MANAGEMENT'S DISCUSSION AND ANALYSIS

This interim Management's Discussion and Analysis ("MD&A") for the second quarter ended December 31, 2008 is provided as of February 5, 2009. 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, 2008, the Audited Financial Statements for the 12-month period ending June 30, 2008 and the related MD&A. 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 are expressed in 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 and disclosure of contingent 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 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 without including Performance Fees and Performance Fee-related bonuses, and other non-cash expenses such as those associated with the accounting for stock options, deferred share units and non-cash expenses 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.

"Adjusted EBITDA" is Base EBITDA with Performance Fees and Performance Fee-related bonuses added back.

"Assets Under Management" ("AUM") is not a recognized measure under Canadian 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 THREE MONTHS ENDING DECEMBER 31, 2008

The highlights for the three month period ending December 31, 2008 were:

- Decrease in AUM at December 31, 2008 versus December 31, 2007 of approximately $1.9 billion and for the quarter of $0.7 billion to approximately $3.7 billion.
- Base Management Fees for the quarter ended December 31, 2008 of approximately $14.6 million, a decrease of $6.9 million in comparison to the quarter ended December 31, 2007.
- Performance Fees of approximately $3.0 million were earned on approximately $1.8 billion of AUM with a year end of December 31, 2008 versus Performance Fees of approximately $12.5 million earned on AUM of $1.8 billion with a year end of December 31, 2007.
- Base EBITDA of $6.8 million for the quarter ended December 31, 2008, a decrease of approximately $6.6 million compared to the quarter ended December 31, 2007.

OVERVIEW OF GLUSKIN SHEFF + ASSOCIATES INC.

Gluskin Sheff + Associates Inc. is a wealth management firm whose primary business focus is managing 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 a single business with one fundamental philosophy and deliver a similar level of service to all of our clients.

Our revenues are derived mainly from Base Management Fees, calculated as a percentage of Assets Under Management, 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, or rates of return adjusted for a deficiency carried forward from the prior year. 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 or incur losses on its cash balances and its investments, which includes seeded portfolios.

Assets Under Management are impacted by the net contributions of capital from new and existing clients, as well as by the 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. The Company also continues to have a pipeline of new business activity while the investment team remains focused on finding attractive investments for our clients' portfolios.

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

OUTLOOK

Global capital market conditions were brutal during the fourth calendar quarter of 2008. The S&P/TSX Total Return Index declined almost 23% and the S&P 500 was down approximately 10% during the quarter. Equity, credit, commodity and currency markets continued to be exceptionally, and in fact, historically volatile with record declines being noted.

In light of the current economic conditions, cost cutting initiatives have been implemented effective January 1, 2009 which management anticipates will reduce overall costs going forward. Also, in the wake of these challenging markets, and the opportunities presented thereby, we continue to expand the scope of our investment products to further address the needs of our clients. We launched two Multi-Strategy Funds at the end of December 2008: (i) the GS+A Multi-Strategy Fund, a more conservative fund, and (ii) the GS+A Multi-Strategy Opportunities Fund, a slightly more aggressive fund. We believe that each of these funds will provide our clients with increased diversification and lower volatility, with greater flexibility on our part to adjust client's alternative investment portfolios in response to changing market environments.

The current "credit crisis" that has precipitated deteriorating economic fundamentals and the steep decline in global markets is, in many ways, the result of credit markets that have ceased to function properly, causing spreads versus government bonds to widen to historic levels. As such, we believe that the current environment has created significant opportunities for fixed income investors. To capitalize on this, we introduced three new fixed income strategies: (i) the GS+A Enhanced Bond Fund, a fund aimed at earning a high rate of interest income primarily through investment in corporate bonds and debentures, (ii) the GS+A Enhanced Credit Arbitrage Fund, and (iii) the GS+A Credit Arbitrage Fund, both of which seek to provide attractive, positive absolute returns predominantly by holding both long and short positions in liquid, fixed income securities while striving to minimize interest rate risk. Assets in these models, which will be included in AUM, are offered in addition to our pre-existing fixed income strategies, the assets in which are not included in AUM. We anticipate that these three new strategies will contribute favourably to future AUM growth.

