GALILEO

Galileo Funds
Annual Report 2009

Galileo High Income Plus Fund
Galileo Small/Mid Cap Fund

Collins Barrow
Chartered Accountants

Collins Barrow Toronto LLP
390 Bay Street, Suite 1900
Toronto, Ontario
M5H 2Y2 Canada

T. 416.361.1622
F. 416.480.2646

www.collinsbarrow.com

AUDITORS' REPORT

To the Unitholders of:

Galileo High Income Plus Fund
Galileo Small/Mid Cap Fund
(collectively the "Funds")

We have audited the statements of investment portfolio of each of the Funds as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008, and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Funds' manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investment portfolios of the Funds as at December 31, 2009, their net assets as at December 31, 2009 and 2008, and the results of each of their operations and changes in net assets for the years then ended, in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants

February 23, 2010
Toronto, Canada

Galileo High Income Plus Fund

STATEMENTS OF NET ASSETS (audited)

As at December 31

		2009		2008
Assets				
Investments, at fair value	**$**	**12,430,734**	$	6,278,685
Cash including foreign currency holdings, at fair value		**317,146**		278,609
Accrued investment income		**80,695**		93,820
Receivable for portfolio securities sold		**523,415**		263,873
Receivable for units issued		**2,147**		19,662
		13,354,137		6,934,649
Liabilities				
Payable for portfolio securities purchased		**185,350**		308,109
Payable for units redeemed		**777**		16,112
Management fees payable (note 5)		**20,976**		-
Accrued expenses		**5,260**		21,141
Distributions payable to unitholders		**22,998**		11,434
		235,361		356,796
Net Assets Representing Unitholders' Equity	**$**	**13,118,776**	$	6,577,853
Total Net Assets per Class				
Class A	**$**	**12,871,101**	$	6,451,394
Class F	**$**	**247,675**	$	126,459
Net Assets per Unit (note 4 and 8)				
Class A	**$**	**13.18**	$	9.03
Class F	**$**	**13.63**	$	9.25

See accompanying notes

Galileo High Income Plus Fund

STATEMENTS OF OPERATIONS (audited)

For the years ended December 31

		2009		2008
Income				
Interest	$	**526,998**	$	471,044
Dividend		**87,997**		116,441
Gain (loss) on derivatives		**-**		(695)
		614,995		586,790
Expenses (note 5)				
Management fees		**169,473**		137,201
Custodial fees		**47,107**		44,871
Audit fees		**27,387**		13,794
Legal and regulatory fees		**40,889**		22,963
		284,856		218,829
Expenses waived or absorbed by the Manager		**(68,698)**		(47,136)
		216,158		171,693
Net Investment Income		**398,837**		415,097
Realized and Unrealized Gain (Loss) on Investments				
Net realized gain (loss) on sale of investments		**455,261**		(1,398,085)
Net realized gain (loss) on foreign currency		**-**		(6,386)
Transaction costs (note 7)		**(132,285)**		(105,986)
Change in unrealized appreciation (depreciation) of investments		**3,365,620**		(1,410,427)
Net Gain (Loss) on Investments		**3,688,596**		(2,920,884)
Increase (Decrease) in Net Assets from Operations	**$**	**4,087,433**	$	(2,505,787)
Increase (Decrease) in Net Assets from Operations per Class				
Class A	**$**	**4,013,774**	$	(2,506,434)
Class F	**$**	**73,659**	$	647
Increase (Decrease) in Net Assets from Operations per Unit				
Class A	**$**	**5.12**	$	(4.47)
Class F	**$**	**5.30**	$	0.05

See accompanying notes

Galileo High Income Plus Fund

STATEMENTS OF CHANGES IN NET ASSETS (audited)

For the years ended December 31

		2009		2008
CLASS A				
Net Assets, Beginning of Year	$	**6,451,394**	$	3,130,967
Increase (Decrease) in Net Assets from Operations		**4,013,774**		(2,506,434)
Distributions Paid or Payable to Unitholders				
From net investment income		**(445,895)**		(334,702)
From net realized capital gains		**(59,042)**		-
Return of capital		**(189,829)**		(226,857)
		(694,766)		(561,559)
Changes Due to Unitholder Transactions (note 4)				
Amount received from the issuance of units		**3,754,709**		7,207,927
Amount received from reinvestment of distributions		**497,292**		418,808
Amount paid on redemptions of units		**(1,151,302)**		(1,238,315)
		3,100,699		6,388,420
Increase in Net Assets for the Year		**6,419,707**		3,320,427
Net Assets, End of Year	$	**12,871,101**	$	6,451,394
CLASS F				
Net Assets, Beginning of Year	$	**126,459**	$	192,919
Increase in Net Assets from Operations		**73,659**		647
Distributions Paid or Payable to Unitholders				
From net investment income		**(7,890)**		(7,710)
From net realized capital gains		**(1,078)**		-
Return of capital		**(3,456)**		(5,226)
		(12,424)		(12,936)
Changes Due to Unitholder Transactions (note 4)				
Amount received from the issuance of units		**76,950**		143,188
Amount received from reinvestment of distributions		**10,771**		11,232
Amount paid on redemptions of units		**(27,740)**		(208,591)
		59,981		(54,171)
Increase (Decrease) in Net Assets for the Year		**121,216**		(66,460)
Net Assets, End of Year	$	**247,675**	$	126,459

