Goodwood Inc.

Annual Report

Wed Apr. 30, 2003

The Goodwood Fund
2001 Annual Report

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Goodwood Inc.
2001 Annual Letter

The sad events of September 11th affected all of us in some way. The Goodwood Fund Annual Report reflects the success of the Funds in 2001—however, they are trivial by comparison.

The twelve months of 2001 were significant for the unitholders of the Goodwood Fund and the Goodwood Capital Fund. The Goodwood Fund (long/short) achieved a net return to unitholders of **25.00%**. The Goodwood Capital Fund (long only) returned to unitholders net **12.88%**. In comparison, the TSE 300 Total Return Index declined by (-12.57%). On the proceeding pages, Peter's Annual Report, which is the main theme of this publication, provides a deeper analysis and insight toward the results of 2001 and the prospects for 2002.

A glance at the table below will quickly surmise that equity investing, for the most part, was pretty lousy everywhere. The turbulent equity markets throughout the world shrugged off multiple rate cuts and continued the never-ending march of declining values. Contrary to the historical wisdom of -- "don't fight the Fed", buying on the dips just didn't work.

TSE 300 TRIN	-12.57%
S&P 500 (United States)	-12.97%
NASDAQ (United States)	-32.51%
NIKKEI (Japan)	-23.58%
FTSE (United Kingdom)	-16.07%
CAC 40 (France)	-22.02%
DAX (Germany)	-19.84%

Despite fifty years of successful existence, it is our observation that 2001 was the year that Hedge Funds received asset allocation acceptance (particularly within Canada) from both the institutional and individual investor.Throughout the year there was substantial media focus directed to the pros and cons of hedge funds and to the education of various investment hedge styles—and to be clear, there are many different styles. However, not every article was completely accurate or very informative, but Peter and I do welcome full disclosure and encourage investors to look past the sudden appeal of absolute returns, low volatility, low correlation, standard deviation, etc.— in other words, truly understand what you are investing in. It would be an error in judgment to assume similar style hedge funds should produce equal returns with equal risk. Our advice, please read the Offering Memorandum document of all hedge funds prior to investing.

In this regard, the Goodwood Fund is a long/short equity fund. The Fund started in October 31st, 1996 and up to December 31st, 2001, the Fund had returned to unitholders a net annual compounded return of **31.19%**. The Fund has never had a down year, however, within each year we have a number of positions that lose money. The Fund is primarily Canadian oriented, it is prohibited from utilizing any derivatives (including options), it uses little to no leverage, the Fund employs a 15% stop loss on core short positions, it maintains a value-oriented discipline, it can only be purchased through an Offering Memorandum, the Fund is valued weekly, and finally, it is RRSP eligible—Canadian content. Therefore, to sum it all up, an accurate investment description of the Goodwood Fund is that of a value Fund that can also make short sales.

Money managers, as a group, are noted for continually lobbying out performance numbers and graphs that highlight coveted returns. We thought a better and more telling way would be to follow a $150,000 investment (year-by-year) since the funds inception.

October 31, 1996	150,000
December 31, 1996	148,590
December 31, 1997	209,630
December 31, 1998	214,765
December 31, 1999	322,255
December 31, 2000	487,894
December 31, 2001	609,867

As always, we welcome and look forward to unitholders visiting us at our Toronto office—212 King Street West, Suite 201. In this past year, we have expanded our staff to a manageable number of six, which includes Peter and I, and we are continually humbled by their ongoing dedication and effort to our business and unitholders. Once again, thank you.

As a company, Goodwood has to manage many day-to-day issues, and to date, we have gone with the business model of outsourcing many of our required services. As an example, several years ago we retained TD Bank to monitor and report our weekly unit value of the two Funds. Last year was significant for the company as we entered into two separate distribution agreements. The first agreement was with Arrow Hedge Partners who represents Goodwood through the advisor and private client channel and second, with KBSH Capital Management who represents Goodwood to institutional clients. Given the responsibility of managing investor's capital (plus a substantial percentage of our own net worth) we felt it was extremely important to remain focused daily on the Funds and to limit our out-of-office down time. So, intuitively it made so much sense to associate our company with organizations that believed in our investment discipline and long/short approach. Just so everyone knows, both Arrow Hedge Partners and KBSH Capital Management performed extensive due diligence on Goodwood's performance results, back office systems, and the individual partners. Upon completion of their review, both respective organizations became unitholders too.

