

# Interim Management Report of Fund Performance

June 30, 2011

Galileo Global Opportunities Fund (formerly Galileo  
Small/Mid Cap Fund)

## Management Discussion of Fund Performance

This management discussion of fund performance represents the portfolio management's view of the significant factors and developments affecting the Fund's performance and outlook.

## INVESTMENT OBJECTIVE AND STRATEGIES

Effective November 15, 2010, the name of the Fund was changed to Galileo Global Opportunities Fund and the mandate was expanded to be more global in scope. The Fund's objective is to provide capital growth by investing primarily in shares of smaller and medium companies located around the world that are expected to profit from future economic growth. The Portfolio Advisor uses a bottom-up, growth investment style. The Portfolio Advisor applies a growth at a reasonable price (GARP) style meaning it will only invest if it believes the share price is attractive relative to growth potential. The Portfolio Advisor also applies an active trading approach that is expected to assist in risk management and lead to high portfolio turnover.

## RISK

The risks remain as discussed in the prospectus.

## RESULTS OF OPERATIONS

The net assets of the Fund decreased by 3% from the prior period due mainly to the depreciation of the market value of the portfolio securities. Expenses vary as a function of changes in average net asset values and unitholder activity. Management and operating expenses have increased during the period reflecting the increase in the average net asset values during the period.

The Class A and F units of the Fund underperformed its benchmark by 7.5% and 7.0% respectively. The Class A and Class F units of the Fund had performance of -10.2% and -9.7% respectively for the six months ended June 30, 2011. The benchmark is a blend of 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index. The blended benchmark had a return of -2.7%. The S&P/TSX Mid Cap Index had a return of -1.1% and the S&P/TSX Small Cap Index had a return of -4.3% for the period. The Fund underperformed relative to the benchmark, S&P/TSX Small Cap and Mid Cap Index. Our mandate is to be in the higher growth areas of the market especially in the Energy sector which has led to underperformance in the second quarter of 2011.

## RECENT DEVELOPMENTS

While the global economic expansion may be experiencing a mid-cycle slowdown, we see no reason to become excessively pessimistic. We all know the obvious challenges ahead, but what about the positive factors that are too easily overlooked? Corporate balance sheets in the United States and Canada are the healthiest they have been in many years, productivity is rising and earnings look set to exceed expectations. Inventories appear lean with no excess in the system. Interest rates remain low and look to remain that way for the foreseeable future.

We suspect that the Japanese earthquake had a greater negative effect on global growth in the second quarter than many realize. As Japan rebuilds over the next several quarters, we expect demand will surprise to the upside.

As for China, it seems to always be Goldilocks from the western perspective, it is either too hot or too cold, never just right. Last year the Chinese economy was overheating. This year, concerns are rampant of a hard landing. To be sure, we remain concerned about the rate of Chinese inflation, but we believe a 'hard' landing has been averted and that growth in GDP will come in for the year at 9 to 9.5%.

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This interim management report of fund performance contains financial highlights but does not contain either interim or annual financial statements of the Fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1-866-912-2288, by writing to us at Galileo Funds Inc., TD Canada Trust Tower, Suite 4730, 161 Bay Street, PO Box 205, Toronto, ON M5J 2S1, or by visiting our website at [www.galileofunds.ca](http://www.galileofunds.ca), or SEDAR at [www.sedar.com](http://www.sedar.com).

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

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**RECENT DEVELOPMENTS (cont'd)**

The authorities in Beijing have taken numerous steps to rein in the excesses in the economy and from what we can ascertain, these moves are gaining traction. Unlike the United States, China has been very pro-active in terms of aggressively dealing with economic challenges.

Overall in Asia, while inflation has accelerated and GDP growth forecasts have been trimmed, the global recovery seems intact from our perspective. The direction of inflation in Asia remains the single biggest risk to our outlook.

Our portfolio focus has been Canadian junior oil exploration companies that are developing tight light oil reserves in western Canada. The application of horizontal multi-stage fracs has opened up a plethora of new opportunities. In all our years of investing in the energy sector, we have rarely seen economic returns as good as they are today with the oil price at \$95 per barrel. These shares seem ignored in the current market malaise, but the financial returns are there. We expect better days ahead for junior oil and oil service companies, it will just take time.

**RELATED PARTY TRANSACTIONS**

Galileo Funds Inc., the Fund's Manager and Trustee, is a wholly owned subsidiary of Galileo Global Equity Advisors Inc., which is the Fund's Portfolio Advisor. Galileo Funds Inc. receives management fees based on the average net asset value of the Fund. The management fees are used to pay for sales and commissions, the investment management of the Fund and other general administration. For the period ended June 30, 2011, the total management fees charged by Galileo Funds Inc. to the Fund was \$121,507 (December 31, 2010 - \$175,020).

