

Semi-annual Management Report of Fund Performance

June 30, 2009

Galileo Small/Mid Cap Fund

Management Discussion of Fund Performance

INVESTMENT OBJECTIVE AND STRATEGIES

The Fund invests primarily in shares of smaller and medium Canadian, Australian, and Hong Kong companies that are expected to profit from future economic growth, and may also invest in income and royalty trusts.

The portfolio manager uses a bottom-up, growth investment style. It seeks to invest in companies at an early stage of their development and hold them until they achieve success through rising sales, earnings and cash flow.

As part of its strategy, the Fund may engage in short selling as a result of special relief it obtained from the Canadian securities regulators and engage in securities lending as permitted by securities regulators.

RISK

The Fund decreased its position in its cash & cash equivalents during the period to 5.6% as signs of economic recovery prompted opportunities to pick up bargains in the market place both domestically and abroad. Accordingly, the portfolio now holds positions in Hong Kong (19.0%) and Australia (17.2%). The fund increased its holdings in the commodities sectors of Energy and Materials.

Investors in the Fund should have a long-term investment horizon. As this Fund invests in smaller and medium sized companies, there are general risks such as stock market and smaller company risks, among other risks, which are associated with such investments. The Fund did not participate in any short selling or securities lending during 2009.

RESULTS OF OPERATIONS

The Fund had net redemptions for the period of over \$900,000. This combined with the negative performance resulted in the net assets of the Fund decreasing by over 17% during 2009 prior to the merger on May 31, 2009 (see "Recent Developments" section). Interest income declined from 2008 as interest rate cuts by the Bank of Canada to historic low levels along with the decreased position in cash & cash equivalents in the portfolio. The dividends decreased in 2009, as the portfolio holds fewer securities with dividend yield.

The Fund underperformed its benchmark by over 15% during 2009. The Class A and Class F units of the Fund had performance of 1.1% and 1.6% respectively for 2009. The benchmark is a blend of 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index. The blended benchmark had a return of 16.2%. The S&P/TSX Mid Cap Index had a return of 14.5% and the S&P/TSX Small Cap Index had a return of 17.9% for the period.

The Fund underperformed relative to the Index as a result of holding a large cash position during the majority of the period as the stock market was showing signs of an economic recovery.

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-866-912-2288, by writing to us at Galileo Funds Inc., TD Canada Trust Tower, Suite 4730, 161 Bay Street, PO Box 205, Toronto, ON M5J 2S1, or by visiting our website at www.galileofunds.ca, or SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

RECENT DEVELOPMENTS

On May 31, 2009 the Galileo Canadian Active/Passive Fund, Galileo Global Active/Passive Fund, Galileo Fund, and Galileo Absolute Return Fund (“Terminating Funds”) merged into the Galileo Small/Mid Cap Fund (“Continuing Fund”). The merger was approved through a unitholder meeting and was carried out on a taxable basis under the Income Tax Act (Canada). The Continuing Fund assumed all the liabilities applicable of the Terminating funds in return for the insurance by the Continuing Fund of units equal in value to the net assets acquired from the Terminating Funds. As a result the unitholder of each Terminating Fund became unitholders of the Continuing Fund.

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 Manager of the Fund.

RELATED PARTY TRANSACTIONS

Galileo Funds Inc., the Fund’s Manager and Trustee, is a wholly owned subsidiary of Galileo Global Equity Advisors Inc., which is the Fund’s Portfolio Advisor. Galileo Funds Inc. receives management fees based on the average net assets of the Fund. The management fees are used to pay for sales and commissions, the investment management of the Fund and other general administration. For the period ended June 30, 2009, the total management fees charged by Galileo Funds Inc. to the Fund was \$25,619 (June 30, 2008 - \$33,514).

The Manager is also the Trustee of the Fund and is responsible for certain aspects of the day-to-day administration. The Fund reimbursed the Manager for certain operating costs incurred in administering the Fund of approximately \$20,621. The Manager absorbed approximately \$22,118 (2008 \$0) of total expenses. Such absorptions may be terminated at any time without notice.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance for the past 4 periods. This information is derived from the Fund’s audited annual financial statements.

Net Assets per Unit ⁽⁴⁾

Class A	06/30/2009	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of period ⁽¹⁾⁽²⁾	\$ 10.54	\$ 14.77	\$ 12.47	\$ 11.53
Increase (decrease) from operations:				
Total revenue	0.07	0.27	0.33	0.05
Total expenses	(0.16)	(0.32)	(0.35)	(0.02)
Realized gains (losses) for the period	(1.33)	(1.19)	2.04	0.11
Unrealized gains (losses) for the period	0.58	(2.66)	(2.15)	0.30
Total increase (decrease) from operations ⁽¹⁾	(0.84)	(3.90)	(0.13)	0.44
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total distributions ⁽³⁾	-	-	-	-
Net assets, end of period	\$ 10.60	\$ 10.54	\$ 14.77	\$ 12.47

