



## MFi Small Cap Fund\*

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE  
For the Period Ended June 30, 2010

\* Class of Shares of MFi Funds Corp.

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This interim management report of Fund performance contains financial highlights but does not contain either the interim or annual financial statements of the MFfi Small Cap Fund (the "**Fund**"). You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-877-539-5743, by writing to us at 400, 407-8<sup>th</sup> Avenue SW, Calgary AB T2P 1E5 or by visiting our website at [www.matcofinancialinc.com](http://www.matcofinancialinc.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

**A NOTE ON FORWARD LOOKING STATEMENTS**

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

## Management Discussion of Fund Performance

This management discussion of Fund performance presents management's view of the significant factors and developments during the period that have affected the Fund's performance and outlook. For information on the Fund's longer-term performance, please refer to the *Past Performance* section of this report. In this report, "Matco" refers to Matco Financial Inc., the manager of the Fund.

## Investment Objective and Strategies

The Fund's objective is to seek long-term capital appreciation and superior risk-adjusted returns by investing primarily in a portfolio of small and mid cap Canadian equities that exhibit strong growth attributes. Companies are expected to be profitable and have a strong propensity to reinvest their excess earnings back into grow the company larger. Other characteristics include strong, reasonable multiples, predictability, analyst recognition and market participation. The Fund will generally be 100% exposed to stocks.

## Risk

The overall risks of investing in the Fund are as described in the Fund's Prospectus. There were no material changes to the Fund during the year that affected the overall level of risk associated with an investment in the Fund.

## Results of Operations

MFfi Funds Corp. amended its articles on September 29, 2008, to create the Fund. The Fund was originally qualified for distribution to the public by prospectus on December 17, 2008. Subsequently, the Corporation amended its articles on August 6, 2009, to change the name of the Fund from "MFfi Canadian Equity Focused Growth Fund" to "MFfi Small Cap Fund". Shares of the Fund were issued March 2010. The Fund's net assets increased since March 1, 2010 to \$3.10 Million at June 30, 2009. Within the period there was a net loss of investment of \$0.2 Million attributable to investment performance. The Fund's performance is discussed below.

During the past 4 months, the Fund made no material changes in overall asset mix and experienced no unusual trends in redemptions or sales.

For the past four months, the Fund's Series F units returned -1.7%. This compares with the -2.87% return of the benchmark index, the Nesbitt Burns Small Cap Total

Return Index. Unlike the index returns, the Fund's return is net of fees and expenses paid by the Series. Please refer to the *Past Performance* section of the report for the returns of other series offered by the Fund and to the *Related Party Transactions – Management Fees* section of the report for the varying management fees payable by each series.

The Nesbitt Burns finish the quarter down -6.6%. From a sector point of view over the quarter, the index marginally benefited from the telecom sector, the only positive performing sector and at .2% of the index a very small contribution. All other sectors provided no "safe haven" in the quarter with the notable heavy weight sectors included materials down 4.4% and energy down 8.3%. Within the materials the gold sub-group performed well, +5%.

Overall, the Fund's return underperformed the benchmark index due to its specific sector and security selection focus which was not in line with that of the Nesbitt Burns Small Cap Total Return Index. From a sector standpoint, the fund benefited from health care and consumer discretionary stocks. The fund's materials sector, like the broader index, was very split between positive contribution from the gold companies and very negative performance of the diversified metals & mining companies.

Individual securities that contributed to the positive performance for the second quarter included Semafo (+42.2%), Red Back Mining (+29.7%), SXC Health Solutions (+13.8%), Torstar (+6.7%), Colossus Minerals (+4.9%), Zarlink Semiconductors (4.1%). The largest negative contributors were Breakwater Resources (-35%), Eastern Platinum (-34.5%), Grande Cache Coal (-33.4%), Bennett Environmental (-32.9%).

## Recent Developments

Although news headlines continued to "sell" the potential of a double dip recession, the economy in Canada continues to recover. The year over year change in the GDP closed the second quarter at 3.3%, with another gain on Q1's 1.3%. On the consumer front, retail sales continued to increase finishing the quarter off at 6.6% year over year (Q1 6%), unemployment continued to improve, finishing the quarter off at 8.1% (Q1 8.2%) while capacity utilization continued to recover at 75% (Q1 70%) on the corporate side.

