Goodwood Inc.

Annual Report

The Goodwood Fund
2000 Annual Report

GOODWOOD INC.
2000 Annual Letter

I would like to thank all the unitholders for their continued support and confidence. This past year has been a significant year for our company, however, none more important than the strong results achieved by The Goodwood Fund and The Goodwood Capital Fund.

As many of you know The Goodwood Fund was incepted in October 1996, and has now matured to be one of the strongest performing long/short funds in Canada. Goodwood's investment style (which I commonly refer to as a businessman's value approach) allows the Fund the opportunity to profit in both up markets or down, and in this regard, we believe we have been successful. Since inception, the Goodwood Fund has returned annually 32.7%. The Goodwood Capital Fund was introduced as a prospectus sold mutual fund with a long only mandate. Since inception (December, 1999), an annual return of 28.8% has been achieved.

We have made several improvements to communicate better with our unitholders and interested supporters. We have developed an informative web site, which I encourage you to visit. We have commenced monthly updates (via email) reporting our results and a Manager's comment. We have registered Goodwood and our performance with many consultants across Canada and the United States. We have created an Advisory Board with distinguished participants. We have hired an office manager. And finally, we leased new office space.

In the past several years, Alternative Managers (such as Goodwood) are increasingly being utilized within portfolio asset allocation. Both institutional and individual investors recognize that Goodwood's low correlation to the TSE 300 Index compliments traditional large Canadian equity funds.

Finally it would be remiss of me if I didn't share with you why I accepted Peter's offer to join him as his partner and Goodwood's President and CEO. I have known Peter for many years and long regarded his approach to investing as rare and refreshing. His qualities as an investor are only matched by his qualities as a person. There would be no greater waste of his talent (and unitholder return) than to labour him with day-to-day administration issues. To that end, I am pleased to carry the torch.

Please call me directly if I can be of assistance.

Respectfully submitted,

Cameron MacDonald,
CFA President & CEO
Goodwood Inc.
(416) 203-2922
cmacdonald@goodwoodfunds.com

To the Unitholders of The Goodwood Fund:

For the year ending December 31, 2000, The Goodwood Fund (the "Fund") returned **51.4%** net (after performance fee). The TSE 300 Total Return Index ("TRIN") rose 7.41% in the same period.

From October 31, 1996 (the commencement of the Fund's public operations) through to December 31, 2000, the Fund has returned **32.7%** per annum net versus the TRIN's per annum return of 13.6%. *

In 2000 our long positions in the aggregate generated **$1,754,189** in realized and unrealized net gains while our short positions produced realized and unrealized net gains of **$332,069.** These figures do not account for any interest and/or dividend income earned or paid out on our positions.

No distribution was paid out in 2000 as the taxable amount of realized net capital gains, dividends, and interest income after providing for management, operating and performance fees paid during the year was minimal. Thus the Fund's NAV per unit as of December 31, 2000 amounted to **$17.32.**

The Fund's 2000 audited financial statements and a copy of the portfolio as of March 31, 2001 are attached for your review.

* Note that the indicated rates of return are the historical total returns over the periods noted, including changes in unit value and reinvestment of all distributions. These indicated rates of return do not take into account any redemption charges that may have been payable by redeeming unitholders, which would have reduced the returns of redeeming unitholders in certain circumstances. Please refer to the Offering Memorandum for details concerning the redemption fee schedule of the Fund. In addition, note that performance data represents past performance and is not necessarily indicative of future performance.

Corporate Update:

The Fund's Manager has now been more appropriately named Goodwood Inc. ("Goodwood") and has been strengthened significantly with the addition of Cameron MacDonald ("Cam") as my partner and as Goodwood Inc.'s President and Chief Executive Officer. I will soldier on as the Fund's Portfolio Manager and am acquiring the lofty titles of Chairman and Chief Investment Officer. Cam's prime responsibilities are managing the business and the marketing aspects of Goodwood Inc. (areas that have traditionally been neglected by yours truly). Curt Cumming, who continues to pull more than his fair share of the workload in Goodwood Inc., continues as Vice President and has his focus firmly on trading and administrative matters. We are also pleased that Karen Baring has joined Goodwood Inc. as our Office Manager. Some of you have already had the pleasure of dealing with Karen and we can only say that we remain optimistic that working closely with Curt, Cam and myself will not cause her to change her pleasant demeanor.

