



ANNUAL REPORT JUNE 30, 2010

*Sustaining Excellence*

## *Sustaining Excellence*

“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.

# Gluskin Sheff at a Glance

## OVERVIEW

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As of June 30, 2010, the Firm managed assets of \$5.5 billion.

Gluskin Sheff became a publicly traded corporation on the Toronto Stock Exchange (symbol: GS) in May 2006 and remains 49.0% owned by its senior management and employees. We have public company accountability and governance with a private company commitment to innovation and service.

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively the largest client of the Firm's investment portfolios.

We offer a diverse platform of investment strategies (Canadian and U.S. equities, Alternative and Credit) and investment styles (Value, Growth and Income).

The minimum investment required to establish a client relationship with the Firm is \$3 million for Canadian investors and \$5 million for U.S. and International investors.

## PERFORMANCE

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\$1 million invested in our GS+A Growth Fund from inception (July 1, 1984) would have grown to \$15.3 million on June 30, 2010 versus \$9.8 million for the S&P/TSX Total Return Index over the same period.

\$1 million invested in our Value Portfolio in 1991 (its inception date) would have grown to \$10.9 million on June 30, 2010 versus \$5.4 million for the S&P/TSX Total Return Index over the same period.

## INVESTMENT STRATEGY & TEAM

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We have strong and stable portfolio management, research and client service teams. Aside from recent additions, our Portfolio Managers have been with the Firm for a minimum of five years and we have attracted "best in class" talent at all levels. Our performance results are those of the team in place. We have a strong history of insightful bottom-up security selection based on fundamental analysis. For long equities, we look for companies with a history of long-term growth and stability, a proven track record, shareholder-minded management and a share price below our estimate of intrinsic value. We look for the opposite in equities that we sell short. For corporate bonds, we look for issuers with a margin of safety for the payment of interest and principal, and yields which are attractive relative to the assessed credit risks involved.

We assemble concentrated portfolios – our top ten holdings typically represent between 25% to 45% of a portfolio. In this way, clients benefit from the ideas in which we have the highest conviction.

Our success has often been linked to our long history of investing in under-followed and under-appreciated small and mid-cap companies both in Canada and the U.S.

## PORTFOLIO CONSTRUCTION

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In terms of asset mix and portfolio construction, we offer a unique marriage between our bottom-up security-specific fundamental analysis and our top-down macroeconomic view.

# Highlights

**22.9%**  
Compound annual  
growth rate of AUM  
since inception

## PRE-EMINENT REPUTATION

Gluskin Sheff is Canada's third-largest non-bank private client wealth management firm, with \$5.5 billion in paying Assets Under Management ("AUM") as of June 30, 2010.

## SOLID GROWTH

Assets Under Management have grown at a compound rate of 22.9% since our founding in 1984.

## STRONG SECTOR

The private client sector is the fastest growing segment in the Canadian wealth management industry.

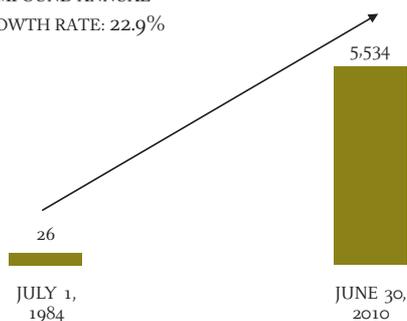
## COMMITTED MANAGEMENT TEAM

Senior management and employees have retained a 49.0% interest in the Company and continue to have significant assets invested alongside those of our clients.

## 26-YEAR TRACK RECORD

### ASSETS UNDER MANAGEMENT (*\$ in millions*)

COMPOUND ANNUAL  
GROWTH RATE: 22.9%



## ALIGNMENT OF INTERESTS

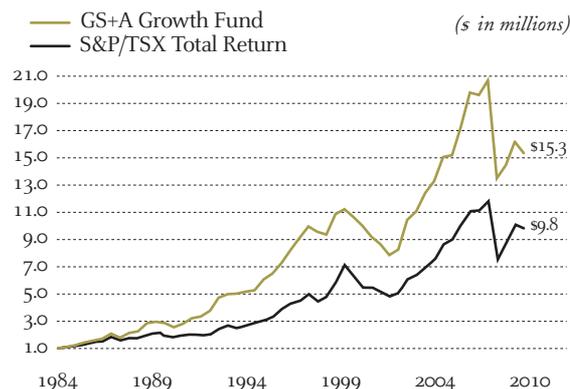
Shareholders, employees and management all have the opportunity to participate in Performance Fees either through special dividends or bonuses.

## GROWTH STRATEGIES

- Deliver solid investment performance
- Provide the highest level of client service
- Continue with innovation in our range of investment models
- Capitalize on our reputation and client referrals
- Expand our client base geographically

### GS+A GROWTH FUND <sup>1, 2</sup>

(Growth of \$1 million – July 1, 1984 to June 30, 2010)



1. Past returns are not necessarily indicative of future performance.
2. Net of fees.

## *Sustaining Excellence*

Fiscal 2010 saw continued and pronounced market volatility. Market rallies late in 2009 and early 2010 left equity markets more than fully valued, which led to declines in North American equity markets in the second half of the fiscal year. Overall, throughout the year we maintained a cautious outlook, emphasizing the protection of our clients' capital, and seeking income-generation through dividends, trust distributions and interest payments. At the moment, we continue to see outsized risks in equity market valuations generally, with modest likelihood of outsized returns as compensation.

During exceptionally uncertain times such as these, we maintain our focus on long-term trends and avoid getting distracted by the short-term ups and downs of volatile markets. We remain confident that our record of success, strong reputation in the private client market and experienced and proven management team will enable us to continue to build upon our long-term track record of excellence for the benefit of both our clients and our shareholders.

**\$75.5** MILLION

Base Management Fees

**\$47.2** MILLION

Performance Fees

**\$5.5** BILLION

Assets Under Management

We were pleased to announce the fourth increase in our regular quarterly dividend to \$0.1375 per equity share, a 10% increase on an annualized basis, and our fifth special dividend, this year in the amount of \$0.80 per equity share.

We continue to believe that our most important strategy for growth is to effectively manage the assets we presently have under management. By delivering solid long-term, risk adjusted investment performance to our clients, we believe our Assets Under Management (“AUM”) will continue to grow. Growth in AUM leads to an increase in revenues from both our Base Management Fees and, if performance hurdles are exceeded, our Performance Fees. In fiscal 2010, Base Management fees rose to \$75.5 million, an increase of 18% compared to the prior year. We also generated performance fees of \$47.2 million. Our long-term investment performance record speaks for itself: for our original clients who invested in the Gluskin Sheff Fund (now the GS+A Growth Fund) on July 1, 1984, we have achieved a return, net of all fees and expenses, of 11% compounded annually to June 30, 2010. Over this same period, the S&P/TSX Total Return Index returned 9% compounded annually. In terms of total net return, over this same period, the GS+A Growth Fund generated a return of 1,435% while the return on the S&P/TSX Total Return Index was 882%.

Our second strategy for growth is to continue to provide our clients with a high standard of personalized service. By focusing on understanding our clients’ needs, and then delivering against those expectations, experience has proven that we will be entrusted with an increasing share of their investable assets.

Our third growth strategy is to continue to innovate with our portfolio offerings, so that we can further address the needs of our clients. We expect incremental growth will come from assets invested in new portfolio models and strategies that offer complementary and non-correlating absolute return opportunities. During fiscal 2010 we introduced our new high yield fixed income fund, and we continue to invest in new portfolio “R&D”.

Our fourth strategy is to continue to tap into what in the past has been our greatest source of new business:

referrals from existing clients and word-of-mouth reputational growth. Our success in this area will depend on the effectiveness with which we manage our current clients’ assets.

Finally, we will continue to seek business in new geographic markets. We see opportunities to grow our business in Canada, the U.S. and farther afield, and during the year, we opened our office in Calgary to service clients in the Western provinces and to expand our Western-based clientele. As well, we have seen, and continue to see, increased interest in our services from U.S.-based investors. David Rosenberg’s reputation, particularly in the United States, has generated introductions to significant families, and we will continue to seek new clients who see the benefits of investing with us.

