



Matco Small Cap Fund*

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
For the Year Ended December 31, 2016

* Class of Shares of Matco Funds Corp.



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

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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 growing 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

Matco 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. The Corporation amended its articles on August 12, 2011, to change the name of the Fund from "MFi Small Cap Fund" to "Matco Small Cap Fund". Shares of the Fund were issued March 2010. The Fund's net assets increased over the past year to \$63.2 million at December 31, 2016. Total investment income for the 2016 year was \$8.2 million, prior to operating expenses. The Fund's performance is discussed below.

During the past year, the Fund made no material changes in overall asset mix.

In 2016, the Fund's Series F units returned +15.13% and the TSX Small Cap Index (benchmark) returned 38.48%. Unlike the index return, 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 Canadian Small Cap space showed strength in 2016 as commodities drove one of the best annual returns we've seen in years. Our top 5 performing companies in 2016 were Alamos Gold, Kinaxis, Torc Oil & Gas, Kirkland Lake, & Kelt Exploration.

Recent Developments

Increased global growth estimates on the back of better than expected manufacturing data and leading economic indicators paired with rising earnings expectations speaks well for small caps in 2017. We expect the transition toward cyclical companies to continue as US 10 year bond yields move upwards. We are overweight industrials, financials, consumer discretionary, & diversified metals going into 2017.

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 year ended December 31 2016, the Fund paid Matco management fees of \$112,007 (including GST) (2015 - \$64,139). 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	2.00%	1.25%
Serving Commission (included in management fee rate)	1.00%	Nil
Front Load (FL) sales commission – up to 6%		

Note: The trailer fee changed from 1.25% to 1.00% effective August 12, 2011

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Other Transactions

Administration Services

The Fund paid \$81,995 (2015 - \$72,212) to RBC 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

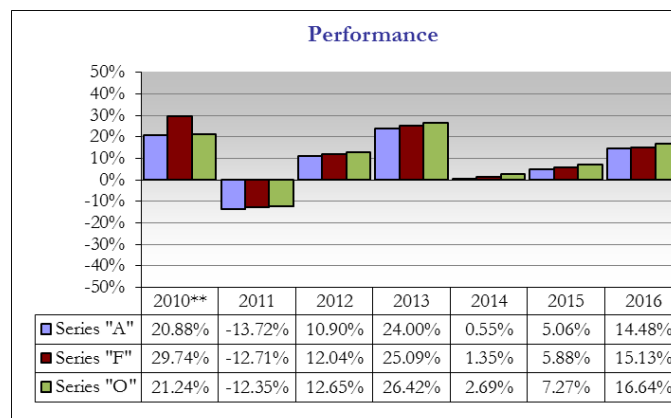
The Fund incurred trading costs of \$181,925 (2015 - \$86,709) through securities transactions conducted through RBC Investor Services and TD Waterhouse Investor Services. RBC Investor Services also provides portfolio transaction services to the Fund when the Fund invests directly in securities of third 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 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 chart that follows show the performance of each series of the Fund for the period ended December 31, 2010 and the years ended December 31, 2011 to 2016. 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 reinvestment of distributions will have a significant and material impact on rates of return.

Annual Compound Returns

The following table shows the historical annual compound total return for each series of the Fund since inception, for the periods or years shown ended on December 31, 2015. The annual compound total return is also compared to the Nesbitt Burns Small Cap Total Return Index. Unless otherwise noted below, all index returns are calculated in Canadian dollars on a total return basis, meaning that all distributions are reinvested.

	Class A Shares (%)	Class F Shares (%)	Class O Shares (%)	Nesbitt Burns Small Cap TR Index (%)
One Year	14.48	15.13	16.64	36.39
Three Years	6.54	7.30	8.71	4.72
Five Years	10.71	11.60	12.84	4.69
Ten Years	-	-	-	-
Since inception	8.39	10.35	10.22	5.43**

**Inception for BMO Nesbitt Burns Small Cap Equity Total Return Index is February 28, 2010, instead of March 1, 2010, as this information is only available at month end.

