

Galileo High Income Plus Fund
Galileo Global Opportunities Fund
(formerly Galileo Small/Mid Cap Fund)

Financial Statements
December 31, 2010

March 28, 2011

Independent Auditor's Report

To the Unitholders of
Galileo High Income Plus Fund
Galileo Global Opportunities Fund (formerly Galileo Small/Mid Cap Fund)
(collectively the Funds)

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of investment portfolio and net assets as at December 31, 2010 and the statements of operations and changes in net assets for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements of each of the Funds based on each of our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2010 and the results of each of their operations and the changes in each of their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements of the Funds as at December 31, 2009 and for the year then ended were audited by another firm who expressed an opinion without reservation on those financial statements in its report dated February 23, 2010.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Galileo High Income Plus Fund

Statement of Investment Portfolio

As at December 31, 2010

Number of shares/units	Description	Average cost \$	Fair value \$
Canadian equities			
Consumer discretionary (3.87%)*			
115,000	Cervus Equipment Corp.	1,416,933	1,725,000
Energy (46.07%)*			
110,000	Badger Income Fund	1,726,141	2,084,500
50,000	Baytex Energy Trust	1,786,949	2,329,500
83,400	Black Diamond Group Ltd.	1,340,418	1,791,432
70,000	Bonavista Energy Trust	1,738,283	2,016,000
45,000	Bonterra Oil & Gas Ltd.	1,765,029	2,301,750
50,000	Canadian Energy Services & Technology Corp.	747,152	1,460,000
180,400	Daylight Energy Ltd.	1,926,317	1,858,120
25,000	Freehold Royalty Trust	521,762	512,000
14,000	Pacific Northern Gas Ltd.	250,807	416,920
65,000	Pembina Pipeline Corp.	1,198,567	1,404,000
100,000	Penn West Energy Trust	2,216,103	2,382,000
150,000	Phoenix Technology Income Fund	1,405,091	1,987,500
		16,622,619	20,543,722
Financials (9.56%)*			
100,000	AGF Management Ltd., Class B	1,754,874	1,948,000
50,000	Crombie Real Estate Investment Trust	475,999	631,000
55,000	Power Financial Corp.	1,682,982	1,686,300
		3,913,855	4,265,300
Industrials (23.05%)*			
30,000	Bird Construction Income Fund	986,003	1,104,300
110,000	Canadian Helicopters Income Fund	1,625,896	1,789,700
350,000	CanWel Building Materials Group Ltd.	1,547,127	1,673,000
100,000	Exchange Income Corp.	1,609,272	1,751,000
350,000	Student Transportation Inc.	1,901,381	2,128,000
50,000	Wajax Income Fund	1,569,311	1,834,500
		9,238,990	10,280,500
Information technology (2.66%)*			
40,000	MOSAID Technologies Inc.	857,522	1,188,400
Materials (1.13%)*			
7,500	Labrador Iron Ore Royalty Corp., stapled units	516,912	504,375

Galileo High Income Plus Fund

Statement of Investment Portfolio ...continued

As at December 31, 2010

Number of shares/units	Description	Average cost \$	Fair value \$
	Utilities (4.18%)*		
125,000	Inter Pipeline Fund, Class A	1,535,434	1,863,750
	Other (2.51%)*		
90,000	Deans Knight Income Corp.	1,077,142	1,116,900
	Total Canadian equities (93.03%)*	35,179,407	41,487,947
	Foreign equities		
	Industrials (3.74%)		
80,000	Brookfield Infrastructure Partners L.P.	1,547,481	1,667,200
	Total foreign equities (3.74%)	1,547,481	1,667,200
	Fixed income		
	Corporate (0.00%)*		
750	Algonquin Power & Utilities Corp., callable, convertible, 7.5%, 11/30/14	791	914
	Industrials (1.51%)*		
660,000	Student Transportation Inc., convertible, 6.75%, 06/30/15	666,685	673,200
	Total fixed income (1.51%)*	667,476	674,114
	Transaction costs	(86,673)	-
	Total investments (98.28%)*	37,307,691	43,829,261
	Other assets, net of liabilities (1.72%)*		766,062
	Total net assets (100.00%)		44,595,323

* Fair value as a percentage of net assets

The accompanying notes are an integral part of these financial statements.