We expanded and deepened the talented team of people we have at Gluskin Sheff during fiscal 2010. We added Jim Bantis and Patrick Keeley to the Risk Management & Client Service team as Vice-Presidents. Also in 2010, George Young joined the Investment team as a Vice-President & Associate Portfolio Manager focusing on fixed income and credit products. We also added Sarah Nixon-Suggitt as Vice-President, Human Resources to lead our Human Resources activities. More recently, David Morris, an industry veteran, joined us as Chief Financial Officer. He succeeds Valerie Barker, our CFO since 2006, who announced last year her plans to explore other pursuits. We thank Val for her dedication and service and wish her continued future success.

Management and employees continue to own a significant interest in the Company, holding approximately 49% of the Company’s total equity. As well, Gluskin Sheff employees and their families collectively are the largest single client of the firm. As such, all of us at Gluskin Sheff have a substantial interest in ensuring we continue to deliver solid investment performance with the goal of enhancing shareholder value over the long-term. This alignment of interests with our shareholders and clients is a fundamental value throughout the Company.

### *Looking Ahead*

Our focus and investment disciplines, coupled with our approach of wedding the big-picture trends with specific security selection, is the secret to our success to date. This approach includes the following factors which will continue to define us going forward:

- we have a number of diverse portfolio strategies that allow for a tailored approach, with the flexibility to adapt to changing market conditions;
- we employ a two-tiered risk management process whereby our Risk Management & Client Service team is responsible for managing risk through the customized selection of portfolio strategies to meet client objectives while our Investment Management team manages risk within the portfolios themselves; and
- management and employees of the Company invest meaningfully in the same portfolios as our clients, ensuring that interests are aligned.

Our overall message remains unchanged: our growth will come from building upon our client base by providing excellent service combined with strong investment results. A number of noteworthy changes took place in the fiscal year to complete the final phase of our Co-Founders' transition and succession plan. Ira Gluskin relinquished his role as Chief Investment Officer on



GERALD SHEFF  
*Co-Founder & Chairman*

December 31, 2009, at which time Bill Webb became the Company's Executive Vice-President & Chief Investment Officer. Mr. Gluskin continues to serve the Company as Co-Founder & Vice-Chairman of the Board and he will continue to manage specified funds and provide advice and counsel with respect to the Company's overall investment strategies. Gerald Sheff relinquished his role as Chief Executive Officer on June 30, 2010 at which time Jeremy Freedman formally assumed the role of President & Chief Executive Officer. Mr. Sheff will continue to serve the Company as Co-Founder & Chairman of the Board.

In closing, as we complete our fifth year as a public company, we would like to express our appreciation to our clients for their business and confidence, our shareholders for their support, and our Board of Directors for their wise counsel. We would also like to extend our appreciation to the entire Gluskin Sheff team for their hard work over the past year. The continued dedication and commitment shown by our team provides a strong platform for continued success.

All of us at Gluskin Sheff remain focused on what has always been our most important objective: providing strong, risk-adjusted returns and outstanding service to our most important constituency, our clients.



JEREMY FREEDMAN  
*President & Chief Executive Officer*

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for the three months and year ended June 30, 2010 is provided as of September 16, 2010. It should be read in conjunction with the audited annual financial statements, including the notes thereto, of Gluskin Sheff + Associates Inc. for the years ended June 30, 2010 and 2009. 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

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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

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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*

AUM fluctuates due to the combination of investment performance and net additions (gross additions net of redemptions). Net additions, 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, Performance Fee related bonuses, sub-advisory fees that relate to Performance Fees, post-retirement obligations and other non-cash expenses such as those associated with the accounting for stock options, Deferred Share Units and non-cash expenses related to the transfer of shares to the Employee Trust. Management believes that Base EBITDA, as defined, is an important measure as it provides relevant information on the profitability of the base business.

### *Adjusted EBITDA*

Adjusted EBITDA is Base EBITDA adjusted for Performance Fees, Performance Fee related bonuses and sub-advisory fees that relate to Performance Fees.

### *Average AUM*

Each month’s average AUM is calculated as the simple average of the beginning and ending AUM in each month. Average AUM for a period is the simple average of the average 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, before sub-advisory fees.

## OVERVIEW

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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 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, business development, general and administrative expenses (which include professional fees, sub-advisory fees, office supplies and related overhead expenses), occupancy, amortization of property and equipment, and in 2010 a significant charge for post-retirement obligations.

## SUMMARY OF THE THREE MONTHS AND YEAR ENDED JUNE 30, 2010

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The highlights for the three months ended June 30, 2010 were:

- AUM decreased by approximately \$44 million to approximately \$5.5 billion at June 30, 2010 or 1% from March 31, 2010. Net Additions for the three months ended June 30, 2010 were \$164 million and investment performance resulted in AUM decreasing by \$208 million.
- Base Management Fees for the three months ended June 30, 2010 increased year-over-year by \$4.0 million or 25% to \$19.8 million from \$15.8 million.
- Base EBITDA for the three months ended June 30, 2010 increased year-over-year by \$0.3 million or 4% to \$9.1 million from \$8.8 million.
- Net income for the three months ended June 30, 2010 remained flat at \$5.8 million, which represented earnings per share, basic and diluted, of \$0.20.

The highlights for the year ended June 30, 2010 were:

- AUM increased by approximately \$1.1 billion to approximately \$5.5 billion at June 30, 2010 or 24% from June 30, 2009. Net Additions for the year ended June 30, 2010 were \$583 million and investment performance resulted in AUM increasing by \$490 million.
- Base Management Fees for the year ended June 30, 2010 increased year-over-year by \$11.7 million or 18% to \$75.5 million from \$63.8 million.
- Base EBITDA for the year ended June 30, 2010 increased year-over-year by \$5.1 million or 15% to \$38.4 million from \$33.3 million.
- Net income for the year ended June 30, 2010 was \$38.4 million, and represented earnings per share, basic and diluted, of \$1.32 and \$1.30, respectively. Net income for the year ended June 30, 2009 was \$21.2 million, and represented earnings per share, basic and diluted, of \$0.73.

## MARKET OUTLOOK AND BUSINESS ENVIRONMENT

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In the aftermath of the recent G20 meeting, industrial world leaders were focused on fiscal stabilization, responding to the growing investor anxiety over bloated public balance sheets. This is in contrast to a year ago when it was all about rampant fiscal stimulation to bolster the global economy. This cannot be constructive for risk assets, which owed last year's rally to the efforts by governments across the planet to sacrifice their balance sheets at the expense of the private sector. We believe that escalating global economic imbalances have dramatically increased the vulnerability of the global recovery. Even the once red-hot Canadian economy is showing visible signs of cooling off, and Bank of Canada Governor Carney is now strongly hinting that the rising interest rate cycle he recently embarked on could be truncated.

North American equity markets were very volatile during the second quarter of 2010, hitting highs for the year early in the quarter followed by sharp declines over the balance of the period. Over the quarter, the S&P/TSX Total Return Index declined by 5.5% and the S&P 500 Total Return Index declined by 11.4% in U.S. dollars and 7.2% in Canadian dollars. The Canadian dollar fell by 4.6% to US\$0.9393, after briefly touching parity early in the quarter. We continue to favour the superior fundamentals of most Canadian equities over those of the U.S., but with our defensive view, we reduced our exposure to both markets over the course of the quarter.

We continue to respond to the markets and feel that at this time, our themes of adopting investment strategies that minimize volatility, preserve capital, generate income and maintain exposure to precious metals, remain appropriate given their inherent hedge against ongoing investor concerns over the integrity of the global monetary system.

Initiatives started in the 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, including the following:

### *Hiring of Top Talent*

We continue to add to our talented pool of both Risk Management & Client Service and Investment professionals. These additions to our Risk Management & Client Service team will assist in the growth of AUM by building relationships with new clients and enhancing our relationships with existing clients. Furthermore, additions to our Investment team will allow us to introduce new investment portfolios in response to changing investor needs, further diversify our product offerings to clients and to continue to add research capacity as we strive for superior investment returns.

### *Expansion of 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 is underway. We continue to enhance our existing operational platforms to provide efficient and effective operations which are scalable and have capacity for our anticipated growth.

### *Employee Incentive Plan – Aligning Interests*

In an effort to retain key employees while at the same time continuing to strengthen the alignment of interests with shareholders, the Company engaged specialized consultants and developed a new compensation and incentive plan to ensure our employees are appropriately rewarded for building our business. The new compensation and incentive plan will be effective for fiscal 2011.

