

September 20, 2007

Auditors' Report

To the Shareholders of Gluskin Sheff + Associates Inc.

We have audited the balance sheets of **Gluskin Sheff + Associates Inc.** as at June 30, 2007 and 2006 and the statements of income and retained earnings and cash flows for the year ended June 30, 2007 and the 13-month period ended June 30, 2006. 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, 2007 and 2006 and the results of its operations and its cash flows for the year ended June 30, 2007 and the 13-month period ended June 30, 2006 in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Gluskin Sheff + Associates Inc.
Balance Sheets
As at June 30, 2007 and June 30, 2006

(\$ in thousands)	As at June 30, 2007	As at June 30, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 42,319	\$ 17,854
Accounts Receivable	111,453	25,450
Securities Owned (note 3)	2,441	-
Income Taxes Receivable	-	1,032
Prepaid Expenses and Other Assets	541	455
	156,754	44,791
Property and Equipment (note 4)	1,065	978
	\$ 157,819	\$ 45,769
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 7,977	\$ 2,640
Securities Sold Short (note 3)	1,385	-
Income Taxes Payable	43,503	-
Management and Staff Bonuses Payable	31,589	29,621
Due to Shareholders (note 5)	-	922
Subordinated Loan Payable (note 5)	-	10,000
	\$ 84,454	\$ 43,183
SHAREHOLDERS' EQUITY		
Share Capital (note 7)	2,523	1
Contributed Surplus (note 7)	3,496	-
Retained Earnings	67,346	2,585
	73,365	2,586
	\$ 157,819	\$ 45,769

Approved by the Board of Directors

“Gerald Sheff”
 Gerald Sheff
 Chairman and Chief Executive Officer

“Ira Gluskin”
 Ira Gluskin
 President and Chief Investment Officer

Gluskin Sheff + Associates Inc.
Statements of Income and Retained Earnings
For the Periods Ending June 30, 2007 and June 30, 2006

(\$ in thousands, except per share amounts)	12 months Ending June 30, 2007	13 months Ending June 30, 2006
REVENUES		
Base Management Fees	\$ 64,461	\$ 45,771
Performance Fees (note 1)	114,117	86,504
Investment and Other Income	1,255	1,496
	<u>\$ 179,833</u>	<u>\$ 133,771</u>
EXPENSES		
Salaries and Benefits (note 9 and 10)	\$ 49,334	\$ 120,197
Business Development	2,297	3,640
General and Administrative	7,433	4,159
Occupancy	1,180	988
Interest	284	67
Amortization of Property and Equipment	106	93
	<u>\$ 60,634</u>	<u>\$ 129,144</u>
Income Before Income Taxes	\$ 119,199	\$ 4,627
Income Taxes - Current (Note 8)	45,459	1,788
Net Income for the Period	73,740	2,839
Retained Earnings - Beginning of Period	<u>2,585</u>	<u>4,742</u>
	76,325	7,581
Dividends	<u>(8,979)</u>	<u>(4,996)</u>
Retained Earnings - End of Period	<u>\$ 67,346</u>	<u>\$ 2,585</u>
Basic Earnings Per Share	\$2.56	\$ 0.10
Diluted Earnings Per Share	\$2.55	\$ 0.10

Gluskin Sheff + Associates Inc.
Statements of Cash Flows
For the Periods Ending June 30, 2007 and June 30, 2006

(\$ in thousands)	12 months ending June 30, 2007	13 months ending June 30, 2006
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net Income for the Period	\$ 73,740	\$ 2,839
Adjustments for		
Amortization of Property and Equipment	106	93
Loss on Disposal of Property & Equipment	-	2
Stock based compensation	6,017	-
Changes in Non-Cash Working Capital Items		
Accounts Receivable	(86,003)	(22,464)
Prepaid Expenses	(86)	(183)
Income Tax Recoverable	1,032	(1,032)
Accounts Payable and Accrued Liabilities	5,337	2,085
Income Tax Payable	43,503	(2,450)
Due to Shareholders	(922)	922
Management and Staff Bonuses Payable	1,968	17,678
	<u>44,692</u>	<u>(2,510)</u>
INVESTING ACTIVITIES		
Proceeds on Securities Sold Short	1,385	-
Purchases of Securities Owned	(2,441)	-
Purchase of Property and Equipment	(192)	(76)
	<u>(1,248)</u>	<u>(76)</u>
FINANCING ACTIVITIES		
Repayment of Subordinated Loan	(10,000)	10,000
Dividends Paid	(8,979)	(4,996)
	<u>(18,979)</u>	<u>5,004</u>
Increase in Cash During the Period	24,465	2,418
Cash and Cash Equivalents - Beginning of Period	17,854	15,436
Cash and Cash Equivalents - End of Period	<u>42,319</u>	<u>17,854</u>
Cash is comprised of:		
Cash	16,781	17,854
Short-term investments	25,538	-
	<u>42,319</u>	<u>17,854</u>
SUPPLEMENTARY INFORMATION		
Interest paid during the period	284	67
Income taxes paid during the period	900	2,800

