Gluskin Sheff

First Quarter Results | 2011

three months ended September 30, 2010

“Our mission is to be the pre-eminent wealth management firm in Canada serving high net worth investors”

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms. Founded in 1984 and focused primarily on high net worth private clients, we are dedicated to meeting the needs of our clients by delivering strong, risk-adjusted investment returns and the highest level of personalized client service. With a solid track record of success, a strong reputation in the private client market and an experienced management team, we are confident that our passion for excellence will generate enhanced value for our shareholders over the long term.

Report to Shareholders

Our results for the first quarter of fiscal 2011 reflect our continued commitment to our shareholders to grow our business by delivering strong risk-adjusted returns and highly personalized client service. Quarter-over-quarter, total AUM increased by $0.3 billion to approximately $5.8 billion as at September 30, 2010. Approximately 7% of the increase was attributable to net additions whereas approximately 93% was attributable to positive investment performance. Average AUM for the quarter increased $156 million to $5.7 billion. Accordingly, Base Management Fees for the three months ended September 30, 2010 increased $0.5 million to $20.3 million from $19.8 million for the three months ended June 30, 2010.

Base EBITDA (which excludes Performance Fees net of related bonuses and sub-advisory fees, post-retirement obligations and non-cash expenses) for the three months ended September 30, 2010, increased $1.2 million to $10.3 million from $9.1 million for the three months ended June 30, 2010. Net Income was $6.4 million or $0.22 per common share for the three months ended September 30, 2010, compared with $5.8 million or $0.20 per common share for the three months ended June 30, 2010.

In late September, David Morris joined Gluskin Sheff as our new Chief Financial Officer. David has over 20 years of experience in the investment management industry, most recently as Chief Financial Officer and Managing Director of Sceptre Investment Counsel Limited (now Fiera Sceptre). David brings great expertise and experience to the position. We are delighted to welcome David to our team. Valerie Barker, our outgoing Chief Financial Officer, has served us well and diligently during her time with Gluskin Sheff. She has provided instrumental leadership, support and continuity pending David's appointment and during David's first few weeks with Gluskin Sheff. We would like to thank Val for her contributions to Gluskin Sheff and we all wish her every success going forward.

The Company remains in a strong financial position and we plan to continue to use this to our advantage, to seek out new clients, to attract new talent, and to pursue other opportunities as they present themselves.

Change has been a constant for our industry over the past several years. The changes and enhancements we have made, and will continue to make, are all intended to achieve our primary objective: providing strong, risk-adjusted returns and outstanding service to our clients over the long term.

GERALD SHEFF
Co-Founder & Chairman
November 4, 2010

JEREMY FREEDMAN
President & Chief Executive Officer
November 4, 2010

Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") for the three months ended September 30, 2010 is provided as of November 4, 2010. It should be read in conjunction with the unaudited financial statements, including the notes thereto, of Gluskin Sheff + Associates Inc. for the three months ended September 30, 2010, the Audited Financial Statements for the years ended June 30, 2010 and 2009, and the related MD&A's. Unless the context indicates or requires otherwise, the terms "Gluskin Sheff," "Company," "Firm," "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 financial 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.

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 risks 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 will only be updated or revised where required by applicable laws.

NON-GAAP FINANCIAL MEASURES

We measure our business using a number of performance indicators that are not measurements in accordance with Canadian 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.

Assets Under Management
Assets Under Management ("AUM") is not a recognized measure under Canadian GAAP. Any reference to AUM is only to our paying AUM, on which we charge base management fees ("Base Management Fees") or performance fees ("Performance Fees"). Our non-paying AUM are charged either no or 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.

Investment Performance
Investment performance is a key driver of AUM and is at the very core of what we do. The amount of Performance Fees we earn is related to both the level of our AUM and our investment performance.

Net Additions
Net additions (gross additions net of redemptions), together with investment performance, determine the level of AUM which is the basis on which Base Management Fees are charged and to which Performance Fees may be applied.

EBITDA
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
Base EBITDA is EBITDA excluding Performance Fees net of related bonuses and sub-advisory fees, post-retirement obligations and other non-cash expenses such as those associated with the accounting for stock options, and Deferred Share Units. 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
Adjusted EBITDA is Base EBITDA adjusted for Performance Fees, Performance Fee related bonuses and sub-advisory fees that relate to Performance Fees.

Average AUM
Average AUM for a period is the simple average of the ending AUM for each month in that period.

Base Management Fee Percentage
Base Management Fee Percentage is calculated as the Base Management Fee for the period as a percentage of Average AUM for the period.

OVERVIEW

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 charitable foundations and 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.

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, 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 pooled fund vehicles. The Company may also earn investment income or incur losses on its cash balances and its investments, which include seeded portfolios.

AUM are impacted by the net additions 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.

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, and in 2010 a significant charge for post-retirement obligations), business development, general and administrative expenses, occupancy, and amortization of property and equipment.

SUMMARY OF THE THREE MONTHS ENDED SEPTEMBER 30, 2010

Financial highlights for the three months ended September 30, 2010 include:

- AUM increased by $315 million to approximately $5.8 billion at September 30, 2010 or 6% from June 30, 2010. Net Additions for the three months ended September 30, 2010 were $23 million and investment performance resulted in AUM increasing by $292 million. AUM increased by $868 million or 17% from September 30, 2009.
- Base Management Fees for the three months ended September 30, 2010 increased year-over-year by $2.8 million or 16% to $20.3 million from $17.5 million.
- Base EBITDA for the three months ended September 30, 2010 increased year-over-year by $0.7 million or 8% to $10.3 million from $9.6 million.
- Net income for the three months ended September 30, 2010 was $6.4 million, and represented earnings per share, basic and diluted, of $0.22. Net income for the three months ended September 30, 2009 was $5.8 million, and represented earnings per share, basic and diluted, of $0.20.

MARKET OUTLOOK AND BUSINESS ENVIRONMENT

After a difficult second calendar quarter, North American equity markets enjoyed positive performance in the third calendar quarter of 2010, with the S&P/TSX Total Return Index gaining 10.3% and the S&P 500 Total Return Index climbing by 11.3% in U.S. dollars and 7.6% in Canadian dollars. We remain wary of the sustainability of this rally.

Year-to-date in 2010, equity markets have experienced significant volatility, but have not yet demonstrated an overall sustainable trend to the upside or the downside. By maintaining our defensive positioning during the past quarter, we enjoyed moderate and steady positive absolute performance across our equity, fixed income and alternative multi-strategy portfolios. Given the cloudy financial market outlook, shaky consumer and investor confidence, and the looming possibility of another round of quantitative easing in the United States, our emphasis on income and yield remains a cornerstone of our current investment approach.

We continue to respond to the needs of our clients and again experienced an increase in our AUM this quarter, attributable to both net additions and positive investment performance.