The Manager is responsible for certain aspects of the day-to-day administration. For the period ended June 30, 2011, the Fund reimbursed the Manager for certain operating costs incurred in administering the Fund of approximately \$160,000 (December 31, 2010 - \$238,083). The Manager absorbed approximately \$24,717 (December 31, 2010 - \$63,943) of total expenses during the period. Such absorptions may be terminated at any time without notice.

The Funds' Manager, its officers and directors may invest in units of the Funds from time to time in the normal course of business. Currently the officers and directors hold 0.2%.

**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 past five years and for the six months ended June 30, 2011. This information is derived from the Fund's audited annual financial statements and interim unaudited financial statements.

**Net Assets per Unit <sup>(4)</sup>**

<b>Class A</b>	<b>6/30/2011</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
<b>Net assets, beginning of period <sup>(1)(2)</sup></b>	<b>\$18.12</b>	<b>\$14.69</b>	<b>\$10.54</b>	<b>\$14.77</b>	<b>\$12.47</b>	<b>\$11.53</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	0.07	0.25	0.13	0.27	0.33	0.05
Total expenses	(0.24)	(0.41)	(0.33)	(0.32)	(0.35)	(0.02)
Realized gains (losses) for the period	0.74	3.12	2.46	(1.19)	2.04	0.11
Unrealized gains (losses) for the period	(2.49)	0.69	4.06	(2.66)	(2.15)	0.30
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(1.92)</b>	<b>3.64</b>	<b>6.32</b>	<b>(3.90)</b>	<b>(0.13)</b>	<b>0.44</b>
<b>Distributions:</b>						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions <sup>(3)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets, end of period</b>	<b>\$16.26</b>	<b>\$18.12</b>	<b>\$14.69</b>	<b>\$10.54</b>	<b>\$14.77</b>	<b>\$12.47</b>

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**FINANCIAL HIGHLIGHTS (cont'd)**  
**Net Assets per Unit <sup>(4)</sup> (cont'd)**

Class F	6/30/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
<b>Net assets, beginning of period <sup>(1)(2)</sup></b>	<b>\$18.08</b>	<b>\$14.49</b>	<b>\$10.28</b>	<b>\$14.40</b>	<b>\$12.11</b>	<b>\$11.12</b>
<b>Increase (decrease) from operations:</b>						
Total revenue	0.06	0.13	0.08	0.26	0.31	0.36
Total expenses	(0.14)	(0.23)	(0.17)	(0.18)	(0.19)	(0.06)
Realized gains (losses) for the period	0.74	2.93	0.83	(1.14)	1.93	1.99
Unrealized gains (losses) for the period	(2.47)	(0.50)	3.57	(2.97)	0.42	(0.93)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(1.81)</b>	<b>2.30</b>	<b>4.31</b>	<b>(4.03)</b>	<b>2.47</b>	<b>1.36</b>
<b>Distributions:</b>						
From income (excluding dividends)	-	-	-	0.02	0.03	0.31
From dividends	-	-	-	0.08	0.11	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.10</b>	<b>0.14</b>	<b>0.31</b>
<b>Net assets, end of period</b>	<b>\$16.31</b>	<b>\$18.08</b>	<b>\$14.49</b>	<b>\$10.28</b>	<b>\$14.40</b>	<b>\$12.15</b>

- (1) Net assets and distributions are based on actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) The Fund was launched in September 2000 with 1 class of units. It was sold via an offering memorandum and was therefore open only to accredited investors. In November 2006, the various provincial securities commissions approved the prospectus of the Fund. At this time, the original class of units became Class F and a 2<sup>nd</sup> class of units, Class A, was launched. As such, the beginning of the 2006 period for Class A is November 14<sup>th</sup>, 2006 and for Class F is January 1<sup>st</sup>, 2006.
- (3) Distributions were paid in cash or reinvested in additional units of the Fund.
- (4) This information is derived from the Fund's audited annual financial statements and interim unaudited financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

