

Second Quarter Results | 2011
THREE MONTHS ENDED DECEMBER 31, 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

As at December 31, 2010 our Assets Under Management stood at \$6.0 billion. The increase in AUM of \$160 million from the end of the previous quarter resulted from positive investment performance, partially offset by net withdrawals.

Average AUM for the quarter increased \$261 million to \$6.0 billion. As a result, Base Management Fees for the three months ended December 31, 2010 increased \$0.7 million to \$21.0 million from \$20.3 million for the three months ended September 30, 2010. The current quarter includes Performance Fees (net of related sub-advisory fees) of \$14.2 million on Assets Under Management with a December 31 performance year-end.

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 December 31, 2010, increased \$0.2 million to \$10.5 million from \$10.3 million for the three months ended September 30, 2010. Net Income was \$14.1 million or \$0.48 per common share for the three months ended December 31, 2010, compared with \$6.4 million or \$0.22 per common share for the three months ended September 30, 2010.

Notwithstanding continued market volatility, as we enter calendar year 2011, we have a positive long-term investment outlook in several areas. These include commodities, materials, higher-yielding securities and the Canadian dollar, and our investment portfolios will be more concentrated in these areas. We continue to like the resource sector as a long-term investment, and in order to gain more concentrated exposure we will be utilizing two recently launched portfolios dedicated to resource-based investments: the GS+A Resource Fund and the GS+A Resource Long/Short Fund. We also view international and emerging markets as an area of continued opportunity. Our recently launched GS+A International Fund will allow us to provide greater geographic diversification to our clients' asset mix while taking advantage of expected opportunities in this area.

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 and volatile market conditions have been constants for our industry over the past few years, and we expect this to continue. We will continue to be mindful of risk to capital in this environment, focusing on providing strong, risk-adjusted returns and outstanding service to our clients over business cycles.



GERALD SHEFF

*Co-Founder & Chairman
February 10, 2011*



JEREMY FREEDMAN

*President & Chief Executive Officer
February 10, 2011*

Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") for the three months ended December 31, 2010 is provided as of February 10, 2011. 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 December 31, 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 AND SIX MONTHS ENDED DECEMBER 31, 2010

Financial highlights for the three months ended December 31, 2010 include:

- AUM increased by \$160 million to \$6.0 billion at December 31, 2010 or 3% from September 30, 2010. For the three months ended December 31, 2010, positive investment performance increased AUM by \$258 million, which was offset by \$98 million in net withdrawals. AUM increased by \$659 million or 12% from December 31, 2009.
- Base Management Fees for the three months ended December 31, 2010 increased year-over-year by \$2.2 million or 12% to \$21.0 million from \$18.8 million.
- Performance Fees (before amounts due to sub-advisors) of \$15.8 million were earned primarily on approximately \$2.8 billion of AUM with a performance year end of December 31, 2010 versus Performance Fees of \$44.2 million earned on AUM of approximately \$2.5 billion with a performance year end of December 31, 2009.
- Base EBITDA for the three months ended December 31, 2010 increased year-over-year by \$0.8 million or 8% to \$10.5 million from \$9.7 million.
- Net income for the three months ended December 31, 2010 was \$14.1 million, and represented earnings per share, basic and diluted, of \$0.48. Net income for the three months ended December 31, 2009 was \$21.6 million, and represented earnings per share, basic and diluted, of \$0.74 and \$0.73, respectively.

Financial highlights for the six months ended December 31, 2010 include:

- AUM increased by \$475 million to approximately \$6.0 billion at December 31, 2010 or 9% from June 30, 2010. For the six months ended December 31, 2010, positive investment performance increased AUM by \$550 million which was offset by net withdrawals of \$75 million.
- Base Management Fees for the six months ended December 31, 2010 increased year-over-year by \$5.0 million or 14% to \$41.3 million from \$36.3 million.
- Performance Fees (before amounts due to sub-advisors) of \$16.0 million were earned primarily on approximately \$2.8 billion of AUM with a year end of December 31, 2010 versus Performance Fees of \$45.2 million earned on AUM of approximately \$2.5 billion with a year end of December 31, 2009.
- Base EBITDA for the six months ended December 31, 2010 increased year-over-year by \$1.6 million or 8% to \$20.8 million from \$19.2 million.
- Net income for the six months ended December 31, 2010 was \$20.5 million, and represented earnings per share, basic and diluted, of \$0.70. Net income for the six months ended December 31, 2009 was \$27.4 million, and represented earnings per share, basic and diluted, of \$0.94 and \$0.93, respectively.

MARKET OUTLOOK AND BUSINESS ENVIRONMENT

2010 was characterized by volatility and risk. The year saw instability across a number of European economies which dominated financial headlines and destabilized markets both within and outside Europe. In the United States, the cracks in the economic foundation that underlie a need for repeated monetary stimulus programs were, and continue to be, a concern. Overall, there were an overwhelming number of signs pointing to continued fragility in the global economic recovery.

Financial markets responded to this global instability with wild swings. The S&P 500 index saw no fewer than eight alternating mini-bull and bear sessions in calendar 2010, at times jumping as much as 8% to 10% up and down from one month to the next. In Canada, markets gyrated mightily from the start of 2010 through late August, but for all the commotion returned only very small gains over those eight months. However, following the Fed Chairman Bernanke's announcement of additional "Quantitative Easing" on August 26, 2010, equity markets rallied strongly through the fourth quarter, as the short-term return to risk assets was stronger than we believe was warranted by the economic fundamentals.