Initiatives started in the past year are continuing and will enhance the Gluskin Sheff brand by further developing the Company's business and by continuing to provide shareholder return and value, and include the following:

Calgary operations
Establishing an office in Calgary has allowed us to concentrate on the significant growth opportunities in the Western Canadian market. At the same time, it has allowed Gluskin Sheff to increase brand recognition through prospecting, community presence, targeted events and advertising.

Advancing technology
We continue to streamline operations and provide greater efficiencies with respect to our Investment Accounting, and the transition of our trust accounting, fund accounting and unitholder recordkeeping to an experienced external service provider continues. We also continue to enhance our existing operational platforms to provide efficient and effective operations which are scalable and have capacity for our anticipated growth.

Compensation and incentive plans
In an effort to retain key employees while at the same time continuing to strengthen the alignment of interests with shareholders, the Company implemented revised compensation and incentive plans effective for fiscal 2011.

We continue to take steps to build our Company and our team as we strive to be, and remain, the pre-eminent wealth management firm in Canada serving high net worth investors.

SUMMARY FINANCIAL INFORMATION[1] (UNAUDITED)

($ in thousands, except per share amounts and assets under management)

	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
ASSETS UNDER MANAGEMENT		
Assets Under Management – Beginning of period ($ in millions)	$ 5,534	$4,461
Net additions	23	188
Market value appreciation[2]	292	332
Assets Under Management – End of period	$5,849	$4,981

	AS AT SEP 30, 2010	AS AT SEP 30, 2009
BALANCE SHEET INFORMATION		
Total assets	$110,340	$74,085

	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
INCOME STATEMENT INFORMATION		
Revenue		
Base management fees	$ 20,324	$ 17,558
Performance fees	168	1,012
Investment and other income	370	46
	20,862	18,616
Operating expenses	(8,840)	(6,900)
Provision for bonus pool	(2,403)	(2,519)
EBITDA	9,619	9,197
Amortization	(345)	(202)
Provision for income taxes	(2,870)	(3,213)
Net income	$ 6,404	$ 5,782
Basic earnings per share	$ 0.22	$ 0.20
Diluted earnings per share	$ 0.22	$ 0.20
SELECTED ADJUSTED FINANCIAL INFORMATION		
EBITDA	$ 9,619	$ 9,197
Provision for bonus pool	2,403	2,519
Sub-advisor's share of performance fees	3	415
Post-retirement obligations	99	—
Non-cash expenses[3]	750	831
EBITDA before compensation adjustment	12,874	12,962
Provision for base bonus pool	(2,370)	(2,400)
Performance fees	(168)	(1,012)
Base EBITDA	10,336	9,550
Performance fees	168	1,012
Sub-advisor's share of performance fees	(3)	(415)
Provision for performance fee related bonus pool	(33)	(119)
Adjusted EBITDA	$10,468	$10,028

Notes:

1. *Certain of the comparative figures have been reclassified to conform with presentation adopted in the current period.*
2. *Net of fees and other expenses.*
3. *Non-cash expenses include expenses related to stock options and deferred share units.*

RESULTS OF OPERATIONS

Overall Performance

For the three months ended September 30, 2010, the Company earned 22 cents per share (basic and diluted) compared with 20 cents per share (basic and diluted) for the same period last year as net income increased by $0.5 million or 11% to $6.4 million from $5.8 million. Base EBITDA increased by $0.7 million or 8% to $10.3 million from $9.6 million last year due to an increase in base management fees partially offset by an increase in operating expenses. Adjusted EBITDA increased by 4% to $10.5 million for the three months ended September 30, 2010 from $10.0 million for the three months ended September 30, 2009 due to higher Base EBITDA combined with lower realized performance fees.

Revenues

Total revenues for the three months ended September 30, 2010 increased year-over-year by $2.3 million or 12% to $20.9 million from $18.6 million.

Base Management Fees for the three months ended September 30, 2010 increased year-over-year by $2.8 million or 16% to $20.3 million from $17.5 million as average AUM increased approximately $1.0 billion or 19% over the same period, and the Base Management Fee Percentage decreased to 1.41% from 1.46%.

Performance Fees declined by $0.8 million to $0.2 million in the three months ended September 30, 2010 compared to the three months ended September 30, 2009.

Investment and other income for the three months ended September 30, 2010 increased year-over-year by $0.3 million to $0.4 million from $0.1 million as a result of the increase in realized and unrealized gains on securities owned and securities sold short.

Expenses

Total operating expenses for the three months ended September 30, 2010 increased year-over-year by $2.0 million or 20% to $11.6 million from $9.6 million.

Salaries and benefits for the three months ended September 30, 2010 increased year-over-year by $0.2 million or 3% to $5.7 million from $5.5 million. Higher base salaries expense, due to addition of new staff, was partially offset by lower bonus and stock option expenses, and an increase in reimbursements of operating costs from the Company's pooled funds. As disclosed in the Company's most recent Management Information Circular, certain revisions were made to compensation and incentive plans effective for fiscal 2011. These changes included revising the basis for calculating the total amount of the bonus pool as well as providing for a portion of the bonuses to be paid in the form of Restricted Share Units ("RSUs") and a portion to be paid in cash. RSUs granted in relation to bonus awards for a specified year will be granted early in the fiscal year following the year to which

the bonus relates, at which point the cost of the RSUs will be reflected in compensation expense ratably over the three year vesting period. Therefore, the accrual for the current year's bonus expense in any year will reflect only the cash component of the total bonus to be awarded, and is the reason for the decline in the bonus pool expense in the current quarter compared to the comparable period last year. In future years, the bonus expense will comprise the cash component of that year's bonus award and the amortization of RSUs granted in respect of bonus awards from prior years. The ratio of the bonuses to be paid in RSUs versus cash is dependent on the amount of the bonus awarded to each employee and increases with the size of the award. The total annual bonus amounts will not be known until the end of the fiscal year, and therefore the actual percentages to be paid in RSUs versus cash will not be known with certainty until such time. Therefore, the calculation of cash bonuses accrued in each interim quarter of the Company's fiscal year requires an estimate of the percentage that will be paid in cash. The percentage estimate for the cash component used in calculating the current quarter's bonus is 82%.

The revised compensation arrangements also provide for the discontinuation of the regular use of employee stock options as an element of annual compensation, with the use of options in the future to be limited to special circumstances. As a one-time transition measure in this first fiscal year of the revised compensation arrangements, the Company awarded $3.2 million of RSUs to employees after the end of its first quarter in lieu of option awards that have historically been made in the first quarter.

Business development expenses for the three months ended September 30, 2010 increased year-over-year by $0.3 million or 54% to $1.0 million from $0.7 million, primarily due to an increase in donations and sponsorships.

General and administrative expenses for the three months ended September 30, 2010 increased year-over-year by approximately $1.2 million or 45% to $4.0 million from $2.8 million due principally to costs associated with a number of business projects currently in progress. We continue to invest in our infrastructure and expect costs associated with this to continue over the next few years.

