Annual Management Report of Fund Performance

December 31, 2006

Galileo Fund

Management Discussion of Fund Performance

INVESTMENT OBJECTIVE AND STRATEGIES

The Fund aims for high long-term total investment returns by investing in mostly common shares of North American companies. The Fund invests primarily in small and medium sized companies with strong growth potential. The portfolio manager uses a bottom-up, growth investment style for the equity portion of the portfolio. The Fund may invest in non-North American stocks, but they are not expected to exceed 30% of the net assets of the Fund.

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 became a reporting issuer by issuing a prospectus on November 14, 2006. The portfolio and the risk of the Fund did not change significantly since the launch of the prospectus. The first change in the risk profile for the Fund would be a result of the short-term investments dropping from 16% at the time of the prospectus to 0% at year-end. This money was invested in equities. The second change in the risk profile would be the addition of 3 foreign equities (from zero), all of which are Chinese stocks traded on the Hong Kong Stock Exchange. Foreign equities in the Fund increases the foreign exchange risk of the Fund, although the investment is quite small at only 3% of net assets.

Investors in the Fund should have a long-term investment horizon. As this Fund invests in equities and in particular 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 perform any short selling or securities lending in 2006.

RESULTS OF OPERATIONS

As the Fund became a reporting issuer on November 14th, 2006, only the performance for the period from November 14th to December 31st is disclosed in this report, except as noted in the Financial Highlights section. The Class A and F units had a return of 8.58% and 8.04% for the period November 14, 2006 to December 31, 2006. Both classes outperformed the Fund’s benchmark, the S&P/TSX Composite Index, which had a return of 4.9% for the same period.

The proportion of the portfolio in short-term investments decreased from 16% at the time of the prospectus to 0% at year end. The Fund made a small investment in 3 Chinese equities, all of which are traded on the Hong Kong stock exchange during the period after the prospectus was issued. These Chinese investments total just over 3% of the portfolio and are the only foreign holdings of the Fund. At the time the prospectus was issued, the Fund did not hold any foreign equities.

We anticipate remaining fully invested in equities and expect that the non-North American equities will increase in the 2007 with particular emphasis on stocks that trade on the Hong Kong stock exchange.

RECENT DEVELOPMENTS

On November 14th, 2006, the 13 provincial and territorial securities commissions of Canada gave final receipt of the Prospectus for the Galileo Funds. Prior to this, Galileo Fund was only open to accredited investors.

With the receipt of the prospectus, a number of changes were made to the Fund:

- the name of the Fund was changed from the Galileo Special Equity Fund (RRSP eligible);
- the Trustee and Fund Manager changed from Galileo Equity Management Inc. to Galileo Funds Inc.;
- the Fund launched a 2nd class of units. All previous units of the Fund became known as Class F units and the new class available for purchase became Class A units.
- the Fund was permitted to engage in short-selling transactions (within certain limits and restrictions) as a result of special relief it obtained from the Canadian securities regulators. The Fund did not engage in short selling during 2006.

The Trustee of the Fund, Galileo Funds Inc. has called a unitholder's meeting for April 18th, to approve a change to the Fund's fundamental investment objectives from providing high long-term total investment returns with moderate risk through long-term capital growth by investing primarily in a mix of common and preferred shares of North American companies, income and royalty trusts, money market instruments, North American government bonds and high quality corporate bond to providing high long-term total investment returns with moderate or greater risk by investing primarily in common shares of small and mid capitalization North American companies and income and royalty trust. This change is being made to reflect that going forward, the Trustee and Fund Manager expect the Fund to be primarily an equity fund with the portion of the Fund that will be invested in preferred shares, money market investments, and bonds to be small. Also, going forward the Fund will focus more on small and mid capitalization companies and this could result in a greater risk profile for the Fund. Small and mid sized companies can be less liquidly traded compared to large cap companies.

RELATED PARTY TRANSACTIONS

Galileo Funds Inc., the Fund's Manager and Trustee, is a wholly owned subsidiary of 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 year ended December 31, 2006, the Fund accrued management expenses of $2,267 to Galileo Funds Inc.

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

Net Asset Value (NAV) per Unit – Class A

Class A	**2006**
Net asset value, beginning of year[1]	**$ 12.00**
Increase (decrease) from operations:	
Total revenue	0.06
Total expenses	(0.02)
Realized gains (losses) for the period	0.09
Unrealized gains (losses) for the period	0.18
Total increase (decrease) from operations[2]	**0.31**
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	2.00
Return of capital	-
Total annual distributions[3]	**2.00**
Net asset value at December 31	**$ 10.92**

Net Asset Value (NAV) per Unit – Class F

Class F	**2006**
Net asset value, beginning of year[1]	**$ 11.81**
Increase (decrease) from operations:	
Total revenue	0.37
Total expenses	(0.07)
Realized gains (losses) for the period	1.24
Unrealized gains (losses) for the period	(0.45)
Total increase (decrease) from operations[2]	**1.09**
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	1.34
Return of capital	-
Total annual distributions[3]	**1.34**
Net asset value at December 31	**$ 11.57**

(1) 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 year for Class A is November 14th, 2006 and for class F is January 1st, 2006.

