GOODWOOD INC.

THE

GOODWOOD

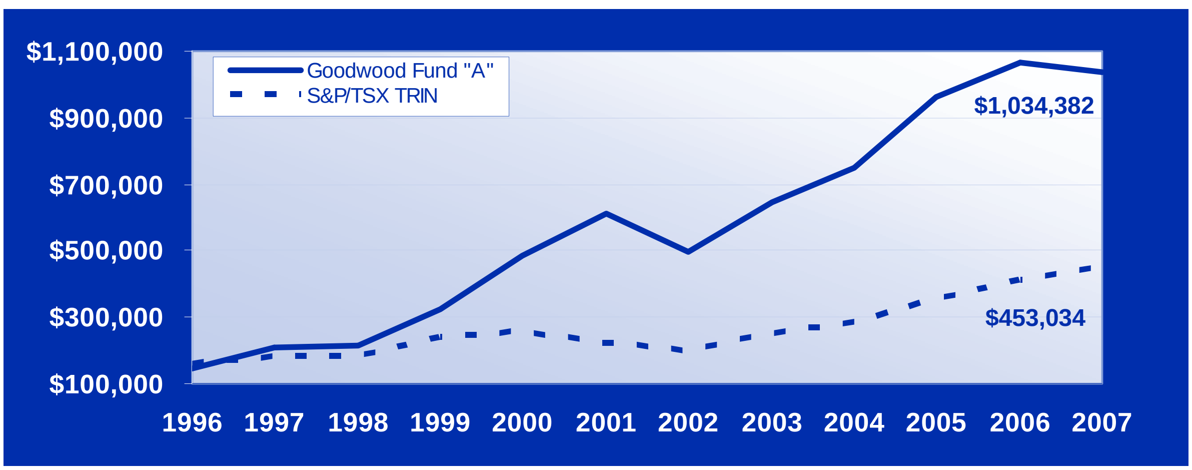
FUNDS

2007 Annual Report
Twelfth 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%
December 31, 2007	1,034,382	-2.9%

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, 2007

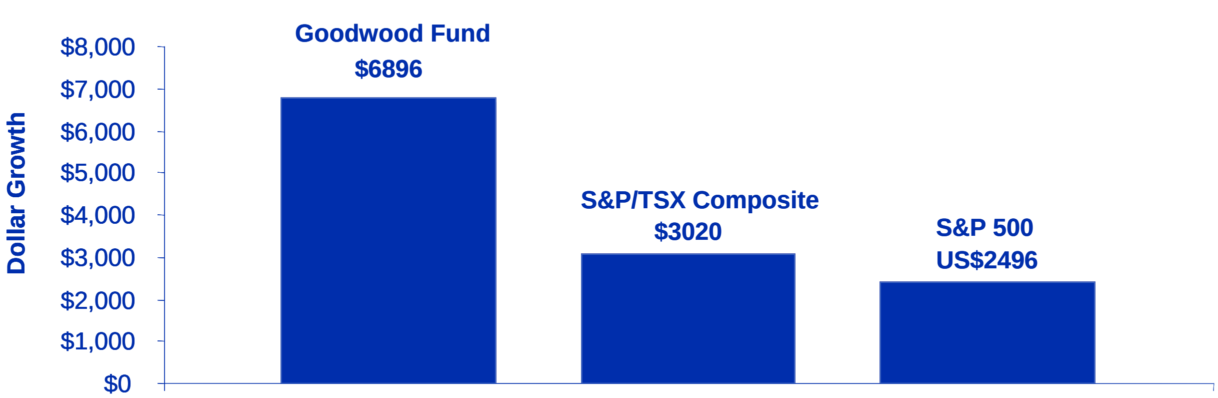


TABLE OF CONTENTS

THE GOODWOOD FUND
2007 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2007, The Goodwood Fund's (the "Fund") "A" unit net asset value ("NAV") per share decreased by **(2.9)%** while the "B" units decreased by **(3.0)%.** The S&P/TSX Composite Total Return Index ("TRIN") increased by 9.8% in the same period.

From October 31, 1996 (the commencement of the Fund's public operations) through to December 31, 2007, the Fund has returned **18.9%** per annum net (after all fees) versus the TRIN's per annum return of 10.4%. [*]

A distribution of **$1.62** per "A" unit and **$0.71** per "B" unit was paid on December 31, 2007.

The Fund's 2007 audited financial statements are attached for your review.

During 2007 (based on month end figures), the Fund averaged a **109.1%** 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%** invested, composed of **110%** long and **18%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **92%**. At the other extreme, the Fund was **88%** invested **– 83%** long and **5%** short for a net market exposure of **78%**.

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.

---

[*] 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.

