Goodwood Inc.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

FOR THE YEAR ENDED DECEMBER 31, 2018

GOODWOOD CAPITAL FUND

(the "Fund")

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling the toll-free number 1-866-681-4393, by writing to us at Goodwood Inc., 212 King Street West, Suite 200, Toronto, Ontario, M5H 1K5 or by visiting our website at www.goodwoodfunds.com or SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the Fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

This report may contain forward looking statements about the Fund, including its strategy and expected performance. Forward looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about the Fund and certain economic factors. Forward looking statements are not guarantees of future performance and actual performance could differ materially. Any number of factors could contribute to such differences including general economic, political and market factors as well as catastrophic world events. This list of factors is not exhaustive and the forward looking statements made herein will not be updated prior to the release of the next management report of fund performance.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The investment objective of the Fund is to achieve capital appreciation by investing primarily in equity securities of North American companies over a broad range of industry sectors.

In making investment decisions on behalf of the Fund, Goodwood Inc., the portfolio manager (hereinafter referred to as “Goodwood”, or the “Manager” or “we”) uses a bottom-up approach to investing, which involves intensive analysis of the individual company and associated industry conditions. The investment strategy is value-oriented, where focus is placed on companies that Goodwood believes possess a market price significantly below the intrinsic or true economic value of the business and/or generate strong return on invested capital with reinvestment opportunities and possess excess free cash flow allowing for internally funded growth, debt repayment, dividends and/or buybacks.

Risk

The risks associated with investing in this Fund remain as discussed in the Simplified Prospectus dated May 11, 2018. The Fund continues to be suitable for those investors with a medium to high risk tolerance and who plan to invest for the long term.

The Fund’s overall level of risk has not changed materially in the past year. The Fund is suitable for investors who are willing to accept the higher risks associated with investing in or having exposure to small and/or micro-cap issuers. As well, the Fund holds a concentrated portfolio of investments and may, from time to time, hold a large portion of its investments in a single issuer or a relatively small number of securities, which make the Fund susceptible to higher volatility since the value of the Fund’s portfolio will vary more in response to changes in the market value of these securities.

In certain instances, either through the Fund’s ownership of an issuer’s securities, having a principal of the Manager appointed to the board of directors or through some other relationship between the Manager and an issuer held by the Fund, the Manager may come into possession of material non-public information that restricts the Manager’s ability to trade in securities of that issuer. This may impact the value of the Fund as the increased liquidity risk could impact the Fund’s ability to buy or sell the securities of the issuer until the information becomes public knowledge.

Results of Operations

The Fund’s net assets decreased by 29.3% for the 12-month period ended December 31, 2018 from $8.689 million at January 1, 2018 to $6.144 million at December 31, 2018. The decrease in net assets over the period is attributable to 2018 Fund investment performance and net portfolio redemptions during the year.

For the year ended December 31, 2018, Class A units of the Fund returned -13.28% and Class F units returned -12.29%. The Fund’s performance is net of all fees and expenses. Please also refer to *Past Performance* on pages 7-9.

During the year ended December 31, 2018, there was no material change to the Fund’s investment portfolio. As at December 31, 2018, the Fund was 86.14% invested, with the Fund holding 15 investments across 6 industry sectors. The Fund had 77.21% of the portfolio invested in publicly listed North American equity securities, 8.93% in private securities (i.e. companies that do not have quoted prices in active markets) and 13.86% in net cash. During the year, the Fund’s month-end cash levels fluctuated between 5.43% and 15.31%, of the portfolio resulting in an average invested position of 88.97%.

Results of Operations Continued…

The Fund's portfolio remained concentrated during 2018. As at December 31, 2018, the Fund continued to hold a relatively large portion of its investments in Polaris Infrastructure Inc. ("Polaris"), Great Canadian Gaming Corporation ("Great Canadian") and The Westaim Corporation ("Westaim"). For the year ended December 31, 2018, the Fund's top 5 investments (excluding cash) represented 65.00% of its net assets while the Fund's top 10 positions accounted for 82.25%.

The top positive contributor to the Fund's investment performance for the year was Great Canadian while the top detractor to the Fund's 2018 investment performance was Polaris. Virginia Black LLC 12.5% Promissory Note, Netflix Inc., Lloyds Banking Group PLC, Extendicare Inc. and Maxim Power Corporation were the new positions added during the year that remained a holding in the portfolio as at December 31, 2018. Other securities added to the portfolio during the year were sold prior to year-end. Former positions, such as Home Capital Group Inc., Crius Energy Trust, Aritzia Inc., Theratechnologies Inc., Centric Health Corp. and Emergent Capital Inc., were sold entirely during the year ended December 31, 2018.

