Gluskin Sheff + Associates Inc.

Management's Discussion and Analysis

2nd Quarter 2007 – 3 and 6 months ended December 31, 2006

This Management's Discussion and Analysis ("MD&A") for the three and six months ended December 31, 2006, is provided as at February 7, 2007. It should be read in conjunction with the Unaudited Financial Statements, including the notes thereto, of Gluskin Sheff + Associates Inc. for the quarter ending December 31, 2006, the Audited Financial Statements for the 13 month period ended June 30, 2006 and the MD&A for that period. Unless the context indicates or requires otherwise, the terms "Gluskin Sheff," "Company," "we," "us" and "our" mean Gluskin Sheff + Associates Inc. Unless otherwise indicated, all dollar amounts in this MD&A refer to Canadian dollars.

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), requiring estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the statements and the amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates as a result of various factors. Certain totals, subtotals and percentages may not reconcile due to rounding.

Non-GAAP Financial Measures

We measure our business using a number of performance indicators that are not measurements in accordance with GAAP and should not be considered as an alternative to net income or any other measure of performance under GAAP. Non-GAAP financial measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

"Earnings before interest, taxes, depreciation and amortization" ("EBITDA") is a standard measure used in the financial services industry by management, investors and investment analysts in understanding and comparing results. Our method of calculating EBITDA may differ from the methods used by other issuers and, accordingly, our EBITDA may not be comparable to similarly titled measures used by other issuers.

"Base EBITDA" is EBITDA adjusted for Performance Fees and Performance Fee-related bonuses, and non-cash expenses such as those associated with the accounting for stock options, deferred share units and the non-cash expense related to the transfer of shares to the Employee Trust. Management believes that Base EBITDA, as defined, is an important measure as it provides relevant information on the profitability of the base business.

"Assets Under Management" ("AUM") is not a recognized measure under GAAP. Any reference to AUM is only to our paying assets under management, on which we charge Base Management Fees. Our non-paying assets under management are charged either no or only nominal fees. This measure may not be comparable to similar measures presented by other issuers. We monitor the level of our AUM as it drives our Base Management Fees. The amount of Performance Fees we earn is related to both the level of our AUM and our investment performance.

Forward-Looking Statements

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe," "anticipate," "estimate," "plan," "expect," "intend," "may," "project," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risk and uncertainties. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Factors which may cause such differences include, but are not limited to, general economic and market conditions, investment performance, global and domestic financial markets, the competitive industry environment, legislative and regulatory changes, technological developments, catastrophic events and other business risks. The reader is cautioned against undue reliance on these forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management currently believes to be reasonable assumptions, we cannot assure that actual results, performance or achievements will be consistent with such statements. The forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation to update or revise any such statements.

Summary of the 3 months ended December 31, 2006

The highlights for the 3 months ended December 31, 2006 were:

- increase in AUM for the quarter of approximately $330 million (8.5%) to $4.2 billion at December 31, 2006 versus the $246 million increase in AUM over the 3 month period ended November 30, 2005.
- increase in Base Management Fees of 60.3% or $5.6 million versus the quarter ended November 30, 2005, and an increase of 9.4% versus the quarter ended September 30, 2006.
- Base EBITDA of $8.9 million for the 3 month period, an increase of 12.6% over the 1st quarter of fiscal 2007.
- Performance Fees of $12.4 million, reflecting primarily Performance Fees earned on AUM with a year end of December 31, 2006 ($7.7 million after the allocation of $4.7 million to the Management Shareholders as per the initial public offering, reflecting the period of the December 31, 2006 performance year during which the Company was privately held).
- Earnings per share were $0.27 in the second quarter ended December 31, 2006. Comparisons to the prior years comparable quarter are not applicable as the company was privately held during that period.

Overview of Gluskin Sheff + Associates Inc.

Founded in 1984, Gluskin Sheff + Associates Inc. is a wealth management firm whose primary business focus is managing equity assets on a discretionary basis for high net worth private clients. We also manage assets for a number of institutions. We do not consider these different types of clients to be distinct reportable business segments for accounting purposes as we operate as a single business with one fundamental philosophy and deliver a similar level of service to all of our clients.