See accompanying notes

Galileo High Income Plus Fund

STATEMENT OF INVESTMENT PORTFOLIO (audited)

As at December 31, 2009

Number of shares/units		Average cost ($)	Fair value ($)
CANADIAN EQUITIES			
	Consumer Discretionary- 5.72%		
60,000	Cervus Equipment Corp.	528,574	750,000
		528,574	**750,000**
	Consumer Staples- 4.78%		
18,000	AG Growth International Inc.	465,722	626,400
		465,722	**626,400**
	Energy - 29.04%		
20,000	ARC Energy Trust Units	403,293	398,800
40,000	Black Diamond Income Fund	449,768	660,000
15,000	Bonavista Energy Trust	323,169	334,050
50,000	Canadian Energy Services L.P., Class A units	474,865	585,000
18,000	Crescent Point Energy Corp.	557,826	710,100
25,000	Daylight Resources Trust	218,147	254,250
24,000	Pacific Northern Gas Ltd.	420,733	449,040
30,000	Peyto Energy Trust	365,081	419,100
		3,212,882	**3,810,340**
	Financial - 14.93%		
40,000	Allied Properties Real Estate Investment Trust	625,961	770,000
55,000	Crombie Real Estate Investment Trust	484,331	594,000
30,000	RioCan Real Estate Investment Trust	457,406	595,200
		1,567,698	**1,959,200**
	Industrials - 12.80%		
165,000	CanWel Building Materials Income Fund	481,960	679,800
30,000	IBI Income Fund	456,240	501,000
35,000	Westshore Terminal Income Fund	492,184	498,400
		1,430,384	**1,679,200**
	Information Technology - 3.62%		
25,000	MOSAID Technologies Inc.	450,812	475,250
		450,812	**475,250**
	Other - 8.45%		
60,000	Deans Knight Income Corp.	623,826	684,000
40,000	Marret High Yield Strategies Fund	415,672	424,000
		1,039,498	**1,108,000**
Total Canadian equities - 79.34%		**8,695,570**	**10,408,390**

See accompanying notes

Galileo High Income Plus Fund

STATEMENT OF INVESTMENT PORTFOLIO (cont'd) (audited)

As at December 31, 2009

Par value		Average cost ($)	Fair value ($)
FIXED INCOME			
	Corporate - 3.29%		
393,750	Algonquin Power & Utilities Corp., Callable, Convertible, 7.5%, 11/30/14	415,012	431,156
		415,012	**431,156**
	Energy - 10.22%		
300,000	Daylight Resources Trust, Series 'C', Callable, 10.0%, 12/31/13	273,270	348,000
400,000	NAL Oil & Gas Trust, Convertible, Callable, 6.25%, 12/31/14	400,000	411,000
575,000	Trinidad Drilling Ltd., Convertible, Callable, 7.75%, 07/31/12	490,816	582,188
		1,164,086	**1,341,188**
	Financial - 1.90%		
250,000	H&R Real Estate Investment Trust, Convertible, 6.0%, 06/30/17	250,000	250,000
		250,000	**250,000**
Total Fixed Income - 15.41%		**1,829,098**	**2,022,344**
Transaction costs		**(28,458)**	**-**
Total investments - 94.75%		**10,496,210**	**12,430,734**
Other assets, net of liabilities - 5.25%			**688,042**
Total net assets - 100.00%			**13,118,776**

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF NET ASSETS (audited)

