GOODWOOD INC.

THE

GOODWOOD

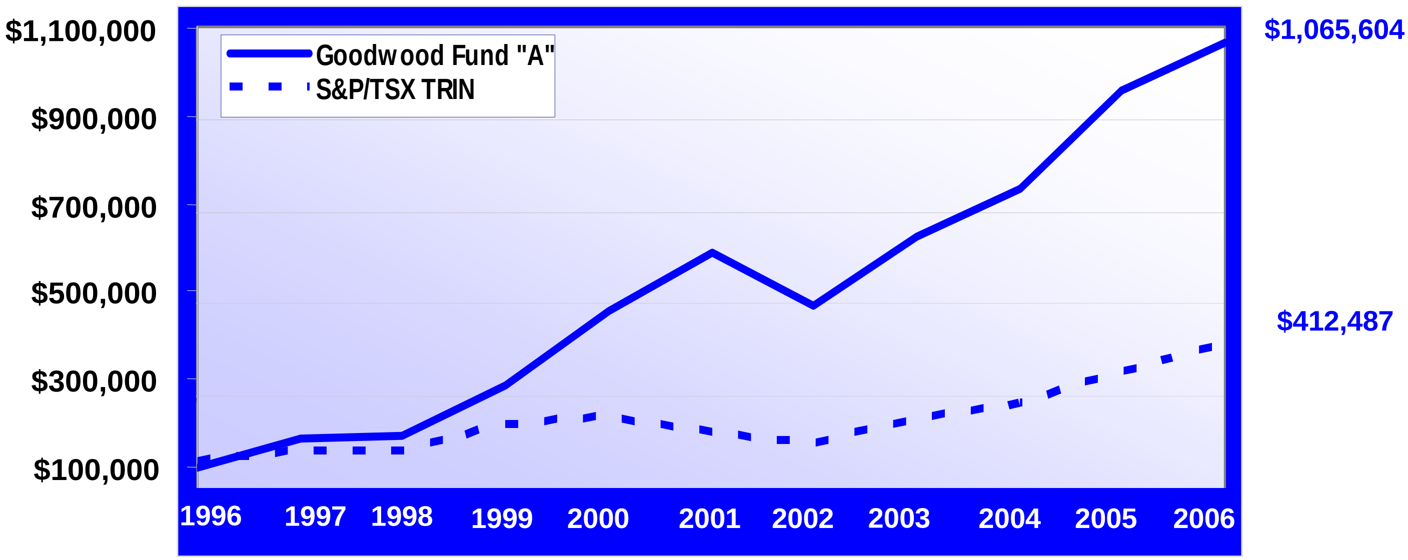
FUNDS

2006 Annual Report
Eleventh Edition

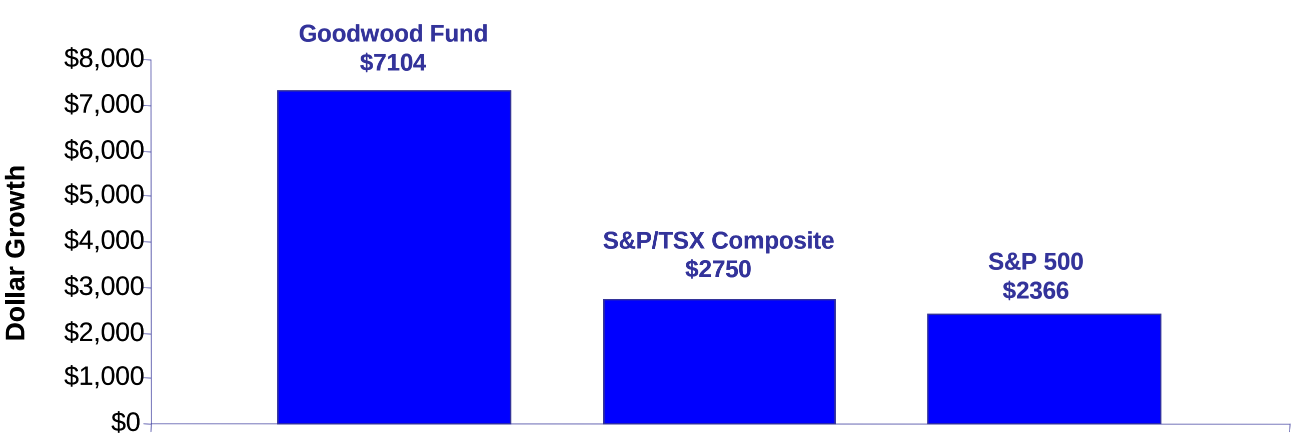
Goodwood Fund "A" Year-Over-Year Returns