Galileo High Income Plus Fund

Statement of Net Assets

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Investments - at fair value (average cost - \$37,307,691; 2009 - \$10,496,210)	43,829,261	12,430,734
Cash	253,836	317,146
Accrued investment income	257,041	80,695
Receivable for securities sold	239,600	523,415
Receivable for units issued	338,481	2,147
	<u>44,918,219</u>	<u>13,354,137</u>
Liabilities		
Management fees payable (note 5)	72,911	20,976
Distributions payable to unitholders	-	22,998
Accrued expenses	18,524	5,260
Payable for securities purchased	154,480	185,350
Payable for units redeemed	76,981	777
	<u>322,896</u>	<u>235,361</u>
Net Assets Representing Unitholders' Equity	<u>44,595,323</u>	<u>13,118,776</u>
Net assets per class		
Class A	42,088,400	12,871,101
Class F	2,506,923	247,675
Net assets per unit (notes 4 and 7)		
Class A	16.37	13.18
Class F	17.11	13.63

The accompanying notes are an integral part of these financial statements.

Galileo High Income Plus Fund

Statement of Operations

For the year ended December 31, 2010

	2010 \$	2009 \$
Income		
Interest	640,780	526,998
Dividend	885,855	87,997
	<u>1,526,635</u>	<u>614,995</u>
Expenses (note 5)		
Management fees	488,917	169,473
Legal and regulatory fees	41,524	40,889
Audit fees	39,097	27,387
Custodial fees	48,475	47,107
	<u>618,013</u>	<u>284,856</u>
Expenses waived or absorbed by Manager	<u>(5,452)</u>	<u>(68,698)</u>
	<u>612,561</u>	<u>216,158</u>
Net investment income	<u>914,074</u>	<u>398,837</u>
Realized and unrealized gain (loss) on investments		
Net realized gain on sale of investments	2,441,247	455,261
Net realized loss on foreign currency	(735)	-
Transaction costs	(197,366)	(132,285)
Change in unrealized appreciation of investments	4,587,046	3,365,620
	<u>6,830,192</u>	<u>3,688,596</u>
Net gain on investments	<u>6,830,192</u>	<u>3,688,596</u>
Increase in net assets from operations	<u>7,744,266</u>	<u>4,087,433</u>
Increase in net assets from operations per class		
Class A	7,439,630	4,013,774
Class F	304,636	73,659
Increase in net assets from operations per unit*		
Class A	4.62	5.12
Class F	5.48	5.30

* Based on weighted average number of units outstanding during the year

The accompanying notes are an integral part of these financial statements.

Galileo High Income Plus Fund

Statement of Changes in Net Assets

For the year ended December 31, 2010

	2010 \$	2009 \$
Class A		
Net assets - Beginning of year	12,871,101	6,451,394
Increase in net assets from operations	7,439,630	4,013,774
Distributions paid or payable to unitholders		
From net investment income	(763,894)	(445,895)
From net realized capital gains	(1,153,034)	(59,042)
From return of capital	-	(189,829)
	(1,916,928)	(694,766)
Changes due to unitholder transactions (note 4)		
Amount received from issuance of units	25,625,823	3,754,709
Amount received from reinvestment of distributions	1,381,760	497,292
Amount paid on redemptions of units	(3,312,986)	(1,151,302)
	23,694,597	3,100,699
Increase in net assets for the year	29,217,299	6,419,707
Net assets - End of year	42,088,400	12,871,101
Class F		
Net assets - Beginning of year	247,675	126,459
Increase in net assets from operations	304,636	73,659
Distributions paid or payable to unitholders		
From net investment income	(24,371)	(7,890)
From net realized capital gains	(45,103)	(1,078)
From return of capital	-	(3,456)
	(69,474)	(12,424)
Changes due to unitholder transactions (note 4)		
Amount received from issuance of units	1,991,803	76,950
Amount received from reinvestment of distributions	61,357	10,771
Amount paid on redemptions of units	(29,074)	(27,740)
	2,024,086	59,981
Increase in net assets for the year	2,259,248	121,216
Net assets - End of year	2,506,923	247,675

The accompanying notes are an integral part of these financial statements.