We look forward to 2002 and in keeping with our past comments we hope to return to unitholders an above-average rate of return. While we have no ability to predict the rate of return, nor when it will arrive, we do have the ability to limit the Fund to purchasing undervalued securities that are deep in asset value and fundamentally strong. Inherently, therein lies the opportunity and the potential return.

Last year we made a commitment to raise the bar on our communication efforts. And in that regard, the feedback we have been receiving has been positive. Our web site (**www.goodwoodfunds.com**) is continually updated reflecting all of our performance data, past Annual Reports, and relevant documentation. As well, our monthly email update has proven to be a wonderful messenger in quickly delivering the prior month's return and an update on the Funds activity.We do believe that our efforts in communicating our risk averse investment approach (trying to buy $1.00 in assets for $0.50) will only increase unitholders confidence and knowledge toward their capital entrusted in our Funds.

In closing, we are often asked how much money are we comfortable in managing within our style. Our attribution work suggests that we are a long way before liquidity issues become a concern.However, we are staying consistent with a promise that we will limit the growth of our assets to $300 million until such time that Peter and I believe that performance results will not suffer dilution.

Finally, we would very much like to acknowledge the contributions from our two outside Advisory Board members—Robert Luba and Robert Curl. Mr. Luba and Mr. Curl have been extremely helpful in providing Goodwood with ongoing guidance and governance. They have made us a better company.

We remain grateful for your continued support and confidence. 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

March 31st, 2002

THE GOODWOOD FUND

2001 Annual Report

To the Unitholders of The Goodwood Fund:

For the year ending December 31, 2001, The Goodwood Fund (the "Fund") returned **25.00%** net (after performance fee). The TSE 300 Total Return Index ("TRIN") dropped –12.57% in the same period.

From October 31, 1996 (the commencement of the Fund's public operations) through to December 31, 2001, the Fund has returned **31.19%** per annum net versus the TRIN's per annum return of 7.99%. *

We estimate that approximately **65%** of our 2001 net return was derived from long positions and **35%** from short ideas.

A distribution of **$0.80** per unit was paid out in 2001 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 amounted to **$2,214,141**. Thus the Fund's NAV per unit as of December 31, 2001 amounted to **$20.85 ($21.65** pre- distribution NAV minus **$0.80** distribution = **$20.85).**

The Fund's 2001 audited financial statements and a copy of the portfolio as of March 31, 2002 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.

Investment Philosophy: Portfolio Composition

During 2001 (based on month end figures), the Fund averaged an **81.64%** 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 **114.94%** invested composed of **100.62%** long and **14.32%** short leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **86.3%**. At the other extreme, **52.92%** invested – **43.01%** long and **9.91%** short for a net market exposure of **33.1%**.

More importantly, our net market exposure (i.e., longs minus shorts as a percentage of Fund equity) averaged **49.43%** in 2001. Simply stated, throughout 2001 the Fund had averaged only **$0.49** of every **$1** of its capital exposed to a downward market move.

As at March 31, 2002, the Fund is **96.62%** invested. This is composed of **77.07%** in long ideas and **19.55%** in short positions, leaving a **57.52%** 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.

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.

Frequently Asked Questions:

In meeting with prospective and existing investors some common questions recur. Below and, at the risk of being repetitive, we have substantially repeated last year's section as we feel that it continues to offer our unitholders (both new and old) some insight into how their capital is being managed.

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, with some notable exceptions, have tended 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.

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 self-imposed (and mandated by the Offering Memorandum) 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 that the hedge funds that “self-implode” tend to be voracious consumers of these tools.

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.

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” existing at the time that we wish to exit an investment (e.g., 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 – a “safety cushion”.

In regard to short sale positions we apply a 15% stop loss against full positions (5% weighting or more). 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 the Fund’s equity. We are often underinvested - the market value of our long positions plus our short positions is frequently below 100% of the Fund’s equity. In fact, over the 5 plus year life of the Fund we have averaged **89.87%** invested (i.e., market value of longs plus market value of shorts expressed as a percentage of equity).

We do 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. Historically, we have not wanted this measure to read less than 50% nor more than 100%. While our average net long exposure during 2001 was **49.43%**, the seven months ending on December 31, 2001 averaged just **34.61%** - reflecting an absence of attractive long ideas.

The process of amassing a core position is best done slowly. 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 before we make a major commitment. And, as has happened too many times in the life of the Fund – rushing our decisions can often result in an unsatisfactory investment.