This is precisely how we are approaching the management of our clients' investments. We are mindful of mitigating the risk of major loss, and do not chase the full measure of risk offered by a short-term market surge. For the year, while our equity investments performed reasonably well in 2010, our credit portfolio returns were modest, and our alternative strategies saw gains on the "long" side offset by our short positions appreciating on market momentum despite many companies announcing poor earnings results. While this was, and is, frustrating in the shorter term, we do not believe the story of this economic cycle has yet been fully written.

Initiatives started in the past year are continuing this quarter, with intent to enhance the Gluskin Sheff brand by further developing the Company's business over the long-term and to continue to provide shareholder return and value. These initiatives include:

Business Developments

Over the quarter our Risk Management & Client Service teams, together with portfolio managers from our Investment team, continued to meet with clients and prospective clients not only in major United States markets but also in targeted International locations. Our Calgary office continues to focus on the opportunities in the Western Canadian market, all with a view to enhancing our brand and adding to our stable of client relationships.

Investing for Future Growth

In Toronto, project work continues as we prepare for our head office move later this year to new, expanded premises in the Bay Adelaide Centre. We continue to invest in business enhancements that provide scalability and support for future growth, and as we streamline our operations we continue to work on the transition of our trust accounting, fund accounting and unitholder recordkeeping to an experienced external service provider.

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

SUMMARY FINANCIAL INFORMATION¹

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

	3 MONTHS ENDED DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
ASSETS UNDER MANAGEMENT				
<i>Assets Under Management – Beginning of period (\$ in millions)</i>	\$ 5,849	\$4,981	\$ 5,534	\$4,461
Net additions (withdrawals)	(98)	144	(75)	332
Market value appreciation ²	258	225	550	557
<i>Assets Under Management – End of period</i>	<u>\$6,009</u>	<u>\$5,350</u>	<u>\$6,009</u>	<u>\$5,350</u>

	AS AT DEC 31, 2010	AS AT DEC 31, 2009	AS AT JUN 30, 2010
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BALANCE SHEET INFORMATION

<i>Total assets</i>	\$102,254	\$116,078	\$117,337
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	3 MONTHS ENDED DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
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INCOME STATEMENT INFORMATION

Revenue				
Base management fees	\$ 21,024	\$ 18,777	\$ 41,348	\$ 36,335
Performance fees	15,819	44,234	15,987	45,246
Investment and other income	767	268	1,137	314
	<u>37,610</u>	<u>63,279</u>	<u>58,472</u>	<u>81,895</u>
Operating expenses	(12,019)	(19,784)	(20,859)	(26,684)
Provision for bonus pool	(5,199)	(10,661)	(7,602)	(13,180)
EBITDA	<u>20,392</u>	<u>32,834</u>	<u>30,011</u>	<u>42,031</u>
Amortization	(344)	(211)	(689)	(413)
Provision for income taxes	(5,941)	(11,043)	(8,811)	(14,256)
Net income	<u>\$ 14,107</u>	<u>\$ 21,580</u>	<u>\$ 20,511</u>	<u>\$ 27,362</u>
Basic earnings per share	\$ 0.48	\$ 0.74	\$ 0.70	\$ 0.94
Diluted earnings per share	\$ 0.48	\$ 0.73	\$ 0.70	\$ 0.93

SELECTED ADJUSTED FINANCIAL INFORMATION

EBITDA	\$ 20,392	\$ 32,834	\$ 30,011	\$ 42,031
Provision for bonus pool	5,199	10,661	7,602	13,180
Sub-advisor's share of performance fees	1,586	3,271	1,589	3,686
Post-retirement obligations	99	8,572	198	8,572
Non-cash expenses ³	1,278	1,035	2,028	1,866
EBITDA before compensation adjustment	<u>28,554</u>	<u>56,373</u>	<u>41,428</u>	<u>69,335</u>
Provision for base bonus pool	(2,282)	(2,468)	(4,652)	(4,868)
Performance fees	(15,819)	(44,234)	(15,987)	(45,246)
<i>Base EBITDA</i>	<u>10,453</u>	<u>9,671</u>	<u>20,789</u>	<u>19,221</u>
Performance fees	15,819	44,234	15,987	45,246
Sub-advisor's share of performance fees	(1,586)	(3,271)	(1,589)	(3,686)
Provision for performance fee related bonus pool	(2,917)	(8,193)	(2,950)	(8,312)
<i>Adjusted EBITDA</i>	<u>\$ 21,769</u>	<u>\$ 42,441</u>	<u>\$ 32,237</u>	<u>\$ 52,469</u>

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, deferred share units and restricted share units.

RESULTS OF OPERATIONS

Overall Performance

For the three months ended December 31, 2010, the Company earned 48 cents on a basic and diluted per share basis, respectively, compared with 74 cents and 73 cents on a basic and diluted per share basis, respectively, for the same period last year as net income decreased by \$7.5 million or 35% to \$14.1 million from \$21.6 million. Base EBITDA increased by \$0.8 million or 8% to \$10.5 million from \$9.7 million last year due to an increase in base management fees partially offset by an increase in operating expenses. Adjusted EBITDA decreased by \$20.6 million or 49% to \$21.8 million for the three months ended December 31, 2010 from \$42.4 million for the three months ended December 31, 2009 due to lower realized performance fees.

Revenues

Total revenues for the three months ended December 31, 2010 decreased year-over-year by \$25.7 million or 41% to \$37.6 million from \$63.3 million. Total revenues for the six months ended December 31, 2010 decreased year-over-year by \$23.4 million or 29% to \$58.5 million from \$81.9 million.

Base Management Fees for the three months ended December 31, 2010 increased year-over-year by \$2.2 million or 12% to \$21.0 million from \$18.8 million as average AUM increased approximately \$0.8 billion or 15% over the same period, and the Base Management Fee Percentage decreased to 1.39% from 1.43%. Base Management Fees for the six months ended December 31, 2010 increased year-over-year by \$5.0 million or 14% to \$41.3 million from \$36.3 million as average AUM increased approximately \$0.9 billion or 19% over the same period, and the Base Management Fee Percentage decreased to 1.40% from 1.44%.