On May 26, 2006, Gluskin Sheff completed its Initial Public Offering and its Subordinate Voting Shares were listed on the Toronto Stock Exchange under the symbol “GS”. The Company also changed its fiscal year end from May 31 to June 30, effective June 30, 2006, to align the fiscal year end with the date on which annual Performance Fees for the majority of portfolio models and annual bonuses for employees are determined. As a result, fiscal 2006 was a 13 month period that included Performance Fees earned in respect of the three performance years ended June 30, 2005, December 31, 2005 and June 30, 2006.

Our revenues are derived mainly from Base Management Fees, calculated as a percentage of AUM, and Performance Fees, calculated annually as a percentage of the appreciation (net of Base Management Fees and other expenses) in each of our segregated accounts and private pooled fund vehicles above pre-specified rates of return. Our Performance Fees are calculated annually at June 30 and December 31, depending upon the performance year end of our segregated accounts and private pooled fund vehicles. The Company may also earn investment income on its own investments and cash balances.

AUM are impacted by the net contributions of capital from new and existing clients, as well as by net market appreciation or decline. We seek to enhance our ability to attract and retain such assets by delivering solid investment returns together with a consistently high level of client service.

Gluskin Sheff's expenses include General and Administrative expenses (which include professional fees, office supplies and related overhead), Occupancy, Business Development and Salaries and Benefits, which contain a bonus component that may fluctuate significantly based upon the overall performance of the Company and the amount of Performance Fees earned.

Outlook

Our financial performance is dependent in part on the general performance of the Canadian, North American and global stock markets. These markets, general business conditions and investor sentiment can change quickly, making future results difficult to predict.

Our business is personal and we develop new business one client at a time. We seek to enhance our ability to attract new and to retain existing clients by delivering solid investment returns together with a consistently high level of client service. Our services include providing advice on asset mix structuring, proactive reviews of asset mix and investment performance and effective and timely communication. Management believes that our (i) long term record of strong investment performance, (ii) outstanding reputation in the Canadian high net worth private client market, (iii) alignment of interests with those of our clients, (iv) experienced and stable investment management team, (v) experienced client service and business development team and (vi) diversified investment products, give us a competitive advantage that has resulted in strong growth in our AUM.

We believe that our future growth will result from (i) investment performance, (ii) our high level of personalized service, (iii) expansion of our investment product offerings, (iv) word-of-mouth referrals, (v) advertising and (vi) marketing efforts directed at new and relatively untapped geographic markets.

We believe that as the Company continues to grow, additional employees and infrastructure will be required to strengthen our operations and to effectively manage our AUM.

Gluskin Sheff + Associates Inc.

Summary Financial Information

($ in thousands, except per share amounts)

	3 Months Ending Dec 31, 2006	3 Months Ending Nov 30, 2005	6 Months Ending Dec 31, 2006	6 Months Ending Nov 30, 2005	13 Months Ending Jun 30, 2006
ASSETS UNDER MANAGEMENT					
ASSETS UNDER MANAGEMENT	**$ 4,233,129**	**$ 2,927,198**	**$ 4,233,129**	**$ 2,927,198**	**$ 3,730,942**
BALANCE SHEET INFORMATION					
TOTAL ASSETS	**$ 33,837**	**$ 55,778**	**$ 33,837**	**$ 55,778**	**$ 45,769**
INCOME STATEMENT INFORMATION					
REVENUE					
• **Base Management Fees**	$ 14,873	$ 9,278	$ 28,473	$ 17,589	$ 45,771
• **Performance Fees**	12,376	180	12,418	61,476	86,504
• **Investment and Other Income**	315	362	552	543	1,496
TOTAL REVENUE	**$ 27,564**	**$ 9,820**	**$ 41,443**	**$ 79,608**	**$ 133,771**
OPERATING EXPENSES	**(5,546)**	**(2,922)**	**(11,104)**	**(5,782)**	**(15,142)**
DISCRETIONARY BONUSES	**(8,530)**	**(15,623)**	**(10,540)**	**(73,766)**	**(113,842)**
EBITDA	**13,488**	**$ (8,725)**	**19,799**	**60**	**$ 4,787**
AMORTIZATION	(21)	(30)	(42)	(60)	(93)
INTEREST EXPENSE	(108)	-	(284)	-	(67)
PROVISION FOR TAXES	(5,475)	3,300	(8,475)	-	(1,788)
NET INCOME	**$ 7,884**	**$ (5,455)**	**$ 10,998**	**-**	**$ 2,839**
BASIC EARNINGS PER SHARE	**$ 0.27**	**n/a**	**$ 0.38**	**n/a**	**$ 0.10**
DILUTED EARNINGS PER SHARE	**$ 0.27**	**n/a**	**$ 0.38**	**n/a**	**$ 0.10**
SELECTED ADJUSTED FINANCIAL INFORMATION					
EBITDA	**$ 13,488**	**$ (8,725)**	**$ 19,799**	**$ 60**	**$ 4,787**
DISCRETIONARY BONUS COMPENSATION	8,530	15,623	10,540	73,766	113,842
NON-CASH EXPENSES [1]	1,577	-	3,237	-	-
NON-RECURRING CHARITABLE EXPENSES	-	-	-	-	1,350
EBITDA BEFORE COMPENSATION ADJUSTMENT	**23,595**	**6,898**	**33,576**	**73,826**	**119,979**
DISCRETIONARY BASE BONUS POOL	(2,279)	(1,344)	(4,273)	(2,470)	(6,412)
PERFORMANCE FEES	(12,376)	(180)	(12,418)	(61,476)	(86,504)
BASE EBITDA	**8,940**	**5,374**	**16,885**	**9,880**	**27,063**
PERFORMANCE FEES	12,376	180	12,418	61,476	86,504
PERFORMANCE FEE-RELATED BONUS POOL	(6,251)	(36)	(6,267)	(12,295)	(17,301)
ADJUSTED EBITDA	**$ 15,065**	**$ 5,518**	**$ 23,036**	**$ 59,061**	**$ 96,266**