The Fund continues to invest primarily in equity securities of North American companies over a broad range of industry sectors. As at December 31, 2018, the Fund was invested in both large capitalization and small capitalization companies.

Recent Developments

Gajan Kulasingam, CFA, CPA has joined Goodwood's Senior Investment Management team. Mr. Kulasingam was formerly a Vice President and Senior Portfolio Manager at Sentry Investments and the lead Portfolio Manager of Sentry Global Infrastructure Fund. Mr. Kulasingam has vast experience in value-based investing spanning the entire capital structure. Mr. Kulasingam's investment discipline is focused on fundamental business attributes, catalyst events, balance sheet strength and growth and duration of free cash flows. As part of the Senior Investment Management Team, Mr. Kulasingam will be focusing his efforts on the portfolio management of the Fund.

After the end of the reporting period, Goodwood made a decision to liquidate the Fund's positions in Lloyds Banking Group PLC, Netflix Inc., UrtheCast Corporation and Extendicare Inc.

The Fund did not undergo any material changes during the reporting period, including, but not limited to, its strategic positioning, Manager or portfolio adviser or accounting policies. With regard to the composition of its Independent Review Committee ("IRC"), on November 16, 2018 one IRC member, Lawrence Ward, was re-appointed to the Goodwood IRC effective October 26, 2018 for a term of one year. This re-appointment extended Lawrence Ward's total years of service beyond the 6 year term limit set out in National Instrument 81-107 – *Independent Review Committee for Investment Funds* ("NI 81-107"). However, the Manager has provided its consent to the re-appointment of this IRC member beyond the 6 year term limit in accordance with the applicable provisions of NI 81-107. In addition, William Woods' term ended on December 31, 2018. As part of the IRC's established succession plan, he did not stand for re-appointment. Edna Chu was appointed to the IRC as his replacement on February 13, 2019 until December 31, 2021.

Recent Developments Continued…

Outlook:

On the heels of a turbulent 2018, we expect 2019 to be somewhat of a similar year for the markets. That is, a year of subdued economic growth, leading to tepid earnings growth and heightened periods of volatility. Going into 2019, we continue to focus on what we believe are the critical factors for the markets: i) interest rates, ii) earnings growth, iii) leverage/credit risk, iv) liquidity and v) valuations.

With respect to interest rates, the March 2019 Federal Open Market Committee meeting delivered dovish on both rates and balance sheet run-off. The U.S. Federal Reserve ("Fed") now expects no rate hikes for the remainder of 2019 and the median participant sees only one rate hike in coming years. The Fed also anticipated balance sheet tapering will begin in May 2019 with balance sheet reduction ending in September, which means the U.S. balance sheet is expected to stabilize around $3.8 trillion. Overall, we believe this is positive for risk assets: non-financial equities, bonds (yields lower) and emerging markets, but negative for financials and the U.S. dollar.

We expect earnings to depend heavily on the outcome of the China trade negotiations and global tariff programs. In the absence of further stimulative fiscal and monetary policies and continued trade head winds, we believe earnings growth will come under pressure in 2019.

After nearly 10 years of low interest rates and extremely accommodative monetary policies, corporate balance sheets are bloated with debt. Total corporate debt in the US has swelled from nearly $4.9 trillion in 2007 as the recession was just starting to break out to nearly $9.1 trillion halfway through 2018, surging 86 percent, according to Securities Industry and Financial Markets Association data. Another factor we view as having been a significant tailwind to the markets has been the significant amount of liquidity that's been injected into the financial system by the global Central Banks. However, as we saw in Q4 2018, the slightest hint of liquidity withdrawal, tends to lead to tightening of financial conditions which can have significant negative impact on risk assets.

At the broader market level, we believe markets are fairly valued at best, if not modestly expensive. With the S&P 500 and S&P/TSX Composite Indices currently trading at roughly 17x and 15x 2019 forward earnings respectively, we believe there's limited room for further multiple expansion. On the contrary, we believe at these valuation levels, there's very little room for error.

Putting all this together, for the Fund we continue to look to invest in businesses that exhibit the following characteristics: i) have the ability to compound intrinsic value at a greater pace than the broader markets, ii) have pristine balance sheets, better protecting the portfolio from potential risk of permanent loss of capital in a downturn, iii) trading at valuations below market levels, but offering what we believe is better upside potential, and iv) businesses with company specific catalyst events that have the potential for shareholder value creation.