Looking ahead, 2009 promises to be a challenging year for world economies. We believe that our fundamental investment philosophy and disciplines combined with the synergies between our equity and credit investment professionals will identify and capitalize on the opportunities coming out of the current global recession.

SUMMARY FINANCIAL INFORMATION

($ in thousands, except per share amounts)

	3 Months Ending Dec 31, 2008	3 Months Ending Dec 31, 2007	6 Months Ending Dec 31, 2008	6 Months Ending Dec 31, 2007	12 Months Ending Jun 30, 2008
ASSETS UNDER MANAGEMENT					
ASSETS UNDER MANAGEMENT	**$ 3,672,337**	**$ 5,599,991**	**$ 3,672,337**	**$ 5,599,991**	**$ 5,597,320**
BALANCE SHEET INFORMATION					
TOTAL ASSETS	**$ 66,209**	**$ 70,311**	**$ 66,209**	**$ 70,311**	**$ 81,854**
INCOME STATEMENT INFORMATION					
REVENUE					
• **Base Management Fees**	$ 14,629	$ 21,567	$ 33,731	$ 41,848	$ 82,523
• **Performance Fees**	3,147	12,880	3,189	13,164	19,844
• **Investment and Other Income (Loss)**	(143)	886	(1,115)	1,811	3,388
TOTAL REVENUE	**$ 17,633**	**$ 35,333**	**$ 35,805**	**$ 56,823**	**$ 105,755**
OPERATING EXPENSES	**(6,536)**	**(6,608)**	**(12,619)**	**(12,395)**	**(24,969)**
DISCRETIONARY BONUSES	**(2,353)**	**(5,994)**	**(4,937)**	**(9,155)**	**(16,851)**
EBITDA	**8,744**	**22,731**	**18,249**	**35,273**	**63,935**
AMORTIZATION	(168)	(51)	(336)	(102)	(394)
INTEREST EXPENSE	-	-	-	-	-
PROVISION FOR TAXES	(3,434)	(8,612)	(6,567)	(13,461)	(24,290)
NET INCOME	**$ 5,142**	**$ 14,068**	**$ 11,346**	**$ 21,710**	**$ 39,251**
BASIC EARNINGS PER SHARE	**$ 0.18**	**$ 0.49**	**$ 0.39**	**$ 0.75**	**$ 1.36**
DILUTED EARNINGS PER SHARE	**$ 0.18**	**$ 0.48**	**$ 0.39**	**$ 0.74**	**$ 1.34**
SELECTED ADJUSTED FINANCIAL INFORMATION					
EBITDA	**$ 8,744**	**$ 22,731**	**$ 18,249**	**$ 35,273**	**$ 63,935**
DISCRETIONARY BONUS COMPENSATION	2,353	5,994	4,937	9,155	16,851
NON-CASH EXPENSES [1]	623	1,062	1,404	1,832	4,101
EBITDA BEFORE COMPENSATION ADJUSTMENT	**11,720**	**29,787**	**24,590**	**46,260**	**84,887**
DISCRETIONARY BASE BONUS POOL	(1,723)	(3,421)	(4,299)	(6,525)	(12,882)
PERFORMANCE FEES	(3,147)	(12,880)	(3,189)	(13,164)	(19,844)
BASE EBITDA	**6,850**	**13,486**	**17,102**	**26,571**	**52,161**
PERFORMANCE FEES	3,147	12,880	3,189	13,164	19,844
PERFORMANCE FEE-RELATED BONUS POOL	(630)	(2,573)	(638)	(2,630)	(3,969)
ADJUSTED EBITDA	**$ 9,367**	**$ 23,793**	**$ 19,653**	**$ 37,105**	**$ 68,036**