[1] Non-cash expenses represent stock options & share grants issued.

RESULTS OF OPERATIONS

For the 3 and 6 months ended December 31, 2006

Overall Performance

With the change in reporting year end to June 30, 2006, the Company's fiscal quarters are not reported on an equivalent calendar year basis. As a result, the second quarter of fiscal 2007 includes a performance year end while the second quarter of fiscal 2006, which ended on November 30, 2005, did not contain a performance year end. Prior to May 26, 2006, the Company was a private company that reported internally to its management shareholders and, as such, the timing of certain expenditures, such as salaries and bonuses, were driven by management decisions.

On a comparative basis to the second quarter of fiscal 2006 ended November 30, 2005, Total Revenue for the second quarter of fiscal 2007 increased by $17.7 million to $27.6 million. This increase is reflective of the inclusion of Performance Fees of $12.4 million for the quarter as compared to the relatively minor Performance Fees earned in the second quarter of fiscal 2006. These Performance Fees primarily relate to $648 million of AUM with a performance year end of December 31, 2006. As at December 31, 2006, $3.9 billion of our $4.2 billion in AUM had a Performance Fee component. Of this $3.9 billion, 17% had a December 31, 2006 performance year end and 83% have a June 30, 2007 performance year end. For the six months ended December 31, 2006, Performance Fees were $12.4 million. For the comparable six month fiscal period ended November 30, 2005, Performance Fees were $61.5 million. That period included a June 30 performance year end, the benchmark date for measuring performance for the majority of our AUM.

For the three months ended December 31, 2006, Base Management Fees increased to $14.9 million from $9.3 million or 60% compared to the three months ended November 30, 2005. For the six months ended December 31, 2006, Base Management Fees increased to $28.5 million from $17.6 million or 62% compared to the six month period ended November 30, 2005. These increases resulted primarily from the growth in AUM over the thirteen month period.

Assets Under Management (“AUM”) increased to approximately $4.2 billion as at December 31, 2006 from $3.9 billion as at September 30, 2006 and from $2.9 billion as at the end of the second quarter of the prior fiscal year (November 30, 2005). Increases in AUM from $2.9 billion on November 30, 2005 to $4.2 billion December 31, 2006 resulted from an increase of approximately $700 million of net additions from new and existing clients, and $600 million from investment performance.

Non-cash expenses related to stock-based compensation reduced Net Income by $1.6 million in the second quarter of fiscal 2007. Excluding these non-cash expenses, Net Income would have been $9.5 million in the second quarter of fiscal 2007, versus $4.8 million in the prior quarter.

Cash Flow during the quarter continued to be positive from ongoing operations, permitting us to repay the Subordinated Loan Payable and the Bonuses which were previously due to the Management Shareholders.

Assets Under Management

AUM increased from approximately $3.9 billion as at September 30, 2006 to approximately $4.2 billion as at December 31, 2006. Of this approximately $330 million increase, $80 million resulted from net additions to client accounts and $252 million resulted from net investment performance. Net additions were impacted in the quarter by partial withdrawals by institutional clients rebalancing their portfolios and by clients donating appreciated securities to fund charitable donations in response to changes in legislation making it advantageous for them to do so.