Thinking Long Term in a Short Term Environment

"Discount to Estimated Intrinsic Value" at Record High

The macro picture has gone from worrisome in the fall of 2007 to downright scary this spring of 2008. The major banks seem to have invented a new way of risking solvency and consequently there is a period of credit contraction underway which is having a negative effect on economic growth and asset values. This unfortunate (and probably entirely avoidable if proper checks and balances had been in place) credit hangover is also playing itself out in the form of "re-risking" of equity assets – i.e., equity valuations, especially for small to mid capitalization stocks, have plummeted. By some estimates the average stock on the New York Stock Exchange is now down 30% to 35% from its 2007 peak - appreciably worse than the broad market indices.

Goodwood, with our long term, net long bias and our affection for cheap, special situation stocks, has not been immune from the market carnage. While we are upset that our core positions have seen their valuation multiples contract (without deterioration in the underlying fundamentals I might add) we are excited at the prospect of significant upside implied by such inexpensive valuations. Should our core long positions trade up to our historically-conservatively-estimated intrinsic values, the collective upside for the Funds that this happy occurrence would bring is approximately 60%. This is the greatest discount to intrinsic value that we have seen since we began tracking the figure.

Unfortunately, we continue to have no idea as to when markets will value our core long holdings closer to our estimates of intrinsic value. Quite obviously, as a prerequisite to this happening, stability in credit markets will have to return. Our best guess is that the large financial institutions right themselves through 2008 due in large part to a combination of central bank assistance in increasing banks' interest spreads and orchestrated liquidity in mortgage backed securities, massive new equity capital raises and the ongoing profitability of the banks' operations before write-offs. Equity markets, even for small to mid-capitalization names, will likely follow any banking system stabilization.

As you would expect, long term investing in the current environment is about as popular as poison ivy at a nudist convention. Everyone it seems is now fixated on short term developments and the latest mark-to-market valuation. From what we have lived through in past cycles of fear, this is normal. But, as hard as it is to believe, the seeds of the next cycle have likely already been planted and may in fact already be sprouting. While the timing of realization is uncertain, the greatest potential upside often springs from these periods. Our two previous weak performance periods illustrate this as we have followed each with very strong performance – in the three years following 1998 and 2002, the Goodwood Fund's net return was +184% ("A" units as there were no "B" units at the time) and +94% ("B" units) respectively. Ironically, the real peril a long term investor faces in moments like this is to let the negative headlines waver their commitment to equity investing. In our opinion, letting newspaper editors set your investment policy is a recipe for long term underperformance.

Opportunities Abound in Both Equity and Debt Markets

The credit contraction/equity market sell-off has quickly resulted in a plethora of small and mid capitalization companies trading at bear market valuations (i.e., single digit price/earnings ratios and/or below 5x EV/EBITDA multiples (enterprise value/earnings before interest, taxes, depreciation and amortization)). With few historical exceptions, these valuations tend not to last long. Of course, one must be careful to only invest in situations where the earnings or EBITDA part of those equations is not declining.

The current environment has also created multiple opportunities to look "higher up the capital structure" i.e., corporate bonds, debentures, preferred shares and even bank debt. At these prices, we can earn equity-like returns (15% plus annually) with less risk and volatility than equity ownership. We would submit that, if a rational investor can earn a 15% annual return in purchasing ABC Company bonds, then, given the inherently lower volatility/risk of the bond, that same investor in order to be enticed into buying ABC Company stock, would need to expect a materially higher annual return - say 25%+.

We have found a number of situations that offer debt instruments trading at appreciable discounts to face value. They offer the prospect of a greater than 15% total return between interest and accretion to maturity and have strong equity owners backing the companies (in some cases additional equity capital has recently been raised which, has the effect of bolstering the value of the debt). And, we suspect that the realized return will be greater in those situations where the bond comes due within the next few years as there is an incentive for the issuing company to offer a premium to replace the existing bonds for longer-dated debt in advance of the maturity date (companies dependent on long term debt financing generally do not wish to risk waiting till the very last moment to extend out their debt maturity profile).

As an example of past market crises giving us fixed income opportunities, we would remind you of our 2002 purchase of the most senior bank debt in Microcell Telecommunications Inc. ("Microcell") for an average of $0.50 per dollar of face value. This debt had a first claim on Microcell's assets which, in our opinion translated into little risk as we felt strongly that, in a worst case scenario, the asset value of Microcell was roughly twice what we paid for the debt. Gratifyingly, while we waited for values to surface, we were being paid a monthly cash interest amount equal to 6% of the face value of the debt (so an approximate 12% running yield on our average cost). Within approximately nine months we sold the position for roughly a 50% total return.

Notwithstanding the preceding, Goodwood's approach remains equity-focused, net long-biased, bottom-up, special situations-focused, value-oriented and opportunistic as it relates to shareholder activism.

