



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

2009 Semi-Annual Management Report of  
Fund Performance

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

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

## **Management Discussion of Fund Performance**

### **Investment Objective and Strategies**

QE Funds Corp. is a mutual fund corporation offering Series A shares of Qwest Energy Canadian Resource Class (the "Fund"). The Fund was set up to provide former investors of Qwest Energy Limited Partnerships with a liquid investment in a diversified portfolio of equity holdings of resource issuers, with a view to achieving income and capital appreciation. The Fund has retained Qwest Investment Management Corp. (the "Fund Manager"), a company related to the Fund by common directors, to manage the Fund. The Fund Manager is responsible for managing the overall business and operations of the Fund. At the inception of the Fund, the Fund Manager retained the services of Qwest Investment Fund Management Ltd. (the "Portfolio Manager") to provide investment advisory services for the Fund.

### **Risk**

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

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

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

The collapse of global credit markets through the late summer and fall of 2008 immediately and severely impacted real and expected demand for both oil and natural gas. Optimism for an economic rebound and the ensuing demand recovery has materially strengthened oil prices during the late spring of 2009 from their early spring lows, although the prices have retraced about \$10 per barrel from the spring highs as the reality of second quarter results and U.S. gasoline demand reasserts earlier fears regarding the timing and strength of an economic recovery. We are optimistic that the effects of the global stimulus packages, coupled with the large OPEC cuts and continued reasonable adherence thereto will allow oil demand and therefore oil prices to maintain current levels and further strengthen towards the end of 2009 and into 2010. Continued global economic recovery and the positive impact of U.S., European, Chinese and other national stimulus packages are expected to further increase oil demand and prices in 2010.

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**Results of Operations**

The Fund commenced operations in May, 2006. During the period ended June 30, 2009, the Fund issued 6,629,908 shares and redeemed 2,861,546 shares. As at June 30, 2009, 10,467,555 shares were outstanding. During the period ended June 30, 2009, the Fund realized an accounting loss of \$19,948,000 from the disposition of securities.

For the period ended June 30, 2009, the Fund had income from income trusts of \$178,000, dividend income of \$44,000 and nominal interest income of \$18,000 from cash and cash equivalents. Total expenses were \$734,000 comprised mainly of \$386,000 in management fees (calculated daily at an annual rate of 2.5% of NAV), \$127,000 in agency fees, \$94,000 in brokerage commissions, \$43,000 accounting and audit fees, and \$35,000 in legal fees.

For the period ended June 30, 2009, the Fund recorded a net change in unrealized appreciation in investments of \$20,476,000. Net assets of the Fund at June 30, 2009 were \$37.1 million or \$3.55 per share.

On February 26, 2009, the Fund distributed a Capital Gains Dividend of \$3.7 million to all Series A Shareholders of record as of February 24, 2009.

**Recent Developments**

There are no changes to the strategic position of the portfolio of the Fund and its focus on the Canadian natural resource sector. The market collapse in late 2008 and into 2009, affected all equity sectors and commodity prices. The Fund had substantial cash balances prior to this market crash and as a result was not forced to sell into the early weaker pricing levels to satisfy any redemption requests. The Fund is positioned in high quality oil, gold and copper companies, with less investment focus on natural gas companies, to benefit from our expectation of relative commodity performance in the future. In the current financial environment, there is a great deal of volatility in the market, which affects the performance of the portfolio of the Fund from day to day. The core holdings of the fund represent those companies who can grow and succeed in weak commodity price environments, which position the fund well as commodity prices improve. The Fund's weighting towards oil provides it with less downside risk, with more near term upside appreciation, based on our views on the commodities.

Independent Review Committee

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

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

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

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**Related Party Transactions**

Pursuant to the master management agreement, the Fund Manager is entitled to an annual management fee of 2.5% of the net asset value of the Fund, calculated daily and payable monthly in arrears. For the period ended June 30, 2009, the Fund incurred \$386,000 in management fees of which \$83,000 was payable at June 30, 2009.

On May 28, 2008, the Fund sold a total of 176,800 shares of Value Creation Inc., ("VCI"), a Canadian private oil & 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 Fund 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 the Portfolio Manager. The Portfolio Manager 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 Partnerships and is related through common ownership and directors. The VCI shares were sold to the 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 IRC to ensure proper oversight with respect to any potential conflicts of interest, including ensuring that all cross trades between any related party funds are transacted at prices considered fair & 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 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 Fund 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 Net Asset Value or Net Assets per GAAP of the Fund.

**Management Fees**

The Fund Manager has retained the Portfolio Manager to provide investment advisory and portfolio management services to the Fund. The fee for the services provided by the Portfolio Manager is charged directly to the Fund Manager and therefore it is not an expense of the Fund.

Out of the annual management fees paid to the Fund Manager, 28% of the management fees (0.7% of the net asset value of the Fund) were paid to the Portfolio Manager for portfolio adviser compensation, and 40% of the management fees (1.0% of the net asset value of the Fund) were paid to dealers for trailer fees.

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

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**Financial Highlights**

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period. This information is derived from the Fund's annual financial statements for the period ended June 30, 2009 and the year ended December 31, 2008.