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

1 Nature of business and organization

Gluskin Sheff + Associates Inc. (the "Company") provides discretionary investment management services to high net worth private clients and institutional investors. The Company was incorporated in 1984 under the Business Corporations Act (Ontario).

On May 19, 2006, the Company filed an initial public and secondary offering of subordinate voting shares. The Company's shares were listed on the Toronto Stock Exchange effective May 26, 2006 and trade under the symbol "GS".

In 2006, the Company changed its year-end from May 31 to June 30 to align the Company's fiscal year-end with the date on which it determines annual performance fees for the majority of its portfolio models. These financial statements are as at June 30, 2007 and for the 12-month period then ended, whereas the comparative figures are as at June 30, 2006 and for the 13-month period then ended. As a result, performance fees for the 13-month fiscal ended June 30, 2006 include performance fees earned in respect of the three performance years ended June 30, 2005, December 31, 2005 and June 30, 2006.

2 Summary of significant accounting policies

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. The significant accounting policies are as follows:

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 or short-term investments (term deposits, treasury bills, bank deposit notes, etc.) with a term to maturity at acquisition of less than 90 days.

Investments

Investment transactions are accounted for as at the trade date. Realized gains and losses from such transactions are calculated on an average cost basis. If the market value of the securities owned declines below the original cost, and if the declines are considered other than temporary, the securities are written down to their market value. Securities sold short, which represent a liability for securities sold but not yet delivered to the purchaser, are carried at market value. The difference between the market value and the proceeds received is recognized in net income. Market values are based on published quotations at the balance sheet date.

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

Revenue recognition

Base management fees are calculated on various portfolio models by applying an agreed upon rate to the market value of assets under management. Base management fees are recognized on an accrual basis.

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

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 funds, for which it receives an annual fee, calculated and payable monthly, by applying an agreed rate to the month end market value of each fund. The Company also recovers expenses incurred for the operation of these funds, which include unit holder 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
- Automobiles 30% declining balance basis
- 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.

System development costs are expensed as they are incurred. For tax purposes, these costs are capitalized and amortized according to the tax rules.

Financial instruments

The Company's financial instruments, other than securities owned and securities sold short, consist of cash and cash equivalents, accounts receivable, loan payable, accounts payable and accrued liabilities, and management and staff bonuses payable whose carrying values approximate the relevant fair values due to their short-term nature. The balance due from related parties is current and, therefore, has not been discounted. It is management's opinion that the Company is not exposed to significant interest rate, foreign currency or credit risks arising from these financial

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

instruments. Refer to Note 3 for the related disclosure concerning securities owned and securities sold short.

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 period 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 period excluding shares in the Employee Trust.

Diluted earnings per share is 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 10. 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 Canadian Institute of Chartered Accountants (CICA) Handbook and have been valued using a Trinomial Pricing Model.

The value of the shares issued to the Employee Trust is being recognized into contributed surplus on a graded basis over three years.

Reclassification of Amounts

The Company reclassified the Subordinate Loan Payable amount on the Statements of Cash Flows for the comparative year ended June 30, 2006 from Operating Activities to Financing Activities. Certain other prior year amounts have been reclassified to conform to the basis of presentation adopted for 2007.

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

3 Securities owned and sold short

The Company has set-up new portfolio models, principally hedge funds, some or all of which the Company expects to eventually introduce into the line-up of the portfolio offering for the benefit of the Company's clients. The fair value of the securities owned and the securities sold short as at June 30, 2007 are \$2,628 and \$1,385 respectively.

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 upon entering into the short sale transaction whereas the amount of the potential loss is unlimited. The market values of securities owned and sold short vary daily based on general market conditions and matters specific to the issuers of the securities.