Recent Developments Continued…

New Accounting Policies Adopted During the Year:

For fiscal years beginning January 1, 2018, IFRS 9, Financial Instruments ("IFRS 9") has replaced International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39"). IFRS 9 introduces new classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This new standard requires assets to be classified based on the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and FVTPL. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. Upon transition to IFRS 9, the Fund's financial assets (debt securities, equity instruments) that had previously been designated as FVTPL were reclassified as mandatorily at FVTPL. Derivative assets and derivative liabilities that were previously classified as held for-trading financial instruments were reclassified as FVTPL. Financial assets that were previously classified as loans and receivables were reclassified as amortized cost. Financial liabilities that were previously classified as other financial liabilities were reclassified as amortized cost upon transition to IFRS 9. Changes in accounting policies resulting from adoption of IFRS 9 have been applied retrospectively. The information presented for 2017 reflects requirements of IFRS 9. There were no changes to the measurement basis of the Fund's financial instruments as a result of adopting IFRS 9, and consequently, there was no impact to net assets.
The Fund classifies its investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at FVTPL.

Financial assets that the Fund classifies and measures at amortized cost includes receivable from investments sold, accrued interest and dividend receivable, and notes receivable.

Financial liabilities that are classified and measured at amortized cost include payable for investments purchased and redemptions payable.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date at fair value, with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities recognized on the origination date at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Subsequent to initial recognition, all financial assets and financial liabilities at FVTPL are measured at fair value. Net changes in unrealized gains and losses arising from changes in the fair value of the financial instruments at FVTPL are presented in the statements of comprehensive income within net change in unrealized appreciation on financial instruments at FVTPL in the year in which they arise. Realized gains and losses arising from the sale of financial assets at FVTPL are calculated as proceeds of disposition less their average cost. Average costs does not include amortization of premiums or discounts on debt securities.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation of the liability has been discharged, cancelled, or expired.

Related Party Transactions

Management Fees

Goodwood is responsible for the day-to-day business operations and affairs of the Fund and on this basis, is entitled to fees as described under "Management Fees" on page 7.

Brokerage Commissions

Total brokerage commissions paid by the Fund during the year ended December 31, 2018 were $53,663 and commissions on corporate finance transactions amounted to $12,150. Total commissions paid by the Fund during the year were $65,813. Out of this amount, gross commissions paid to the Manager and NBIN Inc. for acting as broker in respect of portfolio transactions for the Fund during the year were approximately $49,971.

The Rebalancing Authorization Plan

The Manager has implemented a rebalancing authorization plan (the "Plan") for the investment funds managed by the Manager (the "Goodwood Funds"), including the Fund, to rebalance the securities of certain issuers where such securities are held by more than one Goodwood Fund. The effect of the plan is that, from time to time, the Fund may buy securities from or sell securities to one of the other Goodwood Funds. The IRC has reviewed the Plan and has provided a recommendation that, to the extent a rebalancing trade involves the Fund and is a conflict of interest matter for the Manager, provided that such trade is made pursuant to the Plan, the provisions of the Plan adequately address the conflict of interest matter and that such trade would achieve a fair and reasonable result for the Fund.

Other

Certain officers, directors and key personnel of the Manager may become officers or directors of companies that are held in the Fund's investment portfolio. We maintain a list of these companies on our website at www.goodwoodfunds.com and have adopted policies and procedures to address conflicts of interest with respect to these relationships. This list may change from time to time, therefore the Manager recommends that investors refer to the website frequently and before making additional purchases of units of the Fund.

From time to time the Manager, certain officers, directors and key personnel of the Manager, or an affiliate of the Manager, may in the future provide services to and receive compensation from other issuers in which the Fund is invested. It is the policy of Goodwood to make appropriate adjustments to the fees charged by it to the Fund where the fees or other compensation is received directly from issuers in which the Fund is invested. Total fee rebate paid to the Fund during the year ended December 31, 2018 was $24,441.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the each of the past five years ended December 31.