Galileo Global Opportunities Fund

Statement of Investment Portfolio

As at December 31, 2010

Number of shares/units	Description	Average cost \$	Fair value \$
Canadian equities			
Energy (48.31%)*			
80,000	Bankers Petroleum Ltd.	581,007	608,000
1,000,000	Ceres Capital Corp.	345,037	335,000
325,000	Essential Energy Services Trust	577,534	685,750
75,000	Painted Pony Petroleum Ltd., Class A	638,370	653,250
600,000	Petro Uno Resources Ltd.	393,948	384,000
350,000	PetroNova Inc.	528,655	528,500
170,500	Pinecrest Energy Inc.	426,493	468,875
75,000	Primary Petroleum Corp.	70,582	69,000
168,100	Renegade Petroleum Ltd.	525,453	680,805
100,000	Secure Energy Services Inc.	349,270	582,000
175,000	Spartan Exploration Ltd.	762,096	861,000
28,000	TriOil Resources Ltd., Class A	152,969	126,000
100,000	Whitecap Resources Inc.	557,536	624,000
		5,908,950	6,606,180
Industrials (0.41%)*			
62,800	Zongshen PEM Power Systems Inc.	71,621	56,520
Materials (28.66%)*			
85,000	Alderon Resource Corp.	270,077	261,800
28,200	Conifex Timber Inc.	228,506	234,060
80,100	East Asia Minerals Corp.	418,158	656,820
320,000	Eastern Platinum Ltd.	530,671	566,400
30,000	Fronteer Gold Inc.	185,655	348,300
200,000	Galway Resources Ltd.	200,000	222,000
150,000	Gran Colombia Gold Corp.	206,842	327,000
125,000	Gran Colombia Gold Corp., warrants, 2015/08/24	52,500	118,750
30,000	Grande Cache Coal Corp.	231,806	314,100
200,000	Medoro Resources Ltd., warrants, 2011/07/22	-	63,278
350,000	North Country Gold Corp.	362,596	472,500
20,000	Quadra FNX Mining Ltd.	269,128	334,200
		2,955,939	3,919,208
Total Canadian equities (77.38%)*		8,936,510	10,581,908
Foreign equities			
Consumer staples (1.98%)*			
700,000	Fook Woo Group Holdings Ltd.	191,169	270,217

Galileo Global Opportunities Fund

Statement of Investment Portfolio ...continued

As at December 31, 2010

Number of shares/units	Description	Average cost \$	Fair value \$
	Financials (1.37%)*		
500,000	Country Garden Holdings Co.	214,862	187,900
	Industrials (14.51%)*		
15,000	China Yuchai International Ltd.	320,394	471,735
30,000	Fibria Celulose SA, ADR	550,539	476,952
30,000	Hollysys Automation Technologies Ltd.	401,168	451,912
500,000	Shenzhen Expressway Co. Ltd., Class H	290,780	292,714
75,000	Zhuzhou CSR Times Electric Co. Ltd., Series H	285,349	291,436
		1,848,230	1,984,749
	Other (3.41%)*		
450,000	China Metal Recycling Holdings Ltd.	514,102	466,489
	Total foreign equities (21.27%)*	2,768,363	2,909,355
	Transaction costs	(57,556)	-
	Total investments (98.65%)*	11,647,317	13,491,263
	Other assets, net of liabilities (1.35%)*		184,124
	Total net assets (100.00%)*		13,675,387

* Fair value as a percentage of net assets

The accompanying notes are an integral part of these financial statements.

Galileo Global Opportunities Fund

Statement of Net Assets

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Investments - at fair value (average cost - \$11,647,317; 2009 - \$9,956,661)	13,491,263	11,870,618
Cash	647,785	165,425
Accrued investment income	948	1,014
Receivable for units issued	16,080	-
Receivable for securities sold	244,654	202,378
	<u>14,400,730</u>	<u>12,239,435</u>
Liabilities		
Management fees payable (note 5)	18,087	12,617
Accrued expenses	5,917	4,831
Payable for portfolio securities purchased	676,949	35,647
Payable for units redeemed	24,390	581
	<u>725,343</u>	<u>53,676</u>
Net Assets Representing Unitholders' Equity	<u>13,675,387</u>	<u>12,185,759</u>
Net assets per class		
Class A	6,674,047	3,492,556
Class F	7,001,340	8,693,203
Net assets per unit (notes 4 and 7)		
Class A	18.12	14.69
Class F	18.08	14.49

The accompanying notes are an integral part of these financial statements.

