

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

***Financial Statements***  
**June 30, 2007**

**(Unaudited)**

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
Statement of Net Assets

	(Audited)	
	June 30, 2007	December 31, 2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 10,100,279	\$ 1,579,213
Investment, at market value	37,017,568	12,099,891
Account receivables	3,079	625
Prepaid expense	7,951	1,434
Deferred costs - current portion (Note 3)	5,124	3,927
	47,134,001	13,685,090
<b>Long term assets</b>		
Deferred costs (Note 3)	14,730	13,253
<b>Total Assets</b>	<b>\$ 47,148,731</b>	<b>\$ 13,698,343</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,262	\$ 20,488
Redemption payable	760,385	16,976
Due to related parties	14,447	9,879
Management fee payable (Note 9)	55,977	30,581
<b>Total liabilities</b>	<b>833,071</b>	<b>77,924</b>
<b>Net assets</b>	<b>\$ 46,315,660</b>	<b>\$ 13,620,419</b>
<b>Number of Series A shares outstanding (Note 4)</b>	<b>5,420,631</b>	<b>1,595,491</b>
<b>Net asset value per Series A share (Note 10)</b>	<b>\$ 8.54</b>	<b>\$ 8.54</b>

See accompanying notes to financial statements.

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

"Maurice Levesque"  
\_\_\_\_\_  
Director

"Stephen McCoach"  
\_\_\_\_\_  
Director

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
Statement of Operations

	For the six- month period ended June 30, 2007	For the period from commencement of operation on May 16, 2006 to June 30, 2006
<b>Investment income</b>		
Dividend	\$ -	\$ 18,690
Interest, net of interest expense	1,485	13,182
	1,485	31,872
<b>Expenses</b>		
Accounting & audit	11,707	-
Administrative	9,857	18,819
Agency	52,311	12,427
Transaction costs	26,486	-
Custodial fees	6,696	3,228
Filing	9,309	132
Legal	14,450	-
Management fees (Note 8)	153,539	92,951
	284,355	127,557
<b>Net investment loss</b>	<b>(282,870)</b>	<b>(95,685)</b>
<b>Net realized loss on investment transactions</b>	<b>(1,758,156)</b>	<b>(827,535)</b>
<b>Net change in unrealized appreciation (depreciation) of investments</b>	<b>1,756,810</b>	<b>(1,377,405)</b>
<b>Net loss on investments</b>	<b>(1,346)</b>	<b>(2,204,940)</b>
<b>Net decrease in assets from investment operations</b>	<b>\$ (284,216)</b>	<b>\$ (2,300,625)</b>
<b>Average number of Series A shares outstanding</b>	1,452,742	2,991,748
<b>Loss per Series A share</b>	<b>\$ (0.20)</b>	<b>\$ (0.77)</b>

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
Statement of Changes in Net Assets

	(Audited)	
	For the six-month period ended June 30, 2007	For the period from commencement of operation on May 16, 2006 to December 31, 2006
<b>Net assets, beginning of period (Note 10)</b>	\$ 13,532,838	\$ -
<b>Net decrease in assets from investment operations</b>	<b>(284,216)</b>	<b>(3,748,476)</b>
<b>Securityholder transactions</b>		
Proceeds from issue of securities	37,575,328	44,518,957
Payment for securities redeemed	(4,508,290)	(27,150,062)
	33,067,038	17,368,895
<b>Net assets, end of period</b>	<b>\$ 46,315,660</b>	<b>\$ 13,620,419</b>