Cam is well known to me and brings to Goodwood Inc. a successful background in private wealth management. As well, he shares our value oriented, common sense investment philosophy. Cam's positive influence on Goodwood Inc. has already been felt in several aspects. In particular, we have now developed a user-friendly web site - www.goodwoodfunds.com, and have instituted a monthly email/mail program appraising unitholders of portfolio developments in a timely manner. Let us know if you wish to be included in our monthly update.

In addition, we are pleased to be able to draw upon the considerable knowledge and talent of our Advisory Board ("Board"). Our non-management Board members are Robert P. Curl and Robert W. Luba. Both Mr. Curl and Mr. Luba have enjoyed extensive and successful careers within the Canadian and international financial markets with particular focus in investment management.

Goodwood's unitholders are the true beneficiaries of this relationship as Messrs. Curl and Luba are focused on ensuring that Cam and I execute Goodwood's game plan successfully – an outcome that hinges on having contented and supportive unitholders.

Investment Philosophy: Portfolio Composition:

During 2000 (based on month end figures), the Fund averaged a **106.4%** invested position (i.e., market value of long positions plus market value of short sale positions as a percentage of the Fund's equity). At one extreme, the Fund was **128.8%** invested composed of **102.4%** long and **26.4%** short leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **76%**. At the other extreme **85.2%** invested - **70.9%** long and **14.3%** short for a net market exposure of **56.6%**.

More importantly, our net market exposure (i.e., longs minus shorts as a percentage of Fund equity) averaged **77.4%** in 2000. Simply stated, throughout 2000 the Fund had averaged only **$0.77** of every **$1** of its capital exposed to a downward market move.

As at March 31, 2001, the Fund is **99.8%** invested. This is composed of **85.1%** in long ideas and **14.7%** in short positions, leaving a **70.4%** net market exposure.

While the Fund does not have a formal target ratio of percentage invested or percentage allocated to longs versus shorts, effort is made to maintain some balance of longs and shorts (with a preference for long ideas) and to minimize leverage.

Frequently Asked Questions:

In meeting with prospective investors some common questions recur. We thought it would be helpful to answer some of these questions in this year's Annual Report.

Why do we prefer longs over shorts?

The following three reasons are key;

i. A good long idea sometimes holds the potential for a double (100% return), triple (200%) or more of invested capital, while the most one can profit from a successful short idea is 100% (i.e., the security in question drops to $0.00).

ii. Equity markets tend to rise most of the time (i.e., lets go with the best odds).

iii. Other investors are likely to recognize a good long idea faster than to act on a good short idea because management is often touting the positives (and usually not saying much about the negatives). Also, there is far more investment capital geared to buying stocks than shorting stocks.

What were the greatest individual contributors to 2000's profits?

The top five contributors to 2000's profits were (calculated in dollars, not percentages and in no particular order); Sun Life Financial Services Inc., Bid.Com International Inc. (short), Oxford Properties Group Inc., DataMirror Corporation and, Extendicare Inc.

Why doesn't the Fund employ derivatives and utilize more leverage?

We are intentionally risk averse. We are prohibited from using derivatives and we have restrictions on our use of leverage. While very bright people can and do make effective use of large amounts of leverage and complicated derivative strategies, it is interesting to observe the hedge funds that "blow up" tend to be voracious consumers of derivatives and borrowed money.

Furthermore, we have no past expertise in derivatives nor in strategies that involve borrowing large amounts. Finally, our relatively large position concentration at the top end of the Fund gives us plenty of "zing" (obviating the need for leverage) in our results.

How much capital can be effectively managed in the Fund?

This question of "scalability" is asked a lot. We feel that the Fund is a long way from having its returns suffer due to an influx of new capital. In fact, our long/short approach may be substantially scalable (especially as compared to some other hedge fund styles such as convertible hedging and risk arbitrage) since there is no meaningful limit to the number of possible situations we can be involved in. Also, we can and do invest in (or short sell) very large capitalization Companies - as they too offer substantial price change opportunities.

Is the Fund likely to do well in "choppy" and volatile markets?