October 31, 1996	$150,000	
December 31, 1996	148,588	N.A.
December 31, 1997	209,628	41.0%
December 31, 1998	214,764	2.5%
December 31, 1999	322,253	50.0%
December 31, 2000	487,891	51.4%
December 31, 2001	609,864	25.0%
December 31, 2002	496,856	-18.5%
December 31, 2003	648,347	30.5%
December 31, 2004	746,572	15.2%
December 31, 2005	962,344	28.9%
December 31, 2006	1,065,604	10.7%

Goodwood Fund "A"
Comparison of Change in Value of $150,000 Investment since October 31st, 1996



Goodwood Fund "A"
Value of $1,000 Invested in October, 1996 net of fees to December, 2006



THE GOODWOOD FUND
2006 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2006, The Goodwood Fund's (the "Fund") "A" unit net asset value ("NAV") per share increased by **10.7%** while the "B" units increased by **8.6%.** The S&P/TSX Composite Total Return Index ("TRIN") increased by 17.3% in the same period.

From October 31, 1996 (the commencement of the Fund's public operations) through to December 31, 2006, the Fund has returned **21.3%** per annum net (after all fees) versus the TRIN's per annum return of 10.5%. *

A distribution of $**0.85** per "A" unit and $**0.37** per "B" unit was paid out on December 29, 2006.

The Fund's 2006 audited financial statements are attached for your review.

During 2006 (based on month end figures), the Fund averaged a **72.5%** 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 **81.3%** invested, composed of **75.0%** long and **6.2%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **68.8%**. At the other extreme, the Fund was **63.7%** invested **–** **61.3%** long and **2.3%** short for a net market exposure of **59.0%**.

We have included a copy of the "Goodwood Philosophy" at the end of this letter which provides a good overview of our style of investing. We encourage all of our unitholders to read it each year as it is in our collective interests to have informed unitholders.

All figures in Canadian dollars unless otherwise noted. "Fund" refers to just the Goodwood Fund while "Funds" refers to the Goodwood Fund, the Goodwood Capital Fund and other investment pools that Goodwood Inc. manages.

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* 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, performance data represents past performance and is not necessarily indicative of future performance.

Goodwood’s Approach to Activism

Our public activist positions continue to generate far more attention than our non-public-activist positions (despite the latter typically forming a far larger percentage of the portfolio). In our continuing quest to ensure that our unitholders understand us well, we’d like to clarify the Goodwood approach to activism. In our view there are four general camps that any investor resides in (whether intentionally or otherwise):

Passive – Investors who will not buy a stock (or will sell an already-owned stock) if they see something in the management or Board’s approach that they strongly disagree with. This category includes investors who may spend time privately griping about management and the Board but continue on as shareholders hoping that something positive will happen (Hope springs eternal).

Passive Active – Investors who are willing and able to privately make their views known to management and the Board, through both verbal communication as well as informal and formal letter writing. This approach can be surprisingly effective if handled appropriately.

Active – Investors who are occasionally willing to make their views/grievances known publicly and are occasionally willing to act on those views (e.g., organizing a proxy contest).

Full-Time Activism – Investors who purposefully buy a company’s stock to pursue an activist agenda. In this case, proxy fights, tender offers, nasty letters and confrontation are a way of life relished by a few (one wonders about the quality of their childhoods!).

Goodwood’s approach falls into the middle two categories, that of “Passive Active” and “Active”. Typically we are patient, long term investors. We buy stocks because we think they are inexpensive and we see an imminent catalyst to unlock value. But, we are always pro-active about communicating our opinions to management and the Board. On occasion, when performance of management and the Board stumbles, we are prepared to do what is necessary to restore and unlock latent value. In our thinking, this flexible approach offers the best of both worlds as entering into an activist agenda is not to be taken lightly. The costs both in dollars and in time are substantial though the payoff can be substantial as well.

However, it should be noted that there is an economy of scale and an efficiency of approach that kick in from having previously executed as activist investors. We know the right lawyers and investment bankers to call, we have a pretty good grasp of the implications of different courses of action that we might consider, we have an inventory of contacts who can act as directors or as sources of advice and knowledge and we have good working relationships with other, like-minded investors which can be very helpful (if you’re about to make a dash across an open field under enemy fire, it’s nice to know you’re not the only target).

Goodwood on Resource Investing

Our Annual Reports are always an effective medium to explain or clarify our point of view on different subjects that are periodically raised by unitholders throughout the year. One issue that keeps re-surfacing (particularly in speaking with our non-Canadian investors) is our relative absence of resource industry exposure (primarily oil & gas and mining). We can appreciate the raised eyebrows of our non-Canadian unitholders who have been conditioned to think, largely due to the press, that there's not much more economically to Canada than our vast resource reserves and given that just about all of our Canadian counterparts have significant resource weightings (many of whom our non-Canadian unitholders also invest with).