1. Non-cash expenses represent stock options and/or share grants issued.

RESULTS OF OPERATIONS

Overall Performance

Total revenues for the second quarter of fiscal 2009 decreased year over year by $17.7 million (50%) to $17.6 million from $35.3 million. The decrease in revenues is due to the decrease in Base Management Fees of $6.9 million resulting from lower average levels of AUM throughout the quarter, which as at December 31, 2008 were $3.7 billion compared to $5.6 billion as at the end of December 31, 2007. As well, included in total revenues for the quarter were Performance Fees of $3.1 million which also decreased by approximately $9.7 million compared to the same period in fiscal 2008. Investment and Other Income decreased by approximately $1.0 million year over year which resulted from the realized and unrealized losses on the seeded investment strategies.

Total Operating Expenses decreased by approximately $3.6 million year-over-year due primarily to the decrease in Salaries and Benefits expenses of $3.4 million, resulting from a lower bonus pool, and a slight decrease of $0.3 million in General and Administrative expenses.

Cash flow continued to be positive within the Company.

Assets Under Management (AUM)

Total AUM decreased by approximately $1.9 billion as at December 31, 2008 to approximately $3.7 billion compared to December 31, 2007 AUM of $5.6 billion. The decrease in AUM of approximately $1.9 billion is primarily attributable to investment performance. AUM decreased by approximately $0.7 billion from September 30, 2008 to December 31, 2008. The decrease was comprised of $90 million in net client withdrawals and $681 million in negative investment performance.

At December 31, 2008, AUM with a December 31 performance year end was approximately $1.8 billion. The GS+A RRSP and Enhanced Bond Funds (which have no Performance Fee component) represented approximately $465 million of AUM having a December 31 year end, an increase of 12% from $415 million as at December 31, 2007. Our remaining funds with performance year ends of December 31 collectively accounted for approximately $1.3 billion of these assets, a decrease of approximately 7% from $1.4 billion as at December 31, 2007. The remaining $1.9 billion of AUM have a June 30 performance year end.

Revenues

Total revenues decreased by approximately $17.7 million (50%) for the quarter ended December 31, 2008 to $17.6 million compared to total revenues for the quarter ended December 31, 2007 of $35.3 million. For the six month period ended December 31, 2008 total revenues decreased by approximately $21.0 million (37%) to $35.8 million compared to total revenues for the same period in fiscal 2008 of $56.8 million.

Base Management Fees decreased by approximately $6.9 million (32%) to $14.6 million for the three month period ended December 31, 2008 compared to $21.6 million for the three month period ended December 31, 2007. For the six month period ended December 31, 2008 Base Management Fees decreased by approximately $8.1 million (19%) to $33.7 million compared to the same period in fiscal 2008 of $41.8 million. These decreases relate to decreases in AUM.

Performance Fee revenue for the quarter ended December 31, 2008 was approximately $3.1 million, which represents a decrease of approximately $9.7 million (76%) compared to the same period in fiscal 2008. Performance Fees earned in the quarter relate to $1.8 billion of AUM that has a December 31 performance year end.

Investment and Other Income decreased by approximately $1.0 million, with a loss of approximately $0.1 million for the three month period ended December 31, 2008 as compared to income of $0.9 million for the three month period ended December 31, 2007. For the six month period ended December 31, 2008 Investment and Other Income decreased by approximately $2.9 million, with a loss of $1.1 million compared to income of $1.8 million for the same period in fiscal 2008. These decreases were primarily due to the realized and unrealized losses on seeded investment strategies offset by interest earned on cash in the bank.

Expenses

Total expenses incurred, including non-cash expenses such as deferred compensation plans and amortization, were approximately $9.1 million for the three month period ended December 31, 2008 compared to approximately $12.7 million for the three month period ended December 31, 2007. Salaries and Benefits decreased by approximately $3.4 million year-over-year and General and Administrative expenses decreased by approximately $0.3 million year-over-year, offset by a slight increase of approximately $0.1 million in Amortization of Property and Equipment.

