

Annual Management Report of Fund Performance

December 31, 2009

Galileo High Income Plus Fund

Management Discussion of Fund Performance

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. The Fund may invest in foreign securities, which will vary from time to time. Foreign securities are not typically expected to exceed 15% of the net assets of the Fund at the time of purchase.

As part of its strategy, the Fund may engage in short selling as a result of special relief it obtained from the Canadian securities regulators and engage in securities lending as permitted by securities regulators.

RISK

The Fund pays a monthly distribution to unitholders. As such, we strive to ensure the sustainability of the dividends/distributions from the securities held by the Fund. The key to the sustainability is to invest in high quality securities and also to ensure a diversity of the investments. The Fund holds dividend paying stocks, preferred shares, REITs, business trusts and unit trusts.

Investors in the Fund should have a long-term investment horizon.

The Fund did not participate in any short selling or securities lending during 2009.

RESULTS OF OPERATIONS

The net assets of the Fund increased 99% 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 \$3,000,000.

The Fund outperformed its benchmark by over 23% for the period. The performance was 58% and 59% 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 34% for the period. The fund outperformed both equity components of the benchmark, the S&P/TSX Composite Index, which had performance of 31% and the S&P/TSX Capped Income Trust Index, which had performance of 42%.

The Fund benefited from being overweight in the Energy sector at a time when oil and gas prices were rising rapidly during the year. Also an increased exposure to the Real Estate Investment Trust sector proved to be very timely and contributed to the positive performance.

RECENT DEVELOPMENTS

On July 30, 2009, Northland Bancorp Inc. acquired a controlling interest in Galileo Global Equity Advisors Inc., the parent corporation of Galileo Funds Inc. and the Portfolio Advisor of the Fund.

This annual management report of fund performance contains financial highlights but does not contain the complete 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.

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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 December 31, 2009, the total management fees charged by Galileo Funds Inc. to the Fund was \$169,473 (2008 - \$137,201).

The Manager is also the Trustee of the Fund and is responsible for certain aspects of the day-to-day administration. The Fund reimbursed the Manager for certain operating costs incurred in administering the Fund of approximately \$216,518. The Manager absorbed approximately \$68,698 (2008 - \$47,136) of total expenses. Such absorptions may be terminated at any time without notice.

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 4 periods. This information is derived from the Fund's audited annual financial statements.

Net Assets per Unit ⁽³⁾

Class A	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of year ⁽¹⁾	\$ 9.03	\$ 12.53	\$ 12.49	\$ 12.00
Increase (decrease) from operations:				
Total revenue	0.77	1.02	1.03	0.27
Total expenses	(0.27)	(0.30)	(0.33)	(0.03)
Realized gains (losses) for the year	0.41	(2.63)	(0.77)	(0.02)
Unrealized gains (losses) for the year	4.21	(2.56)	(0.22)	(0.10)
Total increase (decrease) from operations ⁽¹⁾	5.12	(4.47)	(0.29)	0.12
Distributions:				
From income (excluding dividends)	0.32	0.52	0.35	-
From dividends	0.14	0.07	0.05	0.01
From capital gains	0.06	0.00	-	0.01
Return of capital	0.20	0.40	0.21	-
Total annual distributions ⁽²⁾	0.72	0.99	0.61	0.02
Net assets, end of year	\$ 13.18	\$ 9.03	\$ 12.53	\$ 12.53

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FINANCIAL HIGHLIGHTS (cont'd)
Net Assets per Unit ⁽³⁾ (cont'd)

Class F	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of year ⁽¹⁾	\$ 9.25	\$ 12.69	\$ 12.49	\$ 12.00
Increase (decrease) from operations:				
Total revenue	0.78	1.09	1.02	0.21
Total expenses	(0.16)	(0.19)	(0.21)	(0.01)
Realized gains (losses) for the year	0.29	(2.80)	(0.78)	0.04
Unrealized gains (losses) for the year	4.39	1.95	0.57	0.29
Total increase (decrease) from operations ⁽¹⁾	5.30	0.05	0.60	0.53
Distributions:				
From income (excluding dividends)	0.30	0.52	0.35	-
From dividends	0.14	0.07	0.05	-
From capital gains	0.06	0.00	-	0.01
Return of capital	0.19	0.40	0.36	-
Total annual distributions⁽²⁾	0.69	0.99	0.77	0.01
Net assets, end of year	\$ 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) Distributions were paid in cash or reinvested in additional units of the Fund.
- (3) This information is derived from the Fund's audited annual 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

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

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

- (1) This information is provided at December 31 of the period 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 GST 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 and is calculated and credited daily. The Fund is required to pay Goods and Services Tax (GST) on the management fee.