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

Class F	6/30/2009	12/31/2008	12/31/2007	12/31/2006
Net assets, beginning of period ⁽¹⁾⁽²⁾	\$ 10.28	\$ 14.40	\$ 12.11	\$ 11.12
Increase (decrease) from operations:				
Total revenue	0.06	0.26	0.31	0.36
Total expenses	(0.08)	(0.18)	(0.19)	(0.06)
Realized gains (losses) for the period	(1.22)	(1.14)	1.93	1.99
Unrealized gains (losses) for the period	1.20	(2.97)	0.42	(0.93)
Total increase (decrease) from operations ⁽¹⁾	(0.04)	(4.03)	2.47	1.36
Distributions:				
From income (excluding dividends)	-	0.02	0.03	0.31
From dividends	-	0.08	0.11	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total distributions ⁽³⁾	-	0.10	0.14	0.31
Net assets, end of period	\$ 10.41	\$ 10.28	\$ 14.40	\$ 12.15

- (1) Net assets and distributions are based on actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) The Fund was launched in September 2000 with 1 class of units. It was sold via an offering memorandum and was therefore open only to accredited investors. In November 2006, the various provincial securities commissions approved the prospectus of the Fund. At this time, the original class of units became Class F and a 2nd class of units, Class A, was launched. As such, the beginning of the 2006 period for Class A is November 14th, 2006 and for Class F is January 1st, 2006.
- (3) Distributions were reinvested in additional units of the Fund.
- (4) This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

FINANCIAL HIGHLIGHTS (cont'd)
Ratios and Supplemental Data

Class A	6/30/2009	12/31/2008	12/31/2007	12/31/2006
Net asset value ⁽¹⁾	\$ 1,979,301	\$ 41,420	\$ 77,962	\$ 13
Number of units outstanding ⁽¹⁾	185,449	3,923	5,260	1
Management expense ratio ⁽²⁾	3.05%*	2.41%	2.42%	1.27%
Management expense ratio before waivers/absorptions	4.48%*	3.01%	2.86%	1.68%
Trading expense ratio ⁽⁴⁾	3.10%*	0.32%	0.54%	0.63%
Portfolio turnover rate ⁽³⁾	351.93%	83.48%	96.96%	132.02%
Net asset value per unit	\$ 10.67	\$ 10.56	\$ 14.82	\$ 12.51

Class F	6/30/2009	12/31/2008	12/31/2007	12/31/2006
Net asset value ⁽¹⁾	\$ 6,946,746	\$ 5,295,753	\$ 7,966,569	\$ 7,017,113
Number of units outstanding ⁽¹⁾	663,344	513,804	551,264	575,693
Management expense ratio ⁽²⁾	1.59%*	1.37%	1.40%	0.54%
Management expense ratio before waivers/absorptions	2.32%*	1.96%	1.84%	1.23%
Trading expense ratio ⁽⁴⁾	3.10%*	0.32%	0.54%	0.63%
Portfolio turnover rate ⁽³⁾	351.93%	83.48%	96.96%	132.02%
Net asset value per unit	\$ 10.47	\$ 10.31	\$ 14.45	\$ 12.19

* Ratio has been annualized.

(1) This information is provided at June 30 of the period shown, as applicable.

(2) Management expense ratio for each class of units is based on the total expenses of the Fund, incurred by or allocated to that class of units for the period shown, expressed as an annualized percentage of the daily average net asset value of that class during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

MANAGEMENT FEES

The Fund pays an annual fee of 1.95% of the net asset value of Class A and 0.95% of the net asset value of Class F plus GST to the Fund Manager in consideration for the provision of management, distribution and Fund advisory services. This management fee is calculated as a percentage of the Fund's net asset value per class and is calculated and credited daily. The Fund is required to pay Goods and Services Tax (GST) on the management fee.

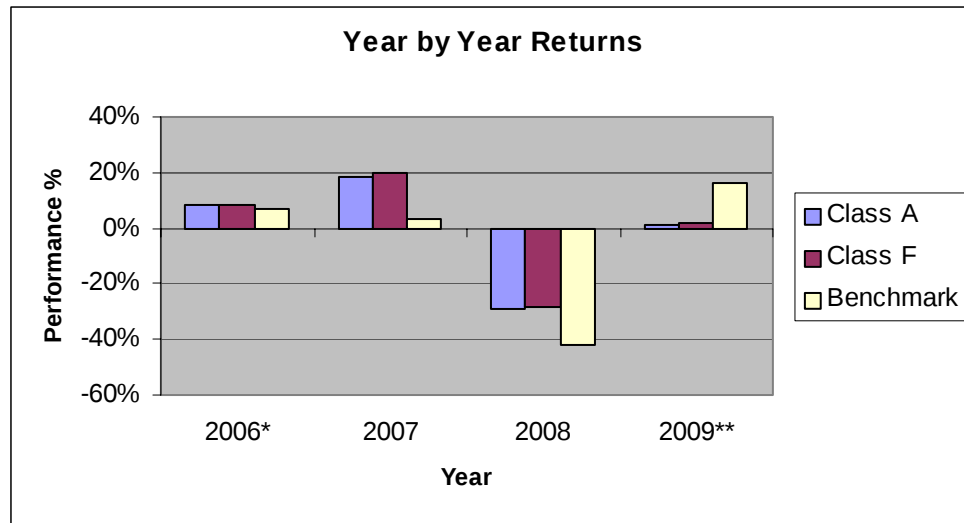
Of the management fees paid by the Fund to the Manager for the Class A units, approximately 50% was used to pay for sales and trailer commissions and 50% was for portfolio management services. Of the management fees paid by the Fund to the Manager for the Class F units, approximately 0% was used to pay for sales and trailer commissions and 0% was for portfolio management services.