We consider market volatility our ally. To the extent that prices fluctuate more dramatically from underlying long-term intrinsic value, we will have more opportunities to purchase or short sell securities. In fact, greater volatility may shorten the time period in which the market properly recognizes the true underlying intrinsic value, thereby, giving us the opportunity (but not the certainty!) of earning our returns faster.

What risk control methods do you employ?

Our risk control process is intentionally simple yet effective.

On the long side we will not take major weightings in Companies where our success is dependent on a "greater fool" wanting to purchase our shares at a higher price (i.e., situations where the current stock price already reflects distant, assumed success). We limit our chances of incurring permanent loss of capital by focusing on Companies that have substantial tangible value underlying their share prices.

In regard to short sale positions we apply a 15% stop loss against full positions. This discipline has protected the Fund from capital erosion and, perhaps more importantly, allowed us to reinitiate the short idea at a later date (e.g., our ongoing short position in Nortel Networks Corporation ("Nortel") in 1999 and 2000).

We limit the size of our total portfolio in relation to equity. We are often underinvested - the market value of our long positions plus our short positions is often below 100% of the Fund's equity.

We pay close attention to our net long stance - the market value of our long positions minus the market value of our short positions expressed as a percentage of the Fund's equity. Generally we don't want this measure to read less than 50% nor more than 100%.

The process of amassing a core position is deliberately slow. The more time available to analyze and understand the pros and cons of a holding, the less likely we are to make a mistake. We can't emphasize enough that taking our time allows us to think through a situation, observe results, and to do as much comparative research as we can.

Common Sense Remains Uncommon:

In last year's Annual Report we discussed the history of manias and investment fads in relation to the then technology bubble. We had no idea how quickly these comments would prove true. In fact, you have some justification in being mildly upset that the Fund's returns in 2000 were not even better given our prescience.

As the NASDAQ Index deflates (led by the demise in technology stocks), the mantra that you should invest for the long term is all the more relevant and yet all the more difficult to adhere to. And, while we agree wholeheartedly with its logic, the expression should be reworded for the benefit of future generations along the lines of… "Invest for the long term in high quality companies that are trading at reasonable prices". This past year has illustrated yet again that, no matter how attractive the prospects of a particular company or industry may be, the price you pay for those prospects has to be taken into account. If history is a guide, investors who purchased the high quality companies one year ago may face an investment eternity before seeing prices back up to their original cost levels. In true Darwinian fashion, investors who bought the lower quality companies have already seen their capital evaporate in a flurry of bankruptcy filings.

Too often, non-investment people equate "blue chip" to mean conservative. One year ago, in a casual discussion with a Canadian banker (a friend who shall remain nameless), we mentioned how the Fund was actually short Nortel. We tried to explain how we felt there was tremendous risk in Nortel given how pervasively it was held in Canadian accounts and the excessive market valuation of being priced-to-perfection. The banker's surprised expression at our counter Nortel stance was priceless (pardon the pun) and also, no doubt, shared by a majority of the Canadian investing population at that time.

The Fund is uniquely structured to take advantage of the scenario that played out over the last year. We were selectively short numerous technology issues through 2000 (and continuing into 2001) thereby profiting from some dramatic price drops (e.g., Ballard Power Systems Inc., Research in Motion Ltd., The Descartes Systems Group Inc., JDS Uniphase Corporation, Bid.Com International Inc., Sierra Wireless Inc., NASDAQ 100 Trust Series, etc.). In hindsight, our only regret was to have not been more aggressive in our shorting. However, and this is an important point for those of you who plan on being unitholders for the long term, the Fund is intentionally risk averse. Given the choice of generating a very high 100% return with only a 20% probability of success versus the prospect of earning a 20% return with an 80% probability of success, we will regularly defer to the latter.

Risk/Return and Risk Measurement:

One of the benefits of being the manager of the Fund is that we can pontificate on all sorts of subjects so long as they relate to the broad subject of investment management. Given the substantial wealth deflation that has occurred over the last year, it seems sensible to put forward Goodwood's thoughts on the subjects of "return versus risk" and "risk measurement."