**QE Funds Corp.**  
**Qwest Energy Canadian Resource Class**  
Statement of Cash Flow

	For the six-month period ended June 30, 2007	For the period from commencement of operation on May 16, 2006 to June 30, 2006
Increase (decrease) in cash		
<b>Cash flows from operating activities</b>		
Decrease in net assets from operations	\$ (284,216)	\$ (2,300,625)
<b>Adjustments to determine net cash used in operating activities</b>		
Purchase of investment securities	(391,500)	(568,542)
Proceed from sale of investment securities	4,724,759	10,310,105
Increase in non-cash working capital items	743,502	506,662
Net realized loss on sales of investments	1,758,156	(573,888)
Change in unrealized appreciation (depreciation) of investments	(1,756,810)	1,377,405
<b>Net cash provided by operating activities</b>	4,793,891	8,751,117
<b>Cash flow from financing activities</b>		
Proceeds from issue of Class A shares	27,356	10,800
Consideration paid for redemption of Class A shares	(4,508,290)	(20,863,304)
<b>Net cash used in financing activities</b>	(4,480,934)	(20,852,504)
<b>Net increase (decrease) in cash flow and short term investments</b>	312,957	(12,101,387)
<b>Cash and short term investments, beginning of period</b>	1,579,213	-
<b>Cash and short term investments received from limited partnerships in exchange for Class A shares</b>	8,208,109	13,920,719
<b>Cash and short term investments, end of period</b>	\$ 10,100,279	\$ 1,819,332

See accompanying notes to financial statements.

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

Statement of Net Assets

As at June 30, 2007

	Number of shares	Average Cost	Market Value	% of Net Asset Value
<b>CANADIAN EQUITIES</b>				
<b>Alternative</b>				
Ventus Energy Inc. CI A <sup>(1)</sup>	187,500	\$ 796,875	\$ 796,875	1.72
		796,875	796,875	1.72
<b>Energy</b>				
Angle Energy Inc. <sup>(1)</sup>	506,500	1,866,500	2,532,500	5.47
Arapahoe Energy Corp	2,424,446	242,445	242,445	0.52
Arcan Resources Ltd.	264,200	1,109,640	1,056,800	2.28
Berkana Energy Corp	503,020	1,054,325	764,590	1.65
Bow Valley Energy Ltd.	152,300	913,800	922,938	1.99
Breaker Energy Ltd.	249,600	1,629,960	1,547,520	3.34
Bulldog Resources Inc.	150,000	337,500	960,000	2.07
Canext Energy Ltd.	418,000	351,120	342,760	0.74
Choice Resource Corporation- Warrants (August 2, 2007, strike price: \$1.50)	30,012	-	-	-
Crew Energy Inc.	141,000	1,802,580	1,445,250	3.12
E4 Energy Inc.	181,000	202,720	193,670	0.42
Eagle Ranch Resources Ltd. <sup>(1)</sup>	420,000	411,600	411,600	0.89
Galleon Energy Inc	82,450	1,596,093	1,432,981	3.09
Grand Banks Energy Corporation	443,000	637,920	620,200	1.34
Great Plains Exploration Inc	400,000	472,000	468,000	1.01
Java Petroleum Corp CI A <sup>(1)</sup>	513,000	169,290	169,290	0.37
Java Petroleum Corp CI B <sup>(1)</sup>	616,000	203,280	203,280	0.44
Longbow Resources Inc.	88,200	36,162	37,044	0.08
Los Altares Resources Ltd. <sup>(1)</sup>	350,000	612,500	318,500	0.69
MGM Energy Corp. Warrants Class B - Warrants (September 30, 2007, strike price: \$6.00)	5,600	-	280	0.00
Onefour Energy Ltd. <sup>(1)</sup>	600,000	204,000	204,000	0.44
OPTI Canada Inc.	70,000	1,551,900	1,589,700	3.43
Orleans Energy Limited	485,970	2,176,099	1,895,283	4.09
Peerless Energy Inc. CI A	230,000	793,500	782,000	1.69
Petro-Canada	11,000	614,350	621,170	1.34
Platform Resources Inc.	290,000	391,500	475,600	1.03
ProspEx Resources Ltd.	125,000	568,750	556,250	1.20
Rally Energy Corp	212,500	506,025	1,440,750	3.11
Rider Resources Ltd	100,000	779,000	755,000	1.63
Rolling Thunder Exploration Ltd. CI. A	349,800	307,824	356,796	0.77
Saxony Petroleum Inc. - Warrants <sup>(1)</sup> (February 15, 2008)	625,000	56,250.00	56,250	0.12
Saxony Petroleum Inc. <sup>(1)</sup>	625,000	1,106,250	1,106,250	2.39
Sierra Vista Energy Limited CI A	1,017,000	406,800	330,525	0.71