Occupancy costs for the three months ended September 30, 2010 increased marginally over the same period last year due to the opening of our Calgary office.

Amortization of property and equipment increased by $0.1 million to $0.3 million compared to last year due to an increase in capitalized system project costs.

EBITDA, Base EBITDA, Adjusted EBITDA and Net Income

For the three months ended September 30, 2010, EBITDA increased year-over-year by $0.4 million or 5% to $9.6 million from $9.2 million. This information is 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

net Performance Fees (Performance Fees less Performance Fee related bonuses and sub-advisory fees that relate to Performance Fees), post-retirement obligations and other non-cash expenses for the three months ended September 30, 2010 increased year-over-year by $0.8 million or 8% to $10.3 million from $9.5 million. Adjusted EBITDA for the three months ended September 30, 2010 increased year-over-year by $0.5 million or 4% to $10.5 million from $10.0 million.

Income before provision for income taxes for the three months ended September 30, 2010 increased year-over-year by $0.3 million or 3% to $9.3 million from $9.0 million.

Net income for the three months ended September 30, 2010 increased year-over-year by $0.6 million or 11% to $6.4 million from $5.8 million.

The Company's effective tax rate is approximately 30.9% (September 30, 2009 – 35.7%) and is impacted by the non-deductibility for tax purposes of expenses associated with stock options, and Deferred Share Units, and realized and unrealized gains or losses on security holdings.

Accounts Receivable

The Company's accounts receivable as at September 30, 2010 and June 30, 2010 consisted primarily of amounts attributable to Base Management Fees and Performance Fees.

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.

SUMMARY FINANCIAL INFORMATION FOR THE LAST EIGHT QUARTERS[1]

($ in thousands, except per share amounts and Assets Under Management)

	AS AT DEC 31, 2008	AS AT MAR 31, 2009	AS AT JUN 30, 2009	AS AT SEP 30, 2009	AS AT DEC 31, 2009	AS AT MAR 31, 2010	AS AT JUN 30, 2010	AS AT SEP 30, 2010
ASSETS UNDER MANAGEMENT								
Assets Under Management ($ in millions)	$ 3,672	$ 3,858	$ 4,461	$ 4,981	$ 5,350	$ 5,578	$ 5,534	$ 5,849

	3 MONTHS ENDED DEC 31, 2008	3 MONTHS ENDED MAR 31, 2009	3 MONTHS ENDED JUN 30, 2009	3 MONTHS ENDED SEP 30, 2009	3 MONTHS ENDED DEC 31, 2009	3 MONTHS ENDED MAR 31, 2010	3 MONTHS ENDED JUN 30, 2010	3 MONTHS ENDED SEP 30, 2010
INCOME STATEMENT INFORMATION								
Revenue								
Base management fees	$14,629	$14,309	$ 15,781	$ 17,558	$ 18,777	$19,366	$19,769	$20,324
Performance fees	3,147	11	2,522	1,012	44,234	79	1,899	168
Investment and other income (loss)	(143)	58	544	46	268	121	148	370
	$ 17,633	$ 14,378	$18,847	$ 18,616	$63,279	$19,566	$ 21,816	$20,862
Base EBITDA	6,860	7,397	8,844	9,550	9,671	10,065	9,159	10,336
Adjusted EBITDA	9,367	7,406	10,772	10,028	42,441	10,125	10,667	10,468
Net income	5,142	4,098	5,793	5,782	21,580	5,239	5,835	6,404
Basic earnings per share	$ 0.18	$ 0.14	$ 0.20	$ 0.20	$ 0.74	$ 0.18	$ 0.20	$ 0.22
Diluted earnings per share	$ 0.18	$ 0.14	$ 0.20	$ 0.20	$ 0.73	$ 0.17	$ 0.20	$ 0.22

Note:

1. *Certain of the comparative figures have been reclassified to conform with presentation adopted in the current period.*

Performance Fees contribute significantly to the variability of income quarter over quarter since, from a timing perspective, they are recognized primarily in June (for certain Funds and segregated accounts) and December (for other Funds) and because the level of performance fees is dependant on the investment performance of the underlying portfolios.

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

SUMMARY OF PORTFOLIO AUM AND PERFORMANCE

For the period ended September 30, 2010
($ in millions)

Annualized Rates of Return[1,2] (net of all fees paid and accrued)

	INCEPTION DATE	AUM $	CALENDAR YTD %	1 YEAR %	3 YEAR %	5 YEAR %	10 YEAR %	SINCE INCEPTION %
Equity Investment Strategies[2]								
Value	Jan 1991	488	7.6	15.6	-8.5	2.2	13.1	13.2
Growth	Jul 1984	164	0.6	5.1	-6.5	2.9	2.9	11.2
U.S. Equity	Feb 1986	20	-1.1	1.0	-4.7	1.2	-0.6	9.1
Top 15	Jul 2003	75	3.6	8.5	-13.4	1.2	—	12.7
RRSP[3]	Jul 1997	112	0.6	3.4	-5.0	3.0	7.8	10.6
Premium Income	Jul 2001	666	8.9	15.9	4.2	5.4	—	14.8
		1,525						
Alternative Investment Strategies								
Multi-Strategy[4]	Jan 2009	667	-0.5	1.0	—	—	—	5.5
Multi-Strategy Opportunities[4]	Jan 2009	365	-0.9	0.7	—	—	—	8.4
Equity Long/Short[5]	Jul 2004	45	-0.2	4.4	-1.0	2.1	—	13.8
Income Long/Short[5]	Jul 2004	210	3.7	7.8	7.7	11.3	—	18.1
Other Long/Short funds		36						
		1,323						
Credit Alternative Investment Strategies								
Credit Arbitrage	Jan 2009	808	1.2	3.5	—	—	—	12.3
Enhanced Credit Arbitrage	Dec 2008	160	0.3	2.8	—	—	—	17.2
		968						
Fixed Income Investment Strategies								
Enhanced Bond	Dec 2008	850	2.5	4.2	—	—	—	10.1
Enhanced Yield[5]	Feb 2009	444	8.0	9.3	—	—	—	10.7
		1,294						
Institutional & Special Mandates[6]		739						
Assets Under Management		5,849						

Notes:

1. *Past performance is not necessarily indicative of future performance.*
2. *Where, for a particular portfolio model, we manage both a pooled fund and segregated accounts, we have measured the performance of which ever has been in operation the longest to represent the overall performance of the portfolio model.*
3. *On October 1, 2010, the name of the GS+A RRSP Fund was changed to the GS+A North American Value Fund.*
4. *The Multi-Strategy Fund, Multi-Strategy Opportunities Fund, Multi-Strategy Trust and Multi-Strategy Opportunities Trust are portfolios that invest in a combination of Gluskin Sheff's individual alternative long/short portfolios. As such, to avoid double-counting, AUM held within one of the aforementioned portfolios is excluded from the AUM figures provided for the underlying/individual long/short portfolios.*
5. *The performance presented for the GS+A Equity Long/Short Portfolio, the GS+A Income Long/Short Portfolio and the GS+A Enhanced Yield Portfolio, includes the historical returns of the incubated versions of each respective portfolio, prior to it being offered to Gluskin Sheff clients.*
6. *Includes institutional mandates managed primarily in accordance with our Value portfolio model ($432 million), our Premium Income portfolio model ($136 million), our all-Canadian Growth portfolio model ($95 million), private client mandates managed primarily in accordance with a combination of our Value and Premium Income portfolio models ($17 million), our Incubator Fund ($18 million), our Founders portfolio model ($17 million), our EAFE Fund ($9 million), our Resource portfolio model ($12 million), and our U.S. Equity portfolio models ($3 million) (all numbers are approximate).*

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures
Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control over Financial Reporting
Management of the Company has ensured that internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. There have been no changes in internal controls over financial reporting in the most recent quarter that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Management of the Company has evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting (as defined under National Instrument 52-109) as of June 30, 2010, under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of those disclosure controls and procedures and internal controls over financial reporting were adequate and effective.

Operational Matters
During fiscal 2010, the Company began working with a service provider to provide operational support services for its Funds, including unitholder recordkeeping and fund accounting. The fund accounting function was transitioned to the service provider early in 2010. The next phase of the transition will involve the conversion of the unitholder records over to the service provider.

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 the major capital expenditures planned in the fiscal year relate to the relocation to a new premise at the end of calendar 2011 as well as continued system development

and other project costs. Gluskin Sheff has been incurring capital expenditures primarily for computer hardware and software.

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 through cash provided by operating activities. Gluskin Sheff has no debt.

Aside from funding normal working capital requirements, Gluskin Sheff expects to fund new business initiatives and corporate development from its cash reserves and positive cash flow.

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, 2010.

Gluskin Sheff's policies and procedures related to the management of capital are described in note 6 of the Company's September 30, 2010 unaudited interim financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of significant accounting policies underlying the financial statements is presented in note 1 of the Company's most recent annual Audited Financial Statements for the year ended June 30, 2010. Accounting policies are an integral part of our financial statements, which are prepared in accordance with Canadian GAAP. 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 judgements 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 has a share option and a deferred share unit plan for employees and directors. 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 12 of the Company's most recent annual Audited Financial Statements for the year ended June 30, 2010.

Post-Retirement Obligations
In fiscal 2010, the Company reached an agreement with its Co-Founders, Messrs. Ira Gluskin and Gerald Sheff following their departures from their respective roles as President & Chief Investment Officer and as Chief Executive Officer. The agreement provides for a lump sum retirement payment to each of $1.5 million at the end of their respective five year transition periods, or on their death, and fixed annual payments to each of $250 thousand plus certain employment benefits commencing at the end of their respective transition periods for the balance of their natural lives. The Company engaged a third-party actuary to compute the fair value of the post-retirement obligation estimates, including discount rates, life expectancy, and annual inflation assumptions which were used in the actuarial valuation. The Co-Founders were immediately vested and therefore any costs relating up to fiscal 2010, were recorded as an expense in fiscal 2010. Additional information, including amounts accrued and expensed in the current quarter are described in note 7 of the Company's September 30, 2010 unaudited interim financial statements.

Bonus Expense
Commencing in fiscal 2011, a portion of the bonus pool will be paid in restricted share units ("RSUs"). The ratio of bonuses to be paid in RSUs versus cash is dependent on the amount of the bonus awarded to each employee and increases with the size of the award. The total annual bonus amounts are not known until the end of the fiscal year, and therefore the actual percentages to be paid in RSUs versus cash will not be known with certainty until such time. Therefore, the calculation of cash bonuses accrued in each interim quarter of the Company's fiscal year requires an estimate of the percentage that will be paid in cash.

CHANGES IN ACCOUNTING POLICIES

There were no changes in any accounting policies underlying the financial statements in the current quarter.

International Financial Reporting Standards ("IFRS")
In 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required commencing in calendar 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS for its fiscal year ended June 30, 2012 and will be required to provide information that conforms with IFRS for the comparative years presented. The Company will continue to present its results for fiscal 2011 using Canadian GAAP.

The Company commenced its IFRS Conversion Plan in 2009 and has established a formal project structure involving the audit committee, senior management and external advisors. Project progress reports have been provided to the Company's Audit Committee on a quarterly basis.

The Company's IFRS Conversion Plan consists of four phases:

- **Component Diagnostic Phase** – a high level analysis of the major difference between Canadian GAAP and IFRS. The diagnostic indicated the areas that would most likely have significant impact on the Company.
- **Detailed Component Diagnostic Phase** – involved a deeper analysis of the differences that were identified in the Component Diagnostic.
- **Design Phase** – resulting in the design and development of detailed solutions to address differences identified during the Detailed Component Diagnostic Phase.
- **Implementation Phase** – implementing all the required changes necessary for IFRS.

The Company has completed the Component Diagnostic and the Detailed Component Diagnostic Phases. Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). Amendments to existing standards are expected to continue until the transition date. The Company monitors the IASB's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP. The areas that would most likely have an impact on the Company, based on existing IFRS as at September 30, 2010 are consolidation, property and equipment, share based compensation, income taxes and initial adoption of IFRS under the provisions of IFRS 1 (First-Time Adoption of International Accounting Reporting Standards). Management is continuing to assess the potential impact of these areas on the Company.

FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and short-term investments, accounts receivable, securities owned, accounts payable, accrued liabilities, securities sold short, dividends payable, and accrued bonuses. The fair value of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable and accrued bonuses approximate their relevant carrying values due to their short-term nature. At September 30, 2010 the Company held $52.0 million in short-term investments, $2.9 million in securities owned and $0.5 million in securities sold short (collectively "marketable securities"). Securities owned, securities sold short and certain short-term investments are held pursuant to the Company's strategy of seeding new portfolio models, some of which the Company may eventually introduce as part of its investment strategies. The Company's marketable securities have been designated as 'held-for-trading' and are recorded at fair value using

quotations from independent third party pricing sources, with realized and unrealized gains or losses being recognized in investment and other income/loss in the income statement. The use of financial instruments exposes the Company to risks such as credit risk, interest rate risk and market risk. Refer to note 14 of the Company's September 30, 2010 unaudited interim financial statements for a more detailed analysis of risk exposures and sensitivity analyses for certain risks.

MANAGING RISK

Gluskin Sheff is exposed to a number of risks 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:

- Changes in the securities markets.
- Poor investment performance.
- Loss of key employees.
- Changes 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 errors 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, consider new risks to the business and 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 believes confidentiality is essential to the success of the business, and strives to consistently maintain the highest standards of trust, integrity and

professionalism. Account information is kept under strict control in compliance with all applicable laws, and physical, procedural, and electronic safeguards are maintained in order to protect this information from access by unauthorized parties.