Performance Fee revenue, before amounts due to sub-advisors, for the three months ended December 31, 2010 decreased year-over-year by \$28.4 million or 64% to \$15.8 million from \$44.2 million. Performance Fees earned in the three months ended December 31, 2010 relate primarily to \$2.8 billion of AUM that have a December 31 performance year end.

Investment and other income for the three months ended December 31, 2010 increased year-over-year by \$0.5 million to \$0.8 million from \$0.3 million. Investment and other income for the six months ended December 31, 2010 increased year-over-year by \$0.8 million to \$1.1 million from \$0.3 million. Increases were as a result of the increase in realized gains on securities owned and securities sold short and interest and other income.

Expenses

Total operating expenses for the three months ended December 31, 2010 decreased year-over-year by \$13.1 million or 43% to \$17.6 million from \$30.7 million. Total

operating expenses for the six months ended December 31, 2010 decreased year-over-year by \$11.1 million or 28% to \$29.2 million from \$40.3 million.

Salaries and benefits for the three months ended December 31, 2010 decreased year-over-year by \$12.5 million or 56% to \$10.1 million from \$22.6 million. Salaries and benefits for the six months ended December 31, 2010 decreased year-over-year by \$12.4 million or 44% to \$15.7 million from \$28.1 million. Increases in base salaries and the expenses relating to RSU grants were more than offset by a decrease in the Performance Fee bonus pool, as well as the absence of the initial charge relating to the Post-retirement obligations incurred last year. 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. 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 during the quarter ended December 31, 2010 in lieu of option awards that have historically been made in the first quarter.

Business development expenses for the three months ended December 31, 2010 increased year-over-year by \$0.3 million or 44% to \$1.0 million from \$0.7 million. Business development expenses for the six months ended December 31, 2010 increased year-over-year by \$0.7 million or 49% to \$2.0 million from \$1.3 million. Increases were as a result of the increase in donations and sponsorships.

General and administrative expenses for the three months ended December 31, 2010 decreased year-over-year by \$1.0 million or 15% to \$5.7 million from \$6.7 million, primarily due to a decline of \$1.7 million in sub-advisory fees on Performance Fees, partially offset by increases in costs associated with a number of business projects currently in progress. General and administrative expenses for the six months ended December 31, 2010 increased year-over-year by approximately \$0.3 million or 3% to \$9.8 million from \$9.5 million primarily due to the increases in costs associated with a number of business projects currently in progress partially offset by a decline of \$2.1 million in sub-advisory fees on Performance Fees. We continue to invest in our infrastructure and expect this investment to continue over the next few years.

Occupancy costs for the three and six months ended December 31, 2010 increased marginally over the same period last year.

Amortization of property and equipment for the three and six months ended December 31, 2010 increased by \$0.1 million and \$0.3 million, respectively, 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 December 31, 2010, EBITDA decreased year-over-year by \$12.4 million or 38% to \$20.4 million from \$32.8 million. For the six months ended December 31, 2010, EBITDA decreased year-over-year by \$12.0 million or 29% to \$30.0 million from \$42.0 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 December 31, 2010 increased year-over-year by \$0.8 million or 8% to \$10.5 million from \$9.7 million. Base EBITDA for the six months ended December 31, 2010 increased year-over-year by \$1.6 million or 8% to \$20.8 million from \$19.2 million. Adjusted EBITDA for the three months ended December 31, 2010 decreased year-over-year by \$20.6 million or 49% to \$21.8 million from \$42.4 million. Adjusted EBITDA for the six months ended December 31, 2010 decreased year-over-year by \$20.3 million or 39% to \$32.2 million from \$52.5 million.

Income before provision for income taxes for the three months ended December 31, 2010 decreased year-over-year by \$12.6 million or 39% to \$20.0 million from \$32.6 million. Income before provision for income taxes for the six months ended December 31, 2010 decreased year-over-year by \$12.3 million or 30% to \$29.3 million from \$41.6 million.

Net income for the three months ended December 31, 2010 decreased year-over-year by \$7.5 million or 35% to \$14.1 million from \$21.6 million. Net

income for the six months ended December 31, 2010 decreased year-over-year by \$6.9 million or 25% to \$20.5 million from \$27.4 million.

For the three months ended December 31, 2010, the Company's effective tax rate of 29.61% (December 31, 2009 – 33.90%) is impacted by the non-deductibility for tax purposes of expenses associated with stock options and realized and unrealized gains or losses on security holdings.

Accounts Receivable

The Company's accounts receivable as at December 31, 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' (\$ in thousands, except per share amounts and Assets Under Management)

	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	AS AT DEC 31, 2010
ASSETS UNDER MANAGEMENT								
Assets Under Management (\$ in millions)	<u>\$ 3,858</u>	<u>\$ 4,461</u>	<u>\$ 4,981</u>	<u>\$ 5,350</u>	<u>\$ 5,578</u>	<u>\$ 5,534</u>	<u>\$ 5,849</u>	<u>\$ 6,009</u>
	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	3 MONTHS ENDED DEC 31, 2010