The GS+A RRSP Fund (which is has no performance fee component), represented approximately $369 million of our AUM having a December 31 year end, an increase of 47.4% from $250 million as at November 30, 2005. Our three Hedge Funds, together with The GS+A EAFE Fund and The GS+A U.S. Equity Fund, which all have a performance year end of December 31, 2006, collectively accounted for $648 million of these assets, an increase of approximately 388% from $167 million as at November 30, 2005. The remaining $3.2 billion of AUM have a June 30, 2007 performance year end.

Revenue

Base Management Fees increased by approximately $5.6 million from $9.3 million for the 3 month period ended November 30, 2005 to $14.9 million for the quarter ended December 31, 2006. This reflects both an increase in AUM and an increase in our average Base Management Fee from November 30, 2005. Performance Fee revenue for the quarter ended December 31, 2006 includes the receipt of approximately $12 million in Performance Fees earned in respect of approximately $648 million of AUM that has a December 31 performance year end. The quarter ended November 30, 2005 did not include a performance year end and, as such, the Performance Fees reported of $180,000 represent only nominal amounts earned on accounts closed and/or transferred during that period.

As set out in our final prospectus dated May 19, 2006, Performance Fees earned on and after May 26, 2006 (the closing date of the Company's Initial Public Offering) in respect of segregated accounts and private pooled fund vehicles that have their performance year end in the 2006 calendar year will be allocated between the Management Shareholders on the one hand and the Company on the other pro rata in proportion to the number of days in such performance year falling prior to May 26, 2006 as compared to the number of days in such performance year falling on or after May 26, 2006, respectively. As a result, the Performance Fees earned from funds with a performance year end of December 31, 2006 have been pro-rated between the management shareholders and the Company and are reflected in the Salaries and Benefits expenditures this quarter as a bonus expense.

Expenses

Our Salaries and Benefits expense for the 3 months ended December 31, 2006 was approximately $11.8 million, compared with approximately $17.0 million for the 3 months ended November 30, 2005 and $5.2 million for the first quarter of fiscal 2007. During the period in which the Company was privately held, virtually all of the Company's pre-tax income was generally paid out to employees as bonuses. As a result, Salaries and Benefits expenditures for the 3 months ended November 30, 2005 reflected the payment to the Company's Shareholders of the operating profit of the Company during the period of private ownership. With respect to the 3 months ended

December 31, 2006, approximately $4.7 million of the $12.4 million of Performance Fees earned in the second quarter of fiscal 2007 is payable to the Management Shareholders pursuant to the pro-ration described above, leaving $7.7 million for the Company. Of this amount, approximately $1.5 million is allocated to the Employee Bonus Pool. The Non-cash expense to Salaries and Benefits, for stock options and the Employee Trust, accounts for approximately $1.6 million. Taking into consideration the 20% accrual to the Employee Bonus Pool of approximately $2.3 million (total of $4.3 million year-to-date) for the discretionary bonuses relating to Base Operating Income, our cash portion of our base running rate of Salaries and Benefits expense is approximately $1.7 million.

General and Administrative expenses increased by approximately $944,000 reflecting Interest expense of approximately $108,000, increased public company costs, systems development and maintenance. The Subordinated Loan Payable was repaid during the quarter. Business Development costs reflect continued investment in marketing and development expenditures.

EBITDA, Base EBITDA and Net Income

For the 3 months ended December 31, 2006, EBITDA, as set out in the table of Summary Financial Information which reconciles EBITDA to Net Income, totaled approximately $13.5 million, an increase of $7.2 million over the first quarter. This reflects increased Performance Fees earned during the period. For the prior year period (three months ended November 30, 2005), the Company was privately held and EBITDA was negative reflecting the payment of net income to the management shareholders as bonuses. Base EBITDA, which has been adjusted to eliminate the effect of the non-cash expenditures as well as Performance Fees, was approximately $8.9 million, an increase of $1 million or 12.6% over our first quarter of Fiscal 2007.

Income before income taxes was approximately $13.4 million for the second quarter this year, an increase of $7.2 million over the first quarter. The primary reason for this increase is the inclusion of Performance Fees less the resulting bonus expenditure.