**FINANCIAL HIGHLIGHTS (cont'd)**

**Ratios and Supplemental Data**

<b>Class A</b>	<b>6/30/2011</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
Net asset value <sup>(1)</sup>	\$ 6,974,348	\$ 6,719,792	\$ 3,530,065	\$ 41,420	\$ 77,962	\$ 13
Number of units outstanding <sup>(1)</sup>	425,677	368,295	237,765	3,923	5,260	1
Management expense ratio <sup>(2)</sup>	2.71%	2.63%	2.60%	2.41%	2.42%	1.27%
Management expense ratio before waivers/absorptions	3.05%	3.38%	4.11%	3.01%	2.86%	1.68%
Trading expense ratio <sup>(4)</sup>	2.35%	3.89%	3.21%	0.32%	0.54%	0.63%
Portfolio turnover rate <sup>(3)</sup>	146.74%	410.96%	435.88%	83.48%	96.96%	132.02%
Net asset value per unit	\$ 16.38	\$ 18.25	\$ 14.85	\$ 10.56	\$ 14.82	\$ 12.51

<b>Class F</b>	<b>6/30/2011</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
Net asset value <sup>(1)</sup>	\$ 6,333,154	\$ 7,049,378	\$ 8,786,560	\$ 5,295,753	\$ 7,966,569	\$ 7,017,113
Number of units outstanding <sup>(1)</sup>	385,392	387,332	599,979	513,804	551,264	575,693
Management expense ratio <sup>(2)</sup>	1.55%	1.52%	1.53%	1.37%	1.40%	0.54%
Management expense ratio before waivers/absorptions	1.88%	1.96%	2.42%	1.96%	1.84%	1.23%
Trading expense ratio <sup>(4)</sup>	2.35%	3.89%	3.21%	0.32%	0.54%	0.63%
Portfolio turnover rate <sup>(3)</sup>	146.74%	410.96%	435.88%	83.48%	96.96%	132.02%
Net asset value per unit	\$ 16.43	\$ 18.20	\$ 14.64	\$ 10.31	\$ 14.45	\$ 12.19

- (1) This information is provided at June 30 and December 31 of the periods shown, as applicable.
- (2) Management expense ratio for each class of units is based on the total expenses of the Fund, incurred by or allocated to that class of units for the period shown, expressed as an annualized percentage of the daily average net asset value of that class 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 period, the greater the trading costs payable by the Fund in the period, 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 asset value during the period.

**MANAGEMENT FEES**

The Fund pays an annual fee of 1.95% of the net asset value of Class A and 0.95% of the net asset value of Class F plus HST to the Fund Manager in consideration for the provision of management, distribution and Fund advisory services. This management fee is calculated as a percentage of the Fund's net asset value per class, including HST, and is calculated and accrued daily. The Fund is required to pay Harmonized Sales Tax (HST) on the management fee.

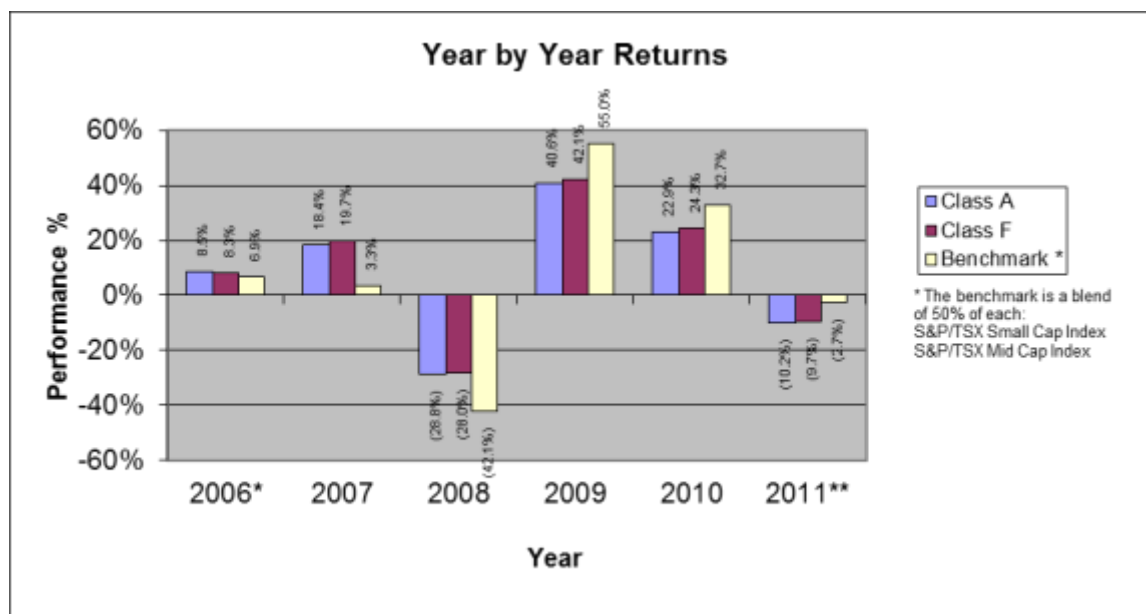
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 51% was used to pay for sales and trailer commissions and 49% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, 100% was for portfolio management services.