Return vs. Risk:

An important part of Goodwood's philosophy is a belief that runs counter to academic theory. We believe the size of our potential return in a particular situation is negatively correlated to the risk assumed. In other words, less risk equals larger potential return - not the other way around.

This opposite-to-prevailing-wisdom thinking is rooted in our value investing approach. Take the example of Company ABC, estimated to be worth a conservatively calculated $20 per share (based on long term fundamentals). Company ABC has declined from a trading price of $10 per share to the $5 per share level. In Goodwood's way of thinking we now have both less risk and greater return potential if we buy at $5 than at $10.

Conversely, momentum investors may believe that the stock having declined to $5 from $10 (exhibiting weakness perhaps related to near term fundamentals) is a poorer purchase candidate. As unreasonable as this thinking may seem, there has been a very substantial amount of investment capital in recent years dedicated to this approach.

Occasional viewing of business channels such as CNBC in the U.S. will confirm that this "cart before the horse" approach is commonplace. Regularly, market strategists who were willing to advise clients to buy the leading technology names one year ago are currently advising that to purchase now (after 80% declines in some cases) would be foolhardy.

Risk Measurement:

In the investment management world great emphasis is placed on defining portfolio risk. The usual approach is to observe the amount of volatility in a portfolio's equity value – the more volatility, the riskier the portfolio. While we can certainly understand both the desire to quantify risk in some common manner and the usefulness of knowing how much a portfolio has historically fluctuated, we feel that a very important part of risk assessment is generally being missed. Ironically, steady returns may mask what is fundamentally a risky investment strategy. Years of low volatility, solid investment returns are not helpful if poor one year results wipe out your entire investment capital –

witness Long Term Capital Management's success and rapid demise.

The measure of risk that we focus on is common sense based and features a realistic appraisal of the likelihood of meaningful, permanent capital erosion occurring in the Fund's portfolio. Unfortunately, the popularity of this approach is hamstrung by its inability to be easily measured. It is perhaps more of an art than a science. It requires a reasonable level of knowledge about all of our holdings (particularly the larger positions). But, maybe that's the point – that something worthwhile isn't arrived at as easily as a series of mechanical computations.

We feel that a rational business person, familiar with the Fund's holdings and their prospects and acting out of pure, capitalistic self interest would be thrilled to step into our unitholders' shoes. In fact, wherever possible we attempt to find such a person to check our thinking against.

Expectations and Rate of Return:

To avoid any potential misunderstandings, we want to stress to you that we have no idea what the Fund's rate of return in any one-year period may be. Stock investing does not lend itself to accurate predictions of returns. What should be expected is to earn a return over the long run that is above the risk free rate of return (the risk free rate of return is commonly defined as the return of treasury bills issued by the Federal Government) thus justifying the extra risk incurred.

Our hope is to average at least 20% plus per annum, not every year - just average, which, if it is achieved, will be a mix of good years and bad years. And, to be clear, we are shooting for a "good year" every year.

Past and Current Positions:

Below, as in past Annual Reports, we discuss some of the more meaningful positions held by the Fund currently and during 2000.

Extendicare Inc. ("Extendicare") – class "A" shares:

Extendicare is one of the largest operators of long-term care facilities in North America. On December 31, 2000, the Company operated 274 facilities, with capacity for more than 27,000 residents, and employed approximately 38,800 people in the U.S. and Canada. As well, the Company provides medical specialty services such as subacute care, rehabilitative therapy services and home health care. In addition, Extendicare owns 1,113,690 common shares of Crown Life Insurance Company ("Crown Life").

Three years ago operators of U.S. long-term care facilities were hit with a combination of substantially reduced Medicare (U.S. Federal medical assistance payments) and onerous Florida litigation. As the extent of the damage became apparent, all publicly traded long term care providers suffered dramatic drops in their share prices. Specifically, Extendicare's class "A" shares, which were trading in the $22+ range, dropped to a low of $1.65.