Will our Growth in Assets under Management Impact our Investment Philosophy?

While we have had significant growth in our assets under management, we want to be very clear with our unitholders that we will not waiver the manner in which the Fund has been managed historically. We continue to spend the bulk of our research time looking for candidates that hold the potential to be “core” holdings. As well, we will continue to own (and/or short sell) smaller positions - situations that, while attractive, lack some of the discerning characteristics of our core ideas.

Patience is important in this regard. We will not always have enough ideas to populate the portfolio to its full capacity. Ted William’s insistence that “waiting for the right pitch” was the key to his legendary batting average has direct application to our investment style -we would rather wait for the right pitch rather than invest our capital just for the sake of being “fully-invested”.

This stubbornness on our part (you could call it discipline if you wanted to be kinder) will necessarily result in periods of flat performance as will our complete inability to predict when a particular investment may “pay off”. As an example: during the first two years of our significant ownership in Canadian Medical Laboratories Limited the stock traded in a tight range between $5 and $7 per share before spurting to $20 plus in the third year.

We knew the stock was cheap but we had no idea when the investment community at large would begin to pay attention. All of this is to say that our results have historically been “lumpy” which is to say that our returns have tended to come in batches. It would be safe to expect more of the same going forward.

Further to this issue, I want to expand on Cam's comments (see his 2001 Annual Letter) and to put in print what many of you have already heard from us verbally. We will be limiting our funds (that is to say – no longer accepting new capital into our Funds) when and if we reach the $300 million level. After much deliberation and attribution analysis of past investments, Cam and I felt that this was an appropriate level to enforce the "cap" – a level that allows us to gain operational scale (i.e., add high quality research and trading staff) while still keeping our relative nimbleness.

To put our decision in perspective, even at $300 million we would still be quite small as compared to the large Canadian mutual fund complexes – e.g., Investors Group manages $43.1 billion of which a substantial portion is focused primarily towards Canadian equities. And, even after adjusting for the relatively small size of Canadian capital markets as compared to U.S capital markets, we would still be managing a relatively slight amount as compared to the longer-lived U.S. hedge funds (some U.S. hedge funds, which continue to generate 20% plus net returns, manage in excess of U.S. $5 billion). Our size as compared to these much larger investment organizations should continue to serve our unitholders well. In investing it's a truism that "good things come in small packages". As well, we can assure you that, given our performance fee structure, we will continue to opt for performance over size.

However, we are optimistic that, as Goodwood's infrastructure (research, trading, administration) continue to mature and, performance permitting, we will be able to eventually lift the cap and expand our organization further. Of course, we would prefer to reach our cap from our current base of approximately $200 million under management just through investment performance. Importantly for both you and us (Cam and I are significant investors in Goodwood's assets under administration), this cap is designed to avoid the pitfall of getting too-big-too-fast.

Risk/Return and Risk Measurement:

Below as per last year's Annual Report and again, in the interests of further illuminating for you an important part of our investment philosophy, we have reproduced our thoughts on "return versus risk" and "risk measurement".

Return versus 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 buying at $5 rather than $10 is both less risky and potentially more rewarding (on the assumption that the long term fundamentals have not deteriorated). 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 two years 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, non-volatile returns may mask what is fundamentally a risky investment strategy. Years of low volatility, solid investment returns are irrelevant if poor results in a future year 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 would afford.

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.

Uncomfortable with the Present:

In our opinion, the most surprising aspect of equity markets' (i.e., North American markets) behavior in 2001 is that, despite some terrific "shocks to the system" – the massive amount of losses generated in 2000 and 2001 - panic selling has not ensued. Economic history is replete with examples of extreme optimism swinging suddenly to extreme pessimism. In the past, widespread market losses would result in capitulation (read "panic") selling thus taking stocks to oversold levels and often providing the base for subsequent rallies. Why hasn't it happened this time around?

With the well-worn caveat that we don't hold ourselves out as being market soothsayers (nor do we think many others can make consistently-correct top-down market calls), we would like to offer our perspective on this strange calm. We suspect that the confluence of low interest rates (and plenty of federally-mandated liquidity in the banking system), the sheer size of this past bubble (thus the correction may take longer to work its way through valuations), the mass market adoption of larger equity exposures in mutual fund and pension plan holdings (and the associated investment mantra of "buy and hold", "buy on dips", "don't be out of the market in case you miss the big up days", etc.) have all contributed to this resilience. Furthermore, in the short run there is no reason to believe that these factors won't continue to keep general equity valuations at relatively lofty levels. However, in the intermediate to long term, earnings (and their rate of growth or decline) are the only factors that matter particularly on a stock-by-stock basis (our favoured approach).