4 Property and equipment

June 30, 2007				
	Amortization rate	Cost \$	Accumulated amortization \$	Net \$
Furniture	20%	967	850	117
Office art	20%	839	150	689
Computer equipment	30%	1,318	1,068	250
Automobile	30%	62	53	9
Other assets	3 years	205	205	-
		3,391	2,326	1,065
June 30, 2006				
	Amortization rate	Cost \$	Accumulated amortization \$	Net \$
Furniture	20%	929	826	103
Office art	20%	839	145	694
Computer equipment	30%	1,162	994	168
Automobile	30%	62	49	13
Other assets	3 years	205	205	-
		3,197	2,219	978

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

5 Related party transactions

The subordinated loan payable was interest-bearing, payable to the Management Shareholders, at a rate of 7% per annum, due on demand, and subordinated to the general creditors of the Company. Repayment of the loan was completed in the second quarter of 2007 and the repayment received the concurrence of the applicable Canadian securities administrators. The total interest paid on the loan in 2007 was \$284 (June 30, 2006 - \$67).

The Due to Shareholders was an outstanding amount payable to the Management Shareholders at the time of the Initial Public Offering (IPO). The repayment of this amount was completed in the second quarter.

Included in the Company's total revenues are performance fees of \$50,283 (June 30, 2006 - \$7,487) and management fee income of \$32,488 (June 30, 2006 - \$18,836) 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 funds that are limited partnerships, an affiliate of the Company is the general partner. All related party transactions are recorded at the exchange amount. Included in the Company's accounts receivable as at June 30, 2007 is \$27,912 owing from the Company's Pooled Funds.

6 Commitments

Lease commitments

The Company's current premises are leased under a non-cancellable operating lease, expiring on December 31, 2009. The lease contains renewal options for a further five years.

The Company has entered into a sub-lease of additional office space for 8,530 square feet in Toronto, Ontario. The lease will commence on October 1, 2007 and terminate on October 30, 2011. In addition, the Company is required to pay certain occupancy costs.

Minimum future rental payments per annum, determined as at June 30, 2007, are as follows:

<u>Fiscal Year</u>	
2008	\$771
2009	822
2010	514
2011	68

Letters of Credit

The Company has two irrevocable letters of credit totalling \$135 issued by The Toronto-Dominion Bank which can be drawn on demand. The letters of credit are an ongoing requirement in Manitoba and Alberta as evidence that the Financial Institution Bond is in place and to show that it has coverage for the jurisdictions in which the Company is registered.

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

7 Share capital and Contributed Surplus

Authorized

The company is authorized to issue an unlimited number of subordinate voting shares and multiple voting shares.

Shares Issues and Outstanding

As at June 30, 2007, there were 8,436,200 subordinate voting shares and 20,762,000 multiple voting shares (June 30, 2006 – 7,600,000 subordinate voting shares and 21,600,000 multiple voting shares) and no preference shares outstanding. Multiple voting shares rank equally in all respects with the subordinate voting shares, except that each multiple voting share is entitled to 15 votes at any shareholders' meeting for all matters other than the election of Directors.

Of the 400,000 subordinate voting shares issued from treasury, 397,500 of these shares were conveyed to an Employee Trust, the beneficiaries of which were 59 of the Company's then current employees, while the remaining 2,500 subordinate voting shares were conveyed to three former employees in recognition of their lengthy service with and significant past contribution to the Company. One thousand five hundred shares were returned to Treasury and cancelled related to the Employee Trust. The Employee Trust shares will be recognized into contributed surplus over the vesting period. One thousand eight hundred shares were forfeited during the period.

	June 30, 2007		June 30, 2006	
	<u>Number of Shares</u> (<u>'000</u>)	<u>Stated Value</u> \$	<u>Number of Shares</u> (<u>'000</u>)	<u>Stated Value</u> \$
Beginning of Period				
Common and Founder shares	-		1,000	
Multiple Voting shares	21,600		-	
Subordinate Voting shares	7,600		-	
	<u>29,200</u>	<u>\$1</u>	<u>1,000</u>	<u>\$1</u>
Activity during the Period				
Sale of Multiple Voting shares	(838)		-	
Sale of Common and Founder shares	-		(1,000)	
Purchase Multiple Voting shares	-		21,600	
Purchase Subordinate Voting shares	838		7,600	
Outstanding Employee Trust shares	-	2,522	-	
Forfeiture Subordinate Voting shares	(2)		-	
	<u>(2)</u>	<u>\$2,522</u>	<u>28,200</u>	<u>-</u>