PAST PERFORMANCE

The performance information shown below assumes that all distributions made by the Fund in the period shown were reinvested in additional units of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. It is important to note that the past performance of the Fund does not tell you how the Fund will perform in the future.

Year-by-year Returns

The following bar chart indicates the Fund's historical annual and semi annual returns, which will vary from period to period. It shows the percentage change in value of an investment from the first day to the last day of each fiscal period, as applicable.



* Return is for a partial year starting November 14th, 2006 (the date the Fund first became eligible for purchase via simplified prospectus).

**Return is for partial year 2009 ending June 30th, 2009

Semi-annual Compound Returns

The following table shows the Fund's historical average annual compound returns compared with its benchmark, a blend of 50% the S&P/TSX Small Cap Index and 50% the S&P/TSX Mid Cap Index for 2009 ending June 30, 2009. The inception of the Fund offered by simplified prospectus was November 14, 2006.

	YTD	Since Inception
Class A	1.1%	-2.9%
Class F	1.6%	-2.0%
Blended Benchmark	16.2%	-10.8%
S&P/TSX Small Cap Index	17.9%	-12.8%
S&P/TSX Mid Cap Index	14.5%	-8.7%

SUMMARY OF INVESTMENT PORTFOLIO
Portfolio breakdown as at June 30, 2009

		Aggregate % of top holdings	
		84.9%	
Top 25 Positions	% of Net Assets*	Sector Allocation	% of Net Assets*
Cash & cash equivalents	5.6%	Energy	32.0%
Pacific Rubiales Energy Corp., 8.0%, 08/29/13	5.2%	Materials	27.7%
Paladin Energy Ltd.	5.1%	Industrials	16.7%
Horizons BetaPro S&P/TSX Capped Energy Bear Plus	4.6%	Cash & cash equivalents	5.6%
Crescent Point Energy Trust	4.6%	Financials	5.3%
Western Areas NL	4.3%	Other Investments	4.6%
IAMGOLD Corp.	4.0%	Consumer Staples	3.5%
Flint Energy Services Ltd.	3.9%	Other net assets	3.4%
Consolidated Thompson Iron Mines Ltd.	3.7%	Utilities	1.2%
ATS Automation Tooling Systems Inc.	3.4%	Total sector allocation	100.0%
Other net assets	3.4%		
Mantra Resources Ltd.	3.3%		
UEX Corp.	3.2%	Geographic Allocation	% of Net Assets*
Mirabela Nickel Ltd.	3.1%	Canada	54.8%
Black Diamond Income Fund	3.1%	Hong Kong	19.0%
Hopson Development Holdings Ltd.	3.0%	Australia	17.2%
Sino-Forest Corp.	2.8%	Cash & cash equivalents	5.6%
Luks Group (Vietnam Holdings) Co. Ltd.	2.8%	Other net assets	3.4%
Energold Drilling Corp.	2.7%	Total sector allocation	100.0%
China Shipping Development Co. Ltd., Class 'H'	2.5%		
Pacific Rubiales Energy, Warrants, 07/12/12	2.3%		
Bankers Petroleum Ltd.	2.2%		
NaiKun Wind Energy Group Inc.	2.1%		
Shimao Property Holdings Ltd.	2.0%		
Belle International Holdings Ltd.	2.0%		

* calculated as a percent of the net assets of the Fund as at June 30, 2009.

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and updates will be available on a quarterly basis.

A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. Such statements are generally identifiable by the terminology used, such as “plan”, “anticipate”, “believe”, “intent”, “expect”, “estimate” or other similar wording.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. We do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

Galileo Funds

Galileo High Income Plus Fund Galileo Small/Mid Cap Fund

Additional information about the Galileo Funds is available in the Funds' Prospectus, Annual Information Form and Annual and Semi Annual Financial Statements.

You can get a copy of any of these documents and other information about the Galileo Funds, such as information circulars and material contracts, are also available on our website at www.galileofunds.ca or at www.sedar.com. Some of this information is available on our website in English only.

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