INCOME STATEMENT INFORMATION

Revenue								
Base management fees	\$14,309	\$ 15,781	\$ 17,558	\$ 18,777	\$19,366	\$19,769	\$20,324	\$21,024
Performance fees	II	2,522	1,012	44,234	79	1,899	168	15,819
Investment and other income (loss)	<u>58</u>	<u>544</u>	<u>46</u>	<u>268</u>	<u>121</u>	<u>148</u>	<u>370</u>	<u>767</u>
	<u>\$ 14,378</u>	<u>\$ 18,847</u>	<u>\$ 18,616</u>	<u>\$ 63,279</u>	<u>19,566</u>	<u>21,816</u>	<u>20,862</u>	<u>37,610</u>
Base EBITDA	7,397	8,844	9,550	9,671	10,065	9,159	10,336	10,453
Adjusted EBITDA	7,406	10,772	10,028	42,441	10,125	10,667	10,468	21,769
Net income	4,098	5,793	5,782	21,580	5,239	5,835	6,404	14,107
Basic earnings per share	\$ 0.14	\$ 0.20	\$ 0.20	\$ 0.74	\$ 0.18	\$ 0.20	\$ 0.22	\$ 0.48
Diluted earnings per share	\$ 0.14	\$ 0.20	\$ 0.20	\$ 0.73	\$ 0.17	\$ 0.20	\$ 0.22	\$ 0.48

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 December 31, 2010

(\$ in millions)

Annualized Rates of Return¹ (net of all fees paid and accrued)

	INCEPTION DATE	AUM \$	1 YEAR %	3 YEAR %	5 YEAR %	10 YEAR %	SINCE INCEPTION %
Equity Investment Strategies²							
Value	JAN 1991	510	15.2	-5.9	2.7	13.3	13.4
Growth	JUL 1984	162	8.3	-3.7	3.1	5.1	11.4
U.S. Equity	FEB 1986	20	4.7	-2.6	1.3	0.9	9.2
Top 15	JUL 2003	73	15.0	-11.3	2.4	—	13.8
North American Value ³	JUL 1997	90	7.0	-2.6	4.0	10.2	10.9
Premium Income	JUL 2001	878	14.8	5.4	6.1	—	15.0
		<u>1,733</u>					
Alternative Investment Strategies⁴							
Multi-Strategy	JAN 2009	673	-0.6	—	—	—	4.8
Multi-Strategy Opportunities	JAN 2009	343	-0.4	—	—	—	7.5
Equity Long/Short ⁵	JUL 2004	52	0.5	-0.9	3.6	—	13.3
Income Long/Short ⁵	JUL 2004	244	4.5	6.8	9.7	—	17.5
Other Long/Short funds		<u>37</u>					
		<u>1,349</u>					
Credit Alternative Investment Strategies							
Credit Arbitrage	JAN 2009	649	2.5	—	—	—	11.4
Enhanced Credit Arbitrage	DEC 2008	<u>165</u>	3.3	—	—	—	16.6
		<u>814</u>					
Fixed Income Investment Strategies⁵							
Enhanced Bond	DEC 2008	813	2.6	—	—	—	8.9
Enhanced Yield ⁵	FEB 2009	<u>492</u>	8.9	—	—	—	9.7
		<u>1,305</u>					
Institutional & Special Mandates⁶							
		<u>808</u>					
Assets Under Management							
		<u><u>6,000</u></u>					

Notes:

- Past performance is not necessarily indicative of future performance.
- Where, for a particular portfolio model, we manage both a pooled fund and segregated accounts, we have measured the performance of whichever has been in operation the longest to represent the overall performance of the portfolio model.
- On October 1, 2010, the name of the GS+A RRSP Fund was changed to the GS+A North American Value Fund.
- 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.
- 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.
- Includes institutional mandates managed primarily in accordance with our Value portfolio model (\$476 million), our Premium Income portfolio model (\$150 million), our all-Canadian Growth portfolio model (\$93 million), private client mandates managed primarily in accordance with a combination of our Value and Premium Income portfolio models (\$19 million), our Incubator Fund (\$21 million), our Founders portfolio model (\$23 million), our Resource portfolio model (\$24 million), and our U.S. Equity portfolio models (\$2 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 President & 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 President & Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the President & 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 the second quarter of fiscal 2011, the Company continued to work with a service provider to provide operational support services for its Funds, including unitholder recordkeeping and fund accounting. Following the transition of the fund accounting function to a service provider early in 2010, the next phase of the transition involves conversion of unitholder records to this external platform.

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 December 31, 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 plan for employees and directors. Option 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 \$250,000 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 December 31, 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 December 31, 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, and accrued bonuses. The fair value of cash, accounts receivable, accounts payable, accrued liabilities, and accrued bonuses approximate their relevant carrying values due to their short-term nature. At December 31, 2010 the Company held \$26.1 million in cash, \$43.9 million in short-term investments, \$3.6 million in securities owned and \$0.6 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 December 31, 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 December 31, 2010. For further information, refer to note 5 of the Company's December 31, 2010 unaudited interim financial statements.

SHARE CAPITAL

As at February 10, 2011, there has been no change to the capital structure of the Company from that disclosed in the unaudited interim financial statements dated December 31, 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, as further described in the Company's "Annual Information Form". 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 2,174,000 of which 866,000 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 DEC 31, 2010 (UNAUDITED)	AS AT JUN 30, 2010 (AUDITED)
ASSETS		
Current assets		
Cash and short-term investments (note 4)	\$ 69,958	\$ 97,083
Accounts receivable (note 5)	19,698	9,564
Securities owned at fair value (note 4)	3,637	1,729
Income taxes recoverable (note 9)	—	2,093
Future income taxes (note 9)	2,253	1,705
Prepaid expenses and other assets	<u>631</u>	<u>754</u>
	96,177	112,928
Property and equipment	<u>6,077</u>	<u>4,409</u>
Total assets	<u>\$102,254</u>	<u>\$ 117,337</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,201	\$ 2,453
Securities sold short at fair value (note 4)	557	—
Income taxes payable (note 9)	1,516	—
Accrued bonuses	<u>7,643</u>	<u>18,290</u>
	16,917	20,743
Long-term liability	554	—
Post-retirement obligations (note 7)	<u>9,068</u>	<u>8,870</u>
	<u>9,622</u>	<u>8,870</u>
	<u>26,539</u>	<u>29,613</u>
SHAREHOLDERS' EQUITY		
Share capital (note 8)	8,651	8,531
Treasury stock (note 8)	(3,538)	—
Contributed surplus (note 8)	10,172	8,171
Retained earnings	<u>60,430</u>	<u>71,022</u>
	<u>75,715</u>	<u>87,724</u>
Total liabilities and shareholders' equity	<u>\$102,254</u>	<u>\$ 117,337</u>