Salaries and Benefits costs were approximately $5.2 million for the three month period ended December 31, 2008 compared to approximately $8.6 million for the same period in the prior year. For the six month period ended December 31, 2008, the Salaries and Benefits costs decreased by $4.0 million to $10.6 million compared to the same period in fiscal 2008 of $14.6 million. The decrease in salaries and benefits resulted partially from a decrease in the Employee Bonus Pool accrual primarily due to the decrease in Base Management Fees and Performance Fees year over year as well as a decrease in stock based compensation costs.

Our share incentive plan is described in note 10 to our 2008 Audited Financial Statements. During the second quarter of fiscal 2009, we recognized stock based compensation expenses of approximately $0.6 million on awards of Stock Options and the deferred share units for plan for employees and directors. For the six months ended December 31, 2008 we recognized stock based compensation expenses of approximately $1.4 million.

General and Administrative expenses decreased by approximately $0.3 million to $2.6 million for the three month period ended December 31, 2008 compared to the three month period ended December 31, 2007. For the six month period ended December 31, 2008, General and Administrative expenses decreased by approximately $0.4 million to $4.7 million compared to the same period in fiscal 2008. The main item contributing to the decrease was the decrease in consulting expenses, offset by an increase in third party sub-advisory fees and infrastructure costs. Cost containment measures were also identified.

Occupancy expenses were relatively flat for the three month period ended December 31, 2008 compared to the same period in fiscal 2008. For the six month period ended December 31, 2008 the Occupancy costs increased by approximately $0.1 million to $0.9 million compared to the same period in fiscal 2008. This increase reflects the costs of sub-leasing additional space in Brookfield Place.

Amortization of Property and Equipment expenses increased by approximately $0.1 million for the three month period ended December 31, 2008 compared to the same period in the prior year. The increase was due primarily to amortization of capitalized system development costs incurred in connection with the development of new system architecture.

EBITDA, Base EBITDA, Adjusted EBITDA, and Net Income

For the quarter ended December 31, 2008, the Company's EBITDA totaled approximately $8.7 million compared to approximately $22.7 million for the quarter ended December 31, 2007. For the six month period ended December 31, 2008 EBITDA totaled approximately $18.2 million compared to approximately $35.3 million for the six month period ended December 31, 2007. These are set out in the table of Summary Financial Information which reconciles EBITDA to Net Income. Base EBITDA, which has been adjusted to eliminate the effect of non-cash expenditures as well as Performance Fees, was approximately $6.8 million for the quarter ended December 31, 2008 compared to approximately $13.5 for the quarter ended December 31, 2007. For the six month period ended December 31, 2008 Base EBITDA was approximately $17.1 million compared to approximately $26.6 million for the six month period ended December 31, 2007.

Adjusted EBITDA was approximately $9.4 million for the quarter ended December 31, 2008 compared to the approximately $23.8 million for the quarter ended December 31, 2007. For the six month period ended December 31, 2008 Adjusted EBITDA was approximately $19.7 million compared to approximately $37.1 million for the six month period ended December 31, 2007.

Income before taxes was approximately $8.6 million for the quarter ended December 31, 2008 compared to approximately $22.7 million for the quarter ended December 31, 2007. For the six month period ended December 31, 2008 income before taxes was approximately $17.9 million compared to approximately $35.2 million for the six month period ending December 31, 2007. Net Income for the second quarter ended December 31, 2008 was approximately $5.1 million, while Net Income for the quarter ended December 31, 2007 was approximately $14.1 million. Net Income for the six month period ended December 31, 2008 was $11.3 million compared to $21.7 million for the same period in fiscal 2008.

The Company's effective tax rate is approximately 38.7% (December 31, 2007 – 38.3%) and is impacted by the non-deductibility for tax purposes of expenses associated with Stock Options, Deferred Share Units and the Employee Trust, along with the tax treatment of realized and unrealized losses on security holdings.