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. 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.

CORPORATE GOVERNANCE

The objective of good corporate governance is to enhance value for all stakeholders over the long term by aligning the interests of our Company with the interest of our stakeholders.

The Board of Directors and Company management have designed our corporate governance policies and practices to ensure we are focused on our responsibilities to our shareholders and on creating long-term shareholder value. Our practices and policies comply with regulations and guidelines established by Canadian securities regulators. We continuously monitor all proposed new rules and modify our policies and practices to meet any additional requirements. The Company has adopted the following significant governance practices:

- The Board consists of ten directors, seven of whom are independent. The independent directors are not employees of the Company or parties to material contracts with the Company and are only entitled to directors' fees. The Company believes that the size and composition of the Board are well suited to the circumstances of the Company.
- The independent directors meet without management present at the end of each regularly scheduled board meeting. All Board members can and do interact with management as situations arise.
- For all independent directors, there is a minimum share ownership requirement of 6,000 Subordinate Voting Shares and one-half of all directors' fees are taken in the form of Deferred Share Units, ensuring alignment of their interests with those of shareholders.
- All members of the Audit Committee and the Compensation, Nominating and Governance Committee, sub-committees of the Board of Directors, are exclusively composed of independent directors.

- The Audit Committee is chaired by Robert S. Weiss FCA, who has extensive financial experience, as do the other Audit Committee members. This Committee assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, and the system of internal control over financial reporting.
- The Compensation, Nominating and Governance Committee is chaired by Herbert Solway QC. This Committee is responsible for administering the Company's compensation policy and for developing the Company's approach to corporate governance issues.

RELATED PARTY TRANSACTIONS

There were no changes to the nature and extent of related party transactions entered into by the Company in the three months ended September 30, 2010. For further information, refer to note 5 of the Company's September 30, 2010 unaudited interim financial statements.

SHARE CAPITAL

As at November 4, 2010, there has been no change to the capital structure of the Company from that disclosed in the unaudited interim financial statements dated September 30, 2010. The number of outstanding Subordinate Voting Shares has increased during the quarter due to the conversion of Multiple Voting Shares. The Subordinate Voting Shares and Multiple Voting Shares rank *pari passu* with respect of the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution or winding up 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.

Stock options currently outstanding pursuant to our incentive stock option plan total 2,180,000 of which 807,000 stock options are currently exercisable.

OTHER INFORMATION

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

INTERIM BALANCE SHEETS
($ in thousands)

	AS AT SEP 30, 2010 (UNAUDITED)	AS AT JUN 30, 2010 (AUDITED)
ASSETS		
Current assets		
Cash and short-term investments (note 4)	$ 90,781	$ 97,083
Accounts receivable (note 5)	8,798	9,564
Securities owned at fair value (note 4)	2,869	1,729
Income taxes recoverable (note 9)	408	2,093
Future income taxes (note 9)	1,818	1,705
Prepaid expenses and other assets	637	754
	105,311	112,928
Property and equipment	5,029	4,409
Total assets	$110,340	$ 117,337
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,558	$ 2,453
Securities sold short at fair value (note 4)	491	—
Dividends payable	27,078	—
Accrued bonuses	2,444	18,290
	33,571	20,743
Post-retirement obligations (note 7)	8,969	8,870
	42,540	29,613
SHAREHOLDERS' EQUITY		
Share capital (note 8)	8,531	8,531
Contributed surplus (note 8)	8,921	8,171
Retained earnings	50,348	71,022
	67,800	87,724
Total liabilities and shareholders' equity	$110,340	$ 117,337

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

INTERIM STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS (UNAUDITED)

($ in thousands, except per share amounts)

	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
REVENUE		
Base management fees (note 5)	$ 20,324	$ 17,558
Performance fees (note 5)	168	1,012
Investment and other income (note 4)	370	46
	20,862	**18,616**
EXPENSES		
Salaries and benefits (notes 5, 7, 10 and 11)	5,687	5,517
Business development	1,016	660
General and administrative (note 12)	4,044	2,797
Occupancy	496	445
Amortization of property and equipment	345	202
	11,588	**9,621**
Income Before Provision for Income Taxes	$ 9,274	$ 8,995
Provision for (recovery of) income taxes (note 9)		
Current income taxes	2,983	3,169
Future income taxes	(113)	44
	2,870	3,213
Net income and comprehensive income for the period	6,404	5,782
Retained earnings – Beginning of period	71,022	49,978
	77,426	55,760
Dividends	(27,078)	(6,424)
Retained earnings – End of period	$ 50,348	$49,336
Average shares outstanding (in thousands)	29,274	29,202
Average diluted shares outstanding (in thousands)	29,368	29,347
Basic earnings per share (note 13)	$ 0.22	$ 0.20
Diluted earnings per share (note 13)	$ 0.22	$ 0.20

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

INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

($ in thousands)

CASH PROVIDED BY (USED IN)	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
OPERATING ACTIVITIES		
Net Income for the period	$ 6,404	$ 5,782
Adjustments for		
Amortization of property and equipment	345	202
Net investment gains	(363)	(165)
Post-retirement obligations	99	—
Future income taxes	(113)	44
Stock-based compensation	750	831
	7,122	6,694
Changes in non-cash working capital items		
Accounts receivable	766	(70)
Prepaid expenses and other assets	117	(402)
Income taxes recoverable	1,685	64
Accounts payable and accrued liabilities	1,105	(498)
Accrued bonuses	(15,846)	(7,200)
	(5,051)	**(1,412)**
INVESTING ACTIVITIES		
Sales of securities sold short	451	—
Purchases of securities owned	(737)	(934)
Purchases of property and equipment	(965)	(235)
	(1,251)	**(1,169)**
Decrease in cash during the period	**(6,302)**	**(2,581)**
Cash and short-term investments – Beginning of period	**97,083**	**53,857**
Cash and short-term investments – End of period	**$ 90,781**	**$ 51,276**
CASH AND SHORT-TERM INVESTMENTS COMPRISE		
Cash	$ 38,601	$ 51,276
Short-term investments	52,180	—
	$ 90,781	**$ 51,276**
SUPPLEMENTARY INFORMATION		
Interest paid during the period	—	—
Income taxes paid during the period	1,298	3,500

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

Notes to Unaudited Interim Financial Statements

September 30, 2010 and 2009

($ in thousands, except per share amounts)

NATURE OF BUSINESS AND ORGANIZATION

Gluskin Sheff + Associates Inc. (the "Company") provides discretionary investment management services to high net worth private clients and institutional investors. The Company was incorporated in 1984 under the Ontario Business Corporations Act. The Company is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol "GS".

These financial statements are for the three months ended September 30, 2010 and September 30, 2009 with the Balance Sheets being as at September 30, 2010 and June 30, 2010.