	Number of shares	Average Cost	Market Value	% of Net Asset Value
Sierra Vista Energy Limited CI B	180,000	\$ 573,300	\$ 381,600	0.82
Solara Exploration Ltd. CI B	74,500	157,195	143,785	0.31
Spry Energy Ltd. <sup>(1)</sup>	57,000	296,400	296,400	0.64
Storm Exploration Inc	129,000	799,800	1,102,950	2.38
Tango Energy Inc	327,500	176,850	163,750	0.35
Tasman Spinco <sup>(1)</sup>	418,000	54,340	54,340	0.12
Tristar Oil & Gas Limited	230,000	1,028,100	1,018,900	2.20
Value Creation Inc. <sup>(1)</sup>	62,500	1,812,500	1,812,500	3.91
Vecta Energy Corporation <sup>(1)</sup>	2,300,000	644,000	644,000	1.39
Vero Energy Inc.	49,900	379,240	368,262	0.80
Waveform Energy Ltd. CI A	375,000	45,000	39,375	0.09
Waveform Energy Ltd. CI B	56,000	226,800	28,000	0.06
Wilderness Energy Corp <sup>(1)</sup>	250,000	375,000	375,000	0.81
		29,680,207	30,268,084	65.35
<b>International</b>				
Pan Orient Energy Corporation	407,100	1,994,790	1,917,441	4.14
		1,994,790	1,917,441	4.14
<b>Mining</b>				
Agnico-Eagle Mines Ltd.	25,000	940,250	967,750	2.09
Denison Mines Corp.	40,000	544,400	508,800	1.10
Diamonds North Resources Ltd.	618,600	556,740	544,368	1.18
International Enxco Ltd. - Warrants (January 4, 2008, strike price: \$2.75)	25,000	-	-	-
Pitchstone Exploration Ltd.	105,000	320,250	299,250	0.65
Scorpio Mining Corporation	100,000	162,000	167,000	0.36
Shore Gold Inc.	100,000	472,000	486,000	1.05
UEX Corporation	100,000	729,000	742,000	1.60
		3,724,640	3,715,168	8.02
<b>Service</b>				
BA Energy Inc. <sup>(1)</sup>	40,000	320,000	320,000	0.69
		320,000	320,000	0.69
Total Canadian Equities		36,516,512	37,017,568	79.92
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>\$ 36,516,512</b>	<b>37,017,568</b>	<b>79.92</b>
Other Assets Net of Liabilities			9,298,092	20.08
<b>TOTAL NET ASSETS</b>			<b>\$ 46,315,660</b>	<b>100.00</b>

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

**QE Funds Corp.**  
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Notes to the Financial Statements  
June 30, 2007 (unaudited)

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

The fundamental investment objective of the Fund is to provide long-term capital appreciation by investing primarily in equity securities of Canadian companies involved in the energy and natural resource sector.

## **2. Summary of significant accounting policies**

These financial statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant accounting policies used in preparing the semi-annual financial statements are consistent with those used in preparing the annual financial statements except for the adoption of the new accounting standards as described below.

### **(a) Adoption of new accounting standards**

On April 1, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3855 "Financial Instruments – Recognition and Measurement" of the *CICA Handbook – Accounting*, which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. Section 3855 applies to fiscal years beginning on or after October 1, 2006. Additionally, Section 14.2 of National Instrument 81-106 ("NI 81-106") issued by the Canadian Securities Administrators in 2005, requires the daily net asset value of an investment fund to be calculated in accordance with Canadian GAAP. The adoption of Section 3855 would result in the use of different valuation techniques for certain investments.

Canadian securities regulatory authorities have granted relief to investment funds from complying on an interim basis with Section 3855, for the purposes of calculating and reporting of net asset value (other than for financial reporting purposes) for up to a one year period ending September 30, 2007. This is to permit further review of the suitability of this new pronouncement for the purpose of calculating purchase and redemption price (the "Transactional NAV") of an investment fund. Depending on the outcome of such review, the method by which the net asset value is calculated as governed by Section 3855 may result in a change of the Transactional NAV of an investment fund on the date of such change.



**QE Funds Corp.**  
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**Adoption of new accounting standards (continued)**

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transactional NAV and the net asset value calculated in accordance with Section 3855 (the "GAAP NAV") of an investment fund is required in the notes to the financial statements for financial reporting periods in the one year period ending September 30, 2007. Refer to note 10 for such reconciliation for the period ended June 30, 2007.