As at December 31

		2009		2008
Assets				
Investments, at fair value	**$**	**11,870,618**	$	5,285,909
Cash including foreign currency holdings, at fair value		**165,425**		32,406
Accrued investment income		**1,014**		7,280
Receivable for units issued		**-**		10,000
Receivable for securities sold		**202,378**		-
		12,239,435		5,335,595
Liabilities				
Management fees payable (note 5)		**12,617**		-
Accrued expenses		**4,831**		11,336
Payable for portfolio securities purchased		**35,647**		-
Payable for units redeemed		**581**		-
		53,676		11,336
Net Assets Representing Unitholders' Equity	**$**	**12,185,759**	$	5,324,259
Total Net Assets per Class				
Class A	**$**	**3,492,556**	$	41,343
Class F	**$**	**8,693,203**	$	5,282,916
Net Assets per Unit (notes 4 and 8)				
Class A	**$**	**14.69**	$	10.54
Class F	**$**	**14.49**	$	10.28

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF OPERATIONS (audited)

For the years ended December 31

		2009		2008
Income				
Interest	$	17,869	$	57,973
Dividend		50,031		40,871
Investment income		-		36,898
Gain (loss) on derivatives		(8,011)		639
		59,889		136,381
Expenses (note 5)				
Management fees		90,890		59,011
Custodial fees		57,900		36,531
Audit fees		27,387		13,794
Legal and regulatory fees		40,889		22,963
		217,066		132,299
Expenses waived or absorbed by the Manager		(80,056)		(39,999)
		137,010		92,300
Net Investment Income (Loss)		(77,121)		44,081
Realized and Unrealized Gain (Loss) on Investments				
Net realized gain (loss) on sale of investments		1,122,860		(725,038)
Net realized (loss) gain on foreign currency		(104,851)		146,322
Transaction costs (note 7)		(253,799)		(21,252)
Change in unrealized appreciation (depreciation) of investments		2,501,068		(1,556,839)
Net Gain (Loss) on Investments		3,265,278		(2,156,807)
Increase (Decrease) in Net Assets from Operations	$	3,188,157	$	(2,112,726)
Increase (Decrease) in Net Assets from Operations per Class				
Class A	$	761,612	$	(14,111)
Class F	$	2,426,545	$	(2,098,615)
Increase (Decrease) in Net Assets from Operations per Unit				
Class A	$	6.32	$	(3.90)
Class F	$	4.31	$	(4.03)

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF CHANGES IN NET ASSETS (audited)

For the years ended December 31

		2009		2008
CLASS A				
Net Assets, Beginning of Year	**$**	**41,343**	$	77,688
Increase (Decrease) in Net Assets from Operations		**761,612**		(14,111)
Changes Due to Unitholder Transactions (note 4)				
Amount received from the issuance of units		**1,214,468**		14,000
Amount received from the issuance of units due to merger (note 12)		**1,945,987**		-
Amount paid on redemptions of units		**(470,854)**		(36,234)
		2,689,601		(22,234)
Increase (Decrease) in Net Assets for the Year		**3,451,213**		(36,345)
Net Assets, End of Year	**$**	**3,492,556**	$	41,343
CLASS F				
Net Assets, Beginning of Year	**$**	**5,282,916**	$	7,936,959
Increase (Decrease) in Net Assets from Operations		**2,426,545**		(2,098,616)
Distributions Paid or Payable to Unitholders				
From net investment income		**-**		(49,475)
Changes Due to Unitholder Transactions (note 4)				
Amount received from the issuance of units		**-**		20,002
Amount received from the issuance of units due to merger (note 12)		**2,498,162**		-
Amount received from reinvestment of distributions		**-**		49,474
Amount paid on redemptions of units		**(1,514,420)**		(575,428)
		983,742		(505,952)
Increase (Decrease) in Net Assets for the Year		**3,410,287**		(2,654,043)
Net Assets, End of Year	**$**	**8,693,203**	$	5,282,916

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENT OF INVESTMENT PORTFOLIO (audited)
As at December 31, 2009