Reviewing Canada's corporate earnings, we note a continued recovery in earnings both reported and forward expectations. Trailing earnings improvement in Canada continued benefit from corporate cost cutting. We noted this quarter the next leg of recovery is now underway – top

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For the Period Ended June 30, 2010



line sales (revenue) increased from the first quarter. From a bottom up consensus view, expectations are that earnings will grow from 2009 to 2010 by 22%.

The valuation of the S&P/TSX Composite is currently trading at 17 times trailing earnings, an improvement from 19 times trailing earnings in the first quarter. At current levels we would consider this to be reasonably priced and relative to previous post recession periods, the level is very reasonably priced. Key to the market multiple remaining reasonable with any increases in the S&P/TSX Composite, will be the continued recovery in earnings. We continue to monitor both the top and bottom line for any major changes.

Given some of the headlines, we do not subscribe to the market worry of a potential double-dip recession, particularly in the near term. The steepness of the U.S. Yield curve is a key measure in our analysis as it's a historically accurate precursor of recessions. Since 1955, it has been a very good indicator of economic recessions, specifically when the curve inverts. Currently there is no sign of any yield curve inversion and going forward we will continue to monitor this closely as well.

We continue to target a diversified portfolio of equities with strong profitability, reasonable multiples and strong propensity to distribute earnings in the form of a dividend yield while reinvesting the excess to grow the companies larger. As for the double dip recession, given the recovery attributes discussed above we are not currently preparing for it. Going forward, we do still expect continued volatility in the market. Overall we remain optimistic for the market in 2010 and in particular high quality companies. We will use any short term setbacks in the market as buying opportunities. Our investment focus remains on positioning the fund for the long-term and we are confident in delivering strong risk-adjusted returns in the future.

Source: CPMS, TD, BMO

### Related Party Transactions

#### *Management Fees*

Matco provides the Fund with investment management services, including managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements for the purchase and sale of the investment portfolio and providing other services. In return, Matco receives a management fee based on the net assets of the Fund, calculated on a daily basis. For the period ended June 30 2010, the Fund paid Matco management fees of \$ 2,811

and accrued performance fees of \$1,449 (including GST). The management and administration fee for Series O securities is negotiated with and paid by the shareholder to the manager. The sales commission under the Front Load option is negotiated with and paid by the shareholder directly to the dealer.

Annual Rate	Series A (FL)	Series F
Management fees	2.25 %	1.25 %
Serving Commission (included in management rate fee)	1.25%	Nil
Front Load (FL) sales commission – up to 6%		

### Other Transactions

#### *Administration Services*

The Fund paid \$15,774 to RBC Dexia Investor Services for valuation, custodian, recordkeeping, unit holder, and trustee services. This amount excludes costs paid through the Fund's investment in other mutual funds and portfolios managed by third parties.

#### *Portfolio Transaction Services*

The Fund incurred trading costs of \$7,981 through securities transactions conducted through RBC Dexia Investor Services and TD Waterhouse Investor Services. RBC Dexia Investor Services also provides portfolio transaction services to the Fund when the Fund invests directly in securities of third party mutual funds. The Fund paid no brokerage commissions on these investment transactions.

### Past Performance

The indicated rates of return are the historical annual compound total returns, including changes in unit value and assuming reinvestment of all distributions. They do not take into account sales, redemption, and distribution or optional charges, or income taxes payable by any investor that would have reduced returns. The past performance of the Fund is not necessarily an indication of how it will perform in the future. As the Fund may not currently be held inside of a registered plan, income and capital gains distributions paid to you increase your income for tax purposes whether paid to you in cash or reinvested in additional units. The amount of reinvested taxable distributions is added to the adjusted cost base of the units that you own. This would decrease your capital gain or increase your capital loss when you later redeem from the

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Interim Management Report of Fund Performance