The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the opening net asset value in the asset value in the Statement of Changes in Net Assets for the fiscal period ended June 30, 2007 has been adjusted. Refer to note 10 for the amount adjusted.

As a result of the adoption of Section 3855, changes to the accounting policies of the Fund are as follows:

**Valuation of investments**

For purposes of Section 3855, all investments held by the fund are classified as "held for trading". Investments are recorded in the accounts at their market value, determined as follows:

- i. Securities listed on a recognized public securities exchange are valued at their bid prices on valuation date. Securities with no available bid prices are valued at the closing sale prices.
- ii. Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner established by the Manager.
- iii. Short-term notes, treasury bills and bonds are recorded at average bid quotations from recognized investment dealers.

**Transaction costs**

In accordance with Section 3855, transaction costs are expensed and included in "Transaction costs" in the Statement of Operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Prior to the adoption of Section 3855, Transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments. There is no impact on the net asset value of the investment fund in using either of these methods. The cost of investments for each security is determined on an average cost basis.

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

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

**QE Funds Corp.**  
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**(c) Security transactions and income recognition**

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

**(d) Valuation of fund shares**

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

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

**(e) Foreign currency translation**

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

**(f) Use of estimates**

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

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

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

**3. Deferred set-up costs**

	<b>June 30, 2006</b>	<b>December 31, 2006</b>
Deferred set-up costs	\$ 25,618	\$ 19,634
Less: accumulated amortization	(5,764)	(2,454)
	19,854	17,180
Less: current portion	(5,124)	(3,927)
	\$ 14,730	\$ 13,253

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#### **4. Share transactions**

The Fund is divided into Series A, F and O, and the number of shares of each series that may be issued is unlimited. Currently, only Series A shares of the Fund are offered.

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

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

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Share Issued	8,822,499	4,452,348
Share redeemed	(3,401,868)	(2,856,857)
Shares issued and outstanding	5,420,631	1,595,491

#### **5. Distributions**

The Fund may pay annually to shareholders ordinary dividends and capital gains dividends. Ordinary dividends will generally be paid in December and capital gains dividends will generally be paid in February. Dividends may be paid at other times determined by the Manager.

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

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

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

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**Income Taxes (continued)**

class. In particular, significant capital gains taxes may arise when a shareholder of the Fund switches to another class, as the Corporation may be required to realize capital gains on property which accrued prior to the property being owned by the Corporation. This results from tax-deferred transfers of property to the Corporation from various limited partnerships.

**7. Expenses**

The Fund is responsible for all charges and expenses incurred in connection with its operations, including regulatory, printing, legal and audit expenses.

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended June 30, 2007, \$26,486 (2006 - \$101,116).

**8. Management fee**

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

**9. 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:

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	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Heritage Bancorp Ltd.		
Administration fee	\$ -	\$ 25,156
Accounts payable	-	-
Qwest Energy Investment Management Corp.		
Management fee	\$ 153,539	\$ 318,894
Management fee payable	55,977	30,581
Accounts payable	14,447	9,879

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

**QE Funds Corp.**  
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**10. Reconciliation of Net Asset Value**

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Transactional NAV and the GAAP NAV of an investment fund is required for financial reporting periods in the one year period ending September 30, 2007 (see note 2). 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 investments 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 Transactional 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 Transactional NAV and GAAP NAV.

The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

	Net Asset Value			Net Asset Value Per Share		Opening NAV Section 3855 Adjustment
	Transactional NAV (note 2)	Section 3855 Adjustment	GAAP NAV	Transaction al NAV	GAAP NAV	
(Thousands of dollars, except per share amounts)						
As of June 30, 2007						
Qwest Energy Canadian Resource Class – Series A	46,992	(676)	46,316	8.63	8.54	(88)

**11. Statement of portfolio transactions**

A Statement of Portfolio Transactions (unaudited) for the period ended December 31, 2006 for the Fund may be obtained without charge by writing to:

*Qwest Investment Fund Management Ltd.*  
*Suite 1601 – 650 W. Georgia Street*  
*PO Box 11549*  
*Vancouver, BC V6B 4N7*