Number of shares/units		Average cost ($)	Fair value ($)
CANADIAN EQUITIES			
	Energy - 23.97%		
900,000	Alange Energy Corp.	360,305	567,000
80,000	Bankers Petroleum Ltd.	342,319	496,000
23,333	Legacy Oil + Gas Inc.	175,000	224,230
400,000	Longford Energy Inc.	209,846	144,000
250,000	NaiKun Wind Energy Group Inc.	218,448	142,500
30,000	North American Energy Partners Inc.	204,815	217,500
7,500	Pacific Rubiales Energy Corp.	119,905	115,500
40,000	Pacific Rubiales Energy, Warrants, 07/12/12	192,593	356,800
22,600	Petrominerales Ltd.	295,430	423,750
325,000	Vast Exploration Inc.	196,625	234,000
		2,315,286	**2,921,280**
	Industrials - 7.32%		
50,000	ATS Automation Tooling Systems Inc.	243,083	373,500
190,800	Yalian Steel Corp.	346,031	314,820
150,000	Zongshen Pem Power Systems Inc.	158,707	204,000
		747,821	**892,320**
	Information Technology - 0.00%		
2	Nortel Networks Corp.	-	-
		-	**-**
	Materials - 38.66%		
78,200	Consolidated Thompson Iron Mines Ltd.	345,782	526,286
120,000	East Asia Minerals Corp.	243,265	544,800
100,000	Energold Drilling Corp.	192,538	247,000
50,000	Grande Cache Coal Corp.	219,265	268,000
60,000	Lake Shore Gold Corp.	207,566	244,800
50,000	Mantra Resources Ltd.	200,000	220,000
1,000,000	Medoro Resources Ltd.	605,904	530,000
200,000	Medoro Resources Ltd., Warrants, 07/22/11	-	6,000
80,000	Paladin Energy Ltd.	389,878	312,800
35,000	Sino-Forest Corp.	654,090	676,200
15,000	Thompson Creek Mining Inc.	190,980	184,500
50,000	TimberWest Forest Corp.	234,302	216,500
200,000	UEX Corp.	277,649	210,000
50,000	Western Areas NL	258,094	240,000
200,000	Western Lithium Canada Corp.	213,496	284,000
		4,232,809	**4,710,886**
Total Canadian equities - 69.95%		**7,295,916**	**8,524,486**

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENT OF INVESTMENT PORTFOLIO **(cont'd)** (audited)

As at December 31, 2009

Number of shares/units		Average cost ($)	Fair value ($)
FOREIGN EQUITIES			
	Consumer Discretionary - 2.51%		
250,000	Belle International Holdings Ltd.	311,785	305,553
		311,785	**305,553**
	Energy - 4.70%		
1,000,000	China Gas Holdings Ltd.	345,953	573,249
		345,953	**573,249**
	Financials - 3.08%		
1,100,000	Shanghai Forte Land Co. Ltd., Class 'H'	381,095	374,775
		381,095	**374,775**
	Industrials - 9.70%		
150,000	China High Speed Transmission Equipment Group Co. Ltd.	347,736	383,293
550,000	Neo-Neon Holdings Ltd.	295,494	415,673
400,000	Shenji Kunming Machine Tool Co. Ltd., Class 'H'	346,643	383,428
		989,873	**1,182,394**
	Information Technology - 2.58%		
300,000	Travelsky Technology Ltd., Class 'H'	308,314	314,341
		308,314	**314,341**
	Materials - 4.89%		
320,000	Uranium Star Corp.	106,508	132,512
840,000	Western Desert Resources Ltd.	257,266	463,308
		363,774	**595,820**
Total Foreign equities - 27.46%		**2,700,794**	**3,346,132**
Transaction costs		**(40,049)**	**-**
Total investments - 97.41%		**9,956,661**	**11,870,618**
Other assets, net of liabilities - 2.59%			**315,141**
Total net assets - 100.00%			**12,185,759**

See accompanying notes

1. THE FUNDS

The following Funds are open-ended mutual fund trusts formed under the laws of Ontario by Declarations of Trust, as amended and restated from time to time, on the dates as noted below:

Galileo High Income Plus Fund	September 14, 2006
Galileo Small/Mid Cap Fund	June 15, 2000

[the “Funds”]

On November 7, 2006, Galileo Funds Inc. filed a simplified prospectus for an initial public offering to sell an unlimited number of class A and F units of the Funds.

The Funds are referred to individually as a “Fund” and collectively as the “Funds”. Galileo Funds Inc. acts as the Trustee and the Manager of the Funds (the "Funds’ Manager"). As such, the Funds are dependent on the Funds’ Manager for the administration and management of all matters relating to their operation. Galileo Global Equity Advisors Inc. is the portfolio advisor for the Funds.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) within the framework of the significant accounting policies summarized below:

Valuation of investments

Equities and warrants are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Bonds, money market securities and asset-backed securities are recorded at fair value, established using the closing bid price obtained from recognized securities dealers. Investment funds are valued based on the net asset value per unit at the end of each valuation day. Unlisted securities are valued at the last ascertainable bid price of such securities. If the closing bid price for a security is not readily available, the last transacted price is used or the Funds’ Manager may estimate fair value based on available market information. Warrants that are not listed on a recognized exchange are priced using the Black-Scholes model.