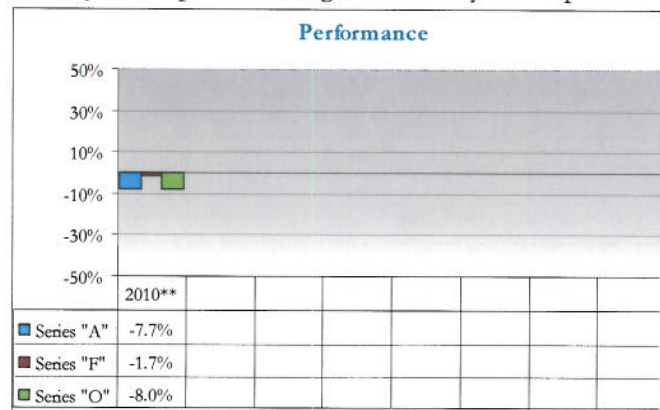
For the Period Ended June 30, 2010



Fund, thereby ensuring that you are not taxed on this amount again. Please consult your tax advisor regarding your personal tax situation. The past performance of the Fund is set out in the following charts and the compound returns table.

## Year-By-Year Returns

The bar charts that follow show the performance of each series of the Fund for the period ended June 30, 2010. The charts show, in percentage terms, the performance you would have received if you invested in the fund on the first day of the period through the last day of the period.



\*\* Rate of return represents the total rate of return for the period indicated, assuming reinvestment of all distributions at net asset value. The Fund was prospectus qualified as at December 17, 2008, but was not funded until March 1, 2010.

The Fund has been recently established and as such, does not currently have a long track record of distributions, however, it is expected that over time the re-investment of distributions will have a significant and material impact on rates of return.

## Summary of Investment Portfolio (at June 30, 2010)

### Effective Equity Sector Allocation

Materials	40.7%
Cash	17.0%
Energy	11.7%
Information technology	10.9%
Commercial services	4.8%
Financials	4.7%
Health Care	4.4%
Consumer discretionary	2.8%
Industrials	1.8%
Consumer staples	1.2%
<b>TOTAL</b>	<b>100.0%</b>

### Top 25 Holdings

	% of NAV
1 SXC Health Solutions Corp.	5.4

2 Delphi Energy Corp.	4.5
3 B2Gold Corp.	4.4
4 Alamos Gold Inc.	4.4
5 OceanaGold Corp.	4.2
6 Cascades Inc.	4.0
7 Grande Cache Coal Corp.	3.9
8 Red Back Mining Inc.	3.8
9 SEMAFO Inc.	3.7
10 Bankers Petroleum Ltd.	3.4
11 Torstar Corp.	3.3
12 Transglobe Energy Corp.	3.3
13 Bennett Environmental Inc.	3.2
14 Imperial Metals Corp.	3.1
15 Laurentian Bank of Canada	3.0
16 Ithaca Energy Inc.	3.0
17 Zarlink Semiconductor Inc..	2.9
18 Colossos Minerals Inc.	2.8
19 Celestica Inc.	2.7
20 Dundee Corp.	2.6
21 Anatolia Minerals Dev. Ltd.	2.6
22 Garda World Security Corp.	2.6
23 Calian Technologies Ltd.	2.6
24 Open Text Corp.	2.4
25 Winpak Ltd.	2.3

**TOTAL** **84.1**

Series A returns of the underlying funds are used in the discussion of this Fund's performance because information on Series A of those underlying funds is most widely available to investors. However, this Fund's actual investments are in Series O & F securities of the underlying funds, which are offered under their respective prospectuses. These series charge lower fees and expenses than Series A securities.

The simplified prospectuses and other information about the underlying funds are available on such funds' websites or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The investments and percentages outlined herein may have changed by the time you purchase units of this Fund. The top 25 holdings are made available quarterly, 60 days after quarter-end and may be obtained by contacting your registered representative or by contacting Matco toll free at 1.877.539.5743 or by email at [matco@matcofinancial.ca](mailto:matco@matcofinancial.ca).

The Fund held no short positions at the end of the period.

## 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 over the last couple of years. This information is derived from the Fund's audited annual and unaudited interim financial statements.

