GOODWOOD INC.

THE

GOODWOOD

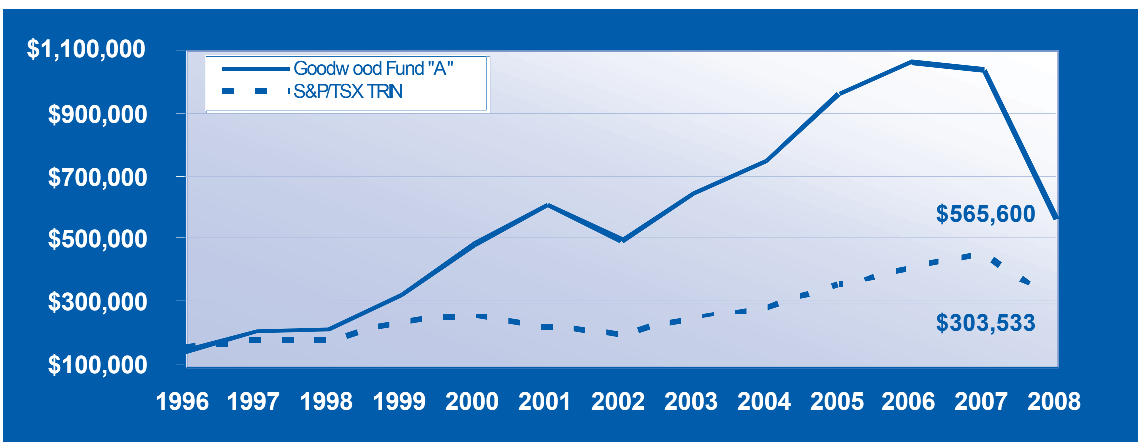
FUNDS

2008 Annual Report
Thirteenth Edition

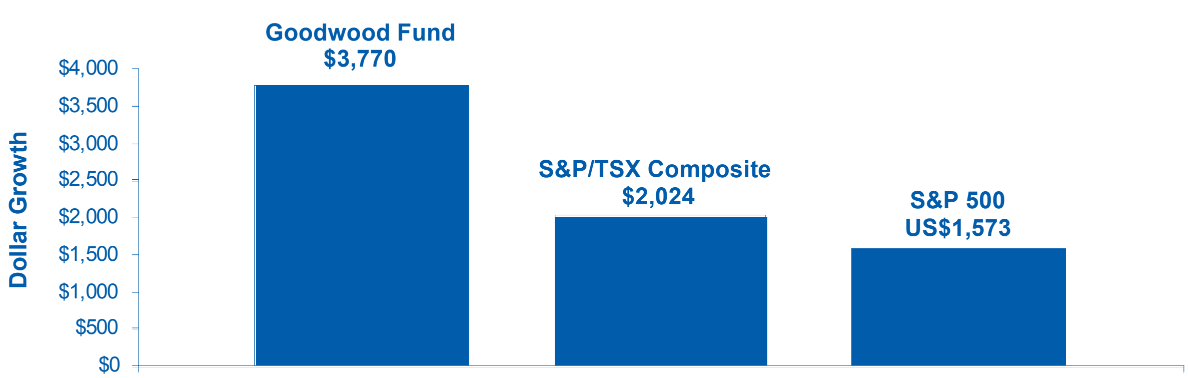
Goodwood Fund "A" Year-Over-Year Returns

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%
December 31, 2008	565,600	-45.3%

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, 2008



THE GOODWOOD FUND
2008 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2008, The Goodwood Fund's (the "Fund") "A" unit net asset value ("NAV") per share decreased by **(45.3)%** while the "B" units decreased by **(45.4)%.** The S&P/TSX Composite Total Return Index ("TRIN") decreased by (33.0)% in the same period.

From October 31, 1996 (the commencement of the Fund's public operations) through to December 31, 2008, the Fund has returned **11.5%** per annum net (after all fees) versus the TRIN's per annum return of 6.0%. *

No distributions were paid on December 31, 2008.

