Annual Management Report of Fund Performance

December 31, 2006

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 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

Units of the Fund were approved to be sold to retail investors by the securities commissions on November 14, 2006 via the filing of a simplified prospectus. At the time of the approval, the Fund held a cash portfolio. Between November 14th and December 31, 2006 the Fund invested 88% of the net assets in high yielding equity securities including income trusts and convertible debentures. While these securities represent a higher level of risk than the all cash portfolio, there is no difference in risk between this portfolio and what is described in the simplified prospectus.

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. The Class A and F units had a return of 4.55% and 4.47% for the period November 14, 2006 to December 31, 2006.

The Fund increased in size by over 300% as a result of subscriptions and performance and at year-end had invested 88% of its assets in equities and preferred shares. The Fund does not hold any foreign securities at year-end.

We anticipate that the Fund will remain fully invested in a mixture of equities, income trusts and preferred shares.

RECENT DEVELOPMENTS

This Fund was established on September 14th, 2006 and amended on November 1, 2006. On November 14th, 2006, the 13 provincial and territorial securities commissions of Canada gave final receipt of the Simplified Prospectus for the Galileo Funds, which allowed the units to be sold to retail investors.

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the 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, 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 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 $573 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	0.27
Total expenses	(0.03)
Realized gains (losses) for the period	(0.02)
Unrealized gains (losses) for the period	(0.10)
Total increase (decrease) from operations(2)	**0.12**
Distributions:	
From income (excluding dividends)	-
From dividends	0.01
From capital gains	0.01
Return of capital	-
Total annual distributions(3)	**0.02**
Net asset value at December 31	**$ 12.53**

Net Asset Value (NAV) per Unit – Class F

Class F	**2006**
Net asset value, beginning of year(1)	**$ 12.00**
Increase (decrease) from operations:	
Total revenue	0.21
Total expenses	(0.01)
Realized gains (losses) for the period	0.04
Unrealized gains (losses) for the period	0.29
Total increase (decrease) from operations(2)	**0.53**
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	0.01
Return of capital	-
Total annual distributions(3)	**0.01**
Net asset value at December 31	**$ 12.53**

(1) The beginning of the year for both Class A and Class F units is November 14th, 2006, the date the securities commissions approved the prospectus.

(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 from November 14th, 2006 until December 31, 2006.

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

Ratios and Supplemental Data

Class A	**2006**
Net assets[(1)]	$ 529,733
Number of units outstanding[(1)]	42,268
Management expense ratio[(2)]	1.87%
Management expense ratio before waivers/absorptions	31.95%
Portfolio turnover rate[(3)]	7.36%
Trading expense ratio[(4)]	3.12%

Class F	**2006**
Net assets[(1)]	$ 156,702
Number of units outstanding[(1)]	12,510
Management expense ratio[(2)]	0.90%
Management expense ratio before waivers/absorptions	15.49%
Portfolio turnover rate[(3)]	7.36%
Trading expense ratio[(4)]	3.12%

(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 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.

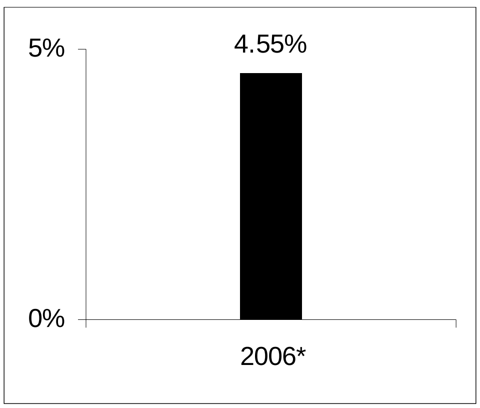
PAST PERFORMANCE

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.

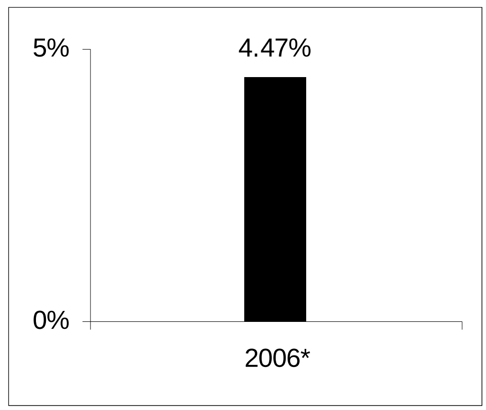
Year-by-year Returns

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	4.55%
Class F	4.47%
Blended Index	6.91%
S&P/TSX Capped Income Trust Index	9.54%
S&P/TSX Composite Index	4.87%
Scotia Capital Bond Universe Index	-0.19%

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

Top 25 Positions	% of Net Assets*
Cash and Cash Equivalents	11.6%
Black Diamond Income Fund	6.7%
Vermilion Energy Trust	5.6%
Avenir Diversified Income Trust	5.5%
Bell Aliant Regional Communications	5.5%
CI Financial Income Fund	5.4%
GMP Capital Trust	5.4%
Crescent Point Energy Trust	5.4%
Laurentian Bank of Canada Series D	5.0%
Bonavista Energy Trust	4.9%
Bombardier Inc Series B	4.9%
TimberWest Forest Corp.	4.8%
Progress Energy Trust	4.4%
Algonquin Power Income Fund	4.3%
Manitoba Telecom Services Inc.	4.1%
Focus Energy Trust	4.0%
DirectCash Income Fund	4.0%
TransAlta Corporation Series C	1.1%
Deepwell Energy Services Trust	0.6%

Sector	% of Net Assets*
Energy	37.2%
Financials	14.8%
Cash & Cash Equivalents	11.6%
Preferred Securities	10.9%
Utilities	9.8%
Consumer Staples	6.3%
Materials	4.8%
Telecommunication Services	4.1%
Other net assets	0.5%

* 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.

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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