1. BASIS OF PRESENTATION

These interim financial statements are prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and do not include all disclosures required for annual financial statements.

These financial statements should be read in conjunction with the June 30, 2010 Audited Financial Statements of Gluskin Sheff + Associates Inc. included in the 2010 Annual Report. These financial statements reflect the same significant accounting policies as those described in the notes to the Audited Financial Statements of Gluskin Sheff + Associates Inc. for the year ended June 30, 2010.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. CHANGES IN ACCOUNTING POLICIES

There were no changes in any accounting policies underlying the Company's financial statements in the current quarter.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and short-term investments, securities owned, accounts receivable, accounts payable, accrued liabilities, securities sold short, dividends payable, and accrued bonuses. Financial instruments comprised of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, and accrued bonuses, have carrying values which approximate their fair values due to their short-term nature. Financial instruments comprised of short-term investments, securities owned and securities sold short, are recorded at fair value using quotations from independent third-party pricing sources.

4. SECURITIES OWNED AND SOLD SHORT AND SHORT-TERM INVESTMENTS

The Company has seeded new portfolio models, some of which the Company may eventually introduce as part of its investment strategies.

The maximum loss that the Company may 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 from entering into the short sale transaction, whereas the amount of the potential loss is unlimited. The fair values of securities owned and sold short vary daily based on general market conditions and matters specific to the issuers of the securities. The realized and unrealized gains or losses incurred on securities owned, securities sold short, and short-term investments are included in investment and other income. The realized and unrealized gains for the three months ended September 30, 2010 is $363 (September 30, 2009 – gain of $165).

Details of investment and other income (loss) are as follows:

	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
Realized gain on securities owned and securities sold short	**$106**	$ 12
Unrealized gain on securities owned and securities sold short	**257**	153
Unrealized loss on short-term investments	**(17)**	—
Interest and other income (loss)	**24**	(119)
	$370	$ 46

Fair Value Measurement

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value as at September 30, 2010.

	LEVEL 1	LEVEL 2	TOTAL
Assets:			
Short-term investments	$ —	$52,180	$52,180
Securities owned at fair value	2,869	—	2,869
Securities sold short	(491)	—	(491)
	$ 2,378	$52,180	$54,558

There were no transfers between the hierarchy levels and any level 3 financial assets or liabilities held during the quarter.

Financial liabilities, comprised of accounts payable, accrued liabilities, dividends payable and accrued bonuses, of $33,080 as at September 30, 2010 (June 30, 2010 – $20,743) and are all Level 1 financial instruments.

5. RELATED PARTY TRANSACTIONS

Included in the Company's total revenue for the three months ended September 30, 2010 are Base Management Fees of $15,948 (September 30, 2009 – $13,433) earned from the management of the Company's pooled fund vehicles, where the Company generally acts as the trustee, manager, transfer agent and principal distributor. In the case of those pooled funds that are limited partnerships, an affiliate of the Company is the general partner.

Included in the Company's salaries and benefits expense for the three months ended September 30, 2010 is a reimbursement of certain operating expenses by the Company's pooled funds of $923 (September 30, 2009 – $783). All related party transactions are recorded at the exchange amount. Included in the Company's accounts receivable as at September 30, 2010 is $5,427 (June 30, 2010 – $4,929) owing from the Company's pooled funds.

Included in the Company's liabilities as at September 30, 2010 are post-retirement obligations of $8,969 (September 30, 2009 – nil) in respect of the Co-Founders, Messrs. Ira Gluskin and Gerald Sheff as described in note 7.

6. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue operations as a going concern. Capital is comprised of share capital, contributed surplus and retained earnings.

The Company's senior management team is responsible for approving the Company's capital management objectives and policies, and for overseeing the effective management of capital. The Board of Directors reviews the Company's capital plans as part of its review of strategic initiatives and at least annually in connection with the financial forecast process.

Pursuant to its registration as Investment Counsel and Portfolio Manager, the Company is required to maintain a minimum capital requirement of $25 at all

times. Throughout the three months ended September 30, 2010, the Company maintained levels of capital well in excess of this requirement. On September 28, 2010, the Company applied for registration as an Investment Fund Manager, in addition to its current registration as an Investment Counsel and Portfolio Manager. Once approval is received for registration of the Company as an Investment Fund Manager, the minimum capital requirements will be increased to $100 at that time.

7. POST-RETIREMENT OBLIGATIONS

During the second quarter of fiscal 2010, the Company reached an agreement with its Co-Founders, Messrs. Ira Gluskin and Gerald Sheff, that governs the terms of their arrangements with the Company following their departures from their respective roles as President & Chief Investment Officer and Chief Executive Officer. Under this agreement, Messrs. Gluskin and Sheff will continue to be employed by the Company for a period of up to five years. The agreement provides for a lump sum retirement payment to each of $1.5 million at the end of their respective five year transition periods being no later than January 1, 2015 for Mr. Gluskin and June 30, 2015 for Mr. Sheff, or on their death, and fixed annual payments to each of $250 plus certain employment benefits commencing at the end of their respective transition periods for the balance of their natural lives. Such compensation has been established at levels commensurate with the tenure and seniority of the Co-Founders and has been reviewed by the Company's Compensation, Nominating and Governance Committee and the Board's independent directors.

The post-retirement obligations to be provided to the Co-Founders represent in substance a defined benefit plan, for which the Co-Founders are immediately fully vested and the cumulative expense of recognizing the fair value of the obligations was expensed in the second quarter of fiscal 2010. Any future changes in estimates and fair value will result in amendments to the liability of the plan in the period in which the changes occur. The Company expects to fund the future retirement benefits to the Co-Founders out of operating cash flow as amounts become due and therefore has no current plans to pre-fund these benefits. The Co-Founders will not be required to contribute to the retirement plan.

The increase in expense and related liability recognized in the three months ended September 30, 2010 was $99. This amount is included in salaries and benefits.

On January 15, 2010 the Company received an irrevocable letter of credit for $3 million with a Schedule I bank in support of its obligations under the retirement agreement.

Sensitivity analysis

The following table presents the sensitivity analysis of certain assumptions on the post-retirement obligations and expense as at September 30, 2010.

	CHANGE IN OBLIGATIONS AND EXPENSE
Impact of 1.0% change in the discount rate	$1,065
Impact of 1.0% change in Consumer Price Index	$ 126

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized

The company is authorized to issue an unlimited number of Subordinate Voting Shares ("SVS") and Multiple Voting Shares ("MVS") and an unlimited number of preference shares, issuable in series.

Shares issued and outstanding

As at September 30, 2010, there were 15,961,049 SVS and 13,313,000 MVS (September 30, 2009 – 10,939,130 SVS and 18,263,000 MVS) and no preference shares outstanding. MVS rank equally in all respects with the SVS, except that

each MVS is entitled to 15 votes at any shareholders' meeting for all matters other than the election of directors.