Foreign currency contracts are valued at the gain or loss that would be realized if, on the valuation date, the positions were closed out. They are reflected in the Statements of Operations as part of “change in unrealized appreciation (depreciation) of investments” and in the Statements of Net Assets in “unrealized gain (loss) on derivatives”. When foreign currency contracts are closed out, gains and losses are realized and are included in “net realized gain (loss) on foreign currency” in the Statements of Operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates include the valuation of investments. Actual results could differ from those estimates.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Such costs are expensed and are included in "Transaction costs" in the Statements of Operations.

Translation of foreign currencies

Purchases and sales of investments and investment income denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the respective dates of the transactions.

Realized and unrealized foreign currency gains or losses on investments are included in the Statements of Operations in "net realized gain (loss) on sale of investments" and "change in unrealized appreciation (depreciation) of investments."

Realized foreign currency gains or losses on assets, liabilities and income other than investments denominated in foreign currency are included in the Statements of Operations in "net realized gain (loss) on foreign currency".

The fair values of investments, short-term notes and other assets and liabilities are translated into Canadian dollars at the rates of exchange prevailing at the end of the period.

Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Gains and losses arising from the sale of investments are determined using the average cost basis. Income and expenses are recorded on an accrual basis with dividend income being recorded on the ex-dividend date. Distributions from income trusts, mutual funds and REITs are recognized on the ex-distribution date and are recorded as income, capital gains or a return of capital, based on the best information available to the Funds' Manager. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment. Dividends are recorded net of any related withholding tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund unit transactions and valuation

The units of each class of the Funds are issued and redeemed at their net asset value per unit. The units of the Funds are valued on each "Valuation Date". The Funds are valued on each day the markets trade. The net asset value per unit is calculated by dividing the excess of the Fund's assets over its liabilities by the number of units outstanding for that class on that day.

In addition, at the reporting date for financial statement purposes only, net assets are determined in accordance with CICA Section 3855 ("net assets"). A reconciliation of net asset value and net assets is described in note 8.

The net assets of each class is computed by calculating the value of that class' proportionate share of the Fund's assets less that class' proportionate share of the Fund's common liabilities, and less any class specific liabilities.

Expenses directly attributable to a class are charged to that class while common fund expenses are allocated to each class in a reasonable manner as determined by the Funds' Manager.

Income and realized and unrealized gains and losses are allocated to each class based on their relative average net asset value.

Increase (decrease) in net assets from operations per unit

Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the net increase (decrease) in net assets from operations for the year, by class, divided by the weighted average units outstanding per class during the year.

Adoption of new accounting standards

During the year, the Funds adopted an amendment to CICA Section 3862, which applies to fiscal years ending after September 30, 2009. The amendment introduces a fair value hierarchy for disclosures, which intends to provide information to financial statement users about the relative observability of inputs to fair value measurements. This amendment has no impact on the net assets or net asset value of the Funds. Refer to note 10(f) for these additional disclosures.

3. DISTRIBUTION OF INCOME AND CAPITAL GAINS

Net investment income and net realized capital gains are distributed by the issuance of an equivalent amount of units in the Funds, such that the Funds are not subject to tax. Distributions are recorded on the business day immediately following the record date.

For the Galileo High Income Plus Fund, the net investment income is distributed to unitholders monthly and net realized capital gains on the sale of investments are distributed to unitholders annually at the end of the calendar year.

For the Small/Mid Cap Fund, the net investment income and net realized capital gains on the sale of investments are distributed to unitholders annually at the end of the calendar year.

4. UNITS OF THE FUNDS

Units issued and outstanding represent the capital of each Fund. Units of the Funds are redeemable at the option of the unitholder, in accordance with the provisions of the applicable Declaration of Trust, at their net asset value per unit. Investors of each class of units of the Funds are entitled to participate in the distribution of net investment income and net realized capital gains on a proportionate basis. The Funds have no restrictions or specific capital requirements on the subscription and redemption of units. The Statements of Changes in Net Assets identify changes in each Fund's capital during the year. The Funds' Manager manages the capital of the Funds in accordance with the Funds' investment objectives. Unit transactions during the years ended December were as follows:

January 1 to December 31, 2009

Fund	Units Outstanding Beginning of Year	Issued	Issued from Merger (note 12)	Redeemed	Reinvested from Distributions	Units Outstanding End of Year
Galileo High Income Plus						
Class A	714,094	326,061	-	109,605	45,688	976,238
Class F	13,678	5,977	-	2,452	965	18,168
Galileo Small/Mid Cap						
Class A	3,923	90,852	180,803	37,813	-	237,765
Class F	513,804	-	236,748	150,573	-	599,979