## SUMMARY FINANCIAL INFORMATION<sup>1</sup>

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

			AS AT JUN 30, 2010	AS AT JUN 30, 2009
<b>ASSETS UNDER MANAGEMENT</b>				
<i>Assets under management (\$ in millions)</i>			<u>\$ 5,534</u>	<u>\$ 4,461</u>
<b>BALANCE SHEET INFORMATION</b>				
<i>Total assets</i>			<u>\$117,337</u>	<u>\$75,102</u>
	3 MONTHS ENDED JUN 30, 2010	3 MONTHS ENDED JUN 30, 2009	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
<b>INCOME STATEMENT INFORMATION</b>				
Revenue				
• Base management fees	\$19,769	\$ 15,781	\$ 75,470	\$ 63,821
• Performance fees	1,899	2,522	47,224	5,722
• Investment and other income (loss)	148	544	583	(513)
	<u>21,816</u>	<u>18,847</u>	<u>123,277</u>	<u>69,030</u>
<b>Operating expenses</b>	<u>(9,574)</u>	<u>(6,543)</u>	<u>(44,588)</u>	<u>(24,801)</u>
<b>Provision for bonus pool</b>	<u>(2,643)</u>	<u>(2,705)</u>	<u>(18,304)</u>	<u>(9,496)</u>
<b>EBITDA</b>	<u>9,599</u>	<u>9,599</u>	<u>60,385</u>	<u>34,733</u>
Amortization	(421)	(479)	(1,074)	(983)
Provision for income taxes	<u>(3,343)</u>	<u>(3,327)</u>	<u>(20,875)</u>	<u>(12,513)</u>
<b>Net income</b>	<u>\$ 5,835</u>	<u>\$ 5,793</u>	<u>\$ 38,436</u>	<u>\$ 21,237</u>
<b>Basic earnings per share</b>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 1.32</u>	<u>\$ 0.73</u>
<b>Diluted earnings per share</b>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 1.30</u>	<u>\$ 0.73</u>
<b>SELECTED ADJUSTED FINANCIAL INFORMATION</b>				
<b>EBITDA</b>	\$ 9,599	\$ 9,599	\$ 60,385	\$ 34,733
Provision for bonus pool	2,643	2,705	18,304	9,496
Sub-advisor's share of performance fees	14	115	3,704	126
Post-retirement obligations	203	—	8,870	—
Non-cash expenses <sup>2</sup>	<u>865</u>	<u>1,173</u>	<u>4,006</u>	<u>3,098</u>
<b>EBITDA before compensation adjustment</b>	<u>13,324</u>	<u>13,592</u>	<u>95,269</u>	<u>47,453</u>
Provision for base bonus pool	(2,266)	(2,226)	(9,600)	(8,377)
Performance fees	<u>(1,899)</u>	<u>(2,522)</u>	<u>(47,224)</u>	<u>(5,722)</u>
<i>Base EBITDA</i>	<u>9,159</u>	<u>8,844</u>	<u>38,445</u>	<u>33,354</u>
Performance fees	1,899	2,522	47,224	5,722
Sub-advisor's share of performance fees	(14)	(115)	(3,704)	(126)
Provision for performance fee related bonus pool	<u>(377)</u>	<u>(479)</u>	<u>(8,704)</u>	<u>(1,119)</u>
<i>Adjusted EBITDA</i>	<u>\$10,667</u>	<u>\$10,772</u>	<u>\$ 73,261</u>	<u>\$ 37,831</u>

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

2. Non-cash expenses include stock options and share grants issued.

## RESULTS OF OPERATIONS

### Overall Performance

Total revenues for the three months ended June 30, 2010 increased year-over-year by \$3.0 million or 16% to \$21.8 million from \$18.8 million.

Base Management Fees increased by \$4.0 million or 25% to \$19.8 million from \$15.8 million as a result of higher average monthly AUM over the respective periods.

Performance Fees decreased by \$0.6 million or 25% to \$1.9 million from \$2.5 million due to investment performance.

Investment and other income for the three months ended June 30, 2010 decreased year-over-year by \$0.4 million to \$0.1 million from \$0.5 million as a result of the decrease in realized and unrealized gain on securities owned and securities sold short.

Total revenues for the year ended June 30, 2010 increased year-over-year by \$54.3 million or 79% to \$123.3 million from \$69.0 million.

Base Management Fees increased by \$11.7 million or 18% to \$75.5 million from \$63.8 million as a result of higher average monthly AUM over the respective periods.

Performance Fees increased by \$41.5 million to \$47.2 million from \$5.7 million due to investment performance.

Investment and other income for the year ended June 30, 2010 increased year-over-year by \$1.1 million to \$0.6 million from a loss of \$0.5 million as a result of the increase in realized and unrealized gain on securities owned and securities sold short offset by a decrease in interest and other income.

Total operating expenses for the three months ended June 30, 2010 increased year-over-year by \$2.9 million or 30% to \$12.6 million from \$9.7 million due primarily to an increase in general and administrative expenses, and in salaries and benefits. General and administrative expenses increased by \$2.2 million due to consulting fees associated with business projects currently underway. Salaries and benefits increased by \$0.6 million and was primarily attributed to an increase in base salaries and benefits of \$1.1 million and the post-retirement obligation of \$0.2 million, offset by: \$0.3 million increased

reimbursement of certain operating expenses by the Company's pooled funds; a \$0.1 million decrease in the bonus pool for the quarter; and a \$0.3 million decrease in stock compensation expense.

Total operating expenses for the year ended June 30, 2010 increased year-over-year by \$28.7 million or 81% to \$64.0 million from \$35.3 million, due primarily to an increase in general and administrative expenses, and in salaries and benefits. General and administrative expenses increased by \$8.2 million due to consulting fees associated with business projects currently underway and increased sub-advisor fees. Salaries and benefits increased by \$20.2 million and were primarily attributed to: an increase of \$8.9 million in the post-retirement obligation, an increase of \$8.8 million in the bonus pool, and stock compensation expenses of \$0.9 million. Offsetting these increases was higher reimbursements of \$1.2 million from the Company's pooled funds for certain operating expenses.

Cash flow from operations continued to be positive within the Company.

### Assets Under Management

Total AUM for the three months ended June 30, 2010 decreased by approximately \$44 million or 1% to approximately \$5.5 billion as at June 30, 2010, from \$5.6 billion as at March 31, 2010. The decrease is attributable to Net Additions offset by Investment Performance. Average AUM for the three months ended June 30, 2010 were approximately \$5.6 billion as compared to approximately \$4.2 billion for the three months ended June 30, 2009, an increase of \$1.4 billion or 34%.

	3 MONTHS ENDED JUN 30, 2010	3 MONTHS ENDED JUN 30, 2009
(\$ in millions)		
AUM – Beginning of period	\$5,578	\$3,858
Net additions	164	229
Market value appreciation (decline) <sup>1</sup>	(208)	374
AUM – End of period	\$5,534	\$4,461

1. Net of fees and other expenses.

Total AUM for the year ended June 30, 2010 increased by approximately \$1.1 billion or 24% to approximately \$5.5 billion as at June 30, 2010, from \$4.4 billion as of June 30, 2009. The increase is attributable to Net Additions and Investment Performance. Average AUM for the year ended June 30, 2010 was approximately \$5.2 billion as compared to approximately \$4.2 billion for the year ended June 30, 2009, an increase of \$1.0 billion or 24%.

<i>(\$ in millions)</i>	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
AUM – Beginning of year	\$4,461	\$ 5,597
Net additions	583	309
Market value appreciation (decline) <sup>1</sup>	490	(1,445)
<b>AUM – End of year</b>	<b>\$ 5,534</b>	<b>\$ 4,461</b>

1. Net of fees and other expenses.

### Revenues

Total revenues for the three months ended June 30, 2010 increased year-over-year by \$3.0 million or 16% to \$21.8 million from \$18.8 million. Total revenues for the year ended June 30, 2010 increased year-over-year by \$54.3 million or 79% to \$123.3 million from \$69.0 million.

Base Management Fees for the three months ended June 30, 2010 increased year-over-year by \$4.0 million or 25% to \$19.8 million from \$15.8 million. Average AUM increased approximately \$1.4 billion or 34% over the same period. Base Management Fees for the year ended June 30, 2010 increased year-over-year by \$11.7 million or 18% to \$75.5 million from \$63.8 million, as average AUM increased approximately \$1.0 billion or 24% over the same period.