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 DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
REVENUE				
Base management fees (note 5)	\$ 21,024	\$ 18,777	\$ 41,348	\$ 36,335
Performance fees (note 5)	15,819	44,234	15,987	45,246
Investment and other income (note 4)	767	268	1,137	314
	<u>37,610</u>	<u>63,279</u>	<u>58,472</u>	<u>81,895</u>
EXPENSES				
Salaries and benefits (notes 5, 7, 10 and 11)	10,059	22,626	15,746	28,143
Business development	963	669	1,979	1,329
General and administrative (note 12)	5,708	6,678	9,752	9,475
Occupancy	488	472	984	917
Amortization of property and equipment	344	211	689	413
	<u>17,562</u>	<u>30,656</u>	<u>29,150</u>	<u>40,277</u>
Income Before Provision for Income Taxes				
Provision for (recovery of) income taxes (note 9)	20,048	32,623	29,322	41,618
Current income taxes	6,376	13,241	9,359	16,410
Future income taxes	(435)	(2,198)	(548)	(2,154)
	<u>5,941</u>	<u>11,043</u>	<u>8,811</u>	<u>14,256</u>
Net income and comprehensive income for the period				
Retained earnings – Beginning of period	14,107	21,580	20,511	27,362
	<u>50,348</u>	<u>49,336</u>	<u>71,022</u>	<u>49,978</u>
Dividends	64,455	70,916	91,533	77,340
	<u>(4,025)</u>	<u>(3,655)</u>	<u>(31,103)</u>	<u>(10,079)</u>
Retained earnings – End of period	<u>\$60,430</u>	<u>\$ 67,261</u>	<u>\$60,430</u>	<u>\$ 67,261</u>
Average shares outstanding (in thousands)				
Average diluted shares outstanding (in thousands)	29,212	29,222	29,243	29,212
Basic earnings per share (note 13)	\$ 0.48	\$ 0.74	\$ 0.70	\$ 0.94
Diluted earnings per share (note 13)	\$ 0.48	\$ 0.73	\$ 0.70	\$ 0.93

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

INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(\$ in thousands)

	3 MONTHS ENDED DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net Income for the period	\$ 14,107	\$ 21,580	\$ 20,511	\$ 27,362
Adjustments for				
Amortization of property and equipment	344	211	689	413
Net investment gains	(371)	(267)	(734)	(432)
Post-retirement obligations	99	8,572	198	8,572
Future income taxes	(435)	(2,198)	(548)	(2,154)
Stock-based compensation	1,278	1,035	2,028	1,866
	<u>15,022</u>	<u>28,933</u>	<u>22,144</u>	<u>35,627</u>
Changes in non-cash working capital items				
Accounts receivable	(10,900)	1,917	(10,134)	1,847
Prepaid expenses and other assets	6	188	123	252
Income taxes recoverable	408	4,950	2,093	4,548
Income taxes payable	1,516	4,900	1,516	4,900
Accounts payable and accrued liabilities	4,197	5,715	5,302	5,217
Accrued bonuses	5,199	10,662	(10,647)	3,462
	<u>15,448</u>	<u>57,265</u>	<u>10,397</u>	<u>55,853</u>
INVESTING ACTIVITIES				
(Repurchases) sales of securities sold short	(80)	61	371	61
Purchases of securities owned	(251)	(602)	(988)	(1,536)
Purchases of property and equipment	(1,392)	(239)	(2,357)	(474)
	<u>(1,723)</u>	<u>(780)</u>	<u>(2,974)</u>	<u>(1,949)</u>
FINANCING ACTIVITIES				
Dividends paid	(31,103)	(10,079)	(31,103)	(10,079)
Acquisition of treasury stock	(3,538)	—	(3,538)	—
Exercise of stock options	93	16	93	16
	<u>(34,548)</u>	<u>(10,063)</u>	<u>(34,548)</u>	<u>(10,063)</u>
Increase (decrease) in cash during the period	(20,823)	46,422	(27,125)	43,841
Cash and short-term investments – Beginning of period	90,781	51,276	97,083	53,857
Cash and short-term investments – End of period	\$ 69,958	\$ 97,698	\$ 69,958	\$ 97,698
CASH AND SHORT-TERM INVESTMENTS COMPRISE				
Cash	\$ 26,077	\$ 92,735	\$ 26,077	\$ 92,735
Short-term investments	43,881	4,963	43,881	4,963
	<u>\$ 69,958</u>	<u>\$ 97,698</u>	<u>\$ 69,958</u>	<u>\$ 97,698</u>
SUPPLEMENTARY INFORMATION				
Interest paid during the period	—	—	—	—
Income taxes paid during the period	4,581	3,500	5,879	7,000

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

Notes to Unaudited Interim Financial Statements

December 31, 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 and six months ended December 31, 2010 and December 31, 2009 with the Balance Sheets being as at December 31, 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, and accrued bonuses. Financial instruments comprised of cash, accounts receivable, accounts payable, accrued liabilities, 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 December 31, 2010 are \$371 (December 31, 2009 – \$267) and for the six months ended December 31, 2010 are \$734 (December 31, 2009 – \$432).