January 1 to December 31, 2008

Fund	Units Outstanding Beginning of Year	Issued	Redeemed	Reinvested from Distributions	Units Outstanding End of Year
Galileo High Income Plus					
Class A	249,963	538,573	108,764	34,322	714,094
Class F	15,206	14,157	16,554	869	13,678
Galileo Small/Mid Cap					
Class A	5,260	1,234	2,571	-	3,923
Class F	551,264	1,380	43,640	4,800	513,804

5. EXPENSES

Reasonable expenses incurred in the operation of the Funds, such as audit, legal, custodian and other professional fees are charged in the Statements of Operations. The Funds' Manager has, at its discretion, agreed to absorb certain expenses. The absorbed amounts are shown in the Statements of Operations. Such absorbed amounts can be terminated at any time, but can be expected to continue until such time as the Funds are of sufficient size to reasonably absorb all management and operating expenses incurred.

The management fees before GST for the Class A and Class F units are based on a percentage of average net asset value per annum as follows:

Fund	Class A	Class F
Galileo High Income Plus Fund	1.90%	0.90%
Galileo Small/Mid Cap Fund	1.95%	0.95%

During the year certain funds held units of other Galileo mutual funds. Adjustments to the management fees were made to ensure no duplication of management fees applied to a Fund holding units of another Galileo mutual fund.

6. INCOME TAXES

The High Income Plus Fund is a mutual fund trust, and the Small/Mid Cap Fund is a unit trust under the provisions of the Income Tax Act (Canada) and accordingly, are subject to taxes on their net investment income, including net realized capital gains for the period which are not paid or payable to their unitholders as at the end of the year. The Funds pay out sufficient net investment income and net realized capital gains to unitholders so that no provision for income taxes is required in the financial statements. Occasionally, distributions by a fund will exceed the net investment income and taxable capital gains realized by the fund. To the extent that the excess is not designated by the fund to be income for Canadian tax purposes and taxable to the unitholders, this excess distribution is a return on capital and is not immediately taxable to unitholders.

As at December 31, 2009, the Funds had the following net capital and non-capital losses to be carried forward.

Fund	Total Net Capital Loss ($)	Total Non Capital Loss ($)
Galileo High Income Plus Fund	735,504	-
Galileo Small/Mid Cap Fund	1,009,759	-

7. TRANSACTION COSTS

The total fees paid to brokers in connection with investment portfolio transactions for the years ended December 31, 2009 and 2008 are as follows:

Fund	2009 ($)	2008 ($)
Galileo High Income Plus Fund	132,285	105,986
Galileo Small/Mid Cap Fund	253,799	21,252

8. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, reconciliation between the net asset value and the net assets of an investment fund is required for financial reporting periods. For investments that are traded in an active market, bid prices (for investments held) and ask prices (for investments sold short) are used in the fair valuation of investments, rather than the use of closing sale prices currently used for the purpose of determining net asset value. For investments that are not traded in an active market, Section 3855 requires the use of specific valuation techniques, rather than the use of valuation techniques by virtue of general practice in the investment fund industry. These changes account for the difference between net asset value and net assets.

The impact on the net asset value per unit and the net assets per unit of the Funds are as follows:

As at December 31, 2009:

Fund	Net Asset Value per Unit ($)	Section 3855 Adjustments ($)	Net Assets per Unit ($)
Galileo High Income Plus Fund			
Class A	13.25	(0.07)	13.18
Class F	13.70	(0.07)	13.63
Galileo Small/Mid Cap Fund			
Class A	14.85	(0.16)	14.69
Class F	14.64	(0.15)	14.49

As at December 31, 2008:

Fund	Net Asset Value per Unit ($)	Section 3855 Adjustments ($)	Net Assets per Unit ($)
Galileo High Income Plus Fund			
Class A	9.10	(0.07)	9.03
Class F	9.31	(0.06)	9.25
Galileo Small/Mid Cap Fund			
Class A	10.56	(0.02)	10.54
Class F	10.31	(0.03)	10.28

9. SOFT DOLLARS

No soft dollar expenses were incurred by the Funds during 2009 (2008 - Nil).

10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

Fair Value

Financial instruments of the Funds consist of cash, accrued investment income, receivable for portfolio securities sold, receivables for units issued, payable for portfolio securities purchased, distributions payable to unitholders, payables for units redeemed, management fees payable and accrued expenses. There are no significant differences between the carrying values of these financial instruments and their fair value. Investments are carried at their fair value as described in note 2.

