



GALILEO

Galileo Funds Interim Report 2010

Galileo High Income Plus Fund
Galileo Small/Mid Cap Fund

Galileo High Income Plus Fund

STATEMENTS OF NET ASSETS (unaudited)

As at June 30, 2010 and December 31, 2009

	2010	2009
Assets		
Investments, at fair value (cost: \$19,747,384, 2009 - \$10,496,210)	\$ 19,840,832	\$ 12,430,734
Cash	1,201,617	317,146
Accrued investment income	129,304	80,695
Receivable for portfolio securities sold	-	523,415
Receivable for units issued	11,231	2,147
	21,182,984	13,354,137
Liabilities		
Management fees payable (note 5)	34,225	20,976
Distributions payable to unitholders	38,241	22,998
Accrued expenses	8,652	5,260
Payable for portfolio securities purchased	-	185,350
Payable for units redeemed	119,482	777
	200,600	235,361
Net Assets Representing Unitholders' Equity	\$ 20,982,384	\$ 13,118,776
Net Assets per Class		
Class A	\$ 20,264,690	\$ 12,871,101
Class F	\$ 717,694	\$ 247,675
Net Assets per Unit (notes 4 and 7)		
Class A	\$ 13.08	\$ 13.18
Class F	\$ 13.59	\$ 13.63

See accompanying notes

Galileo High Income Plus Fund

STATEMENTS OF OPERATIONS (unaudited)

For the six months ended June 30

	2010	2009
Income		
Interest	\$ 279,500	\$ 275,259
Dividend	303,684	(22,292)
	583,184	252,967
Expenses (note 5)		
Management fees	186,571	67,709
Operating fees	17,063	17,063
Legal and regulatory fees	14,969	9,551
Audit fees	14,874	9,975
Custodial fees	3,733	8,079
	237,210	112,377
Expenses waived or absorbed by the Manager	(3,704)	(23,474)
	233,506	88,903
Net Investment Income	349,678	164,064
Realized and Unrealized Gain (Loss) on Investments		
Net realized gain (loss) on sale of investments	1,691,274	(574,368)
Transaction costs	(106,795)	(68,887)
Change in unrealized appreciation (depreciation) of investments	(1,841,076)	1,736,180
Net Gain (Loss) on Investments	(256,597)	1,092,925
Increase (Decrease) in Net Assets from Operations	\$ 93,081	\$ 1,256,989
Increase (Decrease) in Net Assets from Operations per Class*		
Class A	\$ 108,996	\$ 1,231,950
Class F	\$ (15,915)	\$ 25,039
Increase (Decrease) in Net Assets from Operations per Unit		
Class A	\$ 0.09	\$ 1.71
Class F	\$ (0.47)	\$ 1.83

* based on average number of units outstanding during period

See accompanying notes

Galileo High Income Plus Fund

STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

For the six months ended June 30

	2010	2009
CLASS A		
Net Assets, Beginning of Period	\$ 12,871,101	\$ 6,451,394
Increase (Decrease) in Net Assets from Operations	108,996	1,231,950
Distributions Paid or Payable to Unitholders		
From net investment income	(294,872)	(275,219)
From return of capital	(470,792)	-
	(765,664)	(275,219)
Changes Due to Unitholder Transactions (note 4)		
Amount received from the issuance of units	9,732,602	788,742
Amount received from reinvestment of distributions	562,024	195,938
Amount paid on redemptions of units	(2,244,369)	(415,814)
	8,050,257	568,866
Increase (Decrease) in Net Assets for the period	7,393,589	1,525,597
Net Assets, End of Period	\$ 20,264,690	\$ 7,976,991
CLASS F		
Net Assets, Beginning of Period	\$ 247,675	\$ 126,459
Increase in Net Assets from Operations	(15,915)	25,039
Distributions Paid or Payable to Unitholders		
From net investment income	(8,022)	(5,325)
From return of capital	(12,493)	-
	(20,515)	(5,325)
Changes Due to Unitholder Transactions (note 4)		
Amount received from the issuance of units	488,584	-
Amount received from reinvestment of distributions	17,865	4,465
Amount paid on redemptions of units	-	(2,683)
	506,449	1,782
Increase (Decrease) in Net Assets for the period	470,019	21,496
Net Assets, End of Period	\$ 717,694	\$ 147,955

See accompanying notes

Galileo High Income Plus Fund

STATEMENT OF INVESTMENT PORTFOLIO (unaudited)