Galileo Global Opportunities Fund

Statement of Operations

For the year ended December 31, 2010

	2010 \$	2009 \$
Income		
Interest	402	17,869
Dividend	53,938	50,031
Class action proceeds	88,661	-
Other	189	-
	<u>143,190</u>	<u>67,900</u>
Expenses (note 5)		
Management fees	175,020	90,890
Custodial fees	47,690	57,900
Audit fees	38,464	27,387
Legal and regulatory fees	40,852	40,889
	<u>302,026</u>	<u>217,066</u>
Expenses waived or absorbed by Manager	<u>(63,943)</u>	<u>(80,056)</u>
	<u>238,083</u>	<u>137,010</u>
Net investment loss	<u>(94,893)</u>	<u>(69,110)</u>
Realized and unrealized gain (loss) on investments		
Net realized gain on sale of investments	3,009,935	1,122,860
Net realized loss on foreign currency	(106,834)	(104,851)
Transaction costs	(480,445)	(253,799)
Change in unrealized appreciation (depreciation) of investments	(70,013)	2,501,068
Change in unrealized depreciation on forward foreign exchange contracts	-	(8,011)
	<u>2,352,643</u>	<u>3,257,267</u>
Net gain on investments	<u>2,352,643</u>	<u>3,257,267</u>
Increase in net assets from operations	<u>2,257,750</u>	<u>3,188,157</u>
Increase in net assets from operations per class		
Class A	1,038,494	761,612
Class F	1,219,256	2,426,545
Increase in net assets from operations per unit*		
Class A	3.64	6.32
Class F	2.30	4.31

* Based on weighted average number of units outstanding during the year

The accompanying notes are an integral part of these financial statements.

Galileo Global Opportunities Fund

Statement of Changes in Net Assets

For the year ended December 31, 2010

	2010 \$	2009 \$
Class A		
Net assets - Beginning of year	3,492,556	41,343
Increase in net assets from operations	1,038,494	761,612
Changes due to unitholder transactions (note 4)		
Amount received from issuance of units	3,216,582	1,214,468
Amount received from issuance of units due to merger (note 10)	-	1,945,987
Amount paid on redemptions of units	(1,073,585)	(470,854)
	2,142,997	2,689,601
Increase in net assets for the year	3,181,491	3,451,213
Net assets - End of year	6,674,047	3,492,556
Class F		
Net assets - Beginning of year	8,693,203	5,282,915
Increase in net assets from operations	1,219,256	2,426,545
Changes due to unitholder transactions (note 4)		
Amount received from issuance of units	382,248	-
Amount received from issuance of units due to merger (note 10)	-	2,498,163
Amount paid on redemptions of units	(3,293,367)	(1,514,420)
	(2,911,119)	983,743
(Decrease) increase in net assets for the year	(1,691,863)	3,410,288
Net assets - End of year	7,001,340	8,693,203

The accompanying notes are an integral part of these financial statements.

Galileo High Income Plus Fund

Galileo Global Opportunities Fund

Notes to Financial Statements

December 31, 2010

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 noted below:

Galileo High Income Plus Fund	September 14, 2006
Galileo Global Opportunities Fund	June 15, 2000

Effective November 15, 2010, the name of the Galileo Small/Mid Cap Fund was changed to Galileo Global Opportunities Fund and its investment mandate was expanded to be more global in scope.

Galileo Funds Inc. acts as the Trustee and the Manager of the Funds (the Manager). Galileo Global Equity Advisors Inc. (GGEA) is the portfolio adviser 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 Canadian 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 year. 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. During 2010, the AcSB approved a one-year deferral of mandatory adoption of IFRS for investment funds and, again in 2011, the AcSB decided to extend it to January 1, 2013. Accordingly, IFRS will be adopted by the Funds for the fiscal year beginning on January 1, 2013. 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.

Galileo High Income Plus Fund

Galileo Global Opportunities Fund

Notes to Financial Statements

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Valuation of investments

Investments are categorized as held-for-trading and are required to be recorded at fair value.

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.

Forward 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 forward foreign exchange contracts and in the statements of net assets in unrealized gain or loss on derivatives. When forward foreign currency contracts are closed out, gains and losses are realized and are included in net realized gain or loss on forward foreign currency contracts 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, advisers, 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 currencies 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 year.

Galileo High Income Plus Fund

Galileo Global Opportunities Fund

Notes to Financial Statements

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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 based on valuing investments at bid prices (net assets). A reconciliation of net asset value and net assets is described in note 7.