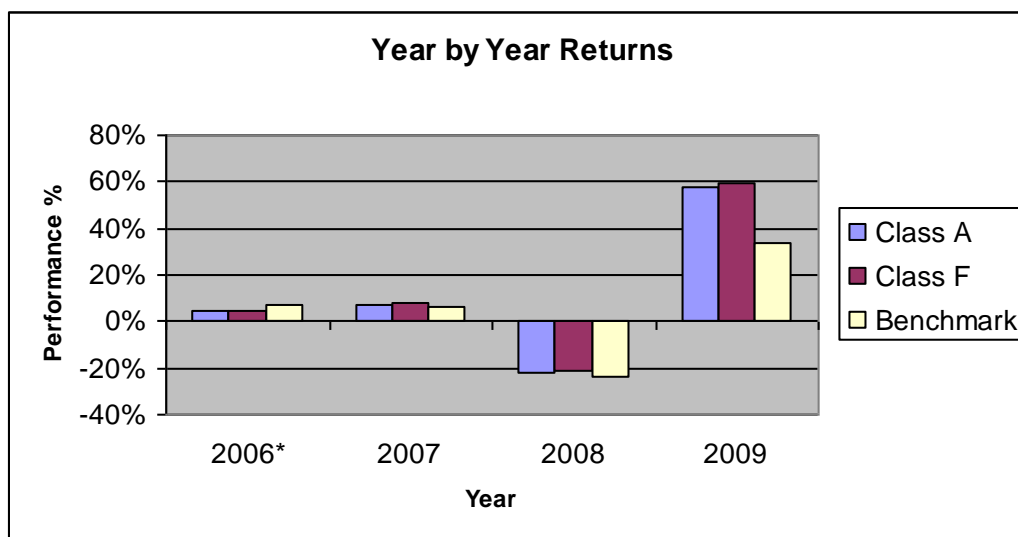
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 50% was used to pay for sales and trailer commissions and 50% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, approximately 0% was used to pay for sales and trailer commissions and 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 periods ended December 31, 2009. The inception of the Fund offered through simplified prospectus was November 14, 2006.

	1 Year	Since Inception
Class A	57.8%	11.0%
Class F	59.4%	12.0%
Blended Index	34.0%	4.4%
S&P/TSX Capped Income Trust Index	42.2%	6.8%
S&P/TSX Composite Index	30.7%	(1.5%)
DEX Bond Universe Index	6.7%	4.9%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at December 31, 2009

<u>Top 25 Positions</u>	<u>% of Net Asset Value*</u>	<u>Sector Allocation</u>	<u>% of Net Asset Value*</u>
Allied Properties REIT	5.9%	Energy	29.0%
Cervus Equipment Corp.	5.7%	Industrials	12.9%
Crescent Point Energy Corp.	5.4%	Cash & cash equivalents	15.5%
Deans Knight Income Corp.	5.2%	Financial	23.4%
CanWel Bldg Materials Income Fund	5.2%	Consumer Staples	4.7%
Other net assets	5.2%	Consumer Discretionary	5.7%
Black Diamond Income Fund	5.0%	Information Technology	3.6%
AG Growth International Inc.	4.7%	Other net assets	5.2%
Crombie Real Estate Investment Trust	4.5%	<u>Total sector allocation</u>	<u>100.0%</u>
RioCan Real Estate Investment Trust	4.5%		
Canadian Energy Services L.P.	4.5%		
Trinidad Drilling Ltd., 7.75%, 07/31/12	4.4%		
IBI Income Fund	3.9%		
Westshore Terminal Income Fund	3.8%		
MOSAID Technologies Inc.	3.6%		
Pacific Northern Gas Ltd.	3.4%	<u>Geographic Allocation</u>	<u>% of Net Asset Value*</u>
Algonquin Power & Util., 7.5%, 11/30/14	3.3%	Canada	79.3%
Marret High Yield Strategies Fund	3.2%	Cash and cash equivalents	15.5%
Peyto Energy Trust	3.2%	Other net assets	5.2%
NAL Oil & Gas Trust, 6.25%, 12/31/14	3.1%	<u>Total geographic allocation</u>	<u>100.0%</u>
ARC Energy Trust	3.0%		
Daylight Resources Trust, 10.0%, 12/31/13	2.7%		
Bonavista Energy Trust	2.5%		
Daylight Resources Trust	1.9%		
H&R REIT, 6.0%, 06/30/17	1.9%		
<u>Aggregate % of top holdings</u>	<u>100.0%</u>		

* calculated as a percent of the net asset value of the Fund as at December 31, 2009.

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 Small/Mid 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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