### MFi SMALL CAP FUND - Series A

Net Assets per Share		2010
Net Assets, beginning of year or period <sup>(1)(3)</sup>	\$	10.00
Increase (decrease) from operations:		
total revenue		0.02
total expenses		(0.15)
realized gains (losses) for the year		0.28
unrealized gains (losses) for the year		(1.47)
Total increase (decrease) from operations <sup>(1)</sup>		(1.32)
Distributions:		
from income (excluding dividends)		-
from dividends		-
from capital gains		-
return of capital		-
Total annual distributions <sup>(2)</sup>		-
Net Assets, end of year or period	\$	9.19

### Ratios and Supplemental Data

2010	
Net asset value end of year or period <sup>(1)</sup>	35,271
Number of shares outstanding <sup>(1)</sup>	3,823
Management expense ratio (%) <sup>(2)</sup>	2.46
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	4.26
Portfolio turnover rate (%) <sup>(3)</sup>	27.45
Trading expense ratio (%) <sup>(4)</sup>	0.66
Net asset value per share end of year or period <sup>(5)</sup>	9.23

### MFi SMALL CAP FUND - Series F

Net Assets per Share		2010
Net Assets, beginning of year or period <sup>(1)(3)</sup>	\$	10.00
Increase (decrease) from operations:		
total revenue		0.02
total expenses		(0.16)
realized gains (losses) for the year		0.21
unrealized gains (losses) for the year		(0.67)
Total increase (decrease) from operations <sup>(1)</sup>		(0.60)
Distributions:		
from income (excluding dividends)		-
from dividends		-
from capital gains		-
return of capital		-
Total annual distributions <sup>(2)</sup>		-
Net Assets, end of year or period	\$	9.79

### Ratios and Supplemental Data

2010	
Net asset value end of year or period <sup>(1)</sup>	1,680,890
Number of shares outstanding <sup>(1)</sup>	170,919
Management expense ratio (%) <sup>(2)</sup>	2.44
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	4.25
Portfolio turnover rate (%) <sup>(3)</sup>	27.45
Trading expense ratio (%) <sup>(4)</sup>	0.66
Net asset value per share end of year or period <sup>(5)</sup>	9.83

### MFi SMALL CAP FUND - Series O

Net Assets per Share		2010
Net Assets, beginning of year or period <sup>(1)(3)</sup>	\$	10.00
Increase (decrease) from operations:		
total revenue		0.02
total expenses		(0.10)
realized gains (losses) for the year		0.29
unrealized gains (losses) for the year		(1.25)
Total increase (decrease) from operations <sup>(1)</sup>		(1.04)
Distributions:		
from income (excluding dividends)		-
from dividends		-
from capital gains		-
return of capital		-
Total annual distributions <sup>(2)</sup>		-
Net Assets, end of year or period	\$	9.16

### Ratios and Supplemental Data

2010	
Net asset value end of year or period <sup>(1)</sup>	1,372,356
Number of shares outstanding <sup>(1)</sup>	149,203
Management expense ratio (%) <sup>(2)</sup>	1.56
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	2.89
Portfolio turnover rate (%) <sup>(3)</sup>	27.45
Trading expense ratio (%) <sup>(4)</sup>	0.66
Net asset value per share end of year or period <sup>(5)</sup>	9.20

### Net Assets per Share Notes:

- <sup>(1)</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.
- <sup>(2)</sup> Distributions were paid in cash/reinvested in additional shares of the Fund, or both.
- <sup>(3)</sup> The relief granted to investment funds by Canadian securities regulatory authorities from complying with Section 3855 results in a difference between GAAP NAV and Transactional NAV due to the differences in valuation techniques of certain investments. 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) or ask prices (for investments sold short) to be used in the fair valuation of investments, rather than the use of closing sales prices currently used for the purposes of determining Transactional NAV. For investments that are not traded in an active market, Section 3855 requires that the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment funds industry.

### Ratio and Supplemental Data Notes:

- <sup>(1)</sup> This information is provided as at June 30, 2010.
- <sup>(2)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.
- <sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- <sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- <sup>(5)</sup> Net Asset Value per share is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of shares then outstanding.
- <sup>(6)</sup> Commencing May 2010, Matco reduced the monthly management fee it charges for the A and F series of the Fund's shares to 0%. Matco may waive or reduce the monthly management fee at its discretion and stop waiving such management fee at any time. Furthermore, professional fees related to the AIF and the 2010 Audit are absorbed by Matco.