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

	3 MONTHS ENDED DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
Realized gain on securities owned and securities sold short	\$142	\$ 1	\$ 248	\$ 13
Unrealized gain on securities owned and securities sold short	229	266	486	419
Unrealized gain (loss) on short- term investments	15	—	(2)	—
Interest and other income (loss)	381	1	405	(118)
	<u>\$767</u>	<u>\$268</u>	<u>\$1,137</u>	<u>\$ 314</u>

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 December 31, 2010.

	LEVEL 1	LEVEL 2	TOTAL
Financial Assets:			
Short-term investments	\$ —	\$ 43,881	\$ 43,881
Securities owned at fair value	3,621	16	3,637
Securities sold short	(557)	—	(557)
	<u>\$3,064</u>	<u>\$43,897</u>	<u>\$46,961</u>

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

5. RELATED PARTY TRANSACTIONS

Included in the Company's total revenue for the three months ended December 31, 2010 are Base Management Fees of \$16,230 (December 31, 2009 – \$14,573) and for the six months ended December 31, 2010 of \$32,178 (December 31, 2009 – \$28,006) 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 December 31, 2010 is a reimbursement of certain operating expenses by the Company's pooled funds of \$955 (December 31, 2009 – \$845) and for the six months ended December 31, 2010 of \$1,878 (December 31, 2009 – \$1,628). All related party transactions are recorded at the exchange amount. Included in the Company's accounts receivable as at December 31, 2010 is \$15,547 (June 30, 2010 – \$4,751) owing from the Company's pooled funds.

Included in the Company's liabilities as at December 31, 2010 are post-retirement obligations of \$9,068 (June 30, 2010 – \$8,870) 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.

On September 28, 2010, the Company applied for registration as an Investment Fund Manager to replace its registration as an Investment Counsel and Portfolio Manager. Approval was received for registration of the Company as an Investment Fund Manager on November 22, 2010 and the Company is required to maintain a minimum capital requirement of \$100 at all times with this registration. Prior to

registration of the Company as an Investment Fund Manager, minimum capital requirements of \$50 was required to be maintained at all times. Throughout the three and six months ended December 31, 2010, the Company maintained levels of capital well in excess of the \$100.

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 December 31, 2010 was \$99 (December 31, 2009 – \$8,572) and for the six months ended December 31, 2010 was \$198 (December 31, 2009 – \$8,572). This amount is included in salaries and benefits.

On January 15, 2011 the Company renewed its 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 December 31, 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 December 31, 2010, there were 16,667,049 SVS and 12,613,000 MVS (December 31, 2009 – 12,649,149 SVS and 16,588,000 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.

	3 MONTHS ENDED				6 MONTHS ENDED			
	DEC 31, 2010		DEC 31, 2009		DEC 31, 2010		DEC 31, 2009	
	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE
<i>Share Capital</i>								
Beginning of period								
Multiple Voting Shares	13,313		18,263		13,613		18,263	
Subordinate Voting Shares	15,961		10,939		15,661		10,939	
	<u>29,274</u>	<u>\$8,531</u>	<u>29,202</u>	<u>\$7,423</u>	<u>29,274</u>	<u>\$8,531</u>	<u>29,202</u>	<u>\$7,423</u>
Activity during the period								
Convert from Multiple Voting Shares	(700)	—	(1,675)	—	(1,000)	—	(1,675)	—
Exercise of Stock Options	6	120	35	456	6	120	35	456
Convert to Subordinate Voting Shares	700	—	1,675	—	1,000	—	1,675	—
	<u>6</u>	<u>\$ 120</u>	<u>35</u>	<u>\$ —</u>	<u>6</u>	<u>\$ 120</u>	<u>35</u>	<u>\$ —</u>
End of the period								
Multiple Voting Shares	12,613		16,588		12,613		16,588	
Subordinate Voting Shares	16,667		12,649		16,667		12,649	
	<u>29,280</u>	<u>\$8,651</u>	<u>29,237</u>	<u>\$7,879</u>	<u>29,280</u>	<u>\$8,651</u>	<u>29,237</u>	<u>\$7,879</u>

CONTRIBUTED SURPLUS	3 MONTHS ENDED		6 MONTHS ENDED	
	DEC 31, 2010	DEC 31, 2009	DEC 31, 2010	DEC 31, 2009
Balance – Beginning of period	\$ 8,921	\$6,088	\$ 8,171	\$ 5,257
Deferred share units	201	63	311	117
Amortization of stock options	588	972	1,436	1,749
Restricted share units	489	—	489	—
Exercised stock options	(27)	(440)	(27)	(440)
Forfeited stock options	—	—	(208)	—
Balance – End of period	<u>\$10,172</u>	<u>\$6,683</u>	<u>\$10,172</u>	<u>\$6,683</u>

Treasury Shares

In relation to the Company's stock-based compensation RSU plan (described in Note 11), the Company may acquire shares in the open market which will be held in a trust for the benefit of the RSU participants to hedge the potential economic exposure that could arise on outstanding RSUs due to fluctuation in the stock price. During the three months ended December 31, 2010, the Company paid cash of approximately \$3.5 million to acquire shares in the open market pursuant to this arrangement. These shares are recorded as treasury shares and are not considered to be outstanding for basic earnings per share calculations.