The Fund's 2008 audited financial statements are attached for your review.

During 2008 (based on month end figures), the Fund averaged a **98.9%** 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 **112.9%** invested, composed of **89.6%** long and **23.3%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **66.3%**. At the other extreme, the Fund was **82.8%** invested – **71.3%** long and **11.5%** short for a net market exposure of **59.8%**.

Separately and, in the spirit of doing right by our many loyal unitholders, we are announcing here that we will forego any claim to future performance fees until we have surpassed the January 1, 2007 valuation (i.e., the Funds' one year high water mark forgiveness feature, as noted in our Offering Memorandum, is suspended). This is clearly the correct action to take.

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.

2008 - The year of the Rat

According to the Chinese calendar, 2008 was the year of the Rat. How appropriate. Amongst the many characteristics attributed to Rats are: alertness, cowardliness, quickness, slyness, ambition, and smarts. Ancient Chinese would not go on a ship without rats because that's not normal. When rats run away from a building, humans should run and leave too. According to Chinese folklore, the God of Heaven once wanted to choose 12 animal names as the sequence of the Chinese calendar. He decided to hold an animal race to determine the order. As the date of the race approached, Cat forgot the time and asked Rat the schedule. Alert Rat gave the wrong time on purpose and went on to win the race (that's why the calendar starts with the year of the Rat). Over-trusting and double-crossed Cat missed the race and swore to kill the Rat. That's why Cats always chase Rats.

In general, it is clear we should observe what the Rat is doing rather than listening to what the Rat is saying. It is now obvious that a good chunk of the US mortgage securitization chain of production may have been occupied by human versions of Rats. From origination through to packaging and selling, that business appears to have been the domain of Rat-like finance people. It also appears that the regulators of financial institutions and rating agencies have been Cat-like … far too trusting.

The consequences of the above have been no less startling and awesome in scope than having led to the demise of some of the largest and longest-standing financial institutions in the World. Presumably however, the Rats escaped these sinking ships in time (think senior executives at some of the mortgage origination shops who have moved on now to raise capital targeting distressed subprime mortgages). The collateral damage to the economy will likely be felt for some time to come, a fact that stocks have been firmly discounting as the broad market averages have collapsed by percentages not seen in many decades.

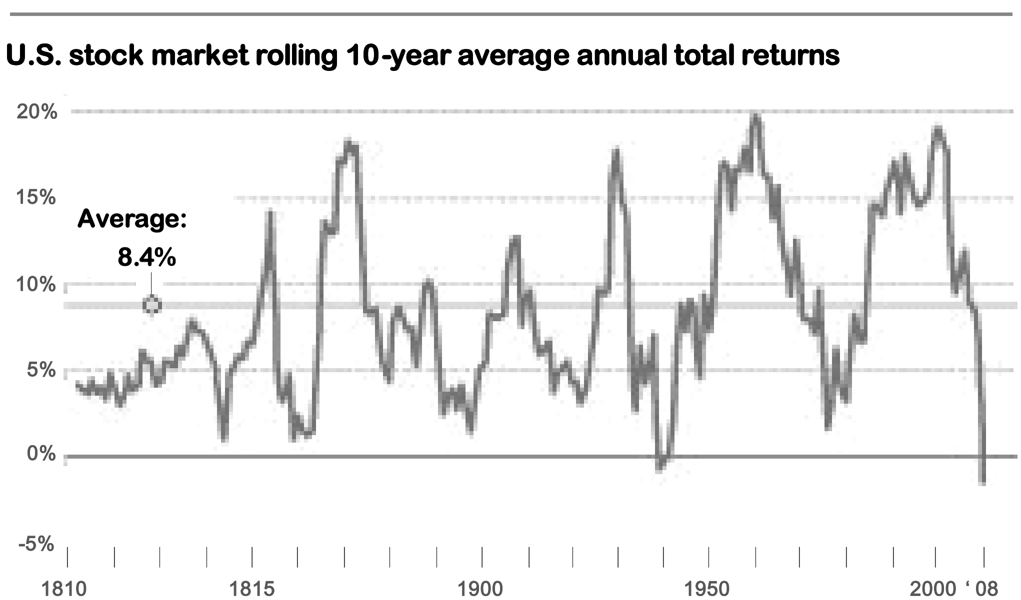
The Goodwood Fund's adherence to a net long strategy, in retrospect, was destined to put us in company with the Cat in the above fable. However, unlike the Cat fable, we get to race each year and it is the cumulative effect of our performance over many years that matters most for our long term investors. And, from an earnings/operational point of view, our core holdings performed admirably – it's just their share prices that didn't.