## PAST PERFORMANCE

The performance information shown below assumes that all distributions made by the Fund in the period shown were reinvested in additional units of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. It is important to note that the past performance of the Fund does not tell you how the Fund will perform in the future.

### Year-by-year Returns

The following bar chart indicates the Fund's historical annual returns, which will vary from period to period. It shows the percentage change in value of an investment from the first day to the last day of each fiscal period, as applicable.



\* Return is for a partial year starting November 14<sup>th</sup>, 2006 (the date the Fund first became eligible for purchase via simplified prospectus)

\*\* Return is for the period January 1, 2011 to June 30, 2011

### Annual Compound Returns

The following table shows the Fund's six month or year-to-date return to June 30, 2011 and historical average annual compound returns compared with its benchmark, a blend of 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index for the periods ended June 30, 2011. The inception of the Fund offered by simplified prospectus was November 14, 2006.

	YTD	1 Year	3 Year	Since Inception
Class A	(10.2%)	18.3%	3.7%	7.9%
Class F	(9.7%)	19.7%	4.8%	9.0%
Blended Benchmark	(2.7%)	29.0%	5.1%	5.4%
S&P/TSX Small Cap Index	(4.3%)	29.2%	4.7%	4.8%
S&P/TSX Mid Cap Index	(1.1%)	28.8%	5.4%	6.0%

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**SUMMARY OF INVESTMENT PORTFOLIO**  
**Portfolio breakdown as at June 30, 2011**

<b>Top 25 Positions</b>	<b>% of Net Asset Value *</b>	<b>Sector Allocation</b>	<b>% of Net Asset Value*</b>
Secure Energy Services Inc.	7.2%	Energy	51.8%
Pure Energy Services Ltd.	5.9%	Materials	18.3%
Renegade Petroleum Ltd.	5.2%	Industrials	8.4%
Conifex Timber Inc.	5.2%	Consumer Discretionary	6.5%
Essential Energy Services Trust	4.4%	Cash & Other Net Assets	2.6%
SouthGobi Resources Ltd.	4.0%	Other	2.7%
Fook Woo Group Holdings Ltd.	3.9%	Consumer Staples	3.9%
Cebu Air Inc.	3.8%	Financials	3.7%
Ping An Insurance (Group) Co. of China Ltd.	3.7%	Healthcare	2.1%
PHX Energy Services Corp.	3.7%	<b>Total sector allocation</b>	<b>100.0%</b>
Spartan Oil Corp.	3.6%		
PetroNova Inc.	3.5%		
Gasfrac Energy Services Inc.	3.3%		
PT Holcim Indonesia TBK	3.3%	<b>Geographic Allocation</b>	<b>Value*</b>
Pinecrest Energy Inc.	3.2%	Canada	68.5%
West China Cement Ltd.	3.1%	Hong Kong	11.6%
Bankers Petroleum Ltd.	3.1%	Cayman Islands	3.9%
Petrofrontier Corp.	2.8%	Philippines	3.7%
L'Occitane International SA	2.7%	Indonesia	3.3%
China Metal Recycling Holdings Ltd.	2.6%	Luxembourg	2.7%
Cash & Cash Equivalents	2.6%	Cash & Other Net Assets	2.6%
Galway Resources Ltd.	2.6%	Singapore	2.1%
Canyon Services Group Inc.	2.5%	U.S.	1.6%
North Country Gold Corp.	2.3%	<b>Total geographic allocation</b>	<b>100%</b>
Gran Colombia Gold Corp.	2.1%		
<b>Aggregate % of top holdings</b>	<b>90.3%</b>		

\* calculated as a percent of the net asset value of the Fund as at June 30, 2011.

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and updates will be available on a quarterly basis.

**A NOTE ON FORWARD-LOOKING STATEMENTS**

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. Such statements are generally identifiable by the terminology used, such as “plan”, “anticipate”, “believe”, “intent”, “expect”, “estimate” or other similar wording.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. We do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

# Galileo Funds

## **Galileo High Income Plus Fund Galileo Global Opportunities Fund**

Additional information about the Galileo Funds is available in the Funds' Prospectus, Annual Information Form and Annual and Semi Annual Financial Statements.

Copies of these documents and other information about the Galileo Funds, such as information circulars and material contracts, are available on our website at [www.galileofunds.ca](http://www.galileofunds.ca) or at [www.sedar.com](http://www.sedar.com). Some of this information is available on our website in English only.

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