Review of Core Positions:

ATS Automation Tooling Systems Inc. ("ATS") – In September of 2007, along with another large shareholder of ATS, Goodwood launched a successful proxy fight to replace the board of ATS. Readers of last year's Annual Report know that we believe there is considerable upside in ATS' collection of businesses but, we felt that previous senior management was not moving aggressively enough to deal with the Company's headwinds (please refer to our September 5, 2007 ATS dissident proxy circular for a more detailed description of our rationale – its available on the Ontario Securities Commission's web site at www.sedar.com). ATS shareholders overwhelmingly supported our alternative slate of directors and to ensure an orderly transition, the previous Board decided to step down the night of September 12, 2007 which was the night before the scheduled annual meeting.

We immediately began a thorough search for the best possible candidate to become ATS' new "permanent" CEO (Mr. John Bell, one of our director nominees, had graciously agreed to act as ATS' interim CEO). We searched for a person who had a demonstrated track record of maximizing value on behalf of shareholders. On November 19, 2007, we happily announced the appointment of Anthony Caputo as ATS' CEO. Anthony's background was well-known to some of the new ATS directors as they had watched him in action at Spar Aerospace ("Spar" - where Anthony had risen to become President and CEO). With Anthony's guidance Spar was sold to the large U.S. defense company, L-3 Communications Holdings, Inc. - generating a meaningful profit for Spar shareholders. As well, Anthony served as Corporate Vice-President of L-3 and, President and Chief Operating Officer of L-3 Communications Canada.

Anthony's stated objective for ATS, as outlined on his first conference call as ATS' CEO (held on February 13, 2008 - this was the third quarter call for the period ended December 31, 2007) is to improve profitability through fiscal 2009 and then focus on growth …music to our ears. The following are some highlights of that quarter's report:

- Efforts are underway to maximize the value of ATS' French solar company, Photowatt Technologies, through strategic partnerships and through ensuring an operating management focus on improving costs and thereby near term profitability. Recent progress made on the economics of utilizing metallurgical silicon in this polysilicon-constrained company is encouraging.

- ATS' small Canadian manufacturing business, Precision Components Group, continues to be slated for divestiture. This will free up more corporate resources for the core automation business and sharpen focus.

- An estimated $30 million will be spent over the next few quarters to pay for initiatives to improve operations (primarily in the core automation business). However, cash will be generated through non-core asset sales to finance a significant portion of these costs. These cost reduction initiatives are expected to have a payback period under one year. To put this in perspective, ATS' core automation business only produced $4.1 million in EBITDA in the last quarter which implies an annual run rate on EBITDA of $16.4 million so a $30 million improvement (all other things being equal) would be very material. In addition, a number of operational and process improvements have been introduced which bode well for future revenue growth and earnings enhancement.

- Senior management ranks have been deepened with the addition of Maria Perrella as Chief Financial Officer and Chuck Gyles as Vice President of Organization Effectiveness. Both of these executives worked with Anthony at L-3 Communications, L-3 Communications Canada and Spar Aerospace and both have deep and relevant experience for the task at hand. We are very encouraged that these executives were willing and able to leave their previous high ranking and high paying positions to rejoin Anthony on his goal of turning ATS' fortunes around. From our past experiences we know that it is a very good sign when intelligent, capable senior executives wish to leave their comfortable situations and come to work for a former boss in a company that is going through much change.

As long term shareholders we are excited about ATS' future prospects but, nonetheless, Cam and I, as per our original stated intention, expect to step down from the ATS board in short order. We are working on ensuring top notch candidates to replace us, people who can further ATS' ambitious plans for the future. In the case of our ATS shareholder activism, we consider our role to have been that of "agents of change". Watch for a continuing stream of developments at ATS as the year progresses.

Jean Coutu Group Inc. ("Coutu") – Coutu is currently our second largest long holding (behind ATS) and, depending on a number of variables, it may become our largest. In terms of the qualitative aspects of its core Quebec-based drugstore business, we would be hard-pressed to find a higher quality business right now.

Coutu's assets are twofold; it operates the dominant Quebec drugstore chain with 330 stores, an estimated market share of approximately 40% and, current revenue and EBITDA run rate of $2.4 billion and $240 million respectively. This business is economically-insensitive and features competitive barriers to entry in the form of a well-established, iconic Quebec brand and choice real estate accumulated over decades. As well, an investor in Coutu stock is long approximately 1 share of Rite Aid Corporation ("Rite Aid") for every share of Coutu stock held. This stems from the June 4, 2007 (closing date) transaction that saw Coutu sell its U.S. stores to Rite Aid in return for approximately US$2.4 billion in cash and 32% of Rite Aid's stock (but only a 30% voting interest). As well, Coutu received the right to appoint four out of fourteen Rite Aid board seats. The deal with Rite Aid eliminated all of Coutu's debt.

What excites us about our Coutu position is that our cost translates into a reasonable valuation for the Quebec business (however, well below what it might fetch in a takeover, more on that later) and receipt of the Rite Aid stock for free. Rite Aid is currently trading at US$2.50 per share which, when compared to a current Coutu share price of just $9.70, is a pretty significant "freebie". Long term unitholders know that we have had success buying into situations such as this - our past investments in Sun Life Financial Inc. and Dundee Corporation come to mind as examples of this "getting something for free" mentality.