As at June 30, 2010

Number of shares/units		Average cost (\$)	Fair value (\$)
CANADIAN EQUITIES			
	Consumer Discretionary- 3.79% *		
75,000	Cervus Equipment Corp.	825,462	795,000
		825,462	795,000
	Energy - 48.39% *		
30,000	ARC Energy Trust Units	652,851	591,300
35,000	Baytex Energy Trust	1,169,393	1,111,950
75,000	Black Diamond Group Ltd.	1,100,052	1,319,250
45,000	Bonavista Energy Trust	1,079,545	1,026,000
40,000	Bonterra Energy Corp.	1,411,873	1,389,600
70,000	Canadian Energy Services & Technology Corp.	910,829	1,152,200
100,000	Daylight Energy Ltd.	1,122,965	890,000
13,500	Pacific Northern Gas Ltd.	236,662	343,305
40,000	Pembina Pipeline Income Trust	705,116	714,400
30,000	Penn West Energy Trust	631,500	609,000
120,000	Phoenix Technology Income Fund	1,081,636	1,006,800
		10,102,422	10,153,805
	Financial - 4.84% *		
90,000	Crombie Real Estate Investment Trust	881,990	1,015,200
		881,990	1,015,200
	Industrials - 20.06% *		
35,000	Bird Construction Income Fund	1,153,552	1,075,200
60,000	Brookfield Infrastructure Partners L.P.	1,074,320	1,004,400
235,000	CanWel Building Materials Group Ltd.	968,038	914,150
225,000	Student Transportation Inc.	1,114,176	1,215,000
		4,310,086	4,208,750
	Information Technology - 2.36% *		
25,000	MOSAID Technologies Inc.	532,010	494,250
		532,010	494,250
	Utilities - 5.69% *		
100,000	Inter Pipeline Fund L.P., Class A units	1,198,858	1,195,000
		1,198,858	1,195,000
	Other - 2.83% *		
55,000	Deans Knight Income Corp.	575,055	594,550
		575,055	594,550
	Total Canadian equities - 87.96% *	18,425,883	18,456,555

* fair value as a percentage of Net Assets

See accompanying notes

Galileo High Income Plus Fund

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

As at June 30, 2010

Par value		Average cost (\$)	Fair value (\$)
FIXED INCOME			
	Corporate - 2.01% *		
393,750	Algonquin Power & Utilities Corp., Callable, Convertible, 7.5%, 11/30/14	415,012	421,352
		415,012	421,352
	Financial - 2.20% *		
450,000	H&R Real Estate Investment Trust, Convertible, 6.0%, 06/30/17	454,250	462,375
		454,250	462,375
	Industrials - 2.39% *		
500,000	Student Transportation, Convertible, 6.75%, 06/30/15	500,000	500,550
		500,000	500,550
Total Fixed Income - 6.60% *		1,369,262	1,384,277
Transaction costs		(47,761)	
Total investments - 94.56% *		19,747,384	19,840,832
Other assets, net of liabilities - 5.44% *			1,141,552
Total net assets - 100.00%			20,982,384

* fair value as a percentage of Net Assets

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF NET ASSETS (unaudited)

As at June 30, 2010 and December 31, 2009

	2010	2009
Assets		
Investments, at fair value (cost: \$12,580,967, 2009 - \$9,956,661)	\$ 11,719,174	\$ 11,870,618
Cash	417,720	165,425
Accrued investment income	21,866	1,014
Receivable for securities sold	-	202,378
	12,158,760	12,239,435
Liabilities		
Management fees payable (note 5)	13,669	12,617
Accrued expenses	5,088	4,831
Payable for portfolio securities purchased	124,724	35,647
Payable for units redeemed	-	581
	143,481	53,676
Net Assets Representing Unitholders' Equity	\$ 12,015,279	\$ 12,185,759
Net Assets per Class		
Class A	\$ 3,861,302	\$ 3,492,556
Class F	\$ 8,153,977	\$ 8,693,203
Net Assets per Unit (notes 4 and 7)		
Class A	\$ 13.71	\$ 14.69
Class F	\$ 13.59	\$ 14.49

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF OPERATIONS (unaudited)