	3 MONTHS ENDED				6 MONTHS ENDED			
	DEC 31, 2010		DEC 31, 2009		DEC 31, 2010		DEC 31, 2009	
	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE
<i>Share Capital</i>								
Balance – Beginning of period	—	—	—	—	—	—	—	—
Shares acquired	<u>193</u>	<u>3,538</u>	—	—	<u>193</u>	<u>3,538</u>	—	—
Balance – End of period	<u><u>193</u></u>	<u><u>\$3,538</u></u>	<u>—</u>	<u>\$—</u>	<u><u>193</u></u>	<u><u>\$3,538</u></u>	<u>—</u>	<u>\$—</u>

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 DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009
Income Taxes at statutory rate, 29.25% (2010 – 32.00)%	\$5,869	\$10,394
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	230	327
Realized and unrealized capital gains on securities owned	(139)	(35)
Future tax asset not previously recorded	(53)	—
Prior year's over provision	(34)	(157)
Other non-deductible items and changes in future tax rates	<u>68</u>	<u>514</u>
Income tax provision as reported, 29.61% (2010 – 33.90)%	<u><u>\$5,941</u></u>	<u><u>\$11,043</u></u>

	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
Income Taxes at statutory rate, 29.25% (2010 – 32.00)%	\$8,581	\$ 13,317
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	450	597
Realized and unrealized capital gains on securities owned	(182)	(64)
Future tax asset not previously recorded	(44)	—
Prior year's over provision	(34)	(157)
Other non-deductible items and changes in future tax rates	<u>40</u>	<u>563</u>
Income tax provision as reported, 30.04% (2010 – 34.30%)	<u>\$8,811</u>	<u>\$14,256</u>

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

	AS AT DEC 31, 2010	AS AT JUN 30, 2010
Unrealized gain on securities owned and securities sold short	\$ 33	\$ 83
Property and equipment	(399)	(595)
Acquisition of treasury stock for RSUs	123	—
Accrued liabilities	229	—
Post-retirement obligations	<u>2,267</u>	<u>2,217</u>
Future income tax asset	<u>\$ 2,253</u>	<u>\$1,705</u>

As at December 31, 2010, the Company has approximately \$810 (June 30, 2010 – \$1,110) 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 are accrued bonuses for the three months ended December 31, 2010 of \$5,199 (December 31, 2009 – \$10,661) and for the six months ended December 31, 2010 of \$7,602 (December 31, 2009 – \$13,180).

II. 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 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 and six months ended December 31, 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 December 31, 2010 was \$588 (December 31, 2009 – \$972) and for the six months ended December 31, 2010 was \$1,228 (December 31, 2009 – \$1,749) 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				6 MONTHS ENDED			
	DEC 31, 2010		DEC 31, 2009		DEC 31, 2010		DEC 31, 2009	
	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE
Balance – Beginning of period	2,180	\$18.48	2,492	\$18.09	2,277	\$18.54	1,847	\$ 17.23
Options granted	—	—	90	20.93	—	—	735	20.60
Options exercised	(6)	15.59	(122)	15.52	(6)	15.59	(122)	15.52
Options forfeited	—	—	(20)	15.59	(97)	19.91	(20)	15.59
Balance – End of period	<u>2,174</u>	<u>\$18.49</u>	<u>2,440</u>	<u>\$ 18.34</u>	<u>2,174</u>	<u>\$18.49</u>	<u>2,440</u>	<u>\$ 18.34</u>

RANGE OF EXERCISE PRICES	AS AT DEC 31, 2010					
	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING (000's)	WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (000's)	WEIGHTED AVERAGE EXERCISE PRICE	
\$10.00 – \$17.99	1,224	3.92	\$ 15.34	582	\$ 15.53	
\$18.00 – \$25.99	715	6.15	20.60	143	20.60	
\$26.00 – \$33.99	235	3.76	28.50	141	28.50	
	<u>2,174</u>	4.64	\$ 18.49	<u>866</u>	\$ 18.48	

RANGE OF EXERCISE PRICES	AS AT JUN 30, 2010					
	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OUTSTANDING (000's)	WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (000's)	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	
	<u>2,277</u>	5.11	\$ 18.54	<u>460</u>	\$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 December 31, 2010 was \$201 (December 31, 2009 – \$63) and for the six months ended December 31, 2010 was \$311 (December 31, 2009 – \$117).

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

DEFERRED SHARE UNITS	3 MONTHS ENDED		6 MONTHS ENDED	
	DEC 31, 2010 (000's)	DEC 31, 2009 (000's)	DEC 31, 2010 (000's)	DEC 31, 2009 (000's)
Balance – Beginning of period	36	23	32	20
Issued	<u>5</u>	<u>3</u>	<u>9</u>	<u>6</u>
Balance – End of period	<u>41</u>	<u>26</u>	<u>41</u>	<u>26</u>

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 time at the rate of one-third of the total RSUs granted on each anniversary of the grant date.

For the three months ended December 31, 2010, the Company awarded \$3.2 million of RSUs to employees. The expense related to RSUs outstanding that has been included in the salaries and benefits expense during the three months ended December 31, 2010 was \$489 (December 31, 2009 – \$nil) and for the six months ended December 31, 2010 was \$489 (December 31, 2009 – \$nil) using the graded vesting methodology.

RESTRICTED SHARE UNITS	3 MONTHS ENDED		6 MONTHS ENDED	
	DEC 31, 2010 (000's)	DEC 31, 2009 (000's)	DEC 31, 2010 (000's)	DEC 31, 2009 (000's)
Balance – Beginning of period	—	—	—	—
Issued	<u>177</u>	—	<u>177</u>	—
Balance – End of period	<u>177</u>	—	<u>177</u>	—

12. GENERAL AND ADMINISTRATIVE

Included in the Company's general and administrative expense are sub-advisory fees for the three months ended December 31, 2010 of \$1,927 (December 31, 2009 – \$3,684) and for the six months ended December 31, 2010 of \$2,259 (December 31, 2009 – \$4,649).