SUMMARY OF QUARTERLY RESULTS

The following quarterly financial information was taken from the Company's unaudited quarterly reports to the shareholders. This information is consistent with the Annual Audited Financial Statements of the Company, which are prepared in accordance with Canadian generally accepted accounting principles.

SUMMARY FINANCIAL INFORMATION
($ in thousands, except per share amounts)

	3 Months Ending Mar 31, 2007	3 Months Ending Jun 30, 2007	3 Months Ending Sep 30, 2007	3 Months Ending Dec 31, 2007	3 Months Ending Mar 31, 2008	3 Months Ending Jun 30, 2008	3 Months Ending Sep 30, 2008	3 Months Ending Dec 31, 2008
ASSETS UNDER MANAGEMENT								
ASSETS UNDER MANAGEMENT	**$ 4,734,346**	**$ 5,399,886**	**$ 5,466,013**	**$ 5,599,991**	**$ 5,116,137**	**$ 5,597,320**	**$ 4,442,980**	**$ 3,672,337**
INCOME STATEMENT INFORMATION								
REVENUE								
• Base Management Fees	$ 16,545	$ 19,443	$ 20,281	$ 21,567	$ 19,793	$ 20,882	$ 19,102	$ 14,629
• Performance Fees	171	101,528	284	12,880	-	6,680	42	3,147
• Investment and Other Income (Loss)	248	455	925	886	481	1,096	(972)	(143)
TOTAL REVENUE	**$ 16,964**	**$ 121,426**	**$ 21,490**	**$ 35,333**	**$ 20,274**	**$ 28,658**	**$ 18,172**	**$ 17,633**
BASE EBITDA	**10,215**	**11,720**	**13,186**	**13,486**	**11,735**	**13,856**	**10,252**	**6,850**
ADJUSTED EBITDA	**10,345**	**92,958**	**13,413**	**23,793**	**11,735**	**19,197**	**10,286**	**9,367**
NET INCOME	**5,044**	**57,698**	**7,641**	**14,068**	**6,511**	**11,029**	**6,204**	**5,142**
BASIC EARNINGS PER SHARE	**$ 0.17**	**$ 2.00**	**$ 0.26**	**$ 0.49**	**$ 0.23**	**$ 0.38**	**$ 0.21**	**$ 0.18**
DILUTED EARNINGS PER SHARE	**$ 0.17**	**$ 1.99**	**$ 0.26**	**$ 0.48**	**$ 0.22**	**$ 0.38**	**$ 0.21**	**$ 0.18**

As evidenced by the above chart, the firm experienced a strong period of AUM growth in the four quarters ended December 31, 2007 followed by four quarters of the most tumultuous and challenging capital markets in many years, resulting in a net decrease in AUM of approximately $1.9 million (34.4%) from their high at December 31, 2007. The main driver of Base EBITDA is the level of Base Management Fees earned on AUM.

Performance Fees and Net Income varies quarter over quarter depending on whether there was a performance year end of the funds of June 30 or December 31 occurring in the quarter.

The number of issued and outstanding common shares did not change materially over the past eight quarters, so earnings per share, both basic and fully diluted, mainly reflect the trend in quarterly Net Income.

CHANGES IN INTERNAL CONTROL AND FINANCIAL REPORTING

During the second quarter of fiscal 2009, there were no changes to policies, procedures, and processes that comprise the system of internal controls over financial reporting that may have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

LIQUIDITY AND CAPITAL RESOURCES

The Company generates positive cash flow from operations and has limited requirements for long-term capital due to the nature of its business. We believe that our Base Management Fees and current cash resources will continue to be sufficient to satisfy our ongoing operational needs.

There are no significant regulatory capital requirements for the Company, and there are presently no major capital expenditures anticipated in the coming year other than continued system development costs. Gluskin Sheff has no debt, and does not hold any asset-backed commercial paper.