For the six months ended June 30

	2010	2009
Income		
Interest	\$ -	\$ 14,314
Dividend	21,254	18,081
Gain (loss) on derivatives	-	1,712
	21,254	34,107
Expenses (note 5)		
Management fees	85,685	25,619
Custodial fees	9,452	6,152
Audit fees	14,874	9,975
Legal and regulatory fees	14,970	9,551
Operating fees	17,063	17,063
	142,044	68,360
Expenses waived or absorbed by the Manager	(24,233)	(22,119)
	117,811	46,241
Net Investment Income (Loss)	(96,557)	(12,134)
Realized and Unrealized Gain (Loss) on Investments		
Net realized gain (loss) on sale of investments	2,371,961	(543,065)
Net realized (loss) gain on foreign currency	(66,658)	(46,941)
Transaction costs	(272,137)	(85,296)
Change in unrealized appreciation (depreciation) of investments	(2,775,750)	639,922
Net Gain (Loss) on Investments	(742,584)	(35,380)
Increase (Decrease) in Net Assets from Operations	\$ (839,141)	\$ (47,514)
Increase (Decrease) in Net Assets from Operations per Class		
Class A	\$ (317,144)	\$ (28,186)
Class F	\$ (521,997)	\$ (19,328)
Increase (Decrease) in Net Assets from Operations per Unit		
Class A	\$ (1.20)	\$ (0.84)
Class F	\$ (0.86)	\$ (0.04)

* based upon average number of units outstanding during period

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENTS OF CHANGES IN NET ASSETS (unaudited)

For the six months ended June 30

	2010	2009
CLASS A		
Net Assets, Beginning of Period	\$ 3,492,556	\$ 41,343
Increase (Decrease) in Net Assets from Operations	(317,144)	(28,186)
Changes Due to Unitholder Transactions (note 4)		
Amount received from the issuance of units	1,232,555	69,674
Amount received from the issuance of units due to merger (note 10)	-	1,945,987
Amount paid on redemptions of units	(546,665)	(62,176)
	685,890	1,953,485
Increase (Decrease) in Net Assets for the Period	368,746	1,925,299
Net Assets, End of Period	\$ 3,861,302	\$ 1,966,642
CLASS F		
Net Assets, Beginning of Period	\$ 8,693,203	\$ 5,282,915
Increase (Decrease) in Net Assets from Operations	(521,997)	(19,327)
Changes Due to Unitholder Transactions (note 4)		
Amount received from the issuance of units	198,500	-
Amount received from the issuance of units due to merger (note 10)	-	2,498,163
Amount paid on redemptions of units	(215,729)	(859,436)
	(17,229)	1,638,727
Increase (Decrease) in Net Assets for the Period	(539,226)	1,619,400
Net Assets, End of Period	\$ 8,153,977	\$ 6,902,315

See accompanying notes

Galileo Small/Mid Cap Fund

STATEMENT OF INVESTMENT PORTFOLIO (unaudited)

As at June 30, 2010

Number of shares/units		Average cost (\$)	Fair value (\$)
CANADIAN EQUITIES			
Energy - 30.81% *			
1,100,000	Alange Energy Corp.	468,853	379,500
110,000	Bankers Petroleum Ltd.	769,298	768,900
100,000	Emerge Oil & Gas Inc.	366,876	313,000
200,000	NaiKun Wind Energy Group Inc.	174,759	33,000
1,800,000	Reliable Energy Ltd.	630,740	522,000
150,000	Secure Energy Services Inc.,	489,968	532,500
150,000	TriOil Resources Ltd., Class 'A'	811,347	601,500
90,000	Vero Energy Inc.	583,656	551,700
		4,295,497	3,702,100
Industrials - 0.99% *			
100,000	Zongshen PEM Power Systems Inc.	114,646	119,000
		114,646	119,000
Materials - 41.12% *			
100,000	AuEx Ventures Inc.	337,289	344,000
240,000	Colombian Mines Corp.	272,616	192,000
20,000	Conifex Timber Inc.	165,200	163,200
60,000	East Asia Minerals Corp.	157,327	373,800
50,000	Exeter Resource Corp.	391,386	332,000
100,000	Fronteer Gold Inc.	530,748	632,000
100,000	Lithium Americas Corp.	182,455	126,000
1,000,000	Medoro Resources Ltd.	622,670	680,000
200,000	Medoro Resources Ltd., Warrants, 07/22/11	-	62,243
467,000	Medoro Resources Ltd., Warrants, 11/03/11	52,538	60,710
150,000	Mirabela Nickel Ltd.	398,305	265,500
30,000	Sino-Forest Corp.	567,970	453,900
50,000	SouthGobi Energy Resources Ltd.	563,893	621,000
150,000	Thompson Creek Metals Co. Inc., Warrants, 10/23/11	753,718	429,000
250,000	Western Lithium USA Corp.	323,664	205,000
		5,319,779	4,940,353
Other - 2.66% *			
75,000	DPF India Opportunities Fund	337,573	319,500
		337,573	319,500
Total Canadian equities - 75.58% *		10,067,495	9,080,953