In the summer of 2000, a friend of Goodwood's alerted us to the profit potential inherent in Extendicare's stock. Normally the Fund would not become enamoured of a situation that featured an abundance of debt, excessive litigation, declining revenues and relatively fixed costs. However, we made an exception here for the following reasons;

i. Extendicare's entire stock price was accounted for by the value of its ownership of Crown Life common shares (worth up to $2 per share). In effect we were paying nothing for Extendicare's substantial long-term care assets (getting something for free has been a consistently profitable theme for the Fund).

ii. The U.S. debt is "non-recourse" to the publicly traded parent (meaning the U.S. debt is an obligation of the U.S. subsidiary – Extendicare Health Services Inc, not of the publicly traded parent).

iii. The value of the Canadian operating assets is in the vicinity of $3 per share.

Remarkably, on a "worst case" basis - that of walking away from the U.S. operations if the U.S. debt load and/or Florida litigation became unmanageable - Extendicare has a value equal to the sum of its Crown Life shares and its Canadian operations or, $5 per share (more than two times our average cost).

In a more likely scenario, that of improving Medicare payments combined with reductions in mostly Florida derived "general and professional liability charges", Extendicare's outlook dramatically improves.

Indicative of the level of investor disenchantment is the absence of meaningful analytical coverage of Extendicare. As well, the prevailing sentiment on the "Street" is that management of Extendicare is inadequate (in spite of the fact that all of the long-term care providers have suffered for the same reasons during the same time frame). In 1997, when the shares were still trading at $20 and above, there were numerous analysts providing research on the Company. We are now eagerly awaiting the possibility that Extendicare may gradually work its way back into the Canadian institutional investor's consciousness (which we suspect may occur at higher prices than the current $4.30

level). Our expectations are bolstered by the fact that few Canadian companies are immune to the vagaries of the economic cycle suggesting that Extendicare, in a Canadian context, may possess scarcity value.

Supporting our thinking is mounting anecdotal evidence that a legitimate turn in the fortunes of U.S. long-term care providers may be in the offing. The two most noteworthy U.S. comparables, Manor Care Inc. and Beverly Enterprises Inc., have seen their share prices rise to three times their levels just seven months ago. Encouragingly, if Extendicare were to receive the same valuation that is now being accorded these companies (based on enterprise value divided by earnings before interest, taxes, depreciation and amortization ("EV/EBITDA") multiples), Extendicare would be trading at levels substantially above its current share price.

Our most optimistic outlook would be for a continuing trend toward increased funding for U.S. long-term care facilities leading to a return to valuation levels that existed three years ago. After all, the tremendous long-term demographic benefits of an aging population combined with generally improving health (leading to longer life spans and longer stays in nursing homes) bode well for Extendicare. Admittedly however, we are still a far way from seeing the sentiment pendulum swing back to extremely positive.

Sun Life Financial Services of Canada Inc. ("Sun Life") – common shares:

The Sun Life group of companies provide savings, retirement, pension and, life and health insurance products, and services to individuals and corporate customers in Canada and around the World. As at December 31, 2000, Sun Life had Cdn.$329 billion of assets under management.

While we don't currently own shares in Sun Life, we thought that a short history of our rationale for purchasing the position would serve to highlight the characteristics we like to find in an ideal purchase candidate for the Fund.

Following quickly on the heels of other major Canadian life insurer's "demutualizations", Sun Life was one of the last to go public. At the time, many institutional investors were slow to accord these newly public companies a reasonable valuation as there was so much new stock being provided by the demutualization process (the relationship between supply, demand and equilibrium price applies to whole stock sectors not just individual stocks).

A review of the preliminary prospectus filed for the offering revealed that Sun Life was likely to go public at a price that represented a steep discount to intrinsic value. As an aside, we find it remarkable that management and the Board of Directors decided to follow through with the process of going public when the pricing was likely to be substantially below the true value of the Company. We suspect that the politics of the time (i.e., the meaningful effort invested in receiving policyholder's approvals) and management's eagerness to have their shares publicly listed overwhelmed the clear business logic argument to remain a policyholder-owned company.

Our assessment of Sun Life's intrinsic value began with an understanding of the market value of their non-insurance assets, specifically, their money management businesses. In our minds, Sun Life's money management assets represented a value approaching as much as $12 per share against an initial public offering price of just $12.50 per share. Thus, we were receiving the very substantial insurance assets for a fraction of their true value. And, since Sun Life was one of the last to go public, we knew that pricing for the group was likely to firm up.