The Base Management Fee Percentage for the three months ended June 30, 2010 decreased year-over-year to 1.42% from 1.52%. The Base Management Fee Percentage for the year ended June 30, 2010 decreased year-over-year to 1.44% from 1.52%.

Investment and other income for the three months ended June 30, 2010 decreased year-over-year by \$0.4 million to \$0.1 million from \$0.5 million.

Investment and other income for the year ended

June 30, 2010 increased year-over-year by \$1.1 million to \$0.6 million from a loss of \$0.5 million.

### Expenses

Total operating expenses for the three months ended June 30, 2010 increased year-over-year by \$2.9 million or 30% to \$12.6 million from \$9.7 million. Total operating expenses for the year ended June 30, 2010 increased year-over-year by \$28.7 million or 81% to \$64.0 million from \$35.3 million.

Salaries and benefits for the three months ended June 30, 2010 increased year-over-year by \$0.6 million or 11% to \$6.1 million from \$5.5 million. During the second fiscal quarter the Company set up post-retirement obligations as described in note 8 of the financial statements. The expense and related liability recognized in that quarter was \$8.6 million. The increase in expense and related liability recognized in this fiscal quarter was \$0.2 million. Salaries and benefits for the year ended June 30, 2010 increased year-over-year by \$20.2 million or 100% to \$40.5 million from \$20.3 million. The increase in salaries and benefits resulted from increases in base salaries, the provision for bonus pool and changes in stock compensation expense which were partially offset by an increase in the reimbursement of certain administrative expenses by the Company's pooled funds.

Provision for Bonus Pool for the three months ended June 30, 2010 decreased year-over-year by approximately \$0.1 million or 2% to \$2.6 million from \$2.7 million. Provision for Bonus Pool for the year ended June 30, 2010 increased year-over-year by \$8.8 million or 93% to \$18.3 million from \$9.5 million. The increase in Provision for Bonus Pool related to the increase in both Adjusted Base EBITDA and Performance Fees earned. Our stock option plan is described in note 12 of our June 30, 2010 audited annual financial statements. Stock-based compensation expense on awards of stock options and employee trust shares for employees and stock options and Deferred Share Units for directors in aggregate for the three months ended June 30, 2010 decreased year-over-year by approximately \$0.3 million or 26% to \$0.9 million from \$1.2 million. For the year ended June 30, 2010 stock-based compensation

increased year-over-year by approximately \$0.9 million or 29% to \$4.0 million from \$3.1 million. The increases were the result of additional stock options issued. Also, since the amortization of the employee trust was completed in May 2009, there was no such expense in fiscal 2010 which partially offset the increase.

Business development expenses for the three months ended June 30, 2010 increased year-over-year by \$0.1 million or 12% to \$0.7 million from \$0.6 million. Business development expenses for the year ended June 30, 2010 increased year-over-year by \$0.1 million or 3% to \$2.7 million from \$2.6 million.

General and administrative expenses for the three months ended June 30, 2010 increased year-over-year by approximately \$2.2 million or 83% to \$4.9 million from \$2.7 million. General and administrative expenses for the three months ended June 30, 2010 increased year-over-year by approximately \$2.2 million for consulting fees associated with business projects currently underway. General and administrative expenses for the year ended June 30, 2010 increased year-over-year by approximately \$8.2 million or 85% to \$17.8 million from \$9.6 million as consulting expenses and sub-advisory fees for the year ended June 30, 2010 increased year-over-year by approximately \$4.6 million and \$2.4 million, respectively.

Occupancy expenses for the three months and year ended June 30, 2010 increased year-over-year by \$0.1 million or 20% to \$0.5 million from \$0.4 million. Occupancy expenses for the year ended June 30, 2010 increased year-over-year by \$0.1 million or 7% to \$1.9 million from \$1.8 million. The increase was due to the increase in occupancy costs associated with the opening of our Calgary operation.

#### *EBITDA, Base EBITDA, Adjusted EBITDA and Net Income*

For the three months ended June 30, 2010, EBITDA remained constant year-over-year at \$9.6 million. For the year ended June 30, 2010 EBITDA increased year-over-year by \$25.7 million or 74% to \$60.4 million from \$34.7 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 Performance Fees, Performance Fee related bonuses, sub-advisory fees that relate to Performance Fees, post-retirement obligations and other non-cash expenses for the three months ended June 30, 2010 increased year-over-year by \$0.3 million or 4% to \$9.1 million from \$8.8 million. Base EBITDA for the year ended June 30, 2010 increased year-over-year by approximately \$5.1 million or 15% to \$38.4 million from \$33.3 million. The increase in Base EBITDA was attributable to an increase in Base Management Fees which was partially offset by an increase in operating expenses. Adjusted EBITDA for the three months ended June 30, 2010 decreased year-over-year by \$0.1 million or 1% to \$10.7 million from \$10.8 million. Adjusted EBITDA for the year ended June 30, 2010 increased year-over-year by \$35.5 million or 94% to \$73.3 million from \$37.8 million. The increase in Adjusted EBITDA was primarily attributable to the increase in both Performance Fees and Base Management Fees.

Income before provision for income taxes for the three months ended June 30, 2010 increased year-over-year by \$0.1 million or 1% to \$9.2 million from \$9.1 million.

Income before provision for income taxes for the year ended June 30, 2010 increased year-over-year by \$25.6 million or 76% to \$59.3 million from \$33.7 million. Net income for the three months ended June 30, 2010 remained flat year-over-year at \$5.8 million. Net income for the year ended June 30, 2010 increased year-over-year by \$17.2 million or 81% to \$38.4 million from \$21.2 million.

The Company's effective tax rate is approximately 35.2% (June 30, 2009 – 37.1%) and is impacted by the non-deductibility for tax purposes of expenses associated with stock options, Deferred Share Units and the Employee Trust, along with the tax treatment of the post-retirement obligations and realized and unrealized gains (losses) on security holdings.

*Accounts Receivable*

The Company's accounts receivable as at June 30, 2010 and June 30, 2009 consisted primarily of amounts

attributable to Base Management Fees and Performance Fees, which were substantially received subsequent to the end of the fiscal year.

*Dividends*

The following is a summary of the Company's declared dividend record for the last five fiscal years.

	2010	2009	2008	2007	2006
Regular quarterly dividend	\$0.50	\$0.48	\$0.44	\$0.37	\$ -
Special dividend	<u>0.80</u>	<u>0.10</u>	<u>0.28</u>	<u>1.50</u>	<u>0.03</u>
	<u>\$1.30</u>	<u>\$0.58</u>	<u>\$0.72</u>	<u>\$1.87</u>	<u>\$0.03</u>

## 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<sup>1</sup>

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

	AS AT SEP 30, 2008	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
<b>ASSETS UNDER MANAGEMENT</b>								
<b>Assets Under Management</b> (\$ in millions)	<u>\$4,443</u>	<u>\$3,672</u>	<u>\$3,858</u>	<u>\$4,461</u>	<u>\$4,981</u>	<u>\$5,350</u>	<u>\$5,578</u>	<u>\$5,534</u>
	3 MONTHS ENDED SEP 30, 2008	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
<b>INCOME STATEMENT INFORMATION</b>								
Revenue								
• Base management fees	\$ 19,102	\$14,629	\$14,309	\$ 15,781	\$ 17,558	\$ 18,777	\$19,366	\$19,769
• Performance fees	42	3,147	11	2,522	1,012	44,234	79	1,899
• Investment and other income (loss)	(972)	(143)	58	544	46	268	121	148
	<u>\$ 18,172</u>	<u>\$17,633</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>
<b>Base EBITDA</b>	10,253	6,860	7,397	8,844	9,550	9,671	10,065	9,159
<b>Adjusted EBITDA</b>	10,286	9,367	7,406	10,772	10,028	42,441	10,125	10,667
<b>Net income</b>	6,204	5,142	4,098	5,793	5,782	21,580	5,239	5,835
<b>Basic earnings per share</b>	\$ 0.21	\$ 0.18	\$ 0.14	\$ 0.20	\$ 0.20	\$ 0.74	\$ 0.18	\$ 0.20
<b>Diluted earnings per share</b>	\$ 0.21	\$ 0.18	\$ 0.14	\$ 0.20	\$ 0.20	\$ 0.73	\$ 0.17	\$ 0.20

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

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

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 June 30, 2010  
(\$ in millions)