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

End of Period

Multiple Voting shares	20,762		21,600	
Subordinate Voting shares	8,436		7,600	
	29,198	\$2,523	29,200	\$1

Contributed Surplus

The following summarized the Contributed Surplus balance as of June 30, 2007

Change in Contributed Surplus	June 30, 2007
Balance at Start of Period	\$0
Deferred Share Units granted	267
Amortization of Stock Options	1,125
Amortization of Employee Trust	2,104
Balance at June 30, 2007	\$3,496

8 Income taxes

The Company's effective income tax rate is approximately 38.07% and is impacted primarily by the non-deductibility for tax purposes of the expenses associated with the Stock Options and Employee Trust.

Statutory income tax rate	36.12%
Non-deductible expenses	1.95%
Effective income tax rate	38.07%

As of June 30, 2007, the Company has capital loss carry-forwards available of \$42 (June 30, 2006 - \$277) that have not been recognized in the financial statements.

9 Salaries and benefits

The Company pays discretionary bonuses to its employees.

Included in salaries and benefits expense for the 12-month period ended June 30, 2007 are discretionary bonuses of \$37,635 (June 30, 2006 - \$113,842).

10 Stock based Compensation

Share Option Plan

The Company has reserved 2,895,000 Subordinate Voting Shares pursuant to a Company stock option plan of which 840,000 are subject to outstanding options issued and 2,055,000 are available for new option grants. The exercise price of an option is determined as at the close of the business

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

day before the option grant is made by the Board of Directors. The expiry date of the options is seven years from the date of grant. Options become exercisable either on the anniversary of the grant date or over time at the rate of 20% of the total options granted on each anniversary of the grant date.

The following summarizes the status of the Company's stock option plan as of June 30, 2007:

		Price
Balance at June 30, 2006	0	N/A
Granted	865,000	\$15.51
Forfeited	25,000	\$15.51
Balance at June 30, 2007	840,000	\$15.51

The total compensation cost that has been included in the salaries and benefits expense for the stock option plan for the period ending June 30, 2007 is approximately \$1,100 using the graded investing methodology in accordance with CICA Section 3870.

Option accounting is completed using a Trinomial Pricing Model with the following assumptions: weighted average risk-free interest rate range of 4%; dividend yield of 2%; weighted average volatility factors of the expected market price of the Company's common shares of 27.82%; and a forfeiture rate of 5%.

Employee Trust

On May 19, 2006, at the time of the IPO, 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 are amortized into contributed surplus over the three year vesting period of the Trust, resulting in a charge to Salaries and Benefits expense for the period ending June 30, 2007 of \$4,600.

Change in Employee Trust Shares	June 30, 2007
Balance at Start of Period	397,500
Vested	1,500
Forfeited	1,800
Outstanding	132,333
Balance at June 30, 2007	261,867

Deferred Share Unit Plan

The Company established a Directors' deferred share unit plan ("DSU") to enhance the Company's ability to attract and retain talented individuals to serve as independent directors of the

Gluskin Sheff + Associates Inc.

Notes to Financial Statements

June 30, 2007

(\$ in thousands)

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 Subordinate Voting Shares (SVS). The aggregate number of SVS that may be issued under the Plan upon redemption of the DSUs is limited to 10% of Equity Shares issued and outstanding. During 2007, the Company issued 15,044 awards under the DSU plan. At June 30, 2007, there were 13,943 awards outstanding under the DSU plan. Compensation expense during 2007 in respect of the Company's DSU plan was \$276.

11 Future Accounting Changes

Financial Instruments

The Canadian Institute of Chartered Accountants (CICA) issued section 3855 of the CICA Handbook, *Financial Instruments – Recognition of Measurement*, which describes the standards for recognizing and measuring financial assets and financial liabilities. This section requires that:

- all financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held-to-maturity
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their amortized cost
- all derivative financial instruments are measured at fair value, even when they are part of a hedging relationship.

The CICA has also reissued section 3861 of the CICA Handbook as section 3860, *Financial Instruments – Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The effect of adopting this section on July 1, 2007 was not significant.

Comprehensive Income

The CICA issued section 1530 of the CICA Handbook, *Comprehensive Income*, which describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than shareholders. It includes items that would not normally be included in earnings, such as the unrealized gains and losses on available-for-sale investments.

The effect of adopting this section on July 1, 2007 was not significant.