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Summary of Investment Portfolio (at December 31, 2016)

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

Effective Equity Sector Allocation

Energy	20.5%
Financials	18.5%
Materials	17.2%
Industrials	15.9%
Consumer discretionary	14.7%
Health Care	6.7%
Consumer staples	3.0%
Utilities	2.5%
Information technology	1.0%
TOTAL	100.0%

Top 25 Holdings

	% of NAV
1 Intertape Polymer Group Inc.	5.7
2 Imvescor Restaurant Group Inc.	5.4
3 Laurentian Bank of Canada	5.0
4 Boyd Group Income Fund	4.3
5 CCL Industries Inc.	4.3
6 Whitecap Resources Inc.	4.3
7 New Flyer Industries Inc.	4.1
8 Alaris Royalty Corp.	3.6
9 Storm Resources Ltd.	3.4
10 Currency Exchange International Corp.	3.2
11 Enerflex Ltd.	2.9
12 MainStreet Health Investments Inc.	2.8
13 Chesswood Group Ltd.	2.8
14 Secure Energy Services Inc.	2.7
15 Capstone Mining Corp.	2.6
16 TORC Oil & Gas Ltd.	2.5
17 Uni-Select Inc.	2.5
18 Stantec Inc.	2.5
19 Carriage Services Inc.	2.5
20 Boralex Inc.	2.5
21 Home Capital Group Inc.	2.3
22 CanniMed Therapeutics Inc.	2.2
23 Hardwood Distribution Inc.	2.2
24 Trevali Mining Corp.	2.1
25 Clearwater Seafood Inc..	<u>2.1</u>
TOTAL	80.5

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.

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.

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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 over the last 5 years. This information is derived from the Fund's audited annual financial statements.

MATCO SMALL CAP FUND – Series A

Net Assets per Share					
	2016	2015	2014	2013	2012
Net Assets, beginning of year ^{(1) (3)}	\$ 14.04	\$ 13.59	\$ 13.71	\$ 11.31	\$ 10.32
Increase (decrease) from operations:					
total revenue	0.39	0.30	0.36	0.47	0.43
total expenses	(0.37)	(0.38)	(0.40)	(0.31)	(0.29)
realized gains (losses) for the year	(0.40)	1.11	2.28	(0.23)	0.02
unrealized gains (losses) for the year	2.32	(0.27)	(0.20)	2.82	0.80
Total increase (decrease) from operations ⁽¹⁾	1.94	0.76	2.04	2.75	0.96
Distributions :					
from income (excluding dividends)	-	-	-	-	-
from dividends	(0.24)	(0.23)	(0.19)	(0.32)	(0.18)
from capital gains	-	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions ⁽²⁾	(0.24)	(0.23)	(0.19)	(0.32)	(0.18)
Net Assets, end of year	\$ 15.83	\$ 14.04	\$ 13.59	\$ 13.71	\$ 11.25

Ratios and Supplemental Data					
	2016	2015	2014	2013	2012
Net asset value end of year ⁽¹⁾	462,730	219,430	252,825	233,699	206,229
Number of shares outstanding ⁽¹⁾	29,237	15,627	18,609	17,050	18,236
Management expense ratio (%) ⁽²⁾	2.22	2.39	2.43	2.38	2.26
Management expense ratio before waivers or absorptions (%) ⁽⁶⁾	2.22	2.39	2.43	2.59	2.95
Portfolio turnover rate (%) ⁽³⁾	50.33	64.59	79.02	19.11	63.57
Trading expense ratio (%) ⁽⁴⁾	0.37	0.22	0.32	0.13	0.26
Net asset value per share end of year ⁽⁵⁾	15.83	14.04	13.59	13.71	11.31

MATCO SMALL CAP FUND – Series F

Net Assets per Share					
	2016	2015	2014	2013	2012
Net Assets, beginning of year ^{(1) (3)}	\$ 15.79	\$ 15.16	\$ 15.17	\$ 12.41	\$ 11.20
Increase (decrease) from operations:					
total revenue	0.43	0.35	0.36	0.53	0.46
total expenses	(0.33)	(0.29)	(0.32)	(0.25)	(0.18)
realized gains (losses) for the year	(0.47)	0.97	1.76	(0.27)	0.04
unrealized gains (losses) for the year	2.75	(0.26)	(1.43)	3.12	0.99
Total increase (decrease) from operations ⁽¹⁾	2.38	0.77	0.37	3.13	1.31
Distributions :					
from income (excluding dividends)	-	-	-	-	-
from dividends	(0.28)	(0.26)	(0.22)	(0.37)	(0.20)
from capital gains	-	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions ⁽²⁾	(0.28)	(0.26)	(0.22)	(0.37)	(0.20)
Net Assets, end of year	\$ 17.89	\$ 15.79	\$ 15.16	\$ 15.17	\$ 12.34