*fair value as a percentage of Net Assets

See accompanying notes

Galileo Small/Mid Cap Fund

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

As at June 30, 2010

Number of shares/units		Average cost (\$)	Fair value (\$)
FOREIGN EQUITIES			
	Consumer Discretionary - 1.76% *		
100,000	Cathay Pacific Airways	209,412	211,243
		209,412	211,243
	Consumer Staples - 3.97% *		
1,500,000	Fook Woo Group Holdings Ltd.	409,648	476,934
		409,648	476,934
	Financials - 2.24% *		
405,000	KWG Property Holding Ltd.	286,728	268,598
		286,728	268,598
	Industrials - 11.79% *		
40,000	China Yuchai International Ltd.	670,566	651,192
500,000	EVA Precision Industrial Holdings Ltd.	233,231	246,314
300,000	Road King Infrastructure Ltd.	241,653	242,766
25,000	Singapore Airlines Ltd.	268,231	276,680
		1,413,681	1,416,952
	Other - 2.20% *		
10,000	Market Vectors Vietman ETF	257,462	264,494
		257,462	264,494
	Total Foreign equities - 21.96% *	2,576,931	2,638,221
	Transaction costs	(63,459)	
	Total investments - 97.54% *	12,580,967	11,719,174
	Other assets, net of liabilities - 2.46% *		296,105
	Total net assets - 100.00% *		12,015,279

*fair value as a percentage of Net Assets

See accompanying notes

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

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"]	

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 "Manager"). Galileo Global Equity Advisors Inc. ("GGEA") is the portfolio advisor for the Funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying GAAP, management may 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. Actual results could differ from those estimates.

Future accounting standards

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. The AcSB proposes to defer its IFRS changeover date for investment funds from the original date of January 1, 2011 to January 1, 2012. The proposed amendment to the CICA Handbook would allow investment companies applying Accounting Guideline 18 to continue to apply the current accounting standards for an additional year. The AcSB proposal is expected to be finalized in September 2010. Management has commenced the development of a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to IFRS. The key elements of the plan include identifying differences between the current accounting policies and the applicable standards under IFRS, as well as assessing and evaluating any potential changes to accounting policies, business and reporting processes, information technology, internal controls, staffing and training requirements. Management has determined that there will be no impact to the Net Assets per Unit resulting from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the area of additional note disclosures in the financial statements of the Funds.

Amendment to S.3862 on Fair Value Measurement

The AcSB issued an amendment to S.3862 Financial Instruments which applies for fiscal years ending after September 30, 2009. The amendment introduces a fair value hierarchy which provides more information on the relative observability of inputs to fair value measurements. Refer to Note 8f) for these additional disclosures.

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

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

Valuation of investments

In accordance with Accounting Guideline 18, Investment Companies, investments are deemed to be categorized as held for trading, and are required to be recorded at fair value as defined in CICA S.3855 Financial Instruments - Recognition and Measurement.

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 or depreciation of investments" and in the Statements of Net Assets in "unrealized gain or loss on derivatives". When foreign currency contracts are closed out, gains and losses are realized and are included in "net realized gain or loss on foreign currency" in the Statements of Operations.

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 or loss on sale of investments" and "change in unrealized appreciation or 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 or 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.

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

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

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.

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.

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.

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

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 period. In accordance with the objectives and risk management policies outlined in Note 8, the Funds endeavor to invest subscriptions while maintaining sufficient liquidity to meet redemptions. Unit transactions during the periods were as follows:

January 1 to June 30, 2010

Fund	Units Outstanding Beginning of Year	Issued	Redeemed	Reinvested from Distributions	Units Outstanding June 30, 2010
Galileo High Income Plus					
Class A	976,238	696,438	164,328	41,017	1,549,365
Class F	18,168	33,362	-	1,263	52,793
Galileo Small/Mid Cap					
Class A	237,765	80,602	36,740	-	281,627
Class F	599,979	13,266	13,447	-	599,798

January 1 to December 31, 2009

Fund	Units Outstanding Beginning of Year	Issued	Issued from Merger	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

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

5. EXPENSES

The Funds are responsible for reasonable expenses incurred in the operation of the Funds, such as audit, legal, custodian and other professional fees. The Manager pays for these expenses on behalf of the Funds, and is reimbursed by the Funds for such expenses. The Funds' Manager has, at its discretion, agreed to absorb certain expenses. The absorbed amounts are reported 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.