We may find some respite in 2009, the year of the Ox. According to one source, "As we use this great creature long ago to plow the soil day after day, so do Ox people labor through their daily responsibilities either at work or at home without complaint or gripe. Oxen know they will succeed through hard work and sustained effort and find no truth or benefit in concocting get rich-quick schemes (www.herongyang.com/2009/)." This sounds quite a bit removed from Rat-like activities.

Startling Statistics

In part to defend the dismal recent results of the Goodwood Fund and in part to gain some perspective on the immense opportunity that may now exist, we need to put into context just how bad a period, from a stock market perspective, 2008 (and early 2009) has been.

The extent of the North American market sell-off that has occurred has no comparison (the Dow Jones Industrial Average ("DJIA") is down 53.8% and the S&P 500 Index is down 56.8% from their 2007 peaks to their March, 2009 lows) save the 1973/74 bear market (DJIA down 45.1%), the 1937/38 correction (DJIA down 49.1%) and the 1929/32 market capitulation (DJIA down 89.2%). These are the four worst US stock market performances in modern history. In fact, the speed of the correction this time around has actually made for a wosre-than-1930's performance on what is arguably the single most visually-impactful and insightful chart - that of the rolling ten year returns of US stocks as follows:



THE GLOBE AND MAIL SOURCE: GLOBAL FINANCIAL DATA

Globe Investor Magazine Online, February 20, 2009: Thane Stenner, Managing Director GMP Private Client L.P

The message implicit in this chart should not be lost on long term investors. Ignore the macro-economic news and focus on buying high-quality, well-financed businesses that will continue to grow and produce earnings and free cash flow. Over the long haul (and usually the short and intermediate term except when fear of the future takes hold as it has now), stock prices follow the underlying businesses' progression of earnings and free cash flow production. This chart is telling long term investors that there is very likely a multi-generational opportunity available in stocks today (which, is not to say that a definitive bottom in share prices has been reached already … who knows when that happens?).

Long term equity investors should also take much comfort in the large differential between "earnings yield" (which is the inverse of the P/E multiple so a 5X P/E multiple is equal to a 20% earnings yield. Earnings yield and our oft-mentioned "free cash flow yield' are very similar) and government bond yields especially as the latter have dropped to historically low levels on the back of an en masse flight to safety. Even the most pessimistic forecasts of 2009 earnings for the S&P 500 Index constituents results in an earnings yield well above the paltry yields available in government instruments. Historically, that sort of a gap in yields has been a positive indicator for future share price performance and for those companies that pay out their earnings in dividends shareholders are being well compensated in cash. In effect, ubiquitously large earnings yields (relative to government bonds) available in well-financed, solid, publicly-traded businesses will attract capital (especially when fear levels subside). If an investor has confidence in the future earnings levels of a company currently trading at a 20% earnings yield (or 5X earnings of which there are many in today's market) then that investor is planning on earning roughly 8X what he or she would earn by holding a Government of Canada 10 year bond (and, would likely have much better inflation protection than the Government bond holder should inflation return).