(2) Net asset value 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 units outstanding over the financial period. For Class A the figures are for the period November 14th, 2006 until the end of the year and for Class F the figures are for the period January 1st , 2006 until the end of the year.

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

Ratios and Supplemental Data

Class A	2006
Net assets(1)	$ 13
Number of units outstanding(1)	1
Management expense ratio(2)	1.24%
Management expense ratio before waivers/absorptions	4.99%
Portfolio turnover rate(3)	299.57%
Trading expense ratio(4)	1.80%

Class F	2006
Net assets(1)	$ 1,946,559
Number of units outstanding(1)	168,295
Management expense ratio(2)	0.59%
Management expense ratio before waivers/absorptions	4.31%
Portfolio turnover rate(3)	299.57%
Trading expense ratio(4)	1.80%

(1) This information is provided as at December 31, 2006

(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 daily average net assets 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 assets 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 assets per class and is calculated and credited daily. The Fund is required to pay Goods and Services Tax (GST) on the management fee.

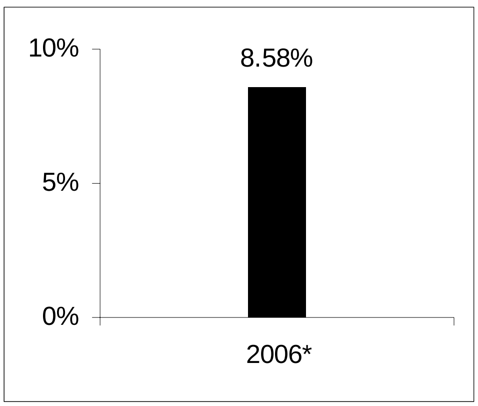
PAST PERFORMANCE

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.

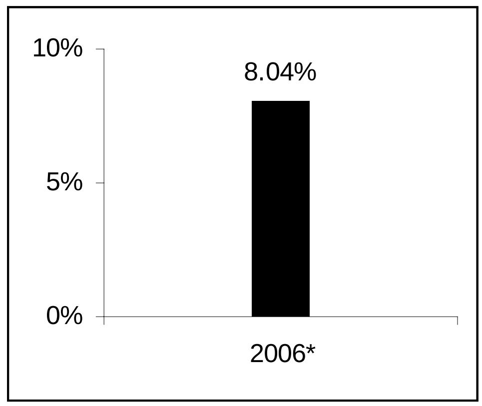
Year-by-year Returns

The following bar chart indicates the Fund’s historical annual returns, which will vary from year to year. It shows the percentage change in value of an investment from November 14th, 2006 (the date the Fund first became eligible for purchase by retail clients).

Class A



Class F



* Return is for a partial year starting November 14th, 2006.

Annual Compound Returns

The following table shows the Fund’s historical average annual compound returns compared with its benchmark the S&P/TSX Composite Index for the period November 14, 2006 to December 31, 2006.

Class A	8.58%
Class F	8.04%
S&P/TSX Composite Index	4.87%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at December 31, 2006

Top 25 Positions	% of Net Assets*
Income & Equity Index Participation Fund	5.9%
CCS Income Trust	5.8%
Guyana Goldfields Inc.	4.3%
DirectCash Income Fund	4.2%
Yamana Gold Inc.	3.9%
Strateco Resources Inc.	3.9%
Western Prospector Group Ltd.	3.9%
Plutonic Power Corp.	3.7%
Tango Energy Inc.	3.5%
TimberWest Forest Corp.	3.5%
Khan Resources Inc.	3.2%
Agnico-Eagle Mines Ltd.	3.2%
High Arctic Energy Services Trust	3.1%
Trinidad Energy Services Income Trust	2.8%
Aurelian Resources Inc.	2.7%
Exeter Resource Corp.	2.7%
GMP Capital Trust	2.6%
Black Diamond Income Fund	2.6%
Denison Mines Corp.	2.4%
Deepwell Energy Services Trust	2.3%
Mullen Group Income Fund	2.2%
NaiKun Wind Energy Group Inc.	2.1%
Paladin Resources Ltd.	1.8%
Allen-Vanguard Corporation	1.8%
ProEx Energy Ltd.	1.7%

Sector	% of Net Assets*
Materials	42.3%
Energy	26.1%
Financials	6.8%
Investment Funds	6.0%
Industrials	5.2%
Other net assets	5.0%
Utilities	3.7%
Information Technology	2.7%
Cash & Cash Equivalents	1.4%
Consumer Staples	1.0%

* calculated as a percent of the net assets of the Fund as at December 31, 2006.

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

The prospectus and other information on the Income & Equity Index Participation Fund are available on the internet at www.SEDAR.com.

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 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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