In general, the North American drug store industry features some marvelous defensive investment characteristics: the stores are not as sensitive to economic fluctuations (i.e., consumers generally purchase their medical prescriptions regardless of the state of the economy); established chains generate high levels of free cash flow; established chains are protected from competition in part due to the scarcity of good real estate locations; the aging of the population and the proliferation of new medicines are driving meaningful increases in per capita prescriptions (this is evidenced by the high single digit percentage increases in year-over-year, same store sales comparisons that well-run chains have been delivering – note that drug store typically derive 50% to 70% of their total sales from prescriptions); and, unlike some other retail formats, we would suggest that consumers favour convenience heavily when it comes to prescriptions and thus we believe that drug store chains will be able to protect themselves against encroachment by large format retail chains such as Wal-Mart.

We think the these characteristics render any North American drug store chain attractive from an investment point of view but especially so for Coutu's Quebec chain. Such a large market share, the difficulties new entrants have in securing good real estate and such an identity with that province's population (for four years in a row Coutu has ranked as the most admired company in Quebec – Leger Marketing survey for Commerce Magazine) are all suggestive of a business that has a defensible franchise and, a business that would generate great interest should the controlling Coutu family ever decide to sell. On this point, note that our disdain for multiple voting share structures is somewhat offset in this case by two factors – the scarcity value/quality of the business and, that the family actually has significant equity ownership equal to roughly half the 251 million shares currently outstanding. Note that as of the date of the last proxy circular, the family owned 7,695,800 subordinate voting shares and all 117,385,000 multiple voting shares for a total ownership of roughly 125 million shares or 49.8% of the estimated 251 million shares outstanding (after accounting for the 10.9 million subordinate voting shares bought back so far in fiscal 2008 – PS: the buy backs happened at an average price of $13.38, well above the current share price of $9.70!).

Should the family decide to sell, we think there will be a number of interested suitors such as: the dominant Ontario-centric chain, Shoppers Drug Mart (which trades for a 12.5x plus EV/EBITDA multiple compared to just 8x for Coutu if we net out the current value of Coutu's Rite Aid stock), the privately-held Katz Group (operators of over 1,800 drug stores in Canada and the US under numerous banners including Pharma Plus and Pharmx Rexall), private equity funds and/or large pension funds (this would be an asset that banks would still be willing to lend against) and possibly even one of the large US drug store chains. While the family has never to our knowledge publicly-mulled the possibility of selling the business, we note that there have been a number of recent examples of Canadian family-controlled, publicly-traded businesses selling including the Waters family at CHUM Limited and the Dobbin family at CHC Helicopter Corporation (more on CHC later in this Annual Report).

If Coutu's Canadian business continues to grow its EBITDA in the 10% to 15% range per annum and assuming a reasonable takeover multiple, we could see the value of the Canadian business reaching $16 within the next two years.

Equally promising is the potential upside in Coutu's Rite Aid stock. Rite Aid's acquisition of 1,854 Brooks and Eckerd stores and 6 distribution centers from Coutu created the largest drug store chain on the US East coast and solidified Rite Aid's position as the third largest drug store chain in the U.S. behind Walgreens and CVS Caremark. At 5,160 stores (after regulator-required divestiture of 26 stores) Rite Aid's store base is almost as large as Walgreens (6,237) and CVS (6,200). Rite Aid management expect to derive significant synergies from the acquisition of these stores and, as retailing is in part a business of scale, management's guidance of US$200 million and US$300 million in cost saving synergies for fiscal 2008 and fiscal 2009 respectively seems well within range (total sales for fiscal 2008 are expected to be between US$24.3 billion and US$24.6 billion).

If, over the next few years, Rite Aid takes its EBITDA margin from the currently sub 4% level (the Company's guidance for fiscal 2008 is adjusted EBITDA of between US$950 million and US$1 billion) to say, 7% (Walgreens and CVS are running at this level and higher), assuming modest revenue growth in that period, ignoring any possible debt reduction stemming from free cash flow in that period (Rite Aid's priority for this year and next is to reinvest significant amounts in its store base) and, assuming Rite Aid would trade for a similar EV/EBITDA multiple as CVS and Walgreens (say, 8.5x EV/EBITDA), then we could see Rite Aid stock trade for US$16.

So, if Rite Aid executes well and Coutu's Quebec business were to receive a takeover offer, we could see $32 per share of total value over the next two to three years versus the current $9.70 share price (we're assuming parity between the US and Canadian dollars). And, given the defensive nature of the Quebec business and that we're not paying for the Rite Aid holding, we have not taken much risk in the position (of course, quotational volatility is still present as illustrated by the 41% drop in Coutu stock from the peak of August 2007). In summary, our Coutu investment is a low risk shot at more than a triple.