Gluskin Sheff's current liabilities are in the normal course of the Company's operations and are payable within one year. Payment will be funded from cash flow from operations.

Aside from funding normal working capital requirements, Gluskin Sheff expects to use its cash reserves to fund new business initiatives, and for dividend payments. The Company is expecting to pay out in the third quarter a portion of its cash in respect of its Regular Dividend, which was declared on February 5, 2009.

The Company has no off-balance sheet financial arrangements and no material contractual obligations other than those described in the Company's Audited Financial Statements as at June 30, 2008.

Gluskin Sheff's policies and procedures related to the management of capital are described in Note 7 to the unaudited interim financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of significant accounting policies underlying the financial statements is presented in Note 1 to the Company's 2008 Audited Annual Financial Statements. 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:

Stock Based Compensation

The Company introduced a share option and a deferred share unit plan for employees and directors in May 2006 and September 2006. Stock and stock-based compensation awards are measured and recognized at fair value and are expensed over the applicable vesting period of the awards. Estimates are made for a number of variables that are factored into the valuation of the share options at the time the options are awarded as described in note 11 to the Company's June 30, 2008 Audited Annual Financial Statements.

CHANGES IN ACCOUNTING POLICIES

As explained in note 3 to the unaudited interim financial statements at December 31, 2008, the Company adopted three new accounting standards that became effective for Gluskin Sheff on July 1, 2008. Changes in disclosure and presentation were made in the Company's financial statements and in this MD&A in connection with the adoption of these standards, but there was no effect on net income or shareholders' equity.

For the fiscal year 2012, Gluskin Sheff will be required to adopt International Financial Reporting Standards ("IFRS") that will replace the current standards that comprise Canadian generally accepted accounting principles. Management is assessing the implications to the Company's financial statements of converting to IFRS and will be planning for the conversion to take place in 2011 so that comparative financial information is available for the actual transition to IFRS on July 1, 2011.

DEFINITION OF RISKS

The sections that follow – Financial Instruments and Risk Management – use a number of terms involving various types of risks, which are defined below.

Credit risk – The risk that one party will not fulfill the terms of a contract, or will fail to discharge an obligation, thereby causing a loss for the other party.

Liquidity risk – The risk that an entity will encounter difficulty in meeting financial obligations as they come due.

Market risk – The risk that the fair value or future cash flows associated with a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk – The risk that the fair value or future cash flows associated with a financial instrument will fluctuate because of changes in market exchange rates.

Interest rate risk – The risk that the fair value or future cash flows associated with a financial instrument will fluctuate because of changes in market interest rates.

Other price risk – The risk that the fair value or future cash flows associated with a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or the issuer of the instrument, or factors affecting all similar financial instruments traded in the market.

FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and management and staff bonuses payable whose carrying values approximate the relevant fair values due to their short-term nature. Included in cash and cash equivalents are investment in short-term money market securities which involves exposure to credit risk and interest rate risk. Credit risk is mitigated by selecting high quality corporate issuers which minimizes the potential to default by the issuer of securities. Interest rate risk is mitigated by the short-term nature of the securities, which mature within less than one year. The balance due from related parties is current and, therefore, has not been discounted. Gluskin Sheff does not have any off-balance sheet transactions and does not own other instruments that may be settled by the delivery of non-financial assets.

The Company is also not exposed to significant liquidity risk due to the fact that the obligations of the Company are very minimal, and the Company has sufficient cash and cash equivalents to meet its obligations.

Aside from Gluskin Sheff's securities holdings, which are discussed in more detail below, the risks associated with the Company's financial instruments are considered by Management to be minimal for the following reasons:

- *Credit risk* and *liquidity risk* related to the collection of accounts receivable and the balance due from related parties is considered to be low due to:
  - The short-term nature of these items;
  - The strength of the underlying business relationship with the client or related party;
  - The "know your client" controls and procedures in place before a potential mandate or client can be accepted.
- There is no significant *currency risk* as the financial instruments are denominated in Canadian dollars. The Company charges for its investment management services in Canadian dollars.