The single regret we have vis a vis our Sun Life position is that we sold too early. However, in fairness we have a tendency to not stick around for the last few dollars preferring instead to focus on the relatively low risk portion of the move.

PrimeWest Energy Trust ("PrimeWest") – trust units:

PrimeWest is an oil and gas royalty trust managed to generate monthly cash distributions by acquiring, developing, producing and selling crude oil, natural gas and natural gas liquids in Western Canada. For the year ending December 31, 2000, PrimeWest distributed to its unitholders approximately $79 million (or $1.77 per trust unit).

Historically the Fund has not been an active participant in risk arbitrage situations (profiting from the "spread" that exists between the value offered in a takeover bid and the actual price in existence today). However, we have from time to time been invested in high quality arbitrage opportunities when we are i. Very confident that the transaction will go through and ii. As a substitute for Treasury Bills (if we are carrying excess cash in the portfolio) since the returns available are usually substantially better than T-bill yields.

Late last year, with the initial intention of "arbing" the spread between Cypress Energy Inc. and PrimeWest (PrimeWest had made a "friendly" bid, with the approval of both company's board of directors), we began buying Cypress Energy class "A" shares. However, after some further analysis, we decided to own PrimeWest units outright. The most price effective way to own PrimeWest was through continued purchase of Cypress Energy shares since the takeover offer featured a combination of cash (up to a certain maximum) and PrimeWest units. In effect, our $12.73 average Cypress Energy acquisition cost delivered approximately $1.79 in cash and 1.28985 PrimeWest units (currently trading at $9).

PrimeWest's production is weighted as to approximately 64% natural gas, a commodity that has seen significant upward movement over the last year (e.g., Alberta prices averaged $7.43 per thousand cubic feet ("Mcf") during PrimeWest's fourth quarter as compared to $3.56 per Mcf in the year ago quarter). Generally, we are not enthusiastic about investing in Companies that are driven by commodity pricing. However, we could look past this due to PrimeWest's large cash payouts (currently running at $0.22 per unit per month) which act as a cushion against the possibility of the units declining in price. Our comfort level is partly based on PrimeWest's hedging activities as approximately 80% of total full-year crude oil production (after royalties) and approximately 42% of total anticipated full-year natural gas production is "locked in". Importantly, a substantial portion of this year's payout is ensured - management has confirmed that the current payout rate will continue until at least the December, 2001 distribution.

Our return on this investment is dependent on the dollar value of distributions we receive while we own our PrimeWest units and the price which we will receive upon sale of the units. Both factors are, despite PrimeWest's active hedging program, dependent to a large degree on the going-forward pricing of natural gas and crude oil. That said, we should enjoy some protection from commodity price declines as PrimeWest carries a very high running yield of approximately 29%. This current yield level seems to already price in a correction in crude oil and natural gas pricing. At this level of cash payouts and given our entry price discount earned through the arbitrage spread, PrimeWest units would have to decline (over a 12 month period) by approximately 34% before the Fund incurs a loss.

Ballard Power Systems Inc. ("Ballard") – common shares:

Ballard is a world leading developer, manufacturer and marketer of zero-emission proton exchange membrane ("PEM") fuel cells for use in transportation, electricity generation and portable power products. Ballard's proprietary fuel cell technology combines hydrogen (which can be obtained from methanol, natural gas, petroleum or renewable sources) and oxygen without combustion to generate electricity. Ballard has partnered with DaimlerChrysler, Ford, GPU International, ALSTOM and EBARA, to commercialize BALLARD(R) fuel cells.

We don't want to try your patience, but in understanding why we have sold short Ballard it is worthwhile to remind you that $1 earned at some point in the future has a "present value" that is less than $1 today. The further away that $1 payment is from today – the lower its present value. In addition, the greater the uncertainty of actually receiving that future $1 - the lower its present value. Consequently, a far away $1 payment that may or may not be earned, should have a minimal present value.

Ballard's theoretical $1 payment is both very far away and very uncertain. Yet the market capitalization of the Company almost assumes that the $1 is already in investor's pockets. In order for Ballard's current present value capitalization to be justified, the Company will need to carry a much larger future value.