The net assets of each class is computed by calculating the value of that class's proportionate share of the Fund's assets less that class's 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 income taxes. Distributions are recorded on the business day immediately following the record date.

Galileo High Income Plus Fund

Galileo Global Opportunities Fund

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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 Galileo Global Opportunities 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 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. In accordance with the objectives and risk management policies outlined in note 8, the Funds endeavour to invest subscriptions while maintaining sufficient liquidity to meet redemptions. Unit transactions during the year were as follows:

						2010
		Units outstanding - Beginning of year	Issued	Redeemed	Reinvested from distributions	Units outstanding - End of year
Galileo High Income Plus Fund						
Class A		976,238	1,736,349	(236,994)	95,691	2,571,284
Class F		18,168	126,058	(1,757)	4,043	146,512
Galileo Global Opportunities Fund						
Class A		237,765	202,732	(72,202)	-	368,295
Class F		599,979	24,048	(236,695)	-	387,332
						2009
		Units outstanding - Beginning of year	Issued	Issued from merger	Reinvested from distributions	Units outstanding - End of year
Galileo High Income Plus Fund						
Class A		714,094	326,061	-	(109,605)	976,238
Class F		13,678	5,977	-	(2,452)	18,168
Galileo Global Opportunities Fund						
Class A		3,923	90,852	180,803	(37,813)	237,765
Class F		513,804	-	236,748	(150,573)	599,979

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

Galileo High Income Plus Fund

Galileo Global Opportunities Fund

Notes to Financial Statements

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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 HST for the Class A and Class F units are based on a percentage of the average net asset value per annum as follows:

	Class A %	Class F %
Galileo High Income Plus Fund	1.90	0.90
Galileo Global Opportunities 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 income taxes on their net investment income, including net realized capital gains for the year, which are not paid or payable to their unitholders as at the end of the year. The Funds use the capital gains refund mechanism, which allows mutual fund trusts to retain some capital gains without paying any tax thereon. As a result, the Funds may not distribute all their net capital gains. 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 income 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 20 years.

As at December 31, 2010, the Funds had the following capital and non-capital losses to be carried forward.

	Total net capital losses \$	Total non- capital losses \$
Galileo High Income Plus Fund	392,747	-
Galileo Global Opportunities Fund	216,417	-

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 years. 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

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currently used for the purpose of determining net asset value. 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:

	2010	
	Net asset value per unit \$	Net assets per unit \$
Galileo High Income Plus Fund		
Class A	16.43	16.37
Class F	17.17	17.11
Galileo Global Opportunities Fund		
Class A	18.25	18.12
Class F	18.20	18.08
	2009	
	Net asset value per unit \$	Net assets per unit \$
Galileo High Income Plus Fund		
Class A	13.25	13.18
Class F	13.70	13.63
Galileo Global Opportunities Fund		
Class A	14.85	14.69
Class F	14.64	14.49

8 Financial instruments and risk disclosures

Fair value

Financial instruments of the Funds consist of investments, accrued investment income, receivable for 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 instruments are carried at amortized cost, which approximates 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 market risk, which includes

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interest rate risk, currency risk and other price risk, credit risk and liquidity risk. These risks and related risk management practices employed by the Funds are discussed below. The sensitivity analysis shown in the notes to the financial 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

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 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 repricing or maturity dates as at the year-end.

Galileo High Income Plus Fund

					2010
	Less than 1 year \$	1 - 3 years \$	3 - 5 years \$	More than 5 years \$	Total \$
Investment					
Fixed income	-	-	674,114	-	674,114
					2009
	Less than 1 year \$	1 - 3 years \$	3 - 5 years \$	More than 5 years \$	Total \$
Investment					
Fixed income	-	582,188	1,190,156	250,000	2,022,344

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As at December 31, 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 \$26,737 (2009 - \$77,522).

The Galileo Global Opportunities Fund is not subject to interest rate risk as at December 31, 2010 and 2009.

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 year-end in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material. The Galileo High Income Plus Fund was not subject to currency risk as at December 31, 2009.