Share Capital	3 months ended Sep 30, 2010 Number of Shares (000's)	Stated Value	3 months ended Sep 30, 2009 Number of Shares (000's)	Stated Value
Beginning of period				
Multiple Voting Shares	13,613		18,263	
Subordinate Voting Shares	15,661		10,939	
	29,274	$8,531	29,202	$7,423
Activity during the period				
Convert from Multiple Voting Shares	(300)	—	—	—
Convert to Subordinate Voting Shares	300	—	—	—
	—	$ —	—	$ —
End of the period				
Multiple Voting Shares	13,313		18,263	
Subordinate Voting Shares	15,961		10,939	
	29,274	$8,531	29,202	$7,423

Contributed Surplus	3 months ended Sep 30, 2010	3 months ended Sep 30, 2009
Balance – Beginning of period	$ 8,171	$ 5,257
Deferred share units	110	54
Amortization of stock options	848	777
Forfeited stock options	(208)	—
Balance – End of period	$8,921	$6,088

9. INCOME TAXES

The reconciliation of the Company's effective income tax rate to the statutory income tax rate is as follows:

	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
Income Taxes at statutory rate, 29.25% (2010 – 32.50)%	$ 2,712	$2,923
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	220	270
Amortized interest on short-term investments	80	—
Realized and unrealized capital (gains) losses on securities owned	(13)	(28)
Future tax asset not previously recorded	13	—
Other non-deductible items and changes in future tax rates	(142)	48
Income tax provision as reported, 30.90% (2010 – 35.70)%	$2,870	$ 3,213

The future income tax asset (liability) relates to the following:

	AS AT SEP 30, 2010	AS AT JUN 30, 2010
Unrealized gain on securities owned and securities sold short	$ 10	$ 83
Property and equipment	(434)	(595)
Post-retirement obligations	2,242	2,217
Future income tax asset	$ 1,818	$1,705

As at September 30, 2010, the Company has approximately $884 (June 30, 2010 – $975) of unused capital losses realized on the disposition of security holdings, for which no benefit has been recognized in these financial statements.

10. SALARIES AND BENEFITS

The Company accrues for bonuses to its employees.

Included in salaries and benefits expense for the three months ended September 30, 2010 are accrued bonuses of $2,403 (September 30, 2009 – $2,519).

11. STOCK-BASED COMPENSATION PLANS

The Company established a stock option plan and a deferred share unit ("DSU") plan, for employees and directors, in May 2006 and September 2006 respectively. The aggregate number of SVS that may be issued under the Plans is limited to 10% of equity shares issued and outstanding.

The Company established a restricted share unit ("RSU") plan for employees in September 2010.

There are three components to the Company's stock-based compensation structure: stock options, deferred share units, and restricted share units.

Stock options

The exercise price of a stock option is determined as at the close of the business day before the stock option grant is approved by the Board of Directors. The expiry date of the stock options is seven years from the date of the grant. Stock options become exercisable over time at the rate of 20% of the total stock options granted on each anniversary of the grant date.

For the three months ended September 30, 2010, the Company did not issue any stock options to participants as the regular use of employee stock options as an element of annual compensation was discontinued this year. The use of options will be limited to special circumstances only. There will be no further issuance of stock options for Directors.

The expense related to stock options outstanding that has been included in the salaries and benefits expense during the three months ended September 30, 2010 was $640 (September 30, 2009 – $777) using the graded vesting methodology in accordance with CICA Handbook Section 3870.

The outstanding balances of stock options are summarized in the following table.

STOCK OPTIONS	3 MONTHS ENDED SEP 30, 2010 OPTIONS (000's)	3 MONTHS ENDED SEP 30, 2010 WEIGHTED AVERAGE EXERCISE PRICE	3 MONTHS ENDED SEP 30, 2009 OPTIONS (000's)	3 MONTHS ENDED SEP 30, 2009 WEIGHTED AVERAGE EXERCISE PRICE
Balance – Beginning of period	2,277	$18.54	1,847	$ 17.23
Options granted	—	—	645	20.55
Options forfeited	(97)	19.91	—	—
Balance – End of period	2,180	$18.48	2,492	$18.09

RANGE OF EXERCISE PRICES	AS AT SEP 30, 2010 OPTIONS OUTSTANDING NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	OPTIONS OUTSTANDING WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER EXERCISABLE (000's)	OPTIONS EXERCISABLE WEIGHTED AVERAGE EXERCISE PRICE
$10.00 – $17.99	1,230	4.18	$ 15.34	588	$ 15.53
$18.00 – $25.99	715	6.40	20.60	125	20.55
$26.00 – $33.99	235	4.02	28.50	94	28.50
	2,180	4.89	$ 18.48	807	$ 17.82

RANGE OF EXERCISE PRICES	AS AT JUN 30, 2010 OPTIONS OUTSTANDING NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	OPTIONS OUTSTANDING WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER EXERCISABLE (000's)	OPTIONS EXERCISABLE WEIGHTED AVERAGE EXERCISE PRICE
$10.00 – $17.99	1,282	4.41	$ 15.35	356	$ 15.53
$18.00 – $25.99	735	6.64	20.60	—	—
$26.00 – $33.99	260	4.27	28.50	104	28.50
	2,277	5.11	$ 18.54	460	$18.46

Deferred share units

The Company's DSU plan represents notional units granted to the Company's Board of Directors in order to enhance the Company's ability to attract and retain talented individuals to serve as independent members of the Board of Directors, and to promote a significant alignment of the interests of the independent directors and the interests of the shareholders of the Company by providing the independent directors with a long-term incentive tied to the long-term performance of the SVS. Members of the Company's Board of Directors are required to take 50% of their annual retainers and other fees in the form of DSUs. The number of DSUs received is determined by the market value of the Company's SVS on each director's fee payment date. DSUs allocated under this plan are adjusted to reflect dividends. DSUs cannot be redeemed for cash or SVS (purchased on the open market) until the holder is no longer a director of the Company.

The expense related to outstanding DSUs that has been included in the salaries and benefits expense during the three months ended September 30, 2010 was $110 (September 30, 2009 – $54).

The outstanding balances of DSUs are summarized in the following table.

DEFERRED SHARE UNITS	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
Balance – Beginning of period	32	20
Issued	4	3
Balance – End of period	36	23

Restricted share units

The Company's RSU plan represents notional units granted to employees in order to enhance the Company's ability to attract and retain talented employees, and to promote a significant alignment of the interests of employees and the interests of the shareholders of the Company by providing employees with a long-term incentive tied to the long-term performance of the SVS. The number of RSUs received is determined by the market value of the Company's SVS at the time of award. RSUs allocated under this plan are adjusted to reflect dividends. RSUs vest over three years.

There were no RSUs granted in the three months ended September 30, 2010.

12. GENERAL AND ADMINISTRATIVE

Included in the Company's general and administrative expense for the three months ended September 30, 2010 are sub-advisory fees of $332 (September 30, 2009 – $964).