Other historically-significant, top-down factors support a bullish outlook on equity prices. For example, the net result of the flight to safety trend is a huge jump in the amount of cash invested in bank accounts, treasury bills, certificates of deposit, guaranteed investment accounts, money market mutual funds, etc. In short, all the categories of cash. As at December 31, 2008, an estimated US$8.85 trillion was sitting in bank deposits and money market funds which equates to roughly 104% of the market value of all stocks on the New York Stock Exchange as of March 9, 2009 (the lowest market level so far in 2009). Past equity market bottoms have been heralded by similarly high cash to equity market values, e.g., 120% in 1974, 95% in 1982 and, 75% in 1990. Some (not all) of this cash along with the meaningful cash held by most hedge fund and mutual fund managers (including the roughly 28% cash position of yours truly), is likely to be redeployed back into equities when people feel less fearful and thus acts as a significant source of future buying power.

Other contrarian sources of inspiration can be found in the incredibly-elevated and sustained pessimism in both the general media (note the Time Magazine March 9, 2009 issue cover entitled "Holding on For Dear Life – The Economy and You: A Special Report" … how many times have you seen references to this being the next Great Depression?) as well as investor-specific measures and, the historical negative correlation between stock market bottoms and large redemptions from equity mutual funds (this time around hedge fund redemptions were also a factor). On this latter point, note that US equity mutual fund net redemptions in 2008 were US$153.5 billion of which US$82.6 billion occurred in the final quarter of the year. And US hedge funds were estimated to have US$512 billion of net redemptions and fund liquidations during 2008. Clearly, redemptions and negative stock market results act in unison and are self-fulfilling - i.e., the fund managers have to raise cash by selling down holdings to meet redemptions which causes stocks to fall further which causes greater redemptions, and on and on.

This self-perpetuating negative flow is felt most harshly in small and medium capitalization stocks which, is the space that the Goodwood Fund has been most heavily invested due to their superior long term growth outlooks and generally much cheaper valuations relative to large capitalization stocks. For small and mid cap stocks, liquidity, or the lack thereof due to massive redemption-driven fund selling, has an even more profound impact. So, while we were justified in believing we were getting a bargain in buying a promising small cap business trading at 7X earnings in an environment of large cap stocks trading at 18X earnings, the bargain has become even more pronounced with our holdings now trading at 3X-5X earnings while large caps are at 9X to 15X. Of course, at some point the cycle reverses and begins to perform just as powerfully in an upward motion.

None of the above is intended to belittle what is clearly a major deleveraging underway. It's just that, we continue to believe our long term results (the Goodwood Fund's life-of-fund net return is roughly twice that of the S&P/TSX Index total return) will be maximized by not trying to time the market but rather focusing on bottom-up, company-specific facts and trusting that, over the long run, a Company's production of earnings and free cash flow will dictate our investment returns. Again, we have no idea when this period of severe valuation compression will end but history tells us that at some point it will. History also tells us to be positioned in companies that will continue to prosper going forward. This will eventually lead us to win both on underlying growth of business value and likely on valuation multiples creeping or even bouncing higher over time.

<u>"Look Through" Operational Performance Much Better than Share Price Performance</u>

The most notable take away from the following position overview has to be the stark difference between 2008 share price performance and underlying 2008 operational performance. For example, during 2008 Pet Valu's stock declined by 29.3% while its book value per share grew by an estimated 38.1%. In effect, using price to book value metrics, Pet Valu stock became 49% cheaper. While we generally expect continued operational success from these companies over the next year, we are mindful of the significant macroeconomic pressures that exist. On balance though, we think very substantial returns are available and, given the current backdrop of extremely negative investor psychology, it would not take much in our opinion to cause a meaningful bounce in these share prices.