Securities Holdings

Financial instruments also include securities holdings, which are carried at their fair value. The Company has seeded a number of new portfolio models, some of which the Company expects to introduce into the line-up of portfolio offerings for the benefit of the Company's clients. The Company has classified these securities as "held-for-trading" for accounting purposes. The realized and unrealized gains and losses on the securities holdings are included in Investment and Other Income in the financial statements. The fair value of securities owned and the securities sold short as at December 31, 2008 are approximately $1.7 million and $0.9 million, respectively.

Investments in securities, as outlined in note 5 to the interim financial statements, involve indirect exposure through the securities to interest rate risk, foreign currency risk, credit risk, market risk and other price risk normally associated with investments of this nature. While management monitors the amount of the investments and their performance given the foregoing risk factors, exposure to indirect risks associated with these securities is unavoidable given that the investment in these securities are strategic investments consistent with Gluskin Sheff's investment management operations.

The maximum loss that the Company can incur in respect of securities owned is the amount paid to acquire the securities. The maximum gain to the Company in respect of the securities sold short is the proceeds received upon entering into the short sale transaction whereas the amount of the potential loss is unlimited. The market values of securities owned and sold short vary daily based on general market conditions and matters specific to the issuers of the securities.

MANAGING RISK

Gluskin Sheff is exposed to a number of risk factors that are inherent in this industry. The following risks are noted, and they are described in greater detail in the Company's Annual Information Form ("AIF").

Risk factors related to the Company:

- Change(s) in the securities markets
- Poor investment performance
- Loss of key employees
- Failure to execute a succession plan
- Change(s) in the investment management industry
- Competitive pressures

- Failure in our ability to manage risks in our portfolio models
- Rapid growth or decline in our AUM
- Employee error or misconduct
- Failure to implement effective information security policies, procedures and capabilities
- Failure to develop effective business resiliency plans
- Failure to comply with government regulations
- Failure to maintain adequate insurance coverage on favourable economic terms

The foregoing risk factors are mitigated to the extent possible and practical from a cost and perceived benefit perspective by senior management's direct involvement in the day-to-day operation of the business. Members of senior management meet regularly to address business issues, to consider new risks to the business and to chart the direction of the Company in terms of new product development, marketing initiatives and strategic direction. Management has regular access to information deemed critical to the ongoing monitoring of the Company's performance and key business metrics in order to consider a change in operational plans or strategic direction as considered appropriate in the circumstances.

The Company also maintains an appropriate system of internal controls and procedures to safeguard assets, control expenses and to ensure that financial reporting is accurate and reliable.

The Company's investment performance is monitored on an ongoing basis, including a review of trends and activity in the capital markets. The Company has a disciplined investment approach, which is the foundation of its investment philosophy and methodology for investing in capital markets.

The Company has processes in place for succession planning to ensure that the hiring and retention of highly qualified staff with specific expertise is achieved. These processes are reviewed on a regular basis by both the senior management team and the Board of Directors.

Finally, the Company maintains appropriate insurance coverage for general business liability risks. Insurance coverage is reviewed at least annually, or whenever there is a significant change in the Company's operations or risk profile.

RELATED PARTY TRANSACTIONS

There were no changes to the nature and extent of related party transactions entered into by the Company in the quarter ended December 31, 2008. For further information, refer to the notes to the Audited Financial Statements dated June 30, 2008.

SHARE CAPITAL

As at February 5, 2009, there has been no change to the capital structure of the Company or the number of outstanding common shares from that disclosed in the Audited Financial Statements dated June 30, 2008.

As of February 5, 2009, the Company has not purchased any Subordinate Voting Shares pursuant to the NCIB which was announced on April 7, 2008 by the Company.

OTHER INFORMATION

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