Ratios and Supplemental Data					
	2016	2015	2014	2013	2012
Net asset value end of year ⁽¹⁾	10,687,179	5,065,563	3,975,763	4,911,941	3,463,734
Number of shares outstanding ⁽¹⁾	597,310	320,906	262,338	323,823	279,209
Management expense ratio (%) ⁽²⁾	1.59	1.59	1.65	1.52	1.21
Management expense ratio before waivers or absorptions (%) ⁽⁶⁾	1.59	1.59	1.65	1.80	2.17
Portfolio turnover rate (%) ⁽³⁾	50.33	64.59	79.02	19.11	63.57
Trading expense ratio (%) ⁽⁴⁾	0.37	0.22	0.32	0.13	0.26
Net asset value per share end of year ⁽⁵⁾	17.89	15.79	15.16	15.17	12.41

MATCO SMALL CAP FUND – Series O

Net Assets per Share					
	2016	2015	2014	2013	2012
Net Assets, beginning of year ^{(1) (3)}	\$ 15.45	\$ 14.64	\$ 14.46	\$ 11.70	\$ 10.51
Increase (decrease) from operations:					
total revenue	0.42	0.33	0.34	0.51	0.45
total expenses	(0.11)	(0.08)	(0.10)	(0.08)	(0.10)
realized gains (losses) for the year	(0.37)	0.99	1.51	(0.29)	(0.08)
unrealized gains (losses) for the year	2.68	(0.23)	(1.53)	3.14	0.89
Total increase (decrease) from operations ⁽¹⁾	2.62	1.01	0.22	3.28	1.16
Distributions :					
from income (excluding dividends)	-	-	-	-	-
from dividends	(0.27)	(0.25)	(0.21)	(0.33)	(0.18)
from capital gains	-	-	-	-	-
return of capital	-	-	-	-	-
Total annual distributions ⁽²⁾	(0.27)	(0.25)	(0.21)	(0.33)	(0.18)
Net Assets, end of year	\$ 17.74	\$ 15.45	\$ 14.64	\$ 14.46	\$ 11.64

Ratios and Supplemental Data					
	2016	2015	2014	2013	2012
Net asset value end of year ⁽¹⁾	52,075,481	33,263,049	33,911,826	28,802,664	11,031,358
Number of shares outstanding ⁽¹⁾	2,935,143	2,152,915	2,316,320	1,991,567	942,525
Management expense ratio (%) ⁽²⁾	0.28	0.28	0.34	0.45	0.64
Management expense ratio before waivers or absorptions (%) ⁽⁶⁾	0.28	0.28	0.34	0.50	0.81
Portfolio turnover rate (%) ⁽³⁾	50.33	64.59	79.02	19.11	63.57
Trading expense ratio (%) ⁽⁴⁾	0.37	0.22	0.32	0.13	0.26
Net asset value per share end of year ⁽⁵⁾	17.74	15.45	14.64	14.46	11.70

Net Assets per Share Notes

- (1) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.
- (2) Distributions were paid in cash/reinvested in additional shares of the Fund, or both.
- (3) For 2016, 2015, 2014 and 2013 the information is prepared in accordance with IFRS which uses the last trade price for investments that are traded in an active market where quoted prices are readily and regularly available. For years 2012 the information is prepared in accordance with Canadian GAAP, where investments that are traded in an active market, are fair valued based on bid prices (for investments held) or ask prices (for investments sold short). For investments that are not traded in an active market, the Fund uses valuation techniques that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

Ratio and Supplemental Data Notes

- (1) This information is provided as at December 31st.
- (2) Management expense ratio is based on total expenses as an annualized percentage of daily average net assets during the period.
- (3) 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 period. 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 period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (4) 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.
- (5) 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 units then outstanding.
- (6) On May 1, 2013 Matco starting charging a management fee of 1.0% for the A and 1.25% for the F series. Furthermore, professional fees related to the AIF and the Audit for 2012 are absorbed by Matco. Starting on May 1, 2013 Matco stopped absorbing these costs.