Owners of stocks trading at atmospheric prices (and, note that the "blue chip" names are not immune from this observation) can successfully exit their positions only if one of two scenarios consequently develops: i. Rapid earnings growth transpires (thus justifying the high price paid today) or, ii. Locating a "greater fool" who is willing to purchase your position at your cost or better. In many large capitalization names today we doubt both the ability to grow earnings at a rate that even remotely approaches that implied by the current price/earnings ratio and the unwavering supply of "greater fools" (they have a tendency to disappear just when you most need them). Thus, we view a lot of today's leading stock market names as carrying excessive levels of risk.

The conundrum then is that, on a pure valuation point of view these stocks should be shorted yet the market dynamics that have kept them at such high levels are unchanged – thus …when they will start to decline is anyone's guess. This difficult investment scenario is further complicated by the scarcity of high quality, non-cyclical long ideas that haven't already begun to discount a rosy future (i.e., their prices have already risen dramatically). In plain English – many potential "core" long ideas for the Fund have been bid up to levels that contemplate a strong economic recovery that may or may not materialize. We are leery of "chasing" these ideas for fear that the optimism prevalent over the last few months is not fully justified. In investing, one improves the chances of earning an excess return by buying situations that are discounting the worst not the best possible outcome (the "margin of safety" concept).

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 2001. Currently, we are not carrying any "core" ideas (i.e., 5% or more weighting) although we have some possible candidates. However, we do have several just below this level that are worthy of mention and further description (some of these positions will be familiar to unitholders from past Annual Reports).

LONG POSITIONS

Paladin Labs Inc. ("Paladin") – common shares:

Paladin is a rapidly growing pharmaceutical company focused on acquiring or in-licensing pharmaceutical products for the Canadian market. Currently Paladin's product portfolio numbers some 40 products. The Company assumes little in the way of research and development risk as compared to a traditional "biotech" company preferring instead to invest in already-commercialized products. We very much prefer this low risk approach to investing as compared to the lottery ticket methodology embraced by most biotech companies. As well, we prefer companies whose revenues and earnings behave independently of the economy at large.

Paladin recently completed a financing raising approximately $21 million by issuing 2.2 million shares for $9.50 per share (the stock is currently trading at $10.00). Post this issue cash per share is approximately $2.88. Earnings per share for fiscal 2002 (December 31st fiscal year end) and 2003 are forecast to be $0.44 and $0.54 respectively. We expect that, between earnings growth, increased product portfolio and the larger share float outstanding (due to the aforementioned issue), Paladin is set to command a higher P/E multiple. Importantly, we bought this position well as our average cost is $5.80 inclusive of the stock bought on the new issue.

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

Extendicare is one of the largest operators of long-term care facilities in North America. The Company operates 261 facilities with capacity for 26,300 residents in Canada and the U.S. As well, Extendicare provides subacute care and rehabilitative therapy services in the U.S. and home health care services in Canada. In addition, Extendicare continues to own just under $2 per share worth of Crown Life Insurance Company shares ("Crown Life").

Having briefly traded at the $7 plus level during the summer of 2001 (during which time the Fund managed to substantially reduce its weighting due to the sale of over 40% of its position and the inflow of new capital into the Fund), Extendicare has since sold off on concerns that Medicare funding in its current format will not be extended or improved upon beyond late 2002 (Medicare payments are an important part of a U.S. nursing home's revenue stream). As the stock slid below the $5 level we began to feel that we could take the "Medicare" risk if we were, in effect, paying nothing for Extendicare's vast U.S. nursing home business (the "embedded free call option theory" a fancy way of saying that we are "getting something for nothing"). The basis for this stance was derived from our valuation of the Company's Crown Life shares and the value of its Canadian nursing home business - which we collectively value at approximately $4.50 per share.

The real upside in our Extendicare position will come when and if there is an economically viable, more permanent solution to Medicare funding. In this event Extendicare could trade for upwards of $10 per share. In the interim management appear to be executing well in the U.S. through exiting high-litigation-cost regions and increasing returns under current payment structures (i.e., improving Medicare census).