Cenveo, Inc. ("Cenveo") - After being a significant contributor to the Funds' returns in 2005 and 2006, Cenveo stock fell 18% in 2007, and has fallen an additional significant amount in early 2008 (in US dollars). This recent performance by the shares begs the question what has changed with the business, and more importantly, what's in store moving forward?

Looking back, what Bob Burton and his team have accomplished since taking over management in September of 2005 is nothing short of remarkable. By closing unprofitable facilities and streamlining the overall cost structure, more than US$100 million of costs have been removed, resulting in Adjusted EBITDA (adjusted to exclude a variety of non-recurring and other items, as defined by the company) margins improving from approximately 6% in 2005, to approximately 12.5% in 2007. As well, five accretive acquisitions have been completed which diversify the company's printing platform, and provide new avenues for future growth. In every quarter since the Burton team has taken control, Cenveo has either met or exceeded its earnings targets.

Backing up its actions, management has consistently, every quarter, purchased shares in the open market. Despite this track record and Bob's considerable pre-Cenveo record of value creation, the macro-economic concerns and associated multiple compression that we detailed at the beginning of this letter have particularly affected printing industry stocks. The bankruptcy of Quebecor World in January 2008 (the World's second largest printer) tilted investor sentiment even more negatively.

But, fundamentally, what has changed at Cenveo? In mid-March, the company reaffirmed guidance for 2008 of US$300 million of EBITDA, and over US$130 million in free cash flow - representing an increase in EBITDA of 17% over 2007. While not immune to changes in economic conditions, Cenveo's diversified platform, lack of exposure to the struggling long run printing segment (magazines, catalogs, retail inserts) and best-in-class management team will help mitigate the impact.

At a current share price of approximately US$11, Cenveo is effectively a publicly-traded, leveraged buyout trading at an estimated 2008 free cash flow yield exceeding 20%. With no debt maturities until 2012, management is actively exploring ways to take advantage of this industry weakness to create value for shareholders (e.g., strategic transactions). Bob and his family own approximately 8% of the shares having purchased an additional US$2.7 million in January at prices above US$15 which means the Burton family interests are very much aligned with non-executive/employee shareholders.

In summary, we believe the currently depressed share price has overreacted to economic concerns. Going forward, we believe Cenveo's stock price will be very sensitive to any improvement in credit market conditions and so offers substantial upside from current levels. In the meantime, we have much confidence that Bob and his team are working diligently to take advantage of currently depressed printing stock valuations. Notwithstanding credit market tightness, opportunities exist to further diversify Cenveo's mix of businesses and realize additional cost efficiencies which will position the shareholders for an even greater recovery in share value going forward.

Gaiam, Inc. ("Gaiam") - Literally, Gaiam is a fusion of "Gaia" (mother earth) and "I am". Founded in 1988, Gaiam is a leading media company that has established itself as a lifestyle brand, content producer and retailer in the fast growing Lifestyles of Health and Sustainability ("LOHAS") market. The company's operations can be broken down into three components as follows (with estimated current revenue run rate in brackets):

- **Core media business (US$230 million)** – Gaiam is the dominant creator of proprietary fitness, wellness and spiritual media content in the United States. With an approximate 49% market share of the Fitness/Wellness DVD market[1] (i.e., fitness, yoga, Pilates, etc.), Gaiam is over four times the size of its largest competitor. This media is packaged with branded and unbranded products and sold to consumers through five channels – retail (70,000 retail doors), on-demand television, direct response television, catalog (19 million annually) and the internet (Gaiam.com – 8 million direct customers).

[1] According to Nielsen's VideoScan

- **Internet subscription community (US$24 million revenue) –** Gaiam is developing an internet subscription community around the LOHAS space and has completed several acquisitions to build this business. Subscribers pay a small, monthly fee for access to proprietary media such as DVD subscription clubs, and sites with exclusive LOHAS content and information. While currently in investment mode, Gaiam has approximately 200,000 subscribers with significant potential for growth as the community is rolled out beginning in 2008.

- **Non-core solar business (US$32 million revenue) –** Gaiam owns 100% of Real Goods Solar, Inc. ("Real Goods"), a California based solar panel installer and retailer of related products. Real Goods has a 30 year track record, having installed the world's first photovoltaic solar panel at retail. In keeping with the entire renewable energy space and, solar in particular, this business has seen rapid growth over the past four years.

The LOHAS market is huge and growing rapidly. The population's increasing focus on health and wellness, renewed focus on the environment (think Al Gore and climate change), government subsidies supporting solar initiatives and escalating energy costs are all very powerful drivers of the markets Gaiam participates in. This has led to significant growth for Gaiam, both organically and through acquisition. Gaiam sales were US$263 million for the fiscal year ending December 2007, up significantly from approximately US$100 million in fiscal 2004. The proprietary nature of Gaiam's products (over 75% are branded) and the fact that they own their media content, results in higher levels of profitability than seen in typical retailers (gross margins exceeding 60%). Despite this sales growth, continued investment in the business and the rationalization of a large acquisition in 2005 disguised the underlying strong performance by temporarily depressing earnings and with it Gaiam's share price.