Annualized Rates of Return<sup>1</sup> (net of all fees paid and accrued)

	INCEPTION DATE	AUM \$	YTD %	1 YEAR %	3 YEAR %	5 YEAR %	10 YEAR %	SINCE INCEPTION %
<b>Equity Investment Strategies<sup>2</sup></b>								
Value	Jan 1991	466	1.7	25.7	-9.7	2.5	13.7	13.0
Growth	Jul 1984	194	-5.2	6.2	-8.1	2.9	3.2	11.1
U.S. Equity	Feb 1986	19	-5.0	-1.0	-7.2	1.4	0.4	9.0
Top 15	Jul 2003	102	-5.1	11.9	-13.6	0.8	—	11.8
RRSP	Jul 1997	136	-4.0	7.3	-6.6	3.8	8.3	10.4
Premium Income	Jul 2001	<u>555</u>	2.3	17.5	1.8	5.4	—	14.4
		<u>1,472</u>						
<b>Alternative Investment Strategies<sup>3</sup></b>								
Multi-Strategy	Jan 2009	630	-2.0	2.7	—	—	—	5.4
Multi-Strategy Opportunities	Jan 2009	387	-2.9	4.6	—	—	—	8.3
Equity Long/Short <sup>4</sup>	Jul 2004	43	-4.8	11.0	-3.4	2.5	—	13.5
Income Long/Short <sup>4</sup>	Jul 2004	193	0.5	12.4	5.3	12.9	—	18.3
Other Long/Short funds	—	<u>36</u>						
		<u>1,289</u>						
<b>Credit Alternative Investment Strategies</b>								
Credit Arbitrage	Jan 2009	899	-0.6	6.9	—	—	—	13.1
Enhanced Credit Arbitrage	Dec 2008	<u>162</u>	-3.7	7.6	—	—	—	17.1
		<u>1,061</u>						
<b>Fixed Income Investment Strategies</b>								
Enhanced Bond	Dec 2008	781	0.9	6.1	—	—	—	10.7
Enhanced Yield	Feb 2009	<u>269</u>	5.6	11.5	—	—	—	11.0
		<u>1,050</u>						
<b>Institutional &amp; Special Mandates<sup>5</sup></b>								
		<u>662</u>						
<b>Assets Under Management</b>		<u>5,534</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.
- 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 and the GS+A Income Long/Short Portfolio, and 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 (\$386 million), our Premium Income portfolio model (\$123 million), our all-Canadian Growth portfolio model (\$87 million), private client mandates managed primarily in accordance with a combination of our Value and Premium Income portfolio models (\$19 million), our Incubator Fund (\$17 million), our Founders portfolio model (\$11 million), our EAFE portfolio model and EAFE Fund (\$9 million), our Resource portfolio model (\$6 million), and our U.S. Equity portfolio models (\$4 million) (all numbers are approximate).

## CONTROLS AND PROCEDURES

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### *Disclosure Controls and Procedures*

Pursuant to Multilateral Instrument 52-109 released by the Canadian Securities Administrators, the Company's management has evaluated the operating effectiveness of the Company's disclosure controls and procedures as at June 30, 2010 and concluded that such disclosure controls and procedures are appropriate, given the nature and extent of the Company's operations, and that these controls and procedures are operating effectively.

### *Internal Control Over Financial Reporting*

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting for the Company. There are inherent limitations in all internal control systems no matter how well the systems are designed. Therefore reasonable assurance with respect to financial reporting, and financial statement preparation and presentation can only be provided with respect to those systems and

procedures which management has determined to be operating effectively.

As at June 30, 2010 the Company's internal control systems over financial reporting, and financial statement preparation and presentation, were designed effectively and were operating effectively to provide reasonable assurance regarding the reliability of financial reporting for external purposes. Management did not identify any material weaknesses in the system of internal controls over financial reporting.

### *Operational Matters*

During the year, the Company began working with a service provider to provide operational support services for its Funds, including unitholder recordkeeping and fund accounting. Transition to the service provider's platform commenced in February 2010 with the conversion of the unitholder records, with transition continuing into the new fiscal year with the transfer of the unitholder recordkeeping function.

## CHANGES IN INTERNAL CONTROL AND FINANCIAL REPORTING

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During the year ended June 30, 2010, there were no changes to policies, procedures, and processes that comprise the system of internal controls over financial

reporting that may have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## LIQUIDITY AND CAPITAL RESOURCES

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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 coming year relate to the relocation to a new premise at the end of calendar 2011 as well as continued system development 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 annual financial statements as at June 30, 2010.

Gluskin Sheff's policies and procedures related to the management of capital are described in note 7 of the

Company's June 30, 2010 audited annual financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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A summary of significant accounting policies underlying the financial statements is presented in note 1 of the Company's June 30, 2010 audited annual financial statements. 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 judgments based on available information. Therefore, actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Management has made the following critical accounting estimate:

### *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 June 30, 2010 audited annual financial statements.

### *Post-Retirement Obligations*

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. This 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 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 were used in the actuarial valuation. The Co-Founders were immediately vested and therefore any costs relating up to fiscal 2010, have been recorded as an expense in fiscal 2010. Amounts accrued and expensed are described in note 8 of the Company's June 30, 2010 audited annual financial statements.

## CHANGES IN ACCOUNTING POLICIES

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As explained in note 1 of the Company's June 30, 2010 audited annual financial statements, the Company adopted one new accounting standard that became effective for Gluskin Sheff on July 1, 2009. Adoption of this standard did not have any impact on the Company's financial statements.

### *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 June 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 currently assessing the potential impact of these areas on the Company.

## DEFINITION OF RISKS

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

### *Credit Risk*

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

### *Liquidity Risk*

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

### *Market Risk*

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

### *Currency Risk*

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

### *Interest Rate Risk*

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

### *Other Price Risk*

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

## FINANCIAL INSTRUMENTS

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As explained in note 2 of the Company's June 30, 2010 audited annual financial statements, financial instruments are subject to a number of specific risks. The Company's financial instruments include cash and short-term investments, accounts receivable, securities owned, accounts payable and accrued liabilities, securities sold short, and accrued bonuses whose carrying values approximate the relevant fair values due to their short-term nature. Included in cash and short-term investments are investments in short-term money market securities which have exposure to credit and interest rate risks. Credit risk is mitigated by selecting high quality corporate issuers which minimizes the potential to default by the issuer of securities. Interest rate risk is mitigated by the short-term nature of the securities, which mature within less than one year. Gluskin Sheff does not have any off-balance sheet transactions and does not own other instruments that may be settled by the delivery of non-financial assets.

The Company is also not exposed to significant liquidity risk due to the fact that the obligations of the Company are minimal, and the Company has sufficient cash and short-term investments to meet its obligations. Aside from Gluskin Sheff's securities holdings, which are discussed in more detail below, the risks associated with the Company's financial instruments are considered by Management to be minimal for the following reasons:

- Credit risk and liquidity risk related to the collection of accounts receivable and the balance due from related parties is considered to be low due to:
  - The short-term nature of these items; and,
  - The strength of the underlying business relationship with the client or related party;
- There is no significant currency risk as the financial instruments are denominated in Canadian dollars. The Company charges a significant amount of its investment management services in Canadian dollars.

## MANAGING RISK

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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.
- Failure to execute our succession plan.
- 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. These processes are reviewed on a regular basis by both the senior management team and the Board of Directors.

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

## CORPORATE GOVERNANCE

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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 every committee of the Board of Directors are exclusively composed of independent directors: the Audit Committee and the Compensation, Nominating and Governance Committee.
- The Audit Committee is chaired by Robert S. Weiss, 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. 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

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There were no changes to the nature and extent of related party transactions entered into by the Company in the three months and year ended June 30, 2010. For

further information, refer to note 5 of the Company's June 30, 2010 audited annual financial statements.

## SHARE CAPITAL

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As at September 16, 2010, there has been no change to the capital structure of the Company from that disclosed in the audited annual financial statements dated June 30, 2010. The number of outstanding Subordinate Voting Shares has increased due to the conversion of Multiple Voting Shares and exercise of stock options. 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 issued to date pursuant to our incentive stock option plan are 2,277,000 of which 460,000 stock options are currently exercisable.