ATS Automation Tooling Systems Inc. ("ATS"), $3.59, 15.3% weighting

- Under new CEO (who we helped bring in immediately subsequent to our successful October 2007 proxy contest), Anthony Caputo, ATS' operational performance has improved markedly. The last three quarters, the most recent being the December 31, 2008 quarter end, have seen earnings per share well ahead of analysts' consensus expectations ($0.20 per share from continuing operations for the December 31, 2008 quarter versus consensus of $0.13).

- We believe ATS is now running at $0.80 of annual earnings per share and with just over $1.00 of net cash per share. So, net of net cash, investors are paying just 3.2X what we think is the current annual run rate on earnings per share. The 34% higher year over year backlog acts as a cushion against possible weakness in new order inflows during the current economic environment. As well, a focus on healthcare and alternative energy customers should continue to pay dividends in the form of more automation orders going forward as these sectors have a good chance of continuing to grow in the current economic environment.

- Caputo's past experience in acquiring various and numerous businesses for L-3 Communications Canada bodes well for ATS' acquisition strategy going forward. Opportunities exist to acquire products and skill sets that will further vertically integrate ATS' core automation business offerings - in effect, "bundling" more products and services for clients thus generating higher revenues per project and greater margins (we liken it to what Rogers Communications has done so well here in Ontario, the customer is saving money by buying all their services, cable, home phone, internet, cell phone through Rogers but Rogers is making a great deal more money per customer now). Between selective, intelligent acquisitions and a sharp focus on controlling cost variables, Caputo and his team, we think, will continue to grow ATS through this economic cycle and continue to make a mockery of analysts' earnings forecasts (since Caputo took over as CEO, analysts' earnings forecasts have been well below actual results).

- Photowatt Technologies ("Photowatt"), ATS' France-based vertically integrated solar manufacturer, has made substantial improvements in profitability. EBITDA margins for the quarter ended December 31, 2008 were 15.3% versus negative EBITDA in the year ago period. While the solar space has become much more competitive over the last few months, Photowatt is well positioned to continue to prosper for the following reasons: France has only recently introduced substantial solar incentives (November 2008) and so the French domestic market is likely to show substantial growth over the next few years and Photowatt, being the largest French manufacturer, is likely to capture a decent percentage of this growth; As a smaller manufacturer, Photowatt is more capable of adjusting rapidly to the changing industry conditions and has not got the liability of a huge overhang of higher-priced silicon inventory to work through (approximately 72% of Photowatt's production in the December 31, 2008 quarter was derived from metallurgical silicon); A significant portion of Photowatt's revenues come from sales of module systems (28.2% of total Photowatt revenues in the quarter ended December 31, 2008) and this business of selling complete systems (modules combined with installation kits, solar power system design and/or other value-added services) offers additional stability during this correction phase in solar manufacturing; Finally, the Lab-Fab/PV Alliance (recall these are partnerships between Photowatt, the French Nuclear Agency, Electricite de France and the French Government) offer Photowatt cost-effective access to top notch industrial research into the next generation of solar cells and manufacturing techniques (and, to the extent manufacturing activity springs out of these efforts, Photowatt will be the greatest beneficiary). We continue to expect some sort of monetization event concerning ATS' ownership of Photowatt when it makes sense.

Pet Valu, Inc. ("Pet Valu"), $10.61, 13.3% weighting

- In the face of carnage in retailing generally, Pet Valu turned in a record performance in 2008. Excluding non-comparable items and losses on foreign exchange, Pet Valu earned

C$1.82 per share, an improvement of 47% over 2007. Comparable store sales increased by 5.5% in Canada (Canadian stores account for over 80% of system-wide sales), and by 8.4% in the US. The company continues to successfully execute its "reniching" and inventory investment strategy, shifting its products to higher-margin, high-quality differentiated pet products that feature a wellness-focused approach to pet nutrition. Clearly the strategy is working.

