

Annual Management Report of Fund Performance

December 31, 2007

Galileo Small/Mid Cap Fund

Management Discussion of Fund Performance

INVESTMENT OBJECTIVE AND STRATEGIES

The Fund invests primarily in shares of smaller and medium North American companies that are expected to profit from future economic growth, and may also invest in income and royalty trusts.

The portfolio manager uses a bottom-up, growth investment style. It seeks to invest in companies at an early stage of their development and hold them until they achieve success through rising sales, earnings and cash flow.

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

In anticipation of rocky markets in the second half of 2007, the fund dramatically increased its cash and cash equivalents position from under 20% of the portfolio to 33% by the end of the year and also increased positions in gold manufactures. The portfolio remaining overwhelmingly invested in Canadian securities. Only 5% of assets were invested outside of Canada.

Investors in the Fund should have a long-term investment horizon. As this Fund invests in smaller and medium sized companies, there are general risks such as stock market and smaller company risks, among other risks, which are associated with such investments.

The Fund did not participate in any short selling or securities lending during 2007.

RESULTS OF OPERATIONS

The Fund performed very strongly in 2007. The performance was 18.44% and 19.69% for the Class A and Class F units of the Fund respectively, easily besting the Fund's benchmark which 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 3.34%. The S&P/TSX Mid Cap Index had a return of 5.78% and the S&P/TSX Small Cap Index had a return of 0.90% for the year.

Securities that performed particularly well, relative to the Index, included NaiKun Wind Energy Group Inc; an alternative energy security that plans on building a wind farm in British Columbia. Also a number of gold companies and a number of materials companies that have significant exposure to the growing Chinese market were strong performers.

The Fund's underperforming energy securities during the year included Cameco Corporation and most of companies that have significant natural gas assets. Natural gas prices continued to slide hitting multi-year lows during the spring.

The most notable addition to the Fund was its purchase of units of the Galileo Money Market Fund, considered cash equivalent. The Fund underweighted its energy exposure in the 2nd half of the year to only 15% of the portfolio, compared to the TSX Composite Index weighting of 27%.

RECENT DEVELOPMENTS

There were no recent developments for this Fund.

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the Fund. You can get a copy of the 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, 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.

RELATED PARTY TRANSACTIONS

Galileo Funds Inc., the Fund's Manager and Trustee, is a wholly owned subsidiary of Galileo Global Equity Advisors Inc. (formerly Galileo Equity Management Inc.), which is the Fund's Portfolio Advisor. Galileo Funds Inc. receives management fees based on the average net assets 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, 2007, the total management fees charged by Galileo Funds Inc. to the Fund was \$70,634.

The Fund invests in units of the Galileo Money Market Fund. To avoid duplication of management fees, the Fund reverses the fee that is charged by the Galileo Money Market Fund.

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

Net Assets per Unit

Calculated in accordance with GAAP

	Class A	Class A		Class F	Class F
	2007	2006		2007	2006
Net assets, beginning of period ⁽¹⁾⁽²⁾	\$ 12.47	\$ 11.53		\$ 12.11	\$ 11.12
Increase (decrease) from operations:					
Total revenue	0.33	0.05		0.31	0.36
Total expenses	(0.35)	(0.02)		(0.19)	(0.06)
Realized gains (losses) for the period	2.04	0.11		1.93	1.99
Unrealized gains (losses) for the period	(2.15)	0.30		0.42	(0.93)
Total increase (decrease) from operations ⁽¹⁾	(0.13)	0.44		2.47	1.36
Distributions:					
From income (excluding dividends)	-	-		0.03	0.31
From dividends	-	-		0.11	-
From capital gains	-	-		-	-
Return of capital	-	-		-	-
Total annual distributions ⁽³⁾	-	-		0.14	0.31
Net assets, end of period	\$ 14.77	\$ 12.47		\$ 14.40	\$ 12.15

(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 2nd class of units, Class A, was launched. As such, the beginning of the 2006 period for Class A is November 14th, 2006 and for Class F is January 1st, 2006.

(3) Distributions were reinvested in additional units of the Fund.