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

The Sun Life group of companies provide savings, retirement, and pension products as well as life and health insurance products, and services to individuals and corporate customers in Canada and around the World. As at December 31, 2001, Sun Life had Cdn.$352 billion of assets under management.

We began repurchasing Sun Life shares recently as the stock sold off on the news of its friendly takeover offer for Clarica Life Insurance Co. ("Clarica"). Our thinking was that Sun Life's shares would eventually recover as only two possible outcomes seem to exist: Firstly, if Sun Life won the bid (which it subsequently has) – this would lead to a period of integration as Sun Life management (working in conjunction with Clarica management) seek to make the combined operation more efficient. Due to the heavy administrative expense nature of the life insurance business there are ample opportunities to realize sizable cost savings through increased scale (i.e., the more volume, the lower the per policy costs – Great West Life's very successful takeover of London Life is evidence of this potential). Secondly, if Sun Life had lost the bid then the arbitrageurs who had been methodically going long Clarica and short Sun Life would begin buying back their Sun Life shares. As well, investors who had been concerned that Sun Life was paying too much for Clarica and had consequently sold their positions would now be looking to come back into Sun Life.

We expect Sun Life stock to begin rising over the next few months as evidence of synergies from the merger begin to surface and as management has the opportunity to present the "new" Sun Life to institutional investors.

Geac Computer Corporation Limited ("Geac") – common shares:

Geac is an international supplier of enterprise and vertical market software and information technology solutions. The Company provides a range of applications used across a variety of industries for finance and human resources as well as industry-specific applications in real estate, restaurant, property, construction, libraries, government administration and public safety agencies.

Historically Geac had grown through an active acquisition program. One particularly large and poorly thought out acquisition nearly proved fatal for the Company. The stock peaked at $62.25 in March 1998, has since sunk as low as $1.53 and currently trades at $4.40.

As with many situations that fall out of view of the institutional investor spotlight, Geac has become oversold. The market is unwilling to put a normal valuation on Geac's current earnings stream in light of ongoing critical questions about the Company's ability to replace the natural winding down of its existing installed base business.

However, we feel that the Company has taken the right steps towards getting Geac back into a growth mode by first "rightsizing" the Company's operating costs to more properly reflect lower revenue run rates. Thus, Geac is now working from a positive earnings platform. In this vein, we feel that the Company's EBITDA run rate approximates $140 million which, despite some substantial one-time restructuring charges in the months ahead and factoring in capital expenditures and taxes, would leave the Company with close to $2 per share in net cash (we ignore a mortgage obligation which is fully secured against a corporate property) by this time next year.

The institutional investor community has deserted the stock en masse (reminiscent of our early experience with Extendicare Inc.) and will only return upon seeing evidence that Geac has begun to execute on a plan to start growing the Company again. The new management team has targeted a new acquisition program but have yet to complete any transactions. Of course, there will be a proving period during which time investors may ignore any transactions that management forward as they question whether or not this management team will be more adept at acquiring businesses. But, in a market with generally few inexpensive stocks, we doubt that the proving period will be long. Importantly, at more normal valuation parameters, say 5X to 7X EV/EBITDA versus the current 1.8X EV/EBITDA, Geac's shares would trade for substantially more.

SHORT POSITIONS

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

Ballard is a world leader in developing zero-emission "proton exchange membrane" fuel cells ("PEM"), which combine hydrogen – obtained from methanol, natural gas, petroleum or renewable sources – and oxygen to generate electricity without combustion. Ballard's partners include DaimlerChrysler, Ford, Alstom and Ebara. The Company has also supplied fuel cells to Honda, Nissan, Volkswagen, Yamaha, Cinergy, Coleman Powermate and Matsushita Electric Works. PEM fuel cells are intended for use in transportation, electricity generation and portable power products.

In last year's Annual Report we burdened you with the "time value of money" argument against Ballard. Nothing much has changed in this regard. Ballard remains a favorite stock to own in the alternative energy sector and it remains an extremely risky stock to own. There continues to be a great deal of uncertainty regarding the following important questions (please note that this is not an exhaustive list): Will Ballard be able to generate an economically viable alternative to the traditional internal combustion engine (one that consumers will want to drive)? Will Ballard beat the competition in this space - competition from other independent companies as well as divisions of much larger, cash-flow-rich conglomerates? To what degree, if at all, will fuel cell cars become commercialized? Will other forms of alternative power (non-PEM versions) take up the lion's share of available market share in the future? If Ballard's technology wins out, how fast will the commercialization process take? Will Ballard's technology lend itself to mass production (i.e., low cost manufacture)? If Ballard's technology wins out, will Ballard have the financial wherewithal to make the transition to production? If Ballard's technology wins out, what will be its operating margins? As an investor, is it certain that these risks are adequately reflected in the share price? Will Ballard be able (with a high degree of certainty) to raise more capital before it runs out of its current cash balance (Ballard is expected to need more cash by the end of 2004)? If Ballard's technology wins out, will the Company be able to raise the significant amounts of capital required to finance construction of full scale manufacturing plant(s), inventory buildup, etc.?

Despite all of these important questions (and our ongoing suspicion that when push comes to shove, the technology won't make commercial sense), the stock trades for a valuation of approximately Cdn.$5 billion. Perhaps Ballard shareholders should take a cue from management, as they have been steady sellers of the stock. During 2001 we estimate that management and directors sold 310,600 shares and purchased only 10,491 shares (all by directors, not management).

Microcell Telecommunications Inc. ("Microcell") – class "B" shares:

Microcell is a Canadian wireless communications company. Microcell PCS, a division of Microcell, is responsible for marketing the "Fido" brand in Canada and had over 1.2 million retail customers as at December 2001.

During 2001 the Fund generated substantial returns in shorting several wireless stocks – one of the more important contributors being Microcell. We shorted stock at prices as high as $10.83 during August 2001, anticipating that the Company would have a much more difficult time raising fresh capital to deal with its pending liquidity crisis than analysts were assuming. In fact, the analysts' collective dismissal of this funding risk (while the whole sector was quite clearly in the throes of an investor sentiment "nuclear winter") is quite instructional as it relates to the merits of an investor thinking independently. Our skeptical side would lean towards the theory that the prospect of earning a large commission on pending investment banking work may have clouded their judgment. Our more lenient side suggests that they simply couldn't see "the forests for the trees".

Whatever the rationale, the analyst community was way off on this one. Microcell stock eventually bottomed at $1.28 on October 11, 2001 shortly before the Company's announcement of a $250 million rights financing. And, we don't think that Microcell's shareholders are in the clear yet. Any reasonable forecast of going forward EBITDA (earnings before interest, taxes, depreciation and amortization), capital expenditures, cash interest expense and principal repayments would suggest that Microcell will, once again, need to raise capital. We would not want to take the high risk bet that the Company will be able to deal with this future liquidity issue on favorable terms, as that will be a function of future investor psychology towards this sector – a very volatile factor, one that cannot be relied upon with any degree of certainty.

In that light, we find it remarkable that management (and the Board of Directors) of Microcell did not take advantage of the clear "window of opportunity" existing at the time of the rights offering to more permanently fix the Company's balance sheet problem. We liken the rights offering tactic to a surgeon placing a Band Aid on a patient who needed major surgery. We think Microcell should have orchestrated a massive debt-for-equity swap converting its approximately $1.5 billion face value of high yield debt into equity (and eliminating much in the way of what may prove to be an unbearable future interest burden). While this would represent hefty dilution for the existing equity owners, the share of the new equity that would have received by striking a deal now as opposed to when all the high yield debt becomes "cash pay" would, in all likelihood, be much higher. In other words, pain today for long-term gain. Factoring in such a restructuring, Microcell would be carrying the cleanest balance sheet in the industry making the restructured shares attractive to new investors.

As you can probably guess, our opinion was not sought. Microcell went with its short-term solution, the rights offering, and the result is a well-overpriced stock. On an EV/EBITDA basis ((market capitalization of the stock + debt – cash)/EBITDA) Microcell is trading at 11.5X fiscal 2003 expected EBITDA (December 31st fiscal year end) while, as a comparison, one can buy better capitalized, larger North American wireless companies for approximately 7X fiscal 2003 expected EBITDA. Further, we do expect that the lack of sufficient EBITDA to service and retire debt will cause a restructuring at some point over the next two years. Such a restructuring would not be kind to the value of the existing shares.

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 investment ideas.

Respectfully submitted,

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

March 31st, 2002

The Goodwood Fund **March 31, 2002**

Portfolio Summary

Equity -	**$98,613,588**
Net Asset Value -	**$21.09**

Long Positions	**Short Positions**
Paladin Labs common	Ballard Power Systems common
Extendicare Inc. class "A"	General Motors Cp common
AT&T Wireless Services Inc	Amazon.com Inc common
Geac Computer Corp common	Research In Motion Inc common
Canadian Medical Laboratories Ltd. common	Moore Cp Ltd common
Sunlife Financial common	AT&T Canada Inc Cl "B" common
E-L Financial Corp. Ltd common	Canadian Natural Resources Ltd common
Trojan Technologies common	Placer Dome Inc common
Aliant Inc common	Gildan Activewear "A" common
Coolbrands International common	Corus Entertainment Inc Cl "B" common
Fairfax Financial common	Toll Brothers Inc common
GT Group Telecom 13.25% notes	Abitibi Consolidated Inc common
Dundee Bancorp "A" common	Inco common
Leitch Technology common	NASDAQ 100 Trust Series Units

Cogeco SV Inc common
Cryptologic Inc common
Schering-Plough Cp common
Creo Products Inc common
Hemosol Inc common
Cedara Software promissory notes
QLT Inc common
Elizabeth Arden Inc common
Odyssey Re Holdings common
Agricore United Ltd common
Bioniche Sciences common
Newalta Corp common
Infonet Inc common
Belzberg Technologies Inc common
Counsel Corporation 6% debenture
Oxbow Equities Inc common
Stuart Energy Systems common
Derlan Industries common
Medexus Units
Enghouse Systems Ltd common
Cardiome Pharma Inc common
Cinar Cp class "B" common
ADF Group Inc SV common
Vector Aerospace Cp common
SynX Pharmaceuticals Inc common
Dalsa Cp common
Wescam Inc common
Indigo Books common
Hemosol Inc warrants
Trojan Technologies warrants
GT Group Telecom warrants
Investors Group Inc common
iUnits S&P TSE 60 Index Units
Microcell Telecomm Inc Cl "B" common
Internet HOLDRS Units

THE GOODWOOD CAPITAL FUND

2001 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2001, The Goodwood Capital Fund (the "Capital Fund") returned **12.88%** net (after performance fee). The TSE 300 Total Return Index ("TRIN") declined –12.57% in the same period.

From December 23, 1999 (the commencement of the Fund's operations) through to December 31, 2001, the Capital Fund has returned **20.64%** per annum net versus the TRIN's per annum decline of –2.77%. *

No distribution was paid for 2001. The Capital Fund’s NAV per unit as at December 31, 2001 amounted to **$12.53.**

The Capital Fund's 2001 audited financial statements and a copy of the portfolio as at March 31, 2002 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.

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

Respectfully submitted,

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

* 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 Prospectus 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.

The Goodwood Capital Fund **March 31, 2002**

Portfolio Summary

Equity -	**$12,137,335**
Net Asset Value -	**$12.73**

Paladin Labs common
Extendicare Inc. class "A"
AT&T Wireless Services Inc
Geac Computer Corp common
Canadian Medical Labratories Ltd. common
Sunlife Financial common
E-L Financial Corp. Ltd common
Trojan Technologies common
Aliant Inc common
Coolbrands International common
Fairfax Financial common
GT Group Telecom 13.25% notes
Dundee Bancorp "A" common
Leitch Technology common
Cogeco SV Inc common
Cryptologic Inc common
Schering-Plough Cp common
Creo Products Inc common
Hemosol Inc common
Cedara Software promissory notes
QLT Inc common
Elizabeth Arden Inc common
Odyssey Re Holdings common
Agricore United Ltd common
Bioniche Sciences common
Newalta Corp common
Infonet Inc common
Belzberg Technologies Inc common
Counsel Corporation 6% debenture
Oxbow Equities Inc common
Stuart Energy Systems common
Derlan Industries common
Medexus Units
Enghouse Systems Ltd common
Cardiome Pharma Inc common
Cinar Cp class "B" common
ADF Group Inc SV common
Vector Aerospace Cp common
SynX Pharmaceuticals Inc common

Dalsa Cp common
Wescam Inc common
Indigo Books common
Hemosol Inc warrants
Trojan Technologies warrants
GT Group Telecom warrants

GOODWOOD INC.

212 King Street West, Suite 201
Toronto, Ontario, M5H 1K5
Main Line: (416) 203-2022
Fax: (416) 203-0732
Toll-free: 1-866-681-4393

Email: invest@goodwoodfunds.com

Website: www.goodwoodfunds.com

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