Liquidity and Capital Resources

We continue to generate positive cash flow from our ongoing operations prior to Performance Fees, the payment of the Subordinated Loan Payable and the Bonuses which were previously due to the Management Shareholders. We believe that our Base Management Fees will continue to be sufficient to satisfy our ongoing operational needs, including expenditures on our corporate infrastructure and information systems. We believe that our earnings will continue to provide the means to sustain our internal growth, to pay regular dividends and to pay, where appropriate, special dividends. We also believe that our cash flow will continue to be sufficient to meet working capital and other requirements.

We have no off-balance sheet financial arrangements and no material contractual obligations other than those described in the Audited Financial Statements dated June 30, 2006.

Critical Accounting Estimates

Accounting policies are an integral part of our financial statements, which are prepared in accordance with Canadian generally accepted accounting principles. Understanding these policies is a key factor in understanding our reported results of operations and financial position. Certain critical accounting policies require us to make estimates and assumptions that affect the amount of assets, liabilities, revenues and expenses reported in the financial statements. Due to their nature, estimates involve judgments based on available information. Therefore, actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Management has made the following critical accounting estimates:

Revenue Recognition

Base Management Fees are calculated as the applicable percentage of the particular category of AUM and are recognized on an accrual basis. Performance Fees are calculated by applying an agreed upon formula to the market value of our client assets and recognized when they are earned, which occurs after the end of each performance year or upon closure of an account.

Investment income is derived from investing excess cash and is also recognized on an accrual basis.

Employee Trust

On May 26, 2006, at the time of the Initial Public Offering, the Company conveyed 397,500 shares to an Employee Trust, the beneficiaries of which were 59 of the Company's then current employees. The value of the shares is recognized as contributed surplus over the three year vesting period of the Trust, resulting in a charge to Salaries and Benefits expense in the quarter of approximately $1.1 million.

Stock Option Compensation

The Company, as noted in the prospectus dated May 19, 2006, implemented a stock option plan and has adopted the accounting recommendations of the CICA Handbook section 3870, "Stock-based Compensation and Other Stock-based Payments". The fair value of options granted was estimated at the date of granting using a Trinomial Pricing Model and are expensed over the five year vesting period, resulting in a charge to Salaries and Benefits expense in the quarter of $348 thousand.

Employee Bonus Pool

The Company has implemented a bonus compensation policy pursuant to which an Employee Bonus Pool is funded by allocating to it an amount equal to 20% of the Company's Base Operating Income along with a further amount of up to 20% of Performance Fees earned. This bonus compensation policy is subject to the review and approval of the Compensation, Nominating and Governance Committee of the Company's Board of Directors. Base Operating Income is defined as all Income excluding Performance Fees less Base Operating Expenses, which is defined as Salaries and Benefits (excluding Discretionary Bonuses), Occupancy, General and Administrative Expenses and Business Development but excluding any non-cash expenses, including those relating to salaries, bonuses, stock options, deferred share units, share grants and other benefits and amortization.

Changes in Accounting Policies

There were no changes in accounting policies during the second quarter of fiscal 2007.

Related Party Transactions

Repayment of the Subordinated Loan Payable was completed in the second quarter. There were no other changes to the types of related party transactions entered into by the Company in the quarter ended December 31, 2006. For further information, refer to the notes of the Audited Financial Statements dated June 30, 2006.

Share Capital

Our authorized share capital consists of an unlimited number of Multiple Voting Shares and Subordinate Voting Shares and an unlimited number of preference shares, issuable in series. As at December 31, 2006, there were 21,600,000 Multiple Voting Shares, 7,599,700 Subordinate Voting Shares and no preference shares outstanding. Three hundred Subordinate Voting Shares were returned to Treasury by the Employee Trust and cancelled following the termination of employment of three of the Employee Trust's beneficiaries. The Subordinate Voting Shares and Multiple Voting Shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution or winding up of the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share. Subordinate Voting Shares carry one vote per share, while Multiple Voting Shares carry 15 votes per share. Holders of Subordinate Voting Shares are entitled to elect one-third of the Directors and holders of Multiple Voting Shares are entitled to elect two-thirds of the Directors.

On September 19, 2006, 865,000 options were granted under the Company's Stock Option Plan. Under the terms of the Stock Option Plan these options will vest annually over a five year period, with the first 20% vesting on September 19, 2007.

Other information

Additional information relating to Gluskin Sheff + Associates Inc. is also available on SEDAR at www.sedar.com