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 treasury shares held in the RSU 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 December 31.

BASIC AND DILUTED EARNINGS PER SHARE	3 MONTHS ENDED DEC 31, 2010	3 MONTHS ENDED DEC 31, 2009
Basic earnings per share		
Net income available to shareholders	\$ 14,107	\$ 21,580
Average number of shares outstanding (in 000's)	29,212	29,222
Basic earnings per share	<u>\$ 0.48</u>	<u>\$ 0.74</u>
Diluted earnings per share		
Net income available to shareholders	<u>\$ 14,107</u>	<u>\$ 21,580</u>
Average number of shares outstanding (in 000's)	29,212	29,222
Stock options and RSUs potentially exercisable as determined under the treasury stock method (in 000's)	<u>274</u>	<u>227</u>
Average number of shares outstanding – diluted (in 000's)	<u>29,486</u>	<u>29,449</u>
Diluted earnings per share ¹	<u>\$ 0.48</u>	<u>\$ 0.73</u>

Note:

1. For the three months ended December 31, 2010, the computation of diluted earnings per share excluded weighted-average options outstanding of 955 (December 31, 2009 – 1,000) with a weighted-average exercise price of \$22.55 (December 31, 2009 – \$22.69) as the option price was greater than the average market price of the Company's shares.

The following table presents the Company's basic and diluted earnings per share for the six months ended December 31.

BASIC AND DILUTED EARNINGS PER SHARE	6 MONTHS ENDED DEC 31, 2010	6 MONTHS ENDED DEC 31, 2009
Basic earnings per share		
Net income available to shareholders	\$ 20,511	\$ 27,362
Average number of shares outstanding (in 000's)	29,243	29,212
Basic earnings per share	<u>\$ 0.70</u>	<u>\$ 0.94</u>
Diluted earnings per share		
Net income available to shareholders	<u>\$ 20,511</u>	<u>\$ 27,362</u>
Average number of shares outstanding (in 000's)	29,243	29,212
Stock options and RSUs potentially exercisable as determined under the treasury stock method (in 000's)	<u>207</u>	<u>227</u>
Average number of shares outstanding – diluted (in 000's)	<u>29,450</u>	<u>29,439</u>
Diluted earnings per share ¹	<u>\$ 0.70</u>	<u>\$ 0.93</u>

Note:

1. For the six months ended December 31, 2010, the computation of diluted earnings per share excluded weighted-average options outstanding of 950 (December 31, 2009 – 1,000) with a weighted-average exercise price of \$22.55 (December 31, 2009 – \$22.69) 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 December 31, 2010, investments in securities owned and securities sold short managed by the Company amounted to \$3,637 or 3.6% (June 30, 2010 – \$1,729 or 1.5%) of total assets and \$557 or 0.5% 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 \$136 (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 \$21 (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 December 31, 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 December 31, 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 December 31, 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 \$483 (June 30, 2010 – \$387) and securities sold short of \$89 (June 30, 2010 – \$ nil) were denominated in U.S. dollars as at December 31, 2010. Furthermore, as at December 31, 2010, a total of \$981 (June 30, 2010 – \$98) of cash and \$180 (June 30, 2010 – \$141) of accounts receivable were denominated in U.S. dollars. As at December 31, 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 \$58 (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

PAUL BEESTON

Audit Committee

GERALD SHEFF

*Co-Founder & Chairman
Gluskin Sheff*

DONALD CARTY

*Compensation, Nominating and
Governance Committee*

HERBERT SOLWAY

*Chairman of the Compensation,
Nominating and
Governance Committee*

JEREMY FREEDMAN

*President & Chief Executive Officer
Gluskin Sheff*

PIERRE-ANDRE THEMENS

Audit Committee

IRA GLUSKIN

*Co-Founder & Vice-Chairman
Gluskin Sheff*

PAMELA D. WALLIN

*Compensation, Nominating and
Governance Committee*

WILFRED GOBERT

Audit Committee

ROBERT S. WEISS

Chairman of the Audit Committee

Officers

GERALD SHEFF

Co-Founder & Chairman

IRA GLUSKIN

Co-Founder & Vice-Chairman

JEREMY FREEDMAN

President & Chief Executive Officer

WILLIAM WEBB

*Executive Vice-President &
Chief Investment Officer*

DAVID MORRIS

Chief Financial Officer & Secretary

BRIAN GINSLER

Chief Operating Officer

DAVID ROSENBERG

Chief Economist & Strategist

JAMES SIMMONDS

Chief Compliance Officer

JIM BANTIS

Vice-President, Risk Management

MICHAEL CECCARELLI

Vice-President, Risk Management

SILVIA CHEUNG

Vice-President, Investment Accounting

MALCOLM CLARKE

Vice-President, Operations & Technology

RENO GIANCOLA

Vice-President & Portfolio Manager

JEFF HALES

Vice-President & Portfolio Manager

DAVID HODGSON

Vice-President & Portfolio Manager

PATRICK KEELEY

Vice-President, Risk Management

SANDY KWAN

Controller

KAI LAM

Vice-President & Portfolio Manager

BRUCE LEBOFF

Vice-President, Risk Management

JEANNINE LICHONG

Vice-President & Portfolio Manager

JEFF MOODY

Vice-President, Risk Management

SARAH NIXON-SUGGITT

Vice-President, Human Resources

DEAN SMITH

Vice-President & Portfolio Manager

TIM STINSON

Vice-President, Risk Management

CHRISTINE TAN

Vice-President & Portfolio Manager

DAVID VANKKA

Vice-President, Risk Management

MARK WISNIEWSKI

Vice-President & Portfolio Manager

GEORGE YOUNG

Vice-President & Associate Portfolio Manager

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