Pursuant to a management agreement, the Funds have retained the Manager to run the day to day operations and GGEA to provide investment advisory services on behalf of the Funds. Under this agreement, each Fund pays a management fee which is accrued daily and paid monthly. 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%

6. INCOME TAXES

The Funds are mutual fund trusts 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. Capital losses may be carried forward indefinitely to reduce future capital gains, and non-capital losses expire within the next twenty years.

As at December 31, 2009, the Funds had the following 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	-

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

7. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, a 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 June 30, 2010:

Fund	Net Asset Value per unit \$	Section 3855 Adjustments \$	Net Assets Per Unit \$
Galileo High Income			
Plus			
Class A	13.11	(0.03)	13.08
Class F	13.62	(0.03)	13.59
Galileo Small/Mid Cap			
Class A	13.85	(0.14)	13.71
Class F	13.73	(0.14)	13.59

As at December 31, 2009:

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

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

8. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

Fair Value

Financial instruments of the Funds consist of investments, cash, accrued investment income, receivable for portfolio securities sold, receivable for units issued, payable for portfolio securities purchased, distributions payable to unitholders, payable for units redeemed, management fees payable, and accrued expenses. Investments are carried at their fair value as described in note 2. All other financial investments are carried at cost as they approximate their fair value given their short-term nature.

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 include 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 Galileo High Income Plus Fund invests in fixed income securities which bear interest at fixed rates and, as such, is 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 as at the period end.

Galileo High Income Plus Fund

As at June 30, 2010

Investment	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years	Total
Fixed Income	\$ -	\$ -	\$ 921,902	\$ 462,375	\$ 1,384,277

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

8. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)

Market Risk (cont'd)

a) Interest Rate Risk (cont'd)

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

At June 30, 2010, should interest rates have increased or decreased by 100 basis points with all other variables remaining constant, the net assets of the Galileo High Income Plus Fund would have increased or decreased by \$64,395 (December 31, 2009 - \$77,522).

The Galileo Small/Mid Cap Fund is not subject to interest rate risk as at June 30, 2010 and December 31, 2009.

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 had exposure as at the period end in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. All other variables held constant, as a result of a 5% change in these currencies relative to the Canadian dollar, the Fund's net assets would have increased or decreased by \$131,911 (December 31, 2009 - \$167,352). 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 June 30, 2010

Currency	Investments (\$)	Impact on Net Assets (\$)
Hong Kong Dollar	1,445,855	72,293
U.S. Dollar	915,686	45,784
Singapore	276,680	13,834

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

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

8. 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 June 30, 2010

Fund	Change in Net Assets (\$)
Galileo High Income Plus Fund	992,042
Galileo Small/Mid Cap Fund	585,959

As at December 31, 2009

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

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 investments represents the maximum credit risk exposure as at June 30, 2010. This Fund invests in financial assets, which have an investment grade as rated by Standard & Poor's. Ratings for securities that subject each Fund to credit risk at the period end are noted below:

As at June 30, 2010

Fund	Debt Rating as a Percentage of Net Assets		
	Unrated	BBB	Total
Galileo High Income Plus Fund	2.4%	4.2%	6.6%

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

8. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)

Market Risk (cont'd)

d) Credit Risk (cont'd)

As at December 31, 2009

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

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.

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 the 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.

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

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (cont'd)

Market Risk (cont'd)

f) Fair Value Hierarchy (cont'd)

The table below summarizes the categories for each Fund at each period end:

As at June 30, 2010

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Galileo High Income Plus Fund				
Equities	18,456,555	-	-	
Fixed Income	-	1,384,277	-	
				19,840,832
Galileo Small / Mid Cap Fund				
Equities	11,656,931	62,243	-	
Fixed Income	-	-	-	
				11,719,174

As at December 31, 2009

	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 period ended June 30, 2010 and year ended December 31, 2009, no investments were transferred from Level 1 to Level 2 or vice versa.

9. 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.

Galileo Funds

Notes to the Financial Statements

For the periods ended June 30, 2010 and December 31, 2009 (unaudited)

10. 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.

11. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform with the current period's presentation.