The Fund's Net Assets Per Unit ($) [1]

	2018		2017		2016		2015	2014
	Class F	**Class A**	**Class F**	**Class A**	**Class F [4]**	**Class A**	**Class A**	**Class A**
The Fund's Net Assets Per Unit [1]								
Net Assets, beginning of year	$11.75	$18.12	$11.13	$17.35	$10.00	$15.40	$16.75	$15.78
Increase (decrease) from operations:								
Total revenue	0.22	0.33	0.18	0.26	0.08	0.27	0.31	0.34
Total expenses	(0.41)	(0.82)	(0.41)	(0.80)	(0.18)	(0.75)	(0.60)	(0.73)
Realized gain (loss) on investments	0.16	0.21	0.46	0.76	(0.99)	(0.83)	0.51	1.14
Unrealized gain (loss) on investments	(1.40)	(2.08)	0.75	0.32	1.89	3.25	(1.53)	0.27
Total increase (decrease) from operations [2]	(1.43)	(2.35)	0.98	0.55	0.81	1.94	(1.31)	1.02
Distributions:								
From dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Annual Distributions [3]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Assets at December 31, 2018	$10.31	$15.72	$11.75	$18.12	$11.13	$17.35	$15.40	$16.75

[1] This information is derived from the Fund's audited annual financial statements prepared in accordance with IFRS.

[2] Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. The table is not intended to be a reconciliation of beginning to ending net asset value per unit.

[3] Distributions were reinvested in additional units of the Fund.

[4] For the period beginning July 8, 2016 (the date on which units of the class were first sold) to December 31, 2016.

Ratios and Supplemental Data [1]

	2018		2017		2016		2015	2014
	Class F	Class A	Class F	Class A	Class F [5]	Class A	Class A	Class A
Ratios and supplemental data:								
Total net asset value (000s) [1]	$ 1,718	$ 4,426	$ 2,160	$ 6,529	$ 452	$ 9,868	$ 10,384	$ 13,156
Number of units outstanding [1]	166,708	281,634	183,775	360,285	40,627	568,839	674,427	785,398
Management expense ratio [2]	2.51%	3.65%	2.98%	3.96%	1.12%	3.78%	3.06%	4.14%
Management expense ratio before waivers or absorptions	2.51%	3.65%	2.98%	3.96%	1.12%	3.78%	3.06%	4.14%
Trading expense ratio [3]	0.75%	0.74%	0.68%	0.67%	0.48%	0.85%	0.43%	0.66%
Portfolio turnover rate [4]	124.35%	124.35%	157.86%	157.86%	184.07%	184.07%	128.95%	122.49%
Net assets value per unit	$ 10.31	$ 15.72	$ 11.75	$ 18.12	$ 11.13	$ 17.35	$ 15.40	$ 16.75

[1] This information is provided as at December 31 of the year shown.

[2] Management expense ratio ("MER") is based on total expenses (excluding distributions, commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

[3] The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

[4] The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

[5] For the period beginning July 8, 2016 (the date on which units of the class were first sold) to December 31, 2016.

MANAGEMENT FEES

The Manager is entitled to receive a management fee based on the net asset value of each class of the Fund. The management fee for Class A units of the Fund is 1.90% per annum and for Class F units of the Fund is 0.90% per annum. The fee is calculated and accrued on each valuation date of the Fund, in consideration for managing the day-to-day business of the Fund. This includes managing the investment portfolio, providing investment analysis and making decisions relating to the investment assets in the Fund.

The management fees for the year ended December 31, 2018 were $110,824. Please refer to *Related Party Transactions - Other* on page 5.

For the year ended December 31, 2018, approximately 57.97% of the total management fee revenue received from the Fund was attributable to management and investment management services. The balance of these fees was used to pay dealer compensation costs on Class A units.

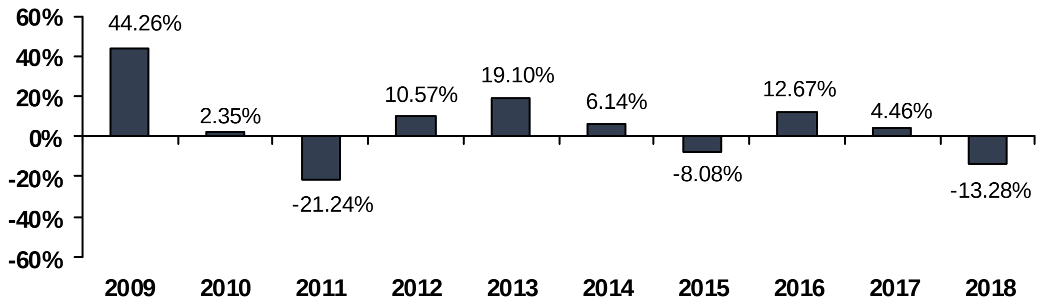
PAST PERFORMANCE

The Fund’s performance information assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. The performance information does not include deduction of sales, transfer, redemption, other charges (which distributors may charge) or income taxes payable. These additional charges and taxes would reduce such returns. The Fund’s past performance is no guarantee of how it will perform in the future.