## OTHER INFORMATION

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Additional information relating to Gluskin Sheff + Associates Inc. is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

# Financial Statements and Notes

## MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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September 16, 2010

The accompanying financial statements of Gluskin Sheff + Associates Inc. and the information included in this Annual Report have been prepared by the Company's management, who are responsible for their consistency, integrity and objectivity. Management is also responsible for ensuring that the financial statements are prepared and presented in accordance with Canadian generally accepted accounting principles. To fulfill these responsibilities, management maintains appropriate internal control systems as well as policies and procedures to ensure its reporting practices and accounting and administrative procedures are of the highest quality.

PricewaterhouseCoopers LLP, the Company's independent auditors, are responsible for auditing the financial statements in accordance with Canadian generally accepted auditing standards, and have expressed their opinion on the financial statements in this report. Their report, as auditors, is set forth herein.

The Company's Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Directors carries out this responsibility through its Audit Committee, which meets regularly with management and the independent auditors. All members of the Audit Committee are independent of management. The financial statements have been reviewed and approved by the Board of Directors and its Audit Committee. The independent auditors have direct and full access to the Audit Committee and the Board of Directors.



JEREMY FREEDMAN  
*President & Chief Executive Officer*



VALERIE BARKER  
*Chief Financial Officer & Secretary*

## AUDITORS' REPORT

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September 16, 2010

To the Shareholders of Gluskin Sheff + Associates Inc.

We have audited the balance sheets of Gluskin Sheff + Associates Inc. (the Company) as at June 30, 2010 and 2009 and the statements of income, comprehensive income and retained earnings and cash flows for each of the years in the two-year period ended June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2010 in accordance with Canadian generally accepted accounting principles.



PRICEWATERHOUSECOOPERS LLP  
*Chartered Accountants,  
Licensed Public Accountants*

## BALANCE SHEETS

(\$ in thousands)

	AS AT JUN 30, 2010	AS AT JUN 30, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term investments (note 3)	\$ 97,083	\$ 53,857
Accounts receivable (note 5)	9,564	8,761
Securities owned at fair value (note 3)	1,729	4,218
Income taxes recoverable (note 10)	2,093	4,548
Future income taxes (note 10)	1,705	—
Prepaid expenses and other assets	754	551
	<u>112,928</u>	<u>71,935</u>
Property and equipment (note 4)	4,409	3,167
<b>Total assets</b>	<b><u>\$ 117,337</u></b>	<b><u>\$ 75,102</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,453	\$ 1,857
Securities sold short at fair value (note 3)	—	342
Future income taxes (note 10)	—	427
Accrued bonuses	18,290	9,818
	<u>20,743</u>	<u>12,444</u>
Post-retirement obligations (note 8)	8,870	—
	<u>\$ 29,613</u>	<u>\$ 12,444</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	8,531	7,423
Contributed surplus (note 9)	8,171	5,257
Retained earnings	71,022	49,978
	<u>87,724</u>	<u>62,658</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 117,337</u></b>	<b><u>\$ 75,102</u></b>

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

Approved by the Board of Directors



GERALD SHEFF  
Co-Founder & Chairman



JEREMY FREEDMAN  
President & Chief Executive Officer

## STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

(*\$ in thousands, except per share amounts*)

	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
<b>REVENUE</b>		
Base management fees (note 5)	\$ 75,470	\$ 63,821
Performance fees (note 5)	47,224	5,722
Investment and other income (loss) (note 3)	583	(513)
	<u>123,277</u>	<u>69,030</u>
<b>EXPENSES</b>		
Salaries and benefits (notes 5, 8, 11 and 12)	40,497	20,250
Business development	2,707	2,638
General and administrative (note 13)	17,758	9,604
Occupancy	1,930	1,805
Amortization of property and equipment (note 4)	1,074	983
	<u>63,966</u>	<u>35,280</u>
<b>Income Before Provision for Income Taxes</b>	59,311	33,750
Provision for (recovery of) income taxes (note 10)		
Current income taxes	23,007	12,442
Future income taxes	(2,132)	71
	<u>20,875</u>	<u>12,513</u>
<b>Net income and comprehensive income for the year</b>	38,436	21,237
<b>Retained earnings – Beginning of year</b>	<u>49,978</u>	<u>50,643</u>
Dividends	88,414	71,880
	<u>(17,392)</u>	<u>(21,902)</u>
<b>Retained earnings – End of year</b>	<u>\$ 71,022</u>	<u>\$ 49,978</u>
<b>Average shares outstanding (in thousands)</b>	29,230	29,088
<b>Average diluted shares outstanding (in thousands)</b>	29,538	29,090
<b>Basic earnings per share (note 14)</b>	\$ 1.32	\$ 0.73
<b>Diluted earnings per share (note 14)</b>	\$ 1.30	\$ 0.73

## STATEMENTS OF CASH FLOWS

(*\$ in thousands*)

CASH PROVIDED BY (USED IN)	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
<b>OPERATING ACTIVITIES</b>		
Net Income for the Year	\$ 38,436	\$ 21,237
Adjustments for		
Amortization of property and equipment	1,074	983
Loss on disposition of property and equipment	—	384
Net investment (gains) losses	(528)	1,955
Post-retirement obligations	8,870	—
Future income taxes	(2,132)	71
Stock-based compensation	4,006	3,098
	<u>49,726</u>	<u>27,728</u>
Changes in non-cash working capital items		
Accounts receivable	(803)	9,863
Prepaid expenses and other assets	(203)	25
Income taxes recoverable	2,455	(3,929)
Accounts payable and accrued liabilities	596	(940)
Accrued bonuses	8,472	(7,133)
	<u>60,243</u>	<u>25,614</u>
<b>INVESTING ACTIVITIES</b>		
(Purchases) sales of securities sold short	(339)	(765)
Sales (purchases) of securities owned	3,014	(1,850)
Purchases of property and equipment	(2,316)	(1,418)
	<u>359</u>	<u>(4,033)</u>
<b>FINANCING ACTIVITIES</b>		
Payment of deferred shared units	—	(35)
Dividends paid	(17,392)	(21,902)
Exercise of stock options	16	—
	<u>(17,376)</u>	<u>(21,937)</u>
<b>Increase (decrease) in cash during the year</b>	<b>43,226</b>	<b>(356)</b>
<b>Cash and short-term investments – Beginning of year</b>	<b><u>53,857</u></b>	<b><u>54,213</u></b>
<b>Cash and short-term investments – End of year</b>	<b><u>\$ 97,083</u></b>	<b><u>\$ 53,857</u></b>
<b>CASH AND SHORT-TERM INVESTMENTS COMPRISE</b>		
Cash	\$ 27,856	\$ 53,857
Short-term investments	69,227	—
	<u>\$ 97,083</u>	<u>\$ 53,857</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid during the year	—	—
Income taxes paid during the year	21,138	16,553

# Notes to Financial Statements

June 30, 2010 and 2009

(*\$ in thousands, except per share amounts*)

## NATURE OF BUSINESS AND ORGANIZATION

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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”.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### *Management Estimates*

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities 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 and the difference could be material.

### *Amendments to Section 3862*

Amendments to Section 3862, Financial Instruments – Disclosures, requires publicly accountable enterprises to enhance the disclosures about fair value measurements and the liquidity risk of financial instruments. The amendments are effective for annual financial statements relating to fiscal years ended after September 30, 2009. These amendments have been made to address the need for increased consistency and comparability in fair value measurements, and to expand the disclosure surrounding fair value measurements. These amendments do not have any impact on the valuation of the Company’s financial instruments. Refer to note 3 for the new disclosures.

### *Cash and Cash Equivalents*

Cash and cash equivalents are carried at cost, which approximates fair value. Cash and cash equivalents consist of cash on deposit and short-term investments (term deposits, treasury bills, bank deposit notes) with a term to maturity at acquisition of less than 90 days.

### *Securities Owned and Securities Sold Short*

Securities owned and securities sold short are categorized as held-for-trading with unrealized gains or losses recorded in the Statements of Income. The fair value of securities as at the financial reporting date is determined by reference to published bid price and ask price quotations for securities owned and securities sold short, respectively.

Investment transactions are accounted for as at the trade date. Realized and unrealized gains and losses from such transactions are calculated on an average cost basis. Securities sold short, which represent a liability for securities sold but not yet delivered to the purchaser, are carried at fair value. The difference between the fair value and the proceeds received is recognized in net income. Fair values are based on published quotations at the balance sheet dates.

