Annual Management Report of Fund Performance

December 31, 2010

Galileo High Income Plus 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

The Fund invests in a diversified portfolio of high yielding equity securities and convertible debentures of Canadian companies, real estate investment trusts ("REITs") and income and royalty trusts. It aims to provide high income distributed monthly.

RISK

The risks remain as discussed in the prospectus.

RESULTS OF OPERATIONS

The net assets of the Fund increased 240% from the prior year. The increase was due to a significant increase in the appreciation of the underlying securities in the portfolio and net subscriptions of over $24,275,000. Expenses vary as a function of changes in average net asset values and unitholder activity. Management and operating expenses have increased during the year reflecting the increase in the average net asset values during the year.

The Fund outperformed its benchmark by over 13.6% for the year. The performance was 34.2% and 35.7% for the Class A and Class F units of the Fund respectively. The Fund's benchmark is a blend of 60% S&P/TSX Capped Income Trust Index, 25% S&P/TSX Composite Index and 15% DEX Bond Universe Index. The benchmark return was 20.6% for the year. The Fund outperformed the S&P/TSX Composite Index, which returned a performance of 14.4% due to an overweight in the Energy sector at a time when oil and gas prices were rising rapidly during the year. The Fund outperformed against the S&P/TSX Capped Income Trust Index, which had performance of 26.7% as a result of under-representation in the larger capitalized trusts which make up the majority of this index. The Fund also outperformed against the DEX Bond Universe Index of 6.7% due to the smaller weighting in the fixed income positions within the portfolio.

RECENT DEVELOPMENTS

With income trust de-conversion now a reality, we anticipate there will be some impact on payout ratios as we move into 2011. At current, there is a lack of consensus on exactly what will be the impact because of a lack of accounting research and analysis on the subject. That said, we foresee maintaining our posture towards Energy and Industrials and the names that we own. Among the reasons here are low payout ratios in the context of their pre-existing income trust structure, solid earnings growth, existing tax pools to offset new tax realities and leverage to the best growth areas of the Canadian market.

This annual management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the Fund. A copy of the financial statements may be obtained 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, or SEDAR at 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.

RECENT DEVELOPMENTS (cont'd)

The Canadian Accounting Standards Board (AcSB) confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. During 2010, the AcSB approved a one-year deferral of mandatory adoption of IFRS for investment funds and again in 2011, the AcSB decided to extend it to January 1, 2013. Accordingly, IFRS will be adopted by the funds for fiscal year beginning on January 1, 2013. Management has commenced the development of a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for changeover to IFRS. The key elements of the plan include identifying differences between the current accounting policies and the applicable standards under IFRS, as well as assessing and evaluating any potential changes to accounting policies, business and reporting processes, information technology, internal controls, staffing and training requirements. Management has determined that there will be no impact to the net assets per unit resulting from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the area of additional note disclosures in the financial statements of the Funds.

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 year ended December 31, 2010, the total management fees charged by Galileo Funds Inc. to the Fund was $488,917 (December 31, 2009 - $169,473).

The Manager is responsible for certain aspects of the day-to-day administration. For the year ended December 31, 2010, the Fund reimbursed the Manager for certain operating costs incurred in administering the Fund of approximately $612,561 (December 31, 2009 - $216,518). The Manager absorbed approximately $5,452 (December 31, 2009 - $68,698) of total expenses during the year. Such absorptions may be terminated at any time without notice.

The Funds' Manager, its officers and directors may invest in units of the Fund from time to time in the normal course of business. Currently the officers and directors hold 3.2%.

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

Net Assets per Unit (4)

Class A	**12/31/2010**	**12/31/2009**	**12/31/2008**	**12/31/2007**	**12/31/2006**
Net assets, beginning of year (1)(2)	**$13.18**	**$9.03**	**$12.53**	**$12.49**	**$12.00**
Increase (decrease) from operations:					
Total revenue	0.91	0.77	1.02	1.03	0.27
Total expenses	(0.37)	(0.27)	(0.30)	(0.33)	(0.03)
Realized gains (losses) for the year	1.35	0.41	(2.63)	(0.77)	(0.02)
Unrealized gains (losses) for the year	2.73	4.21	(2.56)	(0.22)	(0.10)
Total increase (decrease) from operations (1)	**4.62**	**5.12**	**(4.47)**	**(0.29)**	**0.12**
Distributions:					
From income (excluding dividends)	0.08	0.32	0.52	0.35	-
From dividends	0.38	0.14	0.07	0.05	0.01
From capital gains	0.69	0.06	-	-	0.01
Return of capital	-	0.20	0.40	0.21	-
Total annual distributions(3)	**1.14**	**0.72**	**0.99**	**0.61**	**0.02**
Net assets, end of year	**$16.37**	**$13.18**	**$9.03**	**$12.53**	**$12.53**