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

		2009 <sup>(1)</sup>		2008 <sup>(1)</sup>
<b>Initial NAV</b>	\$	4.29	\$	8.19
<b>(Decrease) increase from operations:</b>				
Total revenue		0.03		0.07
Total expenses		(0.09)		(0.32)
Realized gains (losses)		(2.45)		(3.04)
Unrealized gains (losses)		2.51		(4.01)
<b>Total decrease from operations <sup>(3)</sup></b>		<b>(0.00)</b>		<b>(7.30)</b>
<b>Net assets at period end</b>	\$	<b>3.55</b>	\$	<b>4.29</b>

<sup>(1)</sup> Results are for the period ended June 30, 2009 and the year ended December 31, 2008.

<sup>(2)</sup> This information is derived from the Fund's 2009 semi-annual financial statements and 2008 audited annual financial statements. The net assets per Series A Share presented in the financial statements differ from the net asset value calculated for pricing purposes. A reconciliation of these differences is included in the notes to the financial statements.

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

**Ratios and Supplemental Data**

	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>
Total net asset value (000's)	\$ 36,966	\$ 32,713
Number of mutual fund shares outstanding	10,467,555	6,699,193
Management expense ratio <sup>(2)</sup>	4.34%	3.57%
Portfolio turnover rate <sup>(3)</sup>	46.74%	49.45%
Trading expense ratio <sup>(4)</sup>	0.64%	0.55%
Net asset value per share	3.53	4.88

<sup>(1)</sup> This information is provided as at June 30, 2009 and December 31, 2008.

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

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

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

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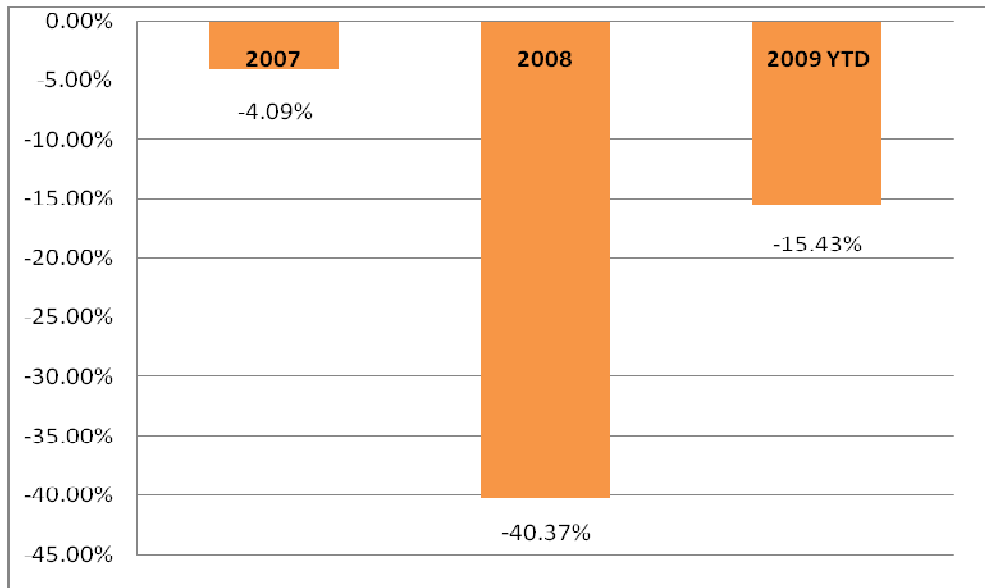
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**Past Performance**

Below indicates the annual compounded returns of the investment portfolio as at June 30, 2009. The performance information shown assumes that all distributions made by the Fund were reinvested in additional securities of the investment portfolio. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance of the investment portfolio does not necessarily indicate its future performance.

**Year-by-Year Returns\***

The chart shows the annual performance of the investment portfolio for each of the years shown and illustrates how the investment portfolio's performance has changed from year to year. The chart shows, in percentage terms, how an investment made on the first day of each financial year would have grown or decreased by December 31 of that year and also for the six month to June 30, 2009.



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**Summary of Investment Portfolio**

Below is a breakdown of the investment portfolio as at June 30, 2009, by sector and as a percentage of the aggregate net asset value of the top 25 securities in the investment portfolio:

<b>Top Holdings</b>	<b>% of Net Assets</b>
Celtic Exploration Ltd.	9.84
Tristar Oil & Gas Limited	9.55
Baytex Energy Trust	6.31
Gran Tierra Energy Inc.	5.88
Value Creation Inc. <sup>(1)</sup>	4.65
Crescent Point Energy Trust	4.61
NuVista Energy Ltd.	4.29
Agnico-Eagle Mines Ltd.	3.63
Sabretooth Energy Ltd	3.53
Vermilion Energy Trust	3.52
Angle Energy Inc.	3.50
Talisman Energy Inc.	2.47
Serrano Energy Ltd. <sup>(1)</sup>	2.26
Cirrus Energy Corp.	2.02
Goldcorp Inc.	1.96
Inmet Mining Corp.	1.72
Nexstar Energy Inc. <sup>(2)</sup>	1.34
Canadian Phoenix Resources Corp.	1.26
Kinross Gold Corp.	1.14
Barrick Gold Corp.	1.05
TimberRock Energy Corp. <sup>(1)</sup>	0.93
UEX Corporation	0.86
HFG Holdings Inc.	0.61
Delavaco Energy Inc. <sup>(1)</sup>	0.60
Great Plains Exploration Inc.	0.57

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

<sup>(2)</sup> convertible debentures

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<b>Sector/Subgroup</b>	<b>% of Net Assets</b>
Energy	70.21
Mining	10.76
Cash	11.08
Other assets – net of liabilities	7.95
	100.00

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

**Caution Regarding Forward-looking Statements**

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