### *Revenue Recognition*

Base management fees are calculated on various portfolio models by applying an agreed upon rate to the net asset value of assets under management. Base management fees are recognized on an accrual and gross basis. Base management fees are accrued monthly and are collected on a monthly or quarterly basis.

Performance fees are calculated by applying an agreed upon formula to the growth in the net asset value of clients’ assets and recognized when they are earned, which occurs after the end of each performance year or upon closure of an account.

Investment income is derived from securities holdings and invested cash that is not currently required for operations. Investment income is recognized on an accrual basis.

### *Management Agreements*

The Company has agreements to manage the Company's pooled fund vehicles. Under the terms of the agreements, the Company is responsible for the day-to-day operation and distribution of these pooled funds, for which it receives an annual fee, calculated and payable monthly, by applying an agreed rate to the month-end fair value of each pooled fund. The Company also recovers expenses incurred for the operation of these pooled funds, which include unitholder administration costs, fund accounting, legal, audit and trustee fees.

### *Property and Equipment*

Property and equipment are recorded at cost less accumulated amortization and are being amortized as follows:

- Furniture 20% declining balance basis
- Office art 20% declining balance basis
- Computer equipment 30% declining balance basis
- Computer software 20% straight-line basis
- Automobiles 30% declining balance basis
- Leasehold improvements straight-line basis over the term of the lease
- Other assets 33.3% straight-line basis

Property and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Computer software includes system development costs incurred with respect to the new client relationship management system. Costs are capitalized as they are incurred.

### *Income Taxes*

The Company follows the liability method of accounting for income taxes, whereby future income tax assets and liabilities reflect the expected future income tax consequences of temporary differences between carrying amounts of assets and liabilities and their income tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted income tax rates that are expected to be in effect when the future income tax assets or liabilities are expected to be realized or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized into income in the year that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

### *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 weighted average number of shares outstanding during the year excluding shares in the Employee Trust. Diluted earnings per share are determined by dividing net income by the total shares outstanding assuming that all potentially dilutive common shares have been issued.

### *Stock-Based Compensation*

The Company has stock-based compensation plans as outlined in note 12. These plans may include the issuance of stock options and stock-based awards. Stock options are reported using the graded investing methodology in accordance with Section 3870 of the CICA Handbook and have been valued using a Lattice option pricing model.

The value of the shares issued to the Employee Trust has been recognized in contributed surplus on a graded basis over three years.

## 2. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, 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 balance due from related parties included in accounts

receivable is current and, therefore, has not been discounted despite the fact that it is non-interest bearing. 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. The Company's risk management activities are outlined in note 15.

## 3. 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 and sold short are included in investment and other income (loss). The realized and unrealized gains for the year ended June 30, 2010 is \$528 (2009 – loss of \$1,955).

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

	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
Realized gain (loss) on securities owned and securities sold short	\$540	\$(1,167)
Unrealized loss on securities owned and securities sold short	(12)	(788)
Interest and other income	55	1,442
	<u>\$ 583</u>	<u>\$ (513)</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 asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the asset or liability 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.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:				
Short-term investments	\$ -	\$69,227	\$ -	\$69,227
Securities owned at fair value	1,729	-	-	\$ 1,729
	<u>\$1,729</u>	<u>\$69,227</u>	<u>\$ -</u>	<u>\$70,956</u>

#### 4. PROPERTY AND EQUIPMENT

Property and equipment as at June 30 comprise:

	2010		2009	
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Furniture	\$ 1,636	\$ 1,084	\$ 1,336	\$ 983
Office art	456	158	456	156
Computer equipment	3,215	1,781	2,134	1,385
Computer software	2,978	1,270	2,341	784
Automobiles	62	59	62	58
Leasehold improvements	3,508	3,150	3,266	3,062
Other assets	261	205	205	205
	<u>12,116</u>	<u>7,707</u>	<u>9,800</u>	<u>6,633</u>
Less: Accumulated amortization	<u>(7,707)</u>		<u>(6,633)</u>	
<b>Net book value</b>	<u><b>\$4,409</b></u>		<u><b>\$ 3,167</b></u>	

#### 5. RELATED PARTY TRANSACTIONS

Included in the Company's total revenue for the year ended June 30, 2010 are Performance Fees of \$46,863 (2009 – \$4,444) and Base Management Fees of \$58,657 (2009 – \$42,945) 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 year ended June 30, 2010 is a reimbursement of certain operating expenses by the Company's pooled funds of \$3,407 (2009 – \$2,146). All related party transactions are recorded at the exchange amount. Included in the Company's accounts receivable as at June 30, 2010 is \$4,751 (2009 – \$3,914) owing from the Company's pooled funds.

#### 6. COMMITMENTS

##### *Lease Commitments*

The Company has operating lease agreements for its premises, pursuant to which future minimum annual lease payments are as follows:

2011	\$ 960
2012	1,603
2013	1,912
2014	1,875
2015 AND BEYOND	14,505 (CUMULATIVE)

##### *Letters of Credit*

The Company has an irrevocable letter of credit for \$3 million issued by a Schedule I bank in support of its obligations under the retirement agreement.

## 7. CAPITAL MANAGEMENT

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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 fiscal year ended June 30, 2010, the Company maintained levels of capital well in excess of this requirement. On or before September 28, 2010, the Company will be adding registration as an Investment Fund Manager to its current registration and as such the minimum capital requirements will be increased to \$100 at that time.

## 8. POST-RETIREMENT OBLIGATIONS

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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 5 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. Accordingly, the entire cost of these benefits has been recognized as an expense in the second quarter of fiscal 2010. 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 expense and related liability recognized in fiscal 2010 was \$8,870 using a discount rate of 4.5% and an annual inflation assumption of 2.0% in respect of certain non fixed-rate benefits included in the transition agreement. The increase in expense and related liability recognized from the third quarter to June 30, 2010 was \$203. This amount is included in salaries and benefits. Any future changes in estimates will result in amendments to the liability of the plan in the period in which the changes occur.

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.

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

## 9. 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 June 30, 2010, there were 15,661,049 SVS and 13,613,000 MVS (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.

	YEAR ENDED			
	JUN 30, 2010		JUN 30, 2009	
	NUMBER OF SHARES (000's)	STATED VALUE	NUMBER OF SHARES (000's)	STATED VALUE
<i>Share Capital</i>				
<b>BEGINNING OF YEAR</b>				
Multiple Voting Shares	18,263		19,313	
Subordinate Voting Shares	10,939		9,889	
	<u>29,202</u>	<u>\$ 7,423</u>	<u>29,202</u>	<u>\$ 4,967</u>
<b>ACTIVITY DURING THE YEAR</b>				
Convert from Multiple Voting Shares	(4,650)	–	(1,050)	–
Settlement of DSUs	–	–	–	\$ 27
Outstanding Employee Trust Shares	–	–	–	2,429
Exercise of Stock Options	72	\$ 1,108	–	–
Convert to Subordinate Voting Shares	4,650	–	1,050	–
	<u>72</u>	<u>\$ 1,108</u>	<u>–</u>	<u>\$ 2,456</u>
<b>END OF THE YEAR</b>				
Multiple Voting Shares	13,613		18,263	
Subordinate Voting Shares	15,661		10,939	
	<u>29,274</u>	<u>\$ 8,531</u>	<u>29,202</u>	<u>\$ 7,423</u>
<i>Contributed Surplus</i>				
	JUN 30, 2010		JUN 30, 2009	
Balance – Beginning of year	\$ 5,257		\$ 4,650	
Deferred share units	282		215	
Amortization of stock options	3,724		2,214	
Amortization of employee trust	–		(1,687)	
Settlement of deferred share units	–		(62)	
Forfeited stock options	–		(73)	
Exercise of stock options	(1,092)		–	
<b>Balance – End of year</b>	<u>\$ 8,171</u>		<u>\$ 5,257</u>	

## 10. INCOME TAXES

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

	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
Income Taxes at statutory rate, 32.5% (2009 – 33.3)%	\$ 19,276	\$ 11,222
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	1,302	1,018
Realized and unrealized capital (gains) losses on securities owned	(85)	777
Future tax asset not previously recorded	85	–
Donation of cultural property	–	(330)
Prior year's over-provision	(153)	(268)
Other non-deductible items and changes in future tax rates	<u>450</u>	<u>94</u>
Income tax provision as reported, 35.2% (2009 – 37.1%)	<u>\$ 20,875</u>	<u>\$ 12,513</u>

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

	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
Unrealized investment income on securities owned and securities sold short	\$ 83	\$ 28
Property and equipment	(595)	(455)
Post-retirement obligations	<u>2,217</u>	<u>–</u>
Future income tax asset (liability)	<u>\$ 1,705</u>	<u>\$(427)</u>

As at June 30, 2010, the Company has approximately \$975 (2009 – \$1,515) of unused capital losses realized on the disposition of security holdings, for which no benefit has been recognized in these financial statements.

