

Dear Unitholder:

An Independent Review Committee (the “IRC”) of the Galileo Funds (the “Funds”) was established July 10, 2007 pursuant to *National Instrument 81-107, Independent Review Committee for Investment Funds* (“NI 81-107”) to provide advice to Galileo Funds Inc., the manager of the Funds (the “Manager”), regarding certain conflicts of interest in mutual fund management. The members of the IRC have expertise in a variety of fields, including financial institutions, investment funds, other investment businesses and accounting. This is its first annual report to unitholders of the Funds under the requirements of NI 81-107.

Securities regulators have given the IRC a mandate to review mutual fund conflict of interest matters identified and referred to the IRC by the Manager and to give its approval or recommendation, depending on the conflict of interest matter. The IRC’s focus is on the question of whether the Manager’s proposed action achieves a fair and reasonable result for the mutual fund. At least once per year, the IRC will also review and assess the adequacy and effectiveness of the policies and procedures relating to conflict of interest matters in respect of the Funds, and will also conduct a self-assessment of the IRC’s independence, compensation and effectiveness.

The IRC looks forward to continuing to serve in the best interests of the Funds and working effectively with management for the Funds.

John S. Willson

Chair of the Independent Review Committee

The members of the IRC are:

John S. Willson, Toronto, Ontario

Tom Caswell, Toronto, Ontario

Jerry Giroux, Toronto, Ontario

All of the members were appointed to the IRC July 10, 2007 and there have been no changes in the constituency of the IRC since its inception. None of the members is a member of any other Independent Review Committee.

Holdings of Securities:

(a) Funds

As at December 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class of the Funds covered by this report.

(b) Manager

As at December 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities the Manager.

(c) Service providers

As at August 31, 2007, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of a person or company that provides services to the Funds or the Manager with respect to its fund business.

IRC Compensation and Indemnities

The aggregate compensation paid by the Funds to the IRC for the approximately six-month period, from the inception of the IRC on July 10, 2007 to December 31, 2007, was \$15,000. This amount was allocated among the Funds in a manner that is considered by the Manager to be fair and reasonable to the Funds. The initial compensation of the IRC was set by the Manager. As at the date of this report, each member of the IRC receives an annual retainer of \$10,000. At least annually, the IRC will review compensation giving consideration to the following:

1. the best interests of the Funds;
2. industry best practices, including industry averages and surveys on IRC compensation;
3. the number, nature and complexity of the Funds for which the IRC acts; and
4. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy that is expected from each member.

No indemnities were paid to the IRC by the Funds or the Manager during the period.

Conflict of Interest Matters

The IRC is not aware of any instance in which the Manager acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval. The Manager has an obligation to notify the IRC of any such instances.

Policies and Standing Instructions

The Manager has policies and procedures in place to address each of the actions listed in this report. For each of these actions, the IRC has issued standing instructions to the Manager that require the Manager to comply with its related policy and procedures and to report periodically, and at least annually, to the IRC.

Approvals

As permitted by Canadian securities legislation, the Funds may vary investment restrictions and practices contained in securities legislation. As of the present time, the Funds have not applied for or received any exemptive relief.

Recommendations

When a conflict of interest matter arises, the Manager must refer the matter, along with its proposed action, to the IRC for its review and decision. These are the conflict of interest matters that have been identified by the Manager for the IRC to consider as at December 31, 2007:

1. Funds Investing in other Galileo Funds: There is the potential for a duplication of management fee paid by the investing fund and the timing of purchase and redemption

transactions may not be in the best interests of the investee fund.

2. Allocating Fund Expenses: The Manager recovers from the Funds operating expenses that it pays on behalf of the Funds. There is a potential conflict of interest in allocating Fund expenses because the Manager may be motivated to favour one Fund over another or to allocate expenses to Funds that the Manager should be bearing itself.

The IRC is **not** aware of any instance in which the Manager acted in a conflict of interest matter referred to the IRC for which the IRC **did not** give a positive recommendation.

Funds covered by this report (the Galileo Funds):

Galileo Absolute Return Fund
Galileo Canadian Active/Passive Fund
Galileo Fund
Galileo Global Active/Passive Fund
Galileo High Income plus Fund
Galileo Money Market Fund
Galileo Small/Mid Cap Fund