Risk Management

The Funds are exposed to various types of risks that are associated with their investment strategies, financial instruments and markets in which they invest. The most important risks include credit risk, liquidity risk, and market risk, which includes interest rate risk, currency risk and equity and other price risk. These risks and related risk management practices employed by the Funds are discussed below. The sensitivity analysis shown in the notes to the statements may differ from actual trading and the difference could be material.

The Funds' Manager seeks to minimize potential adverse effects of these risks on the Funds' performance by employing professional, experienced portfolio advisers, daily monitoring of the Funds' positions and market events, and by diversifying the investment portfolio within the constraints of the investment. To assist in managing risks, the Funds' Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Funds' investment activities and monitors compliance with the Funds' stated investment strategy and securities regulations.

Market Risk

a) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments.

The High Income Plus Fund and the Galileo Small/Mid Cap Fund invest in fixed income securities which bear interest at fixed rates and, as such, they are subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

The table below summarizes this Fund's exposure to interest rate risk by remaining term to maturity. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

Galileo High Income Plus Fund

As at December 31, 2009

Investment	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	Total
Fixed Income	$ -	$ 582,188	$ 1,190,156	$ 250,000	$ 2,022,344

10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)
Market Risk (cont'd)
Interest Rate Risk (cont'd)

As at December 31, 2008

Investment	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	Total
Fixed Income	$ -	$ 82,140	$ 300,390	$ 141,000	$ 523,530

At December 31, 2009, should interest rates have increased or decreased by 100 basis points with all other variables remaining constant, the Galileo High Income Plus Fund would have increased or decreased by $77,522 (2008 - $21,009). The Galileo Small/Mid Cap Fund has been excluded as it is not subject to interest rate risk.

b) Currency Risk

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, which is each of the Funds' reporting currency, will fluctuate due to changes in exchange rates.

The table below indicates the foreign currencies to which each Fund has exposure at year end in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. The table also illustrates the potential impact to the Funds' net assets, all other variables held constant. The result of a 5% change in these currencies relative to the Canadian dollar would have increased by $167,352 (2008 - $27,862). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material. The Galileo High Income Plus Fund has been excluded as it is not subject to currency risk.

Galileo Small/Mid Cap Fund

As at December 31, 2009

Currency	Investments ($)	Impact on Net Assets ($)
Hong Kong Dollar	2,750,312	137,516
Australian Dollar	463,308	23,165
U.S. Dollar	133,420	6,671

As at December 31, 2008

Currency	Investments ($)	Impact on Net Assets ($)
Hong Kong Dollar	-	-
Australian Dollar	-	-
U.S. Dollar	557,231	27,862

10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)
Market Risk (cont'd)

c) Equity and Other Price Risk

Equity and other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk). The investments of the Funds are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Funds is equivalent to the fair value of the financial instruments. The portfolio advisor moderates this risk through a careful selection of securities within specified limits and the Funds' market price risk is managed through diversification of the investment portfolio. The most significant exposure to other price risk arises from its investments in equity securities.

Had the prices on the respective stock exchanges for these securities raised or lowered by 5%, with all other variables held constant, the following chart shows the amount which the net assets of the respective funds would have increased or decreased:

As at December 31, 2009

Fund	Change in Net Assets ($)
Galileo High Income Plus Fund	520,420
Galileo Small/Mid Cap Fund	593,531

As at December 31, 2008

Fund	Change in Net Assets ($)
Galileo High Income Plus Fund	287,785
Galileo Small/Mid Cap Fund	168,537

d) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with each respective Fund.

The Galileo High Income Plus Fund has significant credit risk. The Fund's greatest concentration of credit risk is in bonds. This Fund limits its exposure to credit loss by placing its cash investments with high credit quality borrowers. The fair value of debt securities includes consideration of the credit worthiness of the debt issues. The carrying amount of these investments represents the maximum credit risk exposure as at December 31, 2009. This Fund invests in financial assets, which have an investment grade as rated by Standard & Poor's. Ratings for securities that subject this Fund to credit risk are noted below:

10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)
Market Risk (cont'd)
d) Credit Risk (cont'd)

As at December 31, 2009

	Debt Rating as a Percentage of Net Assets		
Fund	**Unrated**	**BBB**	**Total**
Galileo High Income Plus Fund	10.2%	5.2%	15.4%

As at December 31, 2008

	Debt Rating as a Percentage of Net Assets		
Fund	**Unrated**	**BBB**	**Total**
Galileo High Income Plus Fund	8.0%	0.0%	8.0%

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Funds do not perform securities lending transactions.

e) Liquidity Risk

The Funds are exposed to daily cash redemptions of redeemable units. In accordance with securities regulations, the Funds must maintain at least 90% of their assets in liquid investments (i.e. investments that are traded in an active market and can be readily disposed). In addition, the Funds must retain sufficient cash and cash equivalent positions to maintain adequate liquidity. The Funds also have the ability to borrow up to 5% of their net assets for the purposes of funding redemptions. Liquidity risk for all funds is considered minimal.