## 11. SALARIES AND BENEFITS

The Company accrues for bonuses to its employees.

Included in salaries and benefits expense for the year ended June 30, 2010 are accrued bonuses of \$18,304 (2009 – \$9,496).

## 12. STOCK-BASED COMPENSATION PLAN

The Company established a stock option plan and a deferred share unit ("DSU") plan for employees and directors in May 2006 and September 2006.

The aggregate number of SVS that may be issued under the Plans is limited to 10% of equity shares issued and outstanding.

There are three components to the Company's stock-based compensation structure: Employee Trust, Deferred Share Units, and stock options.

### *Employee Trust*

On May 19, 2006, at the time of the initial public offering, the Company conveyed 397,500 shares to an Employee Trust, the beneficiaries of which were 59 of

the Company's then current employees. The value of these shares was amortized into contributed surplus over the three year vesting period of the Employee Trust. As of May 15, 2009, all such shares had been released from escrow.

The expense related to the Employee Trust that has been included in the salaries and benefits expense during the year ended June 30, 2010 was \$nil (2009 – \$742).

### *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 and changes in the market value of SVS and the value of DSUs are marked-to-market each quarter end. 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 year ended June 30, 2010 was \$282 (2009 – \$215).

### *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 year ended June 30, 2010, the Company issued 735,000 stock options to participants. The weighted-average fair value of the options granted during the year ended June 30, 2010 was \$7.84. The weighted-average fair value of options granted has been estimated, using a Lattice option pricing model, based upon the following weighted-average assumptions: (i) risk-free rate of return of 3.05%; (ii) weighted-average period until exercise of five years; (iii) expected share price volatility of 43.85%; (iv) expected dividend yield of 2.43%; and (v) expected forfeiture rate of 5% per year until vested. The expense related to stock options outstanding that has been included in the salaries and benefits expense during the year ended June 30, 2010 was \$3,724 (2009 – \$2,141) using the graded vesting methodology in accordance with CICA Handbook Section 3870.

The outstanding balances of employee trust shares, DSUs and stock options are summarized in the following tables.

	YEAR ENDED	
	JUN 30, 2010 (000's)	JUN 30, 2009 (000's)
<b>EMPLOYEE TRUST</b>		
Balance – Beginning of year	–	131
Issued	–	(131)
<b>Balance – End of year</b>	<b>–</b>	<b>–</b>
<b>DEFERRED SHARE UNITS</b>		
Balance – Beginning of year	20	5
Issued	12	19
Settled	–	(4)
<b>Balance – End of year</b>	<b>32</b>	<b>20</b>

	YEAR ENDED JUN 30, 2010		YEAR ENDED JUN 30, 2009	
	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (000's)	WEIGHTED AVERAGE EXERCISE PRICE
<b>STOCK OPTIONS</b>				
Balance – Beginning of year	1,847	\$ 17.23	1,127	\$18.73
Options granted	735	20.60	810	15.19
Options exercised	(280)	15.30	–	–
Options forfeited	(25)	18.17	(90)	17.65
<b>Balance – End of year</b>	<b><u>2,277</u></b>	<b>\$ 18.54</b>	<b><u>1,847</u></b>	<b>\$17.23</b>

RANGE OF EXERCISE PRICES	JUN 30, 2010				
	NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		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	<u>260</u>	<u>4.27</u>	<u>28.50</u>	<u>104</u>	<u>28.50</u>
	<u>2,277</u>	5.11	\$ 18.54	<u>460</u>	\$18.46

RANGE OF EXERCISE PRICES	JUN 30, 2009				
	NUMBER OUTSTANDING (000's)	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE REMAINING CONTRACTUAL YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (000's)	WEIGHTED AVERAGE EXERCISE PRICE
\$10.00 – \$17.99	1,582	5.34	\$ 15.34	318	\$ 15.51
\$26.00 – \$33.99	<u>265</u>	<u>5.27</u>	<u>28.50</u>	<u>53</u>	<u>28.50</u>
	<u>1,847</u>	5.33	\$ 17.23	<u>371</u>	\$ 17.37

### 13. GENERAL AND ADMINISTRATIVE

Included in the Company's general and administrative expense for the year ended June 30, 2010 are sub-advisory fees of \$5,332 (2009 – \$2,955).

### 14. 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 year ended June 30.

<i>Basic and Diluted Earnings per Share</i>	YEAR ENDED JUN 30, 2010	YEAR ENDED JUN 30, 2009
<b>Basic earnings per share</b>		
Net income available to shareholders	\$ 38,436	\$ 21,237
Average number of shares outstanding (in 000's)	29,230	29,088
Basic earnings per share	<u>\$ 1.32</u>	<u>\$ 0.73</u>
<b>Diluted earnings per share</b>		
Net income available to shareholders	<u>\$ 38,436</u>	<u>\$ 21,237</u>
Average number of shares outstanding (in 000's)	29,230	29,088
Stock options potentially exercisable as determined under the treasury stock method (in 000's)	<u>308</u>	<u>2</u>
Average number of shares outstanding – diluted (in 000's)	<u>29,538</u>	<u>29,090</u>
Diluted earnings per share <sup>1</sup>	<u>\$ 1.30</u>	<u>\$ 0.73</u>

1. For the year ended June 30, 2010, the computation of diluted earnings per share excluded weighted-average options outstanding of 945 (2009 – 1,567) with a weighted-average exercise price of \$22.79 (2009 – \$17.74) as the option price was greater than the average market price of the Company's shares.

## 15. RISK MANAGEMENT

The Company's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, 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 June 30, 2010, investments in securities owned amounted to \$1,729 or 1.5% (2009 – \$4,218 or 5.6%) of total assets and there were no securities sold short managed by the company (2009 – \$342 or 0.5% of total liabilities and shareholders' equity). 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 \$69 (2009 – \$169); 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, There would not have been an impact as at June 30, 2010 as no securities sold short were held while in fiscal 2009 the decrease to net income before provision for income taxes would have been approximately \$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 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 June 30, 2010 since all investments in debt securities have a term to maturity of less than a year. The interest rate risk in fiscal 2009 was 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 June 30, 2010, certain investments in securities owned and managed by the Company were denominated in U.S. dollars. Investments in securities owned that were denominated in U.S. dollars amounted to \$387 (2009 – \$2,076) whereas there were no investments in securities sold short (2009 – \$342). Furthermore, a total of \$98 (2009 – \$1,952) of cash and \$141 (2009 – \$105) of accounts receivable were denominated in U.S. dollars. As at June 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 \$25 (2009 – \$152).

In practice, the actual results may differ from this sensitivity analysis and the difference may be expected to 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, and accrued liabilities and salaries and benefits 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.

# Board of Directors

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Gluskin Sheff*

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*Compensation, Nominating and  
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*President & Chief Executive Officer  
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*Co-Founder & Vice-Chairman  
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*Compensation, Nominating and  
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*Audit Committee*

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*Chairman of the Audit Committee*

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*Co-Founder & Vice-Chairman*

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*President & Chief Executive Officer*

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*Vice-President, Risk Management*

MICHAEL CECCARELLI

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MALCOLM CLARKE

*Vice-President, Operations & Technology*

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*Vice-President & Portfolio Manager*

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*Controller*

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*Vice-President & Portfolio Manager*

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*Vice-President, Risk Management*

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*Vice-President & Portfolio Manager*

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DEAN SMITH

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*Vice-President, Risk Management*

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*Vice-President & Portfolio Manager*

GEORGE YOUNG

*Vice-President & Associate Portfolio Manager*

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STOCK INFORMATION

Gluskin Sheff + Associates Inc.  
Subordinate Voting Shares are traded  
on the Toronto Stock Exchange  
under the symbol "GS".

ANNUAL MEETING

November 4, 2010  
11:00 a.m. EST at the Four Seasons Hotel  
21 Avenue Road  
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