

Annual Management Report of Fund Performance

December 31, 2008

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 typically 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

In the first quarter of 2008, 20% to 30% of the portfolio was invested outside of North America. This foreign portion of the portfolio was heavily weighted towards the Asian exchanges and in particular securities that would be expected to benefit from the strong growth of the Chinese market. Due to the poor performance of the Asian markets, the Fund significantly reduced its foreign holdings in the second quarter. The Fund also increased its cash position from 8.3% of the Fund at the end of 2007 to 21.0% of the Fund as at December 31, 2008.

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 2008.

RESULTS OF OPERATIONS

The Fund had net redemptions for the year of over \$500,000. This combined with the negative performance resulted in the net assets of the Fund decreasing by over 60% in 2008. Interest income declined from 2007 as interest rates in Canada were repeatedly cut by the Bank of Canada. The dividends increased in 2008, as the portfolio held more dividend yielding securities.

The Fund underperformed its benchmark in 2008. The performance was (52.38%) and (51.88%) for the Class A and Class F units of the Fund respectively, outperforming 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 (42.13%). The S&P/TSX Mid Cap Index had a return of (38.78%) and the S&P/TSX Small Cap Index had a return of (45.49%) for the year.

The Fund underperformed the benchmark due to holding some securities listed on the Hong Kong stock market in the first quarter of 2008, which underperformed the Fund's benchmark. The Fund did not hold any Hong Kong listed securities in the 2nd half of 2008. The Fund also was overweight in the energy and materials sectors which underperformed the benchmark.

The 2nd half of 2008 saw steep declines in stock markets around the globe and affecting every sector. In an attempt to find some shelter from this global storm, the fund increased holdings in gold companies and at the end of the year bought a number of preferred shares.

RECENT DEVELOPMENTS

The Fund's Manager has called a special meeting of unitholders for May 15th, at which unitholders will vote on whether to merge this Fund into the Galileo Small Mid Cap Fund. The Fund has been given exemptive relief from the regulators to invest in the BetaPro family of closed end funds.

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., 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, 2008, the total management fees charged by Galileo Funds Inc. to the Fund was \$54,521 (2007 - \$62,521).

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 \$71,319. The Manager absorbed approximately \$78,507 of total expenses. Such absorptions may be terminated at any time without notice.

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

Net Assets per Unit ⁽⁴⁾

Class A	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of period ⁽¹⁾⁽²⁾	\$ 12.86	\$ 10.92	\$ 12.00
Increase (decrease) from operations:			
Total revenue	-	0.06	0.06
Total expenses	(0.26)	(0.34)	(0.02)
Realized gains (losses) for the period	(4.47)	0.34	0.09
Unrealized gains (losses) for the period	(2.54)	(1.32)	0.18
Total increase (decrease) from operations ⁽¹⁾	(7.27)	(1.26)	0.31
Distributions:			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	0.11	2.00
Return of capital	-	-	-
Total annual distributions ⁽³⁾	-	0.11	2.00
Net assets, end of period	\$ 6.14	\$ 12.86	\$ 10.92

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

Class F	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of period ⁽¹⁾⁽²⁾	\$ 13.70	\$ 11.48	\$ 11.81
Increase (decrease) from operations:			
Total revenue	-	0.03	0.37
Total expenses	(0.16)	(0.20)	(0.07)
Realized gains (losses) for the period	(4.77)	0.35	1.24
Unrealized gains (losses) for the period	(2.15)	3.13	(0.45)
Total increase (decrease) from operations ⁽¹⁾	(7.08)	3.31	1.09
Distributions:			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	0.21	1.34
Return of capital	-	-	-
Total annual distributions ⁽³⁾	-	0.21	1.34
Net assets, end of period	\$ 6.61	\$ 13.70	\$ 11.57

- (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.
- (4) 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	12/31/2008	12/31/2007	12/31/2006
Net asset value ⁽¹⁾	\$ 1,036,492	\$ 2,897,878	\$ 13
Number of units outstanding ⁽¹⁾	167,335	222,766	1
Management expense ratio ⁽²⁾	2.50%	2.53%	1.24%
Management expense ratio before waivers/absorptions	4.82%	4.52%	4.99%
Trading expense ratio ⁽⁴⁾	3.49%	3.75%	1.80%
Portfolio turnover rate ⁽³⁾	467.07%	475.93%	299.57%
Net asset value per unit	\$ 6.19	\$ 13.01	\$ 10.92

Class F	12/31/2008	12/31/2007	12/31/2006
Net asset value ⁽¹⁾	\$ 633,689	\$ 1,652,540	\$ 1,946,502
Number of units outstanding ⁽¹⁾	95,091	119,325	168,295
Management expense ratio ⁽²⁾	1.44%	1.46%	0.59%
Management expense ratio before waivers/absorptions	3.76%	3.45%	4.31%
Trading expense ratio ⁽⁴⁾	3.49%	3.75%	1.80%
Portfolio turnover rate ⁽³⁾	467.07%	475.93%	299.57%
Net asset value per unit	\$ 6.66	\$ 13.85	\$ 11.57

- (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.