In addition, the Funds have financial liabilities outstanding including payables for portfolio securities purchased, payables for units redeemed, payables for management fees, distributions payable and accrued liabilities. These financial liabilities are all current and are due within 30 days.

10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)
Market Risk (cont'd)

f) Fair Value Hierarchy

The Funds adopted the amendments to the accounting standards associated with financial instruments resulting in a three-tier categorization as a framework for disclosing fair value based upon inputs used to value the Funds' investments. The hierarchy is summarized as:
Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 - inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3 - inputs for assets and liabilities not based upon observable market data

The table below summarizes the categories for each Fund:

	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Total ($)**
Galileo High Income Plus Fund				
Equities	10,408,390	-	-	
Fixed Income	-	2,022,344	-	
				12,430,734
Galileo Small Mid Cap Fund				
Equities	11,864,618	6,000	-	
Fixed Income	-	-	-	
				11,870,618

For the year ended December 31, 2009 no investments were transferred from Level 1 to Level 2 or vice versa.

11. RELATED PARTY TRANSACTIONS

The Funds' Manager, its officers and directors may invest in units of the Funds from time to time in the normal course of business.

All transactions with related parties are measured at the exchange amounts, and occur within the normal course of operations.

12. MERGERS AND TERMINATIONS

At the close of business on May 31, 2009, the following Funds merger took place:

Terminating Funds	$ NAV/unit	Outstanding Units to be Fully Redeemed	Total Dollar Amount ($)	Merge in Shares
Galileo Canadian Active/Passive Fund - Series A	9.374	34,288.11	321,417	29,863.12
Galileo Canadian Active/Passive Fund - Series F	9.456	2,887.64	27,305	2,587.71
Galileo Global Active/Passive Fund - Series A	7.629	60,248.50	459,636	42,705.18
Galileo Global Active/Passive Fund - Series F	7.853	86,106.45	676,194	64,082.07
Galileo Fund - Series A	8.214	138,152.90	1,134,788	105,434.17
Galileo Fund - Series F	8.875	95,036.28	843,447	79,932.43
Galileo Absolute Return Fund - Series A	10.457	2,882.87	30,146	2,800.91
Galileo Absolute Return Fund - Series F	10.184	93,403.04	951,217	90,145.62

Continuing Fund	$ NAV/unit	Units Outstanding as of May 29, 2009	Subscription from Closed Funds	
			Total Dollar Amount ($)	Total Units
Galileo Small/Mid Cap Fund - Series A	10.7630	3,063.28	1,945,987	180,803.38
Galileo Small/Mid Cap Fund - Series F	10.5517	426,595.90	2,498,163	236,747.83

The merger was carried out on a taxable basis under the Income Tax Act (Canada). The Terminating Funds had a deemed year end for tax purposes on May 31, 2009, after which the funds were wound up. All unrealized losses of the Terminating Funds were deemed to be realized. Any unutilized capital and non-capital loss carry forwards of the Terminating Funds expired upon the merger. None of the costs related to the mergers have been charged to the Funds.

The Continuing Fund assumed all the liabilities applicable of the Terminating Funds, in return for the issuance by the Continuing Fund of units equal in value to the net assets acquired from the Terminating Funds. As a result, the unit holders of each Terminating Fund became unit holders of the Continuing Fund.

13. TRANSITION TO INTERNATIONAL REPORTING STANDARDS

The Canadian Accounting Standards Board has confirmed January 1, 2011 as the date International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises, which include investment funds and other reporting issuers. Accordingly the Fund will adopt IFRS for their fiscal period starting January 1, 2011.

In preparing to meet the requirements, the Funds' Manager has taken the following steps in managing the transition to IFRS:

1. identified key differences between Canadian GAAP and IFRS and coordinated an action plan
2. identified areas of required disclosures under IFRS standards
3. evaluated current information technology and reporting systems for readiness in IFRS implementation
4. assessed the likely impacts on business activity and operational areas such as internal controls, staffing and training requirements.

Based upon the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have no impact on the calculation of net assets or net asset value. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the notes. However, the Funds' Manager's assessment may change if new standards are issued or if the interpretations of current standards are revised.