Goodwood began accumulating shares of Gaiam in February 2007 in the low teens with the view that we were buying an undervalued media business in an attractive market with significant organic sales potential, and receiving the remaining businesses for free. Our confidence was further reinforced after meetings with management in Denver, visits to retailers carrying Gaiam products, analyzing market share data, and reviews of industry related companies (Lululemon Athletica Inc., the Canadian based, fitness apparel retailer comes to mind).

Despite the strong contribution to the Goodwood Funds in 2007 (up 71% over our average cost of C$17.23 or +88% in US$), concerns about declining U.S. consumer spending and the general market malaise for small capitalization companies has resulted in Gaiam shares declining sharply in the first few months of 2008. However, looking ahead we see a bright future for Gaiam's stock as illustrated by the following:

- On February 7, 2008 Gaiam announced the potential IPO of Real Goods which we believe will value Gaiam's interest (including repayment of a loan Gaiam has extended to Real Goods) between US$150 million and US$200 million or US$6 to US$8 per Gaiam share. This IPO, which is expected to come to market in April 2008, creates significant value for Gaiam shareholders as well as giving Real Goods the balance sheet strength and currency with which to capitalize on the explosive growth in the solar integration industry.

- On March 10, 2008 Gaiam reported fourth quarter 2007 results that exceeded analyst expectations. More importantly, the outlook for 2008 is strong, indicating that revenue is expected to grow 14% to US$300 million and earnings per share 50%. Through international expansion, the launch of Gaiam Wellness (an exclusive relationship with the renowned Mayo Clinic), and initiatives with key retail customers, the core media business is poised to perform well in 2008. The mass launch of Gaiam's subscription community in 2008 will move this business from a drag on earnings to a contributor with considerable operating leverage by year's end.

At year end 2007, Gaiam had approximately US$66 million of cash on its balance sheet, no debt and, a passionate CEO with a proven entrepreneurial track record who owns 26% of the outstanding shares (we feel very comfortable that his interests are aligned with ours).

At approximately US$17 per share, the current share price implies that we are getting the core media business at conservative fair value, and the subscription and solar businesses for free. We believe that the core media and retail business will generate EBITDA in 2008 of approximately US$36 million, 14% growth over 2007. This business has several pockets of value – well respected brands in a growing industry space; dominant market share in its core media category; 70,000 retail store fronts currently offering its products; an underutilized distribution infrastructure capable of supporting sales twice the current level - leading to operating leverage as the business grows; a growing internet retail channel at gaiam.com; a fast growing, high margin international licensing business; and a proprietary content library of over 2,500 titles. Applying a multiple of just 10x EV/EBITDA (a conservative discount to various media company comparables), results in a value for the core media business of roughly US$17 per share. While the consumer environment is uncertain, Gaiam has established a solid platform with which to grow the business in a secular growth industry over the long term.

The goal of the subscription business is to become the "go to" social network of the LOHAS space. The potential of the subscription business is simply huge. With approximately 200,000 subscribers currently paying an average of US$10 per month, revenue run rate in this business is approximately US$24 million. Assuming each additional subscriber carries average revenue of US$8 per month, and delivers EBITDA margins of say 40%, an additional 100,000 subscribers would add approximately US$3.8 million of EBITDA, and at a conservative 12x multiple, represent approximately $2 per Gaiam share. We believe that the potential of this business will rapidly become evident as Gaiam begins to market it for the first time starting later in 2008. Gaiam's 8 million customer database represents likely first candidates for this product.

In summary, we expect Gaiam in 2008 to demonstrate the powerful operating leverage inherent in its core business which, when combined with the large potential in the subscription community business and the imminent IPO of its solar unit, should result in the shares moving materially higher.

The Great Atlantic & Pacific Tea Company, Inc. ("A&P") - In December, 2007, after a lengthy US Federal Trade Commission review, A&P completed the long awaited acquisition of Pathmark Stores, Inc. ("Pathmark"). This transforms A&P into the market leader in the U.S. Northeastern supermarket industry, almost doubling the size of the company to just under US$10 billion in sales. We believe this transaction is a game changer for A&P, and will allow the company to dramatically improve margins and build a profitable business that will be a coveted takeover candidate for the national grocery chains currently absent from this market (e.g., Kroger, Safeway, Supervalu, Delhaize).