Let us be perfectly clear …we have nothing against resource companies and Canada's abundance therein. We simply prefer to look for opportunities where others are not looking because that is where we stand a better chance of finding a bargain and adding value through our research process. Resource investing, particularly the Canadian variety, has been well-discovered. Also, it's hard to reconcile our pathological aversion to following the crowd with what has happened and is happening in Canadian resource stocks.

However, if we find an over-looked, misunderstood opportunity within the resource sector, rest assured we have no aversion to studying it. In fact, a few years ago we successfully analyzed and invested in an oil & gas trust that was experiencing regulatory problems and, we are currently working on a very interesting gas-weighted situation that has significant potential and could well end up as a large position for us. You will likely see our resource weighting ratchet up when others are no longer interested.

Idea Flow

The historical lifeblood of Goodwood's investment approach is finding new, potentially high return, low risk, bottom-up ideas. As our older positions mature and are sold we must replenish the portfolio with new ideas. Thus, it is always encouraging and exciting when we have good idea flow as is the current case.

We are often asked how we go about finding new ideas. Great question but unfortunately, no single great answer. Our methodology includes: observations picked up from reading common publications (e.g., noticing that new U.S. ethanol incentives = U.S. farmers abandoning soybean and wheat farming in favour of planting corn = more demand for Canadian wheat and soybean = good for major Canadian wheat handlers); performing quantitative screens searching for certain characteristics (e.g., low EV/EBITDA (enterprise value/earnings before interest, taxes and depreciation, amortization) valuation) combined with some minimum free cash flow yield hurdle); maintaining a watchful eye on a list of high-quality businesses (see last year's Annual Report for a thorough discussion of our definition of "high quality") in which we would like to be owners should their valuation ever suffer a short-term hiccup, and; speaking with similarly value-minded institutional investors.

We maintain an ever-changing inventory of new ideas which typically manifest themselves in the Funds as small weightings initially (below 2% of the Funds' equity). A number of these new ideas will be sold off as our research and/or the valuation renders that idea no longer worthy. Some will end up as medium size positions (say 3% to 5%) perhaps due to being too small for a larger weighting but still interesting as an investment for the Funds. And, a small number will migrate their way to the top end of the Funds' portfolios ending up as core weightings (above 5%).

<u>Core Positions (and interesting new ideas):</u>

Some have suggested that our writing of last year's last Annual Report was being compensated on a per word basis …hence the length. Beginning with this year's Annual Report, we will attempt a more concise yet, still informative, approach to reviewing our core positions and some interesting new ideas.

Great Atlantic & Pacific Tea Company, Inc. ("A&P") – On March 5th, 2007 Pathmark Stores, Inc. ("Pathmark") agreed to be acquired by A&P, a merger that has been much anticipated by us and is expected to be a significant positive for our position in A&P (still our largest position). The US$1.3 billion in cash, stock and debt transaction will leave A&P as a leader in the northeastern US supermarket industry with 550 stores and combined sales of approximately US$11 billion. Guidance is for cost synergies of US$150 million (versus our original expectation of US$130 million) to be realized over the ensuing two years. A&P's strengthened market position and profitability may render it an attractive acquisition candidate for a national grocery chain. In 2006 A&P shares were down 19% but up marginally if you factor in the US$7.25 dividend paid in April of 2006. During the three months ending March 31, 2007 the stock was up 29% (all in US $'s). We expect further upside as the businesses are integrated and the cost synergies become reality.

Cenveo, Inc. ("Cenveo") – In December 2006 Cenveo purchased Cadmus Communications Corporation ("Cadmus") followed by the February 2007 announcement of the acquisition of Printegra Corporation ("Printegra"). These acquisitions make Cenveo the third largest company in the North American printing industry (as measured by sales). Following strong fourth quarter 2006 results, Cenveo management and Board members reinforced their financial commitment to the Company by purchasing even more Cenveo shares (despite the stock now trading at levels substantially higher than their original purchases). Bob Burton purchased an additional US$1.3 million of shares taking his and his family's position to approximately 7.8%, worth US$95 million at today's prices.

In 2006 Cenveo's shares increased by 61% and are up a further 15% in the three months ending March 31, 2007 (all US $'s). While Cenveo has been a great success for unitholders to date, we believe further upside should come as the company proceeds with the integration of Printegra and Cadmus, and achieves its cost reduction targets for these acquisitions. In addition, Cenveo continues to look for select acquisitions to complement its portfolio. Bob Burton has publicly stated his goals for Cenveo – revenue of US$3 billion, EBITDA of US$400 million, and a share price greater than US$30 per share. Given his track record, we wouldn't want to bet against Bob.