Some back-of-the-envelope theoretical numbers put this daunting task in perspective. Take Ballard's current enterprise value of approximately $4.7 billion, assume a 15% discount rate (probably too low given the forecast risk discussed below), and assume that meaningful business volume will not occur until 2010 (the current consensus expectation). Finally, assume a market EV/EBITDA multiple equal to 10X 2010's EBITDA. Thus, Ballard would have to produce $1.6 billion of EBITDA in 2010 (as compared to an EBITDA loss of -$65 million in fiscal 2000) for today's shareholder to earn 15% per annum on their investment.

Going further with our analysis, let's assume that Ballard averages $3,000 in revenue per vehicle and that it's EBITDA margins average out to 30% of sales (a very efficient manufacturing operation). This implies that Ballard's fuel cells need to be found in over 1.8 million vehicles in the year 2010 (the initial year of commercial production!). In this analysis (and for convenience) we have ignored Ballard's non-light vehicle operations but we have also ignored the significant capital outflow that will be required to fulfill commercial production.

Adding to our skepticism is that Ballard faces many more obstacles before finding itself in a position to lay claim to a sizeable portion of the pending alternative fuel industry. For example, it is not yet a given that fuel cells will be the alternative energy of choice. Other systems, such as improved electrical motors or hybrid electric/internal combustion engines (that may or may not exist today) could dominate the market. Further, even if fuel cells are adopted on a large scale, it is not clear that the type of fuel cell that Ballard produces will be the winning technology. There are at least three other generic types of fuel cells currently in development all vying for the title role. Finally, even if the PEM fuel cells win out, there are other PEM fuel cell manufacturers ready to compete against Ballard.

In summation, we feel that Ballard's market value is set to decline reflecting the prospect over the next several years of minimal (in relation to current market capitalization) revenues and non-existent earnings. Our guess is that, unless the transportation industry makes a wholehearted shift to incorporating Ballard's fuel cells on a time frame that begins much sooner than 2010, Ballard's stock may reach a level close to its cash value (most recently equal to approximately $8.67 per share).

Looking Forward:

As you know from past Annual Reports, we have been loath to make macro economic predictions in the portfolio (taking the point of view that our opinion has the same chance of being right as the majority of the population say, 50/50). Our focus continues to be "bottom-up", one Company at a time.

On both the long and short side new ideas are constantly coming into view across many different sectors. As always our long focus will be on finding inexpensive, high quality situations that are not well followed or are misunderstood. When combined with dubious, expensively priced short positions, the portfolio is well equipped to deal with many market conditions.

Please call if you have any questions, thoughts or comments.

Peter Puccetti, C.F.A.
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THE GOODWOOD CAPITAL FUND
2000 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2000, The Goodwood Capital Fund (the "Capital Fund") returned **29.5%** net (after performance fee). The TSE 300 Total Return Index ("TRIN") rose 7.41% in the same period.

From December 23, 1999 (the commencement of the Fund's operations) through to December 31, 2000, the Capital Fund has returned **28.8%** per annum net versus the TRIN's per annum return of 7.9%. *

A distribution of **$1.84** per unit was paid out on August 31, 2000. This represented the taxable amount of realized net capital gains, dividends, and interest income after providing for management, operating and performance fees paid up to that point in the year. The Capital Fund's NAV per unit as at December 31, 2000 amounted to **$11.10**.

The Capital Fund's 2000 audited financial statements and a copy of the portfolio as at March 31, 2001 are attached for your review.

For a more detailed discussion of Goodwood Inc.'s investment philosophy and some of the Capital Fund's core holdings, please refer to the Annual Report of The Goodwood Fund, which is attached.

We are currently seeking permission from various provincial regulatory bodies (e.g., the Ontario Securities Commission) to have the Capital Fund adopt a "long/short" investment strategy. We feel that this would be in the interests of the Capital Fund's unitholders, as we will have more tools at our disposal to deal with poor market conditions.

The Goodwood Fund, which employs the same long/short strategy, has generated stronger performance than the Capital Fund and significantly outperformed the TRIN. Of course, unitholder approval would be required in the event that we receive regulatory approval to effect the change.

Please feel free to call if you have any questions, thoughts or comments.

Respectfully submitted,

Peter Puccetti, C.F.A.
Chief Investment Officer
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