FINANCIAL HIGHLIGHTS (cont'd)
Net Assets per Unit [4] (cont'd)

Class F	**12/31/2010**	**12/31/2009**	**12/31/2008**	**12/31/2007**	**12/31/2006**
Net assets, beginning of year [1][2]	**$13.63**	**$9.25**	**$12.69**	**$12.49**	**$12.00**
Increase (decrease) from operations:					
Total revenue	1.04	0.78	1.09	1.02	0.21
Total expenses	(0.22)	(0.16)	(0.19)	(0.21)	(0.01)
Realized gains (losses) for the year	1.11	0.29	(2.80)	(0.78)	0.04
Unrealized gains (losses) for the year	3.55	4.39	1.95	0.57	0.29
Total increase (decrease) from operations [1]	**5.48**	**5.30**	**0.05**	**0.60**	**0.53**
Distributions:					
From income	0.07	0.30	0.52	0.35	-
From dividends	0.35	0.14	0.07	0.05	-
From capital gains	0.77	0.06	-	-	0.01
Return of capital	-	0.19	0.40	0.36	-
Total annual distributions[3]	**1.19**	**0.69**	**0.99**	**0.77**	**0.01**
Net assets, end of year	**$17.11**	**$13.63**	**$9.25**	**$12.69**	**$12.53**

(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 Galileo High Income Plus Fund was launched on November 7, 2006 under a simplified prospectus to sell an unlimited number of Class A and Class F units.

(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. The net assets per unit presented in the financial statements differ 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

Class A	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Net asset value(1)	$ 42,237,603	$ 12,939,445	$ 6,499,569	$ 3,144,157	$ 529,733
Number of units outstanding(1)	2,571,284	976,238	714,094	249,963	42,268
Management expense ratio(2)	2.59%	2.53%	2.50%	2.53%	1.87%
Management expense ratio before waivers/absorptions	2.61%	3.34%	3.18%	5.37%	31.95%
Trading expense ratio(4)	0.82%	1.54%	1.52%	0.76%	3.12%
Portfolio turnover rate(3)	141.06%	275.15%	318.97%	101.68%	7.36%
Net asset value per unit	$ 16.43	$ 13.25	$ 9.10	$ 12.58	$ 12.53

Class F	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Net asset value(1)	$ 2,515,806	$ 248,990	$ 127,404	$ 193,736	$ 156,702
Number of units outstanding(1)	146,512	18,168	13,678	15,206	12,510
Management expense ratio(2)	1.48%	1.49%	1.44%	1.61%	0.90%
Management expense ratio before waivers/absorptions	1.50%	1.96%	2.12%	4.45%	15.49%
Trading expense ratio(4)	0.77%	1.54%	1.52%	0.76%	3.12%
Portfolio turnover rate(3)	141.06%	275.15%	318.97%	101.68%	7.36%
Net asset value per unit	$ 17.17	$ 13.70	$ 9.31	$ 12.74	$ 12.53

(1) This information is provided at December 31 of the years 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 1.90% of the net asset value of Class A and 0.90% 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 GST or HST, and is calculated and accrued daily. The Fund is required to pay Harmonized Sales Tax (HST) on the management fee.