- The demographics of the pet supply industry are very strong. As baby boomers age and their children leave the nest, more and more are turning to pets for companionship. In addition to the pet population growing, pet owners are spending more per capita on their pets. Pet Valu's strategy is to emphasize the convenience of their locations, the knowledge of their staff, and the quality and wellness focus of their products and this strategy is clearly in sync with the prevailing demographic trends.

- Pet Valu has a rock solid balance sheet and significant free cash flow and, based on the trailing 12-month period ending December 2008, its stock is trading at an attractive P/E ratio of under 6X. As well, we believe there is considerable opportunity to grow the Pet Valu franchise moving forward.

- In its March 23, 2009 earnings release, Pet Valu indicated it had an ongoing review of alternatives to enhance shareholder value with the advice and assistance of its financial advisor, TD Securities Inc., and its legal advisors.

Cenveo, Inc. ("Cenveo"), US$3.25, 4.1% weighting

- Our long held thesis on Cenveo has been that we were getting a best-in-class management team operating in a very fragmented industry. Bob Burton's extensive experience, focus on cost control, and track record of making and integrating acquisitions would combine to create substantial shareholder value, as it has at every company Bob has operated in his 30+ year career. While the road to glory has not been as smooth as we would have liked (i.e., with the benefit of hindsight and, at a significant profit, we should have sold even more stock above US$18 per share than we did) we continue to believe we will earn high returns. Especially from the current, very depressed share price level.

- The printing industry experienced a difficult year in 2008, especially in the final three months, as businesses dramatically cut back spending on print related products. Despite this, Cenveo delivered over US$280MM of EBITDA, within 5% of the guidance they gave investors in October 2007. Free cash flow guidance of US$130MM was handily exceeded at US$160MM. The combination of past acquisitions in less economically sensitive niches of printing (e.g., packaging and scientific journals), the removal of an additional US$25MM of costs early in 2008, and a laser sharp focus on the business positioned Cenveo to post these strong results. Given the unprecedented environment, this is a remarkable achievement.

- Despite these strong results, the multiple contraction in the printing industry, continual profit warnings from other printing companies, the high hedge fund ownership level in Cenveo's stock combined with large hedge fund redemptions and, concerns over Cenveo's debt levels all conspired to decimate Cenveo's share price. At current levels and based on our expectations for 2009, Cenveo is trading at a free cash flow yield of greater than 55% and a P/E ratio of under 3X and has no debt maturing until 2012.

- We believe that a thawing of corporate credit markets and/or improvement in the economic outlook will have a significant positive impact on Cenveo's share price. In addition, Cenveo is one of only a very few printing businesses in North America with access to capital to execute acquisitions. We believe that Cenveo is well positioned in 2009 to execute high quality acquisitions that complement the Company's platform, are highly accretive to earnings, and can be done at distressed, inexpensive valuations (e.g., 3-4X EBITDA pre-synergies, 1-2X post). These sorts of acquisitions will effectively allow Cenveo to simultaneously grow its revenue and earnings and, deleverage its balance sheet. When combined with expected relief on financial covenant terms, we think the foregoing will be very positively received. The continued insider buying by several Board members and executives as recently as December, 2008, gives us added confidence that the business is on track.

Fortis Inc. ("Fortis"), $22.14, 4.1% weighting

- Fortis is one of the largest distribution utilities in Canada with more than 2 million gas and electricity customers. Its regulated holdings include Terasen Gas in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. It also owns non-regulated hydro-electric generating assets in Canada, Upper New York State and Belize.

- Fortis pays an annual dividend on its common shares of $1.04 which gives it an approximate 4.8% dividend yield at its current share price.

- Having just completed an approximate $300 million equity capital raise in December, 2008 at $25.65 per share, the stock came under some selling pressure and now sells for 14% less than that issue price (also the equity issue was done at a discount to the then trading price).

- The recent National Energy Board decision, concerning the TQM Pipeline, to significantly increase allowed return on equity for that project (by roughly 300 basis points) may mean that provincial utility regulators will follow suit and allow for higher returns on equity for their operators (so