It is a rare opportunity for a company to make an acquisition in which the synergies of the deal are greater than the entire EBITDA of the acquiring company, as should be the case in A&P's acquisition of Pathmark. The financial synergies are estimated to total over US$150 million as compared to A&P's estimated fiscal 2008 stand alone EBITDA of approximately US$125 million (A&P has a February fiscal year end so fiscal 2008 is mostly calendar 2007). This leads us to believe that A&P's EBITDA margins (aided as well by continued growth of the core business) will double over the next two years from approximately 2.3% to 5.0%. We expect the benefits of the merger to become evident during the second half of calendar 2008.

Reflecting the positive implications of this transaction A&P shares appreciated 22% (in US dollars) in 2007 but have fallen back thus far in 2008 with the overall market. We believe that as A&P executes its plan and realizes upon the available synergies, the shares will respond. We also believe that in calendar 2009 A&P's unique real estate assets, improving profitability, established store concepts, and market leadership position could result in a potential takeover at a significant premium to the current share price. A newly established management incentive program, and large shareholders who share an understanding of the tremendous strategic value that A&P holds, significantly improve our confidence in this outcome.

To put our potential upside in context assume A&P drives EBITDA from US$380 million in calendar 2008 to US$500 million in calendar 2009. Assume that a strategic acquirer would pay a premium multiple of 7.5x EV/EBITDA (a premium to current multiples due to the strategic nature of the assets, and the massive synergies for any strategic purchaser) and we can see a share price 65% higher or US$42 per share.

Great Canadian Gaming Corporation ("GC") – GC is a gaming and entertainment operator with Canadian facilities in British Columbia, Ontario and Nova Scotia and, four U.S. facilities in Washington State. The Company operates ten casinos, a thoroughbred racetrack that offers slot machines, four standardbred racetracks (two offer slot machines and one offers both slot machines and table games), a community gaming centre, a hotel & conference centre, two show theatres and various associated food, beverage and entertainment venues. In Canada, GC operates its casinos in managed markets with high barriers to entry and under long-term agreements as partners with provincial lottery corporations. Under the operating agreements in British Columbia and Nova Scotia, the company is reimbursed for the majority of its capital projects.

Our position in GC is mid-sized. We see considerable upside in this collection of profitable, economically-insensitive, considerable-barriers-to-entry-businesses and, we expect will sell for a significant premium should the founder and 26% shareholder decide to sell. However, we have been hesitant to increase the size of the position given our concerns about the near-term pressures on profit margins stemming from the entrance of new competitive facilities in some of GC's markets and a significant capital expenditure plan scheduled over the next couple of years. Frankly, we have no idea when or even if the founder will sell but should he do so, we have a high level of confidence that this business will attract bids at perhaps twice the current share price. In the interim, we are focused on getting a better understanding of how significant the above-cited near term pressures will be (an optimist would say that the negative pressures will subside after just one or two quarters). Ideally, we would like to ramp up the position further at the right time as GC certainly qualifies under our high quality assets metric.

Viterra, Inc. ("Viterra", formerly Saskatchewan Wheat Pool) – Viterra is no longer a large weighting with us as we have been net sellers over the last few months as the stock has come close to our sell target. However, the rationale underlying our position is worthy of at least a brief description as it was the most significant positive contributor to our 2007 results.

Our interest was piqued when Viterra made an initially hostile merger offer for competitor Agricore United ("Agricore") in November, 2006. We began buying Viterra stock (as well as a smaller position in Agricore) at the $8+ level in December 2006. Ultimately, after a series of entertaining M&A manouvers, an agreement was reached whereby Viterra would purchase Agricore for $20.50 cash per Agricore share and would divest certain assets to appease both industry regulators and a competing bidder for certain Agricore assets. We believe that both the initial merger offer and this highly-favourable-to-Viterra negotiated resolution are testimony to the business savvy and negotiating skills of President and CEO, Mayo Schmidt. By purchasing Agricore, Viterra created the dominant western Canadian agribusiness with annual sales approximating $4 billion. The combined company provides farmers with a wide range of proprietary seed varieties, fertilizer, equipment, crop protection products, extensive agronomic and financial services and the largest network of grain handling and marketing facilities in Canada.

Critical to our investment rationale and since confirmed by the initial post-acquisition quarterly results was that the combined businesses would deliver significant cost savings. While we are right to be suspicious of management when it comes to synergy estimates, in our past experience when two relatively homogeneous, utility-like businesses combine, the odds of realizing meaningful synergies goes up dramatically (for example, our purchase of Great-West Life stock when it announced the takeover of London Life). First estimated at just $60 million annually (per November 7, 2006 press release detailing the initial offer) they have subsequently grown to an estimated $96 million (per January 18, 2008 release of the results for the 15 months ended October 31, 2007) and are tallied as to $53 million from the grain handling and marketing segment, $14 million in the Agri-Products segment and $29 million in the corporate segment.