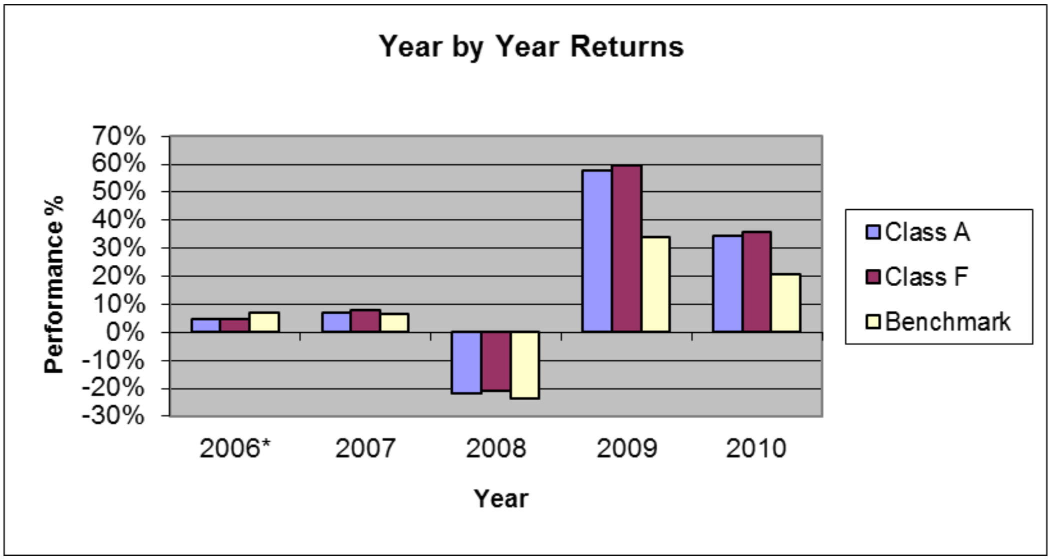
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 53% was used to pay for sales and trailer commissions and 47% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, 100% was for portfolio management 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 14th, 2006 (the date the Fund first became eligible for purchase via simplified prospectus).

Annual Compound Returns

The following table shows the Fund's historical average annual compound returns compared with its benchmark, a blend of 60% S&P/TSX Capped Income Trust Index, 25% S&P/TSX Composite Index and 15% DEX Bond Universe Index for the years ended December 31, 2010. The inception of the Fund offered through simplified prospectus was November 14, 2006.

	1 Year	**3 Year**	**Since Inception**
Class A	34.2%	18.4%	16.2%
Class F	35.7%	19.6%	17.3%
Blended Index	20.6%	6.9%	8.1%
S&P/TSX Capped Income Trust Index	26.7%	10.0%	11.3%
S&P/TSX Composite Index	14.4%	(0.1%)	2.2%
DEX Bond Universe Index	6.7%	6.2%	5.3%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at December 31, 2010

Top 25 Positions	% of Net Asset Value*
Penn West Energy Trust	5.5%
Baytex Energy Trust	5.2%
Bonterra Oil & Gas Ltd.	5.2%
Student Transportation Inc.	4.8%
Badger Income Fund	4.7%
Bonavista Energy Trust	4.5%
Phoenix Technology Income Fund	4.5%
AFG Management Ltd, Class B units	4.4%
Inter Pipeline Fund L.P., Class A units	4.2%
Daylight Energy Ltd.	4.2%
Wajax Income Fund	4.1%
Black Diamond Group Ltd.	4.0%
Canadian Helicopters Income Fund	4.0%
Exchange Income Corp.	3.9%
Cervus Equipment Corp.	3.9%
Power Financial Corp.	3.8%
CanWel Building Materials Group Ltd.	3.8%
Brookfield Infrastructure Partners L.P.	3.7%
Canadian Energy Services & Technology Corp.	3.3%
Pembina Pipeline Corp.	3.2%
Mosaid Technologies Inc.	2.7%
Deans Knight Income Corp.	2.5%
Bird Construction Income Fund	2.5%
Student Transportation, Conv., 6.75%, 06/30/15	1.5%
Crombie Real Estate Investment Trust	1.4%
Aggregate % of top holdings	95.5%

Sector Allocation	% of Net Asset Value*
Energy	46.3%
Industrials	28.4%
Financial	9.6%
Utilities	4.2%
Consumer Discretionary	3.9%
Technology	2.7%
Other	2.5%
Cash & Other Net Assets	1.3%
Materials	1.1%
Corporate	0.0%
Total sector allocation	100.0%

Geographic Allocation	% of Net Asset Value*
Canada	95.0%
U.S.	3.7%
Cash & Other Net Assets	1.3%
Total geographic allocation	100.0%

* calculated as a percent of the net asset value of the Fund as at December 31, 2010.

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 Cap 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 or at www.sedar.com. Some of this information is available on our website in English only.

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