FINANCIAL HIGHLIGHTS (cont'd)

Ratios and Supplemental Data

Calculated based on Transactional NAV

	Class A	Class A		Class F	Class F
	2007	2006		2007	2006
Net asset value ⁽¹⁾	\$ 77,962	\$ 12		\$ 7,966,566	\$ 6,994,664
Number of units outstanding ⁽¹⁾	5,260	1		551,264	575,693
Management expense ratio ⁽²⁾	2.42%	1.27%		1.40%	0.54%
Management expense ratio before waivers/absorptions	2.86%	1.68%		1.84%	1.23%
Portfolio turnover rate ⁽³⁾	96.96%	132.02%		96.96%	132.02%
Trading expense ratio ⁽⁴⁾	0.54%	0.63%		0.54%	0.63%

- (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

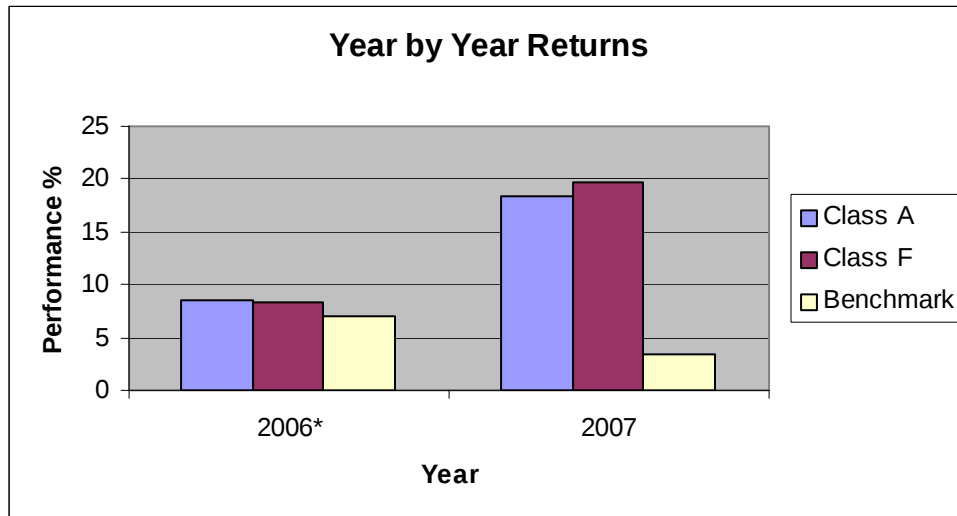
The Fund pays an annual fee of 1.95% of the net asset value of Class A and 0.95% of the net asset value of Class F plus GST to the Fund Manager in consideration for the provision of management, distribution and Fund advisory services. This management fee is calculated as a percentage of the Fund's net 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.

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 year, 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 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index for the periods shown ended December 31, 2007. The inception of the Fund was November 14, 2006.

	1-year	Since Inception
Class A	18.44%	25.00%
Class F	19.69%	25.98%
Blended Benchmark	3.34%	9.26%
S&P/TSX Small Cap Index	0.90%	7.68%
S&P/TSX Mid Cap Index	5.78%	10.85%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at December 31, 2007

Top 25 Positions	% of Net Assets*	Sector Allocation	% of Net Assets*
Cash & cash equivalents	33.3%	Cash & cash equivalents	33.2%
NaiKun Wind Energy Group Inc.	7.2%	Materials	21.2%
Agrium Inc.	6.1%	Industrials	17.4%
BFI Canada Income Fund	4.7%	Energy	15.1%
Newmont Mining Corp. of Canada Limited	4.3%	Financials	4.1%
Shawcor Ltd.	3.9%	Utilities	3.4%
Equinox Minerals Ltd.	3.8%	Information Technology	3.0%
CAE Inc.	3.3%	Consumer Discretionary	2.5%
Yamana Gold Inc.	3.2%	Other net assets	0.1%
SNC-Lavalin Group Inc.	3.1%	Total sector allocation	100.0%
Allen-Vanguard Corporation	3.0%		
Covanta Holding Corp.	2.9%		
Talisman Energy Inc.	2.8%		
Yellow Pages Income Fund	2.5%		
Fairfax Financial Holdings Ltd.	2.5%		
Gamesa Corp Tecnologica SA Eur	2.2%		
Eastern Platinum Ltd.	2.1%		
Trinidad Energy Services Income Trust	2.0%		
Cameco Corp.	1.7%		
Cominar Real Estate Investment Trust	1.6%		
Sierra Wireless Inc.	1.4%		
Inter Pipeline Fund	1.1%		
Finning International Inc.	1.1%		
Aggregate % of top holdings	99.9%		

Geographic Allocation	% of Net Assets*
Canada	61.6%
Cash and cash equivalents	33.2%
United States	2.9%
Spain	2.2%
Other net assets	0.1%
Total sector allocation	100.0%

* calculated as a percent of the net asset value of the Fund as at December 31, 2007.

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 Absolute Return Fund
Galileo Canadian Active/Passive Fund
Galileo Fund
Galileo Global Active/Passive Fund
Galileo High Income Plus Fund
Galileo Money Market 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.

You can get a copy of any of these documents and other information about the Galileo Funds, such as information circulars and material contracts, are also 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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