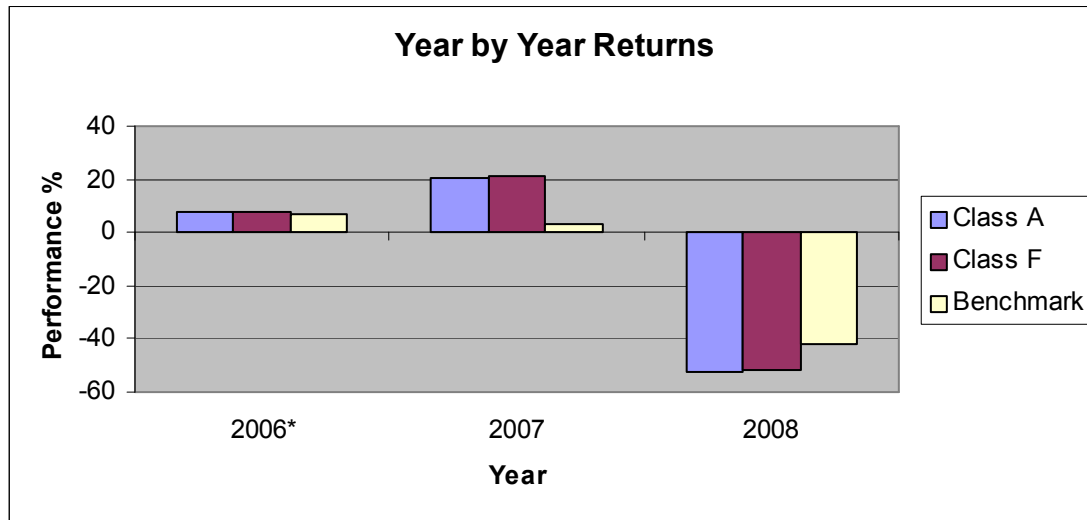
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 52% was used to pay for sales and trailer commissions and 48% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, approximately 0% was used to pay 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 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index for the periods shown ended December 31, 2008. The inception of the Fund was November 14, 2006.

	1-year	Since Inception
Class A	-52.38%	-20.39%
Class F	-51.88%	-19.43%
Blended Benchmark	-42.13%	-19.00%
S&P/TSX Small Cap Index	-45.49%	-21.84%
S&P/TSX Mid Cap Index	-38.78%	-16.17%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at December 31, 2008

Top 25 Positions	% of Net Assets*	Sector Allocation	% of Net Assets*
Cash & cash equivalents	21.0%	Energy	34.9%
Crescent Point Energy Trust	7.2%	Cash & cash equivalents	21.0%
Black Diamond Income Fund	6.7%	Materials	17.4%
SNC-Lavalin Group Inc.	5.9%	Industrials	16.8%
Syngenta AG, ADR	5.8%	Financials	17.6%
Pacific Rubiales Energy Corp 8.0%	5.6%	Other net assets	-7.7%
Boardwalk Real Estate Invstmnt Trst	5.4%	Total sector allocation	100.0%
Goldcorp Inc.	5.1%		
Power Financial Corp.	5.0%		
Migao Corp.	4.1%		
Royal Bank of Canada 4.7%, Prfrd	3.8%		
TriStar Oil & Gas Ltd.	3.4%		
Artis Real Estate Investment Trust	3.4%		
Gran Tierra Energy Inc.	3.3%		
Hanfeng Evergreen Inc.	3.2%		
Thompson Creek Metals Inc.	2.9%		
Zongshen PEM Power Systems Inc.	2.8%		
Verenex Energy Inc.	2.7%		
Questerre Energy Corp.	2.4%		
GENIVAR Income Fund	2.3%		
First Quantum Minerals Ltd.	2.1%		
Petrohawk Energy Corp.	1.2%		
OPTI Canada Inc.	1.1%		
NaiKun Wind Energy Group Inc.	1.1%		
Westcoast Energy Inc., 5.5%, Prfrd	0.3%		
Aggregate % of top holdings	107.8%		

Geographic Allocation	% of Net Assets*
Canada	79.9%
Cash and cash equivalents	21.0%
United States	6.8%
Other net assets	-7.7%
Total sector allocation	100.0%

* calculated as a percent of the net asset value of the Fund as at December 31, 2008.

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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