capital Gains Dividend of \$3,700,102 to all Series A Shareholders of record as of February 24, 2009.

On December 30, 2009, the Corporation paid an ordinary dividend of \$113,578 to all Series A Shareholders of record as of December 29, 2009.

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 capitals gains dividends are paid.

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Notes to Financial Statements

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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 year ended December 31, 2009, is \$252,599 (2008 - \$254,424). For the year ended December 31, 2009 (2008 - \$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 Qwest Investment Management Corp.

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:

	2009	2008
	\$	\$
Heritage Bancorp Ltd.		
Reimbursement for the Corporation's expenses paid by Heritage	15,743	334
Qwest Investment Management Corp.		
Management fee	867,966	1,220,146
Reimbursement of Manager expenses	256,156	239,841
Management fee payable	155,242	243,992
Accounts payable	20,997	24,694

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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.

In February 2009 it was determined that the VCI Trades were not permissible under the terms of the limited partnership agreements governing each of Qwest Energy 2007 Flow-Through Limited Partnership and Qwest Energy 2007-II Flow-Through Limited Partnership (collectively, the “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 such that the VCI Trades had never taken place. The reversal transactions were not material to the Trading NAV or GAAP NAV of the Corporation.

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9 Fair value measurement

The following table illustrates the classification of the Corporation's financial instruments within the fair value hierarchy as at December 31, 2009. 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.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities	26,624,440	-	6,256,517	32,880,957
Warrants	-	-	70,691	70,691
	<u>26,624,440</u>	<u>-</u>	<u>6,327,208</u>	<u>32,951,648</u>

The following table reconciles the Corporation's Level 3 fair value measurements from December 31, 2008 to December 2009:

	Equity \$	Debenture \$	Warrants \$
Balance as at December 31, 2008	2,835,197	365,000	20,557
Purchases	4,788,471	-	62,951
Sales	(1,177,630)	-	(72,017)
Unrealized gain (loss)	3,597,419	-	59,200
Transfers out	(3,786,940)	(365,000)	-
	<u>6,256,517</u>	<u>-</u>	<u>70,691</u>

During the year ended December 31, 2009, equity investments with a carrying value of \$3,786,940 and debenture with a carrying value of \$365,000 were transferred out of Level 3 into Level 1 as the issuers were acquired by a public company which traded actively at December 31, 2009.

The Fund applies judgment in determining unobservable inputs to calculate the fair value of Level 3 financial instruments of \$6,327,208 as of December 31, 2009. 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 \$316,000.

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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 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, 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.

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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 Portfolio Adviser and are reviewed on a quarterly basis by the Board of Directors.

At December 31, 2009, 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 \$1,648,000.

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.

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The table below summarizes the Corporation's exposure to interest rate risks at December 31, 2009. It includes the Corporation's assets and liabilities at carrying values, categorized by the earlier of contractual re-pricing or maturity dates.

	Due less than 3 months \$	Non-interest bearing \$	Total \$
Cash	1,578,494	-	1,578,494
Receivables for securities sold	-	670,473	670,473
Other receivable	-	80,000	80,000
Investments	-	32,951,648	32,951,648
Prepaid expenses	-	1,213	1,213
Deposits	-	998,642	998,642
Liabilities	-	(385,805)	(385,805)
	<u>1,578,494</u>	<u>34,316,171</u>	<u>35,894,665</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 2009, the Corporation estimates that an immediate and sustained 100 basis point change in interest rates would impact net interest income by approximately \$16,000.

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 December 31, 2009.

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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, 2009, approximately 12% 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

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 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

On December 11, 2009, the Corporation entered into an agreement with TriOil Resources Ltd. to purchase 420,000 common shares of TriOil Resources Ltd for \$420,000. The purchase was settled on January 26, 2010.

On December 18, 2009, the Corporation entered into an agreement with Argosy Energy Inc. to purchase 321,468 units of Argosy Energy Inc. for \$578,642. Each unit consists of one common share and one-half of a common share purchase warrant. The purchase was settled on March 15, 2010.