Viterra was definitely a company in Goodwood's proverbial "sweet spot" – very high quality, difficult/impossible-to-replace-assets, utility-like business characteristics (unlike the much more boom and bust cycles that their farmer customers have to contend with), fair to cheap valuation and a clearly identifiable catalyst being the consolidation of the industry brought about by Viterra's offer for Agricore. Our most recent sales of Viterra stock have been in the $14 range, fairly close to our current estimate of intrinsic value of $15.

CHC Helicopter Corporation ("CHC") – On February 22, 2008 CHC, a mid-size position (4.2%) within the Funds, announced that its Board had accepted an all cash offer of $32.68 per share from First Reserve Corporation (a large private equity firm with an investment strategy focused on energy investments). Goodwood accumulated this position during 2007 and this solicitation represents a 32% premium over our average cost.

CHC is the world's largest provider of helicopter services to the global offshore oil and gas industry with a fleet of 257 aircraft as at October 31, 2007 (135 owned + 122 leased, 83 deployed in European operations and 174 throughout the rest of the world). Over the last few years, the industry has been experiencing unprecedented growth as more remote and offshore resource pools are brought into production. During this time, CHC's competitive position and prospects have not gone unnoticed. For example, in March, 2006, CHC had been approached by two unaffiliated private equity firms for a takeover in the $30 to $32.50 range. These discussions proved to be unsuccessful and were terminated on April 27, 2006.

Goodwood began accumulating CHC stock as it declined into the low $20's from a previous high of approximately $30 as a result of repeated earnings disappointments. CHC's recent earnings have been victims of the Company's substantial growth as the introduction of the latest, most modern aircraft resulted in heavy, up-front training costs and spare parts/engine investment costs, and the increase in the overall fleet size yielded higher financing costs. For example, in the quarter ending October 31, 2007, CHC estimated that "aircraft introduction costs" were $2.5 million pre-tax composed of $1.3 million in recruiting, training, crew duplication, overtime and mobilization costs and $1.2 million in pre-deployment lease and interest costs. As well, there were issues with the availability and reliability of the new aircraft as they were not initially operating at acceptable levels thereby negatively impacting fleet utilization rates and resulting in CHC paying customer contract penalties. For example, in the quarter ending October 31, 2007, $2.2 million pre-tax of costs associated with aircraft availability and the late delivery of aircraft (some undergoing modification activities) was recognized. This was net of a settlement CHC negotiated with various helicopter manufacturers to offset late delivery and serviceability issues on new technology aircraft and primarily related to contract penalties paid to customers and the estimated loss of revenue due to lower contract rates being earned on substitute aircraft.

Our contrarian stance was that these negative earnings pressures were likely to subside over time revealing a new, substantially higher earnings stream. As well, we felt that given the significant up-front costs implicit in the accounting for the new aircraft, CHC's earnings quality was quite high. Not lost on us, in terms of CHC's future earnings power, was that approximately 20% of the fleet was rolling off contract each year and new contracts are being priced at 15% to 20% higher rates. Hence, a higher level of earnings were clearly in the offing, and in part, explains why First Reserve was prepared to pay a large premium in the midst of this difficult environment for equities.

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

Respectfully submitted,

Peter Puccetti, CFA	Cameron MacDonald, CFA
Chairman & Chief Investment Officer	President & Chief Executive Officer
Goodwood Inc.	Goodwood Inc.

March 31, 2008

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. 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 investing further personal capital.

THE GOODWOOD CAPITAL FUND
2007 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2007, The Goodwood Capital Fund (the "Capital Fund") decreased (**3.99) %.** The S&P/TSX Composite Total Return Index ("TRIN") increased 9.8% in the same period. The S&P 500 Index gained 5.5%.

From December 23, 1999 (the commencement of the Fund's operations) through to December 31, 2007, the Capital Fund has returned **11.3%** per annum net versus the TRIN's per annum increase of 8.5%. *

A distribution of **$0.54** per unit was paid on December 31, 2007. The Capital Fund's post-distribution NAV per unit at this date amounted to **$19.07.**

The Capital Fund's 2007 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 available on SEDAR (www.sedar.com) and the Annual Report of The Goodwood Funds enclosed.

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

Respectfully submitted,

Peter Puccetti, CFA	Cameron MacDonald, CFA
Chairman & Chief Investment Officer	President & Chief Executive Officer
Goodwood Inc.	Goodwood Inc.

March 31, 2008

* 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.

NOTES

NOTES

Advisory Board

Mr. Robert Curl, 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	Schwartz Levitsky Feldman, LLP
Trustee:	Computershare Trust Co.	Computershare Trust Co.
Legal Counsel:	Borden Ladner Gervais, LLP	Borden Ladner Gervais, LLP

GOODWOOD INC.

212 King Street West, Suite 201
Toronto, Ontario, M5H 1K5
Main Line: (416) 203-2022 Fax: (416) 203-0734
Toll-free: 1-866-681-4393

Email: invest@goodwoodfunds.com
Website: www.goodwoodfunds.com