ATS Automation Tooling Systems Inc. ("ATS") – On February 28th, in the midst of a significant sell-off in global equity markets, ATS Automation Tooling Systems Inc. ("ATS") commenced the Initial Public Offering ("IPO") of its 100% owned solar business, Photowatt Technologies Inc. ("Photowatt"). In addition to the timing being suspect, the preliminary IPO pricing range was well below our and other shareholders' expectations. We think this was the result of a number of execution errors and, rather than accepting this outcome at face value, we actively engaged ATS' Board to consider more shareholder-friendly alternatives. Somehow, lost in the post-IPO-announcement clamor, were Photowatt's strengths. These include vertical integration (a rarity in the burgeoning solar industry), a long history of product quality and R&D innovation, a proposed partnership with the French Atomic Energy Commission's Laboratory of Microelectronics and Technology for Information (one of the largest applied research labs in Europe) to pursue research into solar technologies and, an improving ability to substitute lower cost refined metallurgical grade silicon for tough-to-secure polysilicon (polysilicon tightness is a problem for all solar manufacturers so being able to make use of an alternative feedstock is a big plus).

Notwithstanding its recently-completed expansion to 60 mega-watts ("MW") of annual capacity (from approximately 40MW), Photowatt's value will be much greater if it has the capital required to continue to grow (the Company has targeted 400MW of annual capacity by 2011). Thus, the importance of the IPO or some other form of capital raise. With growth capital Photowatt has the opportunity to attract the kind of valuation that other solar companies have enjoyed, without it Photowatt would be valued on a static basis at a much lower valuation. But, rather than giving others the opportunity to invest capital in Photowatt at an inexpensive valuation, we think the Board should give this opportunity to ATS shareholders. Rights offerings are rare in North America (common in Europe however) but in this case, it makes a lot of sense. It would put ATS shareholders back in the driver's seat and allow for a public listing and spin off of 100% of Photowatt to ATS shareholders.

Our long term outlook on ATS' value hasn't changed – the sum-of-the-parts are worth significantly more than the current share price. We see substantial upside between a successful financing of Photowatt (leading to greater Photowatt value) and a continuing turnaround in ATS' core automation business. 2007 will be a very interesting year for ATS.

Great Canadian Gaming Corporation ("Great Canadian") – Great Canadian possesses high quality and scarce Canadian gaming assets. Currently operating at historically low levels of profitability, we expect Great Canadian's margins will improve as an expanded management team refocuses on reducing costs and as gaming in BC continues to grow. The Company's costs have risen due to a flurry of acquisitions over the past two years including: Fraser Downs Racetrack & Casino and Sandown Park (standard bred facilities located in Surrey and North Saanich respectively in British Columbia), Georgian Downs (a slots and standard bred racing facility in north Toronto), both the Casino Nova Scotia Sydney and Casino Nova Scotia Halifax and, Flamboro Downs (a standard bred racetrack). These acquisitions have significantly expanded Great Canadian's facilities, helping to take revenues from $294 million in fiscal 2005 to approximately $385 million in fiscal 2006. But, overhead has also increased resulting in reduced profitability. In the short run it appears that Great Canadian has bitten off more than it can chew. However, we feel that the thinking behind this aggressive acquisition schedule will be vindicated as these assets are heavily regulated (i.e., new capacity is constrained) and rarely available (in other words, Great Canadian had to strike while the opportunities presented themselves or likely never be able to acquire these properties).

Great Canadian's assets are also positioned for significant future growth. However, as a regulated business Great Canadian's expansion and the timing thereof is a product of discussion and agreement with provincial regulators such that the precise timing is difficult to predict. Potential expansions that could be announced within the next couple of years include: i) placing slots at Hastings Racecourse in Vancouver, ii) expanding the flagship River Rock casino, iii) expanding and/or relocating the Victoria casino, View Royal; and iv) expanding operations at Georgian Downs in Ontario. We expect two or more of these expansions to be announced within the next 18 months.

The high quality nature of casino operations in BC has recently been highlighted by New World Gaming Partners Limited's (a joint venture which includes Macquarie Bank Limited of Australia) bid for Gateway Casino (Great Canadian's main competitor in BC) at a 25.7% premium to its then stock price, representing about 12.5x 2008e EBITDA. Valuing Great Canadian on a similar basis would put a value on the stock of approximately $15.80 (our average cost is $11.48 and the stock is currently trading at $12.90). However, given the turn around in operations that we expect to occur and other potential expansion opportunities, we believe that a $20 or higher share price within the next eighteen months is a reasonable target. Our confidence in this outlook is bolstered by the notable add-on investment made by Great Canadian's founder, Chairman and Chief Executive Officer, Ross J. McLeod. Mr. McLeod, who already owned approximately $240 million of Great Canadian stock (making him the largest shareholder at approximately 24%) purchased another $50 million of stock as part of an $80 million private equity placement in April of 2006 (increasing his ownership to 25.9%). For a man who is accustomed to betting <u>with</u> the house, we suspect he analyzed his odds carefully before making this significant additional commitment.