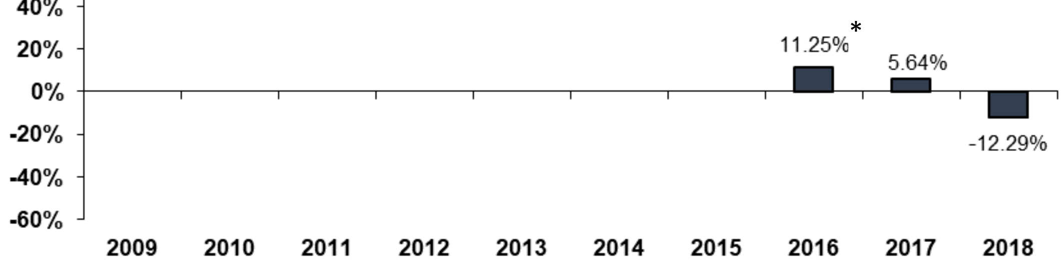
Year-by-Year Returns

The bar chart shows how the Fund's performance has varied from year to year for each of the periods shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 of that year.

Class A



Class F



* For the period beginning July 8, 2016 (the date on which units of class F were first sold) to December 31, 2016.

Annual Compound Returns

The below table shows the historical annual compound total return of Class A units of the Fund for the indicated periods ended December 31 as compared to the broad market performance of the: (i) S&P/TSX Composite Total Return Index and (ii) S&P/TSX SmallCap Total Return Index. The proportion of assets of the Fund invested in any particular market capitalization will vary and may include a large portion invested in small-cap issuers. Class F units have been distributed since July 8, 2016 and therefore, annual compound returns for that class for 3, 5 and 10 year periods are not available. Annualized return for Class F units since inception (July 8, 2016) to December 31, 2018 is +1.23%.

Compound Return (%)	1 Year	3 Year	5 Year	10 Year
Goodwood Capital Fund - Class A	**-13.28%**	**0.68%**	**-0.08%**	**4.31%**
Goodwood Capital Fund - Class F	**-12.29%**	**-**	**-**	**-**
S&P/TSX SmallCap Total Return Index	-18.17%	5.20%	-0.29%	6.64%
S&P/TSX Composite Total Return Index	-8.89%	6.37%	4.06%	7.92%

S&P/TSX Composite Total Return Index is a broad-based market capitalization weighted index of the largest, most widely held stocks traded on the Toronto Stock Exchange. The index includes reinvestment of dividends and capital gains.

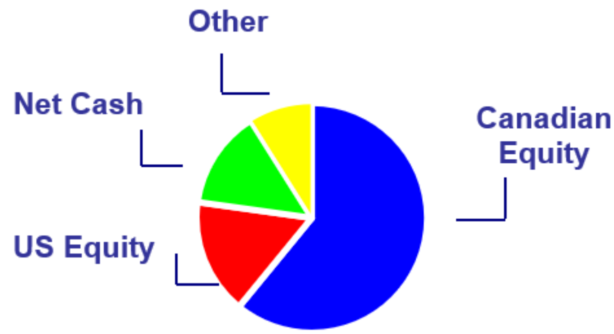
S&P/TSX SmallCap Total Return Index provides an investable index for the Canadian small cap market and follows the same methodology as the S&P/TSX Composite Index. The index includes reinvestment of dividends and capital gains.

SUMMARY OF INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2018

Asset Mix

Canadian Equity	60.9%
US Equity	16.3%
Net Cash	13.9%
Other	8.9%
	100.0%

Total Net Assets: **$6,144,288**



Goodwood Capital Fund Holdings (Top 25 as a % of Total Net Assets)

1	Great Canadian Gaming Corporation	21.7%
2	Polaris Infrastructure Inc.	14.8%
3	Net Cash	13.9%
4	The Westaim Corporation	12.3%
5	Lloyds Banking Group PLC	9.8%
6	Medexus Pharmaceuticals, Inc.	6.4%
7	AMP Solar Group	4.9%
8	Akumin Inc.	4.6%
9	Virginia Black LLC 12.5% Promissory Note	3.3%
10	BSM Technologies Inc.	2.5%
11	Netflix Inc.	1.9%
12	Freshii Inc.	1.1%
13	Maxim Power Corporation	1.0%
14	Extendicare Inc.	0.9%
15	Morgan Solar Inc., Preferred Shares 'A'	0.7%
16	UrtheCast Corporation	0.2%

The investment portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates are available within 60 days of each quarter end by visiting www.goodwoodfunds.com.

Goodwood Inc.