13. EARNINGS PER SHARE

The treasury stock method is used in the calculation of per share amounts. Basic earnings per share amounts are determined by dividing net income by the average number of shares outstanding during the period excluding shares held in the employee trust which are not included in shares outstanding in the relevant period for accounting purposes.

The following table presents the Company's basic and diluted earnings per share for the three months ended September 30.

BASIC AND DILUTED EARNINGS PER SHARE	3 MONTHS ENDED SEP 30, 2010	3 MONTHS ENDED SEP 30, 2009
Basic earnings per share		
Net income available to shareholders	**$ 6,404**	$ 5,782
Average number of shares outstanding (in 000's)	**29,274**	29,202
Basic earnings per share	**$ 0.22**	$ 0.20
Diluted earnings per share		
Net income available to shareholders	**$ 6,404**	$ 5,782
Average number of shares outstanding (in 000's)	**29,274**	29,202
Stock options potentially exercisable as determined under the treasury stock method (in 000's)	**94**	145
Average number of shares outstanding – diluted (in 000's)	**29,368**	29,347
Diluted earnings per share[1]	**$ 0.22**	$ 0.20

Note:

1. *For the three months ended September 30, 2010, the computation of diluted earnings per share excluded weighted-average options outstanding of 950 (September 30, 2009 – 910) with a weighted-average exercise price of $22.55 (September 30, 2009 – $22.87) as the option price was greater than the average market price of the Company's shares.*

14. RISK MANAGEMENT

The Company's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, dividends payable, and accrued bonuses, whose carrying values approximate their fair values due to their short-term nature, and short-term securities holdings, which are recorded at fair value using quotations from independent third-party pricing sources. The Company also has financial instruments consisting of other securities owned and securities sold short recorded at fair value representing seeded capital used in forming new portfolios.

Financial instruments present a number of specific risks as identified below:

Market Risk

Market risk refers to the risk that a change in the level of one or more of market prices, interest rates, foreign currency exchange, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses. As many of the Company's financial instruments are recognized at fair value and classified as held for trading, any changes will affect reported earnings as they occur. The maximum risk resulting from financial instruments is determined by the fair values of the financial instruments. The maximum gain to the Company in respect of the securities sold short is the proceeds received entering into the short sale transaction, whereas the amount of the potential loss is unlimited. The Company manages market risk by the daily monitoring of its securities owned and securities sold short. The Company separates market risk into three categories: price risk, interest rate risk, and foreign exchange risk.

Price Risk

Price risk arises from the possibility that changes in the price of the Company's investments will result in changes in carrying values. As at September 30, 2010, investments in securities owned and securities sold short managed by the Company amounted to $2,869 or 2.6% (June 30, 2010 – $1,729 or 1.5%) of total assets and $491 or 0.4% of total liabilities and shareholders' equity (June 30, 2010 – $342 or 0.5%). If the fair value of securities owned increased by 5%, with all other variables held constant, this would have increased net income before provision for income taxes by approximately $107 (June 30, 2010 – $69); conversely, if the value of securities owned decreased by 5%, this would have decreased net income by the

same amount. If the fair values of securities sold short increased by 5%, with all other variables held constant, the decrease to net income before provision for income taxes would have been approximately $18 (June 30, 2010 – $14); conversely, if the value of securities sold short decreased by 5%, this would have increased net income by the same amount.

In practice, the actual results may differ from this sensitivity analysis and the difference may be expected to be material.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. As at September 30, 2010 and June 30, 2010, the Company was subject to interest risk through some of its short-term investments. The Company's sensitivity to interest rate as determined based on portfolio weighted duration was not significant as at September 30, 2010 and June 30, 2010, since all investments in debt securities have a term to maturity of less than a year. The interest rate risk in during the quarter is minimal.

Foreign Exchange Risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. The Company holds financial assets denominated in currencies other than the Canadian dollar. It is therefore exposed to foreign exchange risk, as the value of investments denominated in other currencies will fluctuate due to changes in foreign exchange rates. As at September 30, 2010 and June 30, 2010, certain investments in securities owned and securities sold short managed by the Company were denominated in U.S. dollars. Investments in securities owned of $463 (June 30, 2010 – $387) and securities sold short of $37 (June 30, 2010 – $ nil) were denominated in U.S. dollars as at September 30, 2010. Furthermore, as at September 30, 2010, a total of $1,388 (June 30, 2010 – $98) of cash and $172 (June 30, 2010 – $141) of accounts receivable were denominated in U.S. dollars. As at September 30, 2010, had the foreign exchange rate between the U.S. dollar and the Canadian dollar increased or decreased by 5%, with all other variables held constant, the increase or decrease, respectively, in net income before provision for income taxes would have amounted to approximately $74 (June 30, 2010 – $25).

In practice, the actual results may differ from this sensitivity analysis and the difference may be material.

Credit Risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Company incurs credit risk when entering into, settling and financing various investment transactions. Credit risk arises from the potential that counterparties fail to satisfy their obligations. The Company's exposure to credit risk is minimal. Credit risk is managed by dealing with counterparties the Company believes to be creditworthy by actively monitoring credit exposure and the financial health of the counterparties. The majority of accounts receivable relates to Base Management Fees and Performance Fees receivable from the pooled funds and managed accounts managed by the Company, which are current.

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's exposure to liquidity risk is minimal as it maintains sufficient levels of liquid assets to meet its obligations as they come due. The current assets reflected in the consolidated balance sheets are highly liquid. The majority of investments held by the Company is readily marketable and is recorded at their fair value. Financial liabilities, including accounts payable, accrued liabilities, dividends payable and accrued bonuses, are short-term in nature and are generally due within several months. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. The Company manages liquidity risk by monitoring cash balances on a daily basis.

15. AUDITORS

The interim financial statements have been prepared by Management and have not been reviewed by the Company's independent auditors.

Board of Directors

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Audit Committee

DONALD CARTY
Compensation, Nominating and Governance Committee

JEREMY FREEDMAN
President & Chief Executive Officer
Gluskin Sheff

IRA GLUSKIN
Co-Founder & Vice-Chairman
Gluskin Sheff

WILFRED GOBERT
Audit Committee

GERALD SHEFF
Co-Founder & Chairman
Gluskin Sheff

HERBERT SOLWAY
Chairman of the Compensation, Nominating and Governance Committee

PIERRE-ANDRE THEMENS
Audit Committee

PAMELA D. WALLIN
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Officers

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IRA GLUSKIN
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President & Chief Executive Officer

WILLIAM WEBB
Executive Vice-President & Chief Investment Officer

DAVID MORRIS
Chief Financial Officer

BRIAN GINSLER
Chief Operating Officer

DAVID ROSENBERG
Chief Economist & Strategist

JAMES SIMMONDS
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JIM BANTIS
Vice-President, Risk Management

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