		2010
		Investments
		\$
		Impact on
		net assets of
		5% change
		\$
Currency		
Galileo High Income Plus Fund		
US dollar		13,663
683		
Galileo Global Opportunities Fund		
Hong Kong dollar		1,508,756
75,438		
US dollar		1,400,599
70,030		
		2009
		Investments
		\$
		Impact on
		net assets of
		5% change
		\$
Currency		
Galileo Global Opportunities Fund		
Hong Kong dollar		2,750,312
137,516		
Australian dollar		463,308
23,165		
US dollar		133,420
6,671		

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Other price risk

Other price risk is the risk that the fair value or 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 investments 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 adviser moderates this risk through a careful selection of securities within specified limits and the Funds' 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 increased or decreased by 5%, with all other variables held constant, the following table shows the amount which the net assets of the respective Funds would have increased or decreased:

	Change in net assets	
	2010 \$	2009 \$
Galileo High Income Plus Fund	2,157,757	520,420
Galileo Global Opportunities Fund	674,563	593,531

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 Global Opportunities Fund is not subject to significant credit risk as at December 31, 2010 and 2009.

The Galileo High Income Plus Fund has significant credit risk. The Fund's greatest concentration of credit risk is in fixed income securities. This Fund limits its exposure to credit loss by placing its cash investments with high credit quality borrowers. The fair value of fixed income securities includes consideration of the creditworthiness of the fixed income securities. The carrying value of investments represents the maximum credit risk exposure as at December 31, 2010 and 2009. Standard & Poor's ratings for fixed income securities that subject the Galileo High Income Plus Fund to credit risk at the year-end are noted below:

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	2010		
	Debt rating as a percentage of net assets		
	Unrated %	BBB %	Total %
Galileo High Income Plus Fund	1.5	-	1.5
	2009		
	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 on 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.

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 of). 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.

Fair value hierarchy

The Funds are required to classify each financial instrument into one of three fair value levels. The hierarchy is summarized as:

- Level 1 Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities
- Level 2 Inputs that are observable for the financial asset or financial liability, either directly (prices) or indirectly (derived from prices)
- Level 3 Inputs for financial assets and financial liabilities not based on observable market data

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The table below summarizes the categories for each Fund as at each year-end:

				2010
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Galileo High Income Plus Fund				
Equities	43,155,147	-	-	43,155,147
Fixed income	-	674,114	-	674,114
				<u>43,829,261</u>
Galileo Global Opportunities Fund				
Equities	13,427,985	63,278	-	13,491,263
Fixed income	-	-	-	-
				<u>13,491,263</u>
				2009
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Galileo High Income Plus Fund				
Equities	10,408,390	-	-	10,408,390
Fixed income	-	2,022,344	-	2,022,344
				<u>12,430,734</u>
Galileo Global Opportunities Fund				
Equities	11,864,618	6,000	-	11,870,618
Fixed income	-	-	-	-
				<u>11,870,618</u>

For the years ended December 31, 2010 and 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. As at December 31, 2010, officers and directors hold 3.2% of the net asset value of Galileo High Income Plus Fund and 4.1% of the net asset value of Galileo Global Opportunities Fund.

All transactions with related parties are measured at the exchange amounts.

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10 Mergers and terminations

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

	Net asset value per unit \$	Outstanding units to be fully redeemed	\$	Merge in shares
Terminating Funds				
Galileo Canadian Active/Passive Fund - Class A	9.374	34,288.11	321,417	29,863.12
Galileo Canadian Active/Passive Fund - Class F	9.456	2,887.64	27,305	2,587.71
Galileo Global Active/Passive Fund - Class A	7.629	60,248.50	459,636	42,705.18
Galileo Global Active/Passive Fund - Class F	7.853	86,106.45	676,194	64,082.07
Galileo Fund - Class A	8.214	138,152.90	1,134,788	105,434.17
Galileo Fund - Class F	8.875	95,036.28	843,447	79,932.43
Galileo Absolute Return Fund - Class A	10.457	2,882.87	30,146	2,800.91
Galileo Absolute Return Fund - Class F	10.184	93,403.04	951,217	90,145.62
	Net asset value per unit \$	Units outstanding as at May 31, 2009	Subscriptions from Terminating Funds \$	Units
Continuing Funds				
Galileo Global Opportunities Fund - Class A	10.7630	3,063.28	1,945,987	180,803.38
Galileo Global Opportunities Fund - Class 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 income 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 on the merger. None of the costs related to the merger have been charged to the Funds.

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

11 Comparative information

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.