Saskatchewan Wheat Pool Inc. ("Pool") - On March 28, 2007 Pool announced a very favorable consent agreement with the Canadian Competition Bureau ("CCB"), an important milestone in its bid for Agricore United ("Agricore"). To satisfy the CCB consent agreement, certain Pool assets have to be transferred and upon further analysis, Pool now estimates $80 million in synergies (up from the previously announced $60 million) will be achieved by combining the two western Canadian agri-businesses. On the heels of this ruling Pool has twice increased its Agricore offer and that offer is now materially higher than the current James Richardson International Limited ("JRI")/Ontario Teachers' Pension Plan bid. JRI has until April 20th to match or better Pool's offer.

In the short term, our smaller investment in Agricore is the big winner, appreciating by 76% from our original cost. However, we are steadfast in our view that our larger Pool position offers substantial long term upside. We believe this to be the case, even if Pool's Agricore bid fails, due to Pool's formidable asset base, strong financial position, shareholder-oriented management, the prospect of restructuring at the Canada Wheat Board, and the availability of other acquisition opportunities (including assets required by the CCB to be sold as a result of a potential JRI/Agricore merger).

Nova Chemicals Corporation ("Nova") – Nova is a western Canadian based petrochemical company that was spun out of TransCanada Pipelines Limited as an independent public company in 1998, but has a rich history dating back to 1954. The company produces plastics and chemicals that are essential to everyday life, with a focus on two product chains – ethylene and polyethylene ("E/P"), and styrene and polystyrene ("Styrenics"). Given that these are commodity products, the key to Nova's profitability is the supply and demand for these products in the marketplace and Nova's cost of production.

Admittedly, when we first began looking at Nova in the spring of 2006 there was nothing particularly enticing about the story (outside of the stock being down 40% from its recent high). The company had lost US$1.22 per share in 2005, a very poor year, especially since 2005 was a very good year generally for the petrochemical industry. But digging deeper revealed something much more interesting: Nova's performance was a tale of two cities - a very strong, cost advantaged, world class E/P business (that has earned an average 13.0% after-tax return on capital employed for the previous ten years); and, an absolutely disastrous Styrenics business that has had EBITDA losses averaging $57 million **<u>per year</u>** over the past five years with poor prospects for any material improvement. It became abundantly clear that the disadvantaged Styrenics business was masking what was a very profitable and high quality E/P business creating a significant drag on the company's share price. We felt that if Nova made the hard decision to restructure/shut down the Styrenics business (a message that we communicated to management), it would allow the much more attractive E/P business to emerge. And, this business, with its strong free cash flow and earnings characteristics, would attain a higher multiple in the market leading to a higher Nova share price.

In June 2006, Nova management began to take action to address this issue. First, the decision was made to separate the Styrenics business as non-core, and pursue strategic alternatives; second, Nova implemented a cost cutting program that has removed a run-rate of over US$70 million in costs from the business (leading Nova management to indicate that Styrenics will be EBITDA positive in the first quarter of 2007 for the first time in several years); third and most recently, Nova announced that they will merge the business into a 50/50 joint venture with INEOS - resulting in at least an additional US$40 million of cost reductions and a first step in removing excess capacity to improve industry prospects. All of these actions will materially improve the Styrenics business, allowing for its eventual sale or a spin-off to Nova shareholders.

More importantly, we believe these events pave the way for a sale of the more attractive core business. Nova's cost advantaged ethylene position in Alberta (the lowest cost in the world outside of the Middle East), its large, world class, modern asset base, its relatively small size, its proprietary technologies, and its direct access to the North American market make it an ideal acquisition candidate for several of the much larger foreign players. We believe that Nova could be worth over US$40 per share in a takeover, versus the current stock price of US$31, and our average cost of US$28.60, with additional upside from any improvement in Styrenics. With consolidation activity heating up among commodity chemical companies, and the drain of the Styrenics business now contained, we believe the time for Nova to pursue a sale is sooner rather than later.

CanWest Global Communications Corp. ("CanWest") – We've owned CanWest in various weightings for the last four plus years and it continues today as a medium-sized position. The most noteworthy recent developments include CanWest's innovatively-structured acquisition of Alliance Atlantis Communications Inc. ("Alliance Atlantis") in conjunction with GS Capital Partners Inc. ("GSCP" – a private equity affiliate of Goldman, Sachs & Co.), the pending sale of Ten Group Pty Limited ("Network Ten") in Australia (in which CanWest holds a 56.4% interest) and, the possibility of CanWest making a bid to privatize CanWest MediaWorks Income Fund ("CMW").

While the total purchase price of Alliance Atlantis was $2.03 billion, the structure of the transaction and the fact that CanWest was only interested in certain pieces of Alliance Atlantis meant that CanWest's capital commitment was a mere $200 million. For this price and by vending in CanWest's existing conventional and specialty TV assets, CanWest ends up with a starting ownership level of approximately 29% in the entity that will own all of these TV assets (the balance of equity ownership to be held by GSCP). Thus, CanWest smartly avoided having to get lender permission for the transaction and/or having pressure to sell its interest in Network Ten on a rushed basis (to finance a purchase of Alliance Atlantis on its own) while securing a rare opportunity to further consolidate the already-tightly-owned Canadian media landscape. CanWest can now work to integrate Alliance Atlantis' 13 specialty channels with CanWest's conventional TV properties (there are multiple opportunities for operating synergies). And, in 2011, according to the deal terms with GSCP, CanWest's ownership level will rise (expected to end up above 50%) as a function of total EBITDA (earnings before interest, taxes, depreciation and amortization) of the combined broadcasting assets (in this way, CanWest has an incentive to maximize the integration of the TV assets).

In the meantime, the much-anticipated sale of Network Ten appears to be on the horizon with the relaxation of Australian media foreign ownership laws. Rumours are swirling that multiple private equity firms have been kicking Network Ten's tires following CanWest and Network Ten's joint announcement that all opportunities were being evaluated and that financial advisors had been hired by both firms in this regard. However, in our opinion, it appears unlikely that a transaction will occur at a premium to Network Ten's current stock price (i.e., the speculation has resulted in much of the takeover value already being priced into Network ten's shares).

Finally, given the lackluster valuation that the market has accorded CanWest's publicly-traded CMW (which holds a roughly 26% equity interest in CanWest MediaWorks Limited Partnership – the largest publisher of newspapers in Canada as measured by paid circulation, readership and revenue), it is very likely that CanWest will move to take its ownership to 100%. We would not be surprised to see such a transaction occur sometime this year.

In summary, our current thinking on CanWest is that a recovery in their broadcasting operations (aided by the integration opportunities afforded by the acquisition of Alliance Atlantis' broadcast assets), a sale of their interest in Network Ten and the smart application of the resultant proceeds will provide further upside to the stock price.

Open Text Corporation ("Open Text") - Open Text is a leading global supplier of collaboration and content management software for business enterprises, largely Fortune 3000 companies. This sector of the software industry is named Enterprise Content Management or "ECM" which simply put, is the management of words. Where Enterprise Resource Planning, or "ERP" software from giants IBM, Oracle and SAP is the management of an enterprises' numbers – its payroll, financials and other numbers, ECM covers pretty much everything else – email and records management, document collaboration and numerous other document related tasks. Open Text has a market capitalization of US$1.1 billion and estimated fiscal 2008 revenue of over US$675 million, making it one of Canada's largest software companies. The company was founded in 1991 in Waterloo, Ontario and has grown organically and through several large acquisitions to be the market leader in the ECM space. Through strategic partnerships with SAP, Oracle and Microsoft, Open Text has carved out a niche as the preferred independent supplier of ECM software, as all major competitors (Filenet and Documentum) are owned by large organizations who are competitors of their partners (IBM owns Filenet, and EMC owns Documentum).

Goodwood's journey with Open Text began in May 2006 after the company reported results that were below analyst expectations, and the stock dropped over 20%. Integration problems with the acquisition of IXOS, a large German competitor, put pressure on revenue growth and increased costs – resulting in several quarters of missed numbers. Shares were trading 55% below their all-time high, and to put it mildly, the company was severely disliked by virtually all analysts on Bay and Wall Street – sell side **and** buy side – as illustrated by the short position in the company which was greater than 15% of its outstanding shares.

Through this, we saw several redeeming qualities that made Open Text a classic Goodwood style investment: (i) the company was a leader in its market, and the market was growing relatively quickly – between 5 and 10%; (ii) the valuation was very cheap – at 1.4x enterprise value to revenue, just over 7x EBITDA and 13x earnings. Based on earnings, this was a 35% discount to its peers at the time; (iii) Open Text had no debt and almost US$2 per share in cash; (iv) most attractive was that 46% of its revenue was maintenance, a sticky, high margin cash flow stream; and (v) our discussions with management and the Board gave us confidence that they understood the problems at hand. This was further evidenced by the hiring of a new CFO that was well received by the street.

The key turning point for Open Text came on July 6th, when the company announced a hostile bid to acquire Hummingbird, their Canadian archrival in the ECM space. This acquisition would create the largest player in the ECM market with over 20% global market share, and would result in substantial operating and financial synergies. The deal would also strengthen Open Text's position in key vertical markets – legal and government, two strongholds of Hummingbird. Surprising to us, the shares actually fell on the announcement of this bid – despite the synergies – giving us an opportunity to ramp up our position. We believed the synergies would be very large – two Canadian head offices, several overlapping facilities and sales organizations. We also believed that this was not IXOS – this was a Canadian company in Open Text's backyard that senior management knew intimately. In fact they had been poaching talent from each other for several years. Finally, the acquisition was done with debt – resulting in no dilution for Open Text shareholders – completing what was effectively a public LBO of Hummingbird.

Since the deal closed in October, management has been busy integrating Hummingbird. To date, Goodwood's investment in Open Text is up approximately 65% from our cost. The valuation gap with its peers is closing, and we have reduced the size of the position. As Open Text completes the integration of Hummingbird, and uses its substantial free cash flow to pay down the debt, the valuation gap should close further. As well, Open Text is the largest independent ECM company in the world – and would be a natural acquisition candidate for Oracle, SAP, Hewlett Packard, or any financial buyer. We believe the shares could approach US$28 - $30 as management execute on their plans.

ShawCor Ltd. ("ShawCor") – ShawCor has been a strong performer for the Funds in the last 12 months, now trading approximately 90% above our average cost (ignoring dividends we have received along the way). Like a lot of our positions, when we started buying ShawCor we knew we were getting some high quality businesses for a good price but, we did not know when various operational issues would be improved upon. Clearly, the Company is back on track, leading to good recent shareholder returns. ShawCor is a Canadian company but has been a global success story and is the World's largest pipeline coating company (pipelines must be treated for corrosion protection and weight (in the case of undersea applications)). It employs 5,200 people across 60 worldwide manufacturing and service facilities.

The Company's six divisions and their main products are as follows (we love nuts and bolts companies and they don't get anymore tangible than this): Bredero Shaw (pipeline corrosion protection coatings, insulation and weight coatings, flow efficiency coatings), Canusa-CPS (pipeline joint protection systems, heat shrinkable sleeves, pipe coating materials), Shaw Pipeline Services (ultrasonic and radiographic pipeline weld inspection), Guardian (drill pipe/tubular inspection and refurbishment, tubular inventory), DSG-Canusa (heart shrink tubing for sealing and protection) and, Shawflex (control and instrumentation wire and cable). Essentially, ShawCor's fortunes are tied to worldwide oil & gas and petrochemical development. As economic growth drives depletion of existing resources and, as new resources are brought on line, there is a demand for new pipelines and, by extension, ShawCor's services.

While 2007's earnings results are expected to be only slightly better than 2006 (2006's results were $1.25 in earnings per share on $1.06 billion in revenues and $184 million of EBITDA), 2008 may turn out to be a particularly good year. We would consider adding to our ShawCor weighting on any measurable downtick in the stock price. We particularly like ShawCor's ability to generate excess cash ($184 million of cash generated by continuing operations in 2006 against only $61 million of capital expenditures) and that it may well be taken over given its premier stance within the industry.

As always, please feel free to call or email should you have any questions, thoughts or investment ideas.

Respectfully submitted,

Peter Puccetti, CFA
Chairman & Chief Investment Officer
Goodwood Inc.

Cameron MacDonald, CFA
President & Chief Executive Officer
Goodwood Inc.

March 31, 2007

The Goodwood Philosophy

Expectations and Rate of Return: The Goodwood Funds are managed for long term performance not short term volatility mitigation. We expect to have volatility in our results given our relatively concentrated portfolio and given our long term, stock-specific approach. Generally, we do not hedge our long positions. We will have periods of strong performance and periods of weak performance. We hope to average at least 20% per annum which, if it is achieved, will be a mix of good years and bad years. Unitholders should not expect a steady, positive monthly return from us.

Bottom-Up not Top-Down: We pick stocks based on bottom-up, company-specific factors (e.g., valuation, improving industry conditions, strong management, a merger or takeover that will drive meaningful synergies, etc.). We do not pick stocks based on a view of macro-economic factors. We have never provided a market call. We believe that a successful, long-term investment track record is most likely achieved through judicious bottom-up stock selection. It may not be as exciting as making a big, macro-economic market call but it is a repeatable process that we relish and enjoy.

Concentrated positions: We have a focus on finding a few good ideas at a time. With our approach, we typically expect to have five to seven long ideas above a 5% weighting each. The largest of which might be 10% at cost (we have gone above 10% at cost on a handful of occasions). This means our focus is on finding a few great ideas each year. We like that singular focus in that it forces us to search for and allocate capital to only the best ideas.

Activism: Becoming “active’ in certain situations dovetails well with our focus on buying undervalued stocks. In other words, on occasion, by being active, we can help the underlying value surface. In almost all of our holdings we regularly voice our opinion on how to maximize shareholder value to management and the Board. In other situations (e.g., situations where we perceive a clear case of poor execution or anti-shareholder behaviour) our activism could involve a proxy fight/nominating an alternative slate of directors.

Longs versus shorts: We have a preference for long ideas over short ideas as we can put more capital to work in long ideas (as long ideas are typically more “comfortable” than short ideas), our potential returns are greater (the most you can earn in a short position is 100%), our potential downside is limited to 100% versus infinite with shorts, equity markets (with some notable exceptions) tend to rise over time and, management and the Board are typically well-motivated and doing their best to improve share values.

Derivatives and leverage: The Goodwood Funds are prohibited from buying or selling options or futures contracts. And, while we are permitted to go to 200% of equity invested (with the exception of the Goodwood Capital Fund which must remain at 100% of equity or below), we have never done so and, in fact, our leverage utilized in the past has been modest and infrequent. During the majority of the Funds’ histories we have been below 100% invested (i.e., market value of longs plus market value of shorts all divided by equity is below 100%) thus we usually have excess cash. Basically, the Funds’ focus is on picking stocks well rather than leveraging our equity to generate returns.

"Look through" risk versus statistical measures of risk: We do not measure our portfolio risk levels statistically (though some professional investors studying us might). On the long side, we know what our risks are based on a "look through" analysis of the business and financial characteristics of our positions. We only consider large weightings in companies that have healthy balance sheets and/or significant non-core assets. As well, we seek to have a margin of safety arising from our purchase price being well below the likely intrinsic value. On the short side, positions at a 5% weighting or greater are subject to an automatic 15% stop loss. However, the vast majority of the time we have stopped ourselves out of losing short positions before either the 5% or the 15% levels have been reached.

Transparency and Unitholder Reporting: Unitholders who understand what we are doing and how we are going about doing it are good things both for the unitholder and for us (we're significant unitholders too). Transparency, consistency in reporting and consistency in investment approach are the most effective tools we have to combat the potential backlash of unitholder redemptions during inevitable periods of lackluster performance. Our monthly email update (usually sent out the first business day after the end of the month) and our regularly-updated web site, go a long way towards our goal of keeping unitholders "in the loop". However, we have one big caveat to the foregoing which is that we reserve the right to not tell our unitholders about an important new position should we still be attempting to acquire stock in that position and if we feel that publicly disclosing our interest will harm our ability to cost-effectively buy stock.

Long Term Focus: We have found, as many funds with long term successful records have, that unitholders who attempt to trade on ups and downs are better off just staying invested for the long haul (like switching lanes during rush hour traffic, the initial euphoria is often followed by further frustration). However, it is worth noting that any drawdown since inception in 1996 has been a precursor to good performance.

Independent Thinking: We enjoy generating our own ideas and performing proprietary research. In situations where we are considering taking a meaningful position our research process will include: visiting the Company's facilities; engaging senior and operating management in discussion about strategy, goals and issues; visiting industry trade shows, speaking with competitors, customers and consultants; speaking with industry analysts and building financial models.

Uncorrelated with the Major Market Indices: Our bottom-up and often "special situation" approach results in our Funds having little resemblance to the major market indices. We believe that, over the long run, this stance positions us well to outperform these benchmarks. Unitholders should understand that any resemblance between our returns and that of an index in a particular period will be mostly by coincidence.

We Eat Our Own Cooking: We are amongst the largest unitholders in our Funds and each year we intend to continue to invest further personal capital.

THE GOODWOOD CAPITAL FUND
2006 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2006, The Goodwood Capital Fund (the "Capital Fund") increased 1**2.7%**. The S&P/TSX Composite Total Return Index ("TRIN") increased 17.3% in the same period. The S&P 500 Index gained 15.8%.

From December 23, 1999 (the commencement of the Fund's operations) through to December 31, 2006, the Capital Fund has returned **13.7%** per annum net versus the TRIN's per annum increase of 8.3%. *

A distribution of $0.60 per unit was paid for 2006. The Capital Fund's post-distribution NAV per unit as at December 31, 2006 amounted to **$20.43.**

The Capital Fund's 2006 audited financial statements 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 Management Report of Fund Performance and the Annual Report of The Goodwood Fund, both of which are attached.

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

Respectfully submitted,

Peter Puccetti, CFA
Chairman & Chief Investment Officer
Goodwood Inc.

Cameron MacDonald, CFA
President & Chief Executive Officer
Goodwood Inc.

March 31, 2007

* 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.

Advisory Board

Mr. Robert Curl, CA
Mr. Robert Luba, CA
Mr. Cameron MacDonald, CFA
Mr. Peter Puccetti, CFA

	Goodwood Fund	Goodwood Capital Fund
FundSERV Code:	GWD022	GWD001
Valuation / Liquidity	Weekly	Weekly
Fund Type:	North American Long/Short Fund	North American Equity Fund
Launch Date:	October, 1996	December, 1999
RRSP Eligible:	Yes	Yes
Custodian:	NBCN Inc.	NBCN Inc.
Fund Accounting:	Citigroup Fund Services Canada	Citigroup Fund Services Canada
Auditor:	KPMG, LLP	Feldman & Associates, LLP
Trustee:	Computershare Trust Co.	Computershare Trust Co.
Legal Counsel:	Borden Ladner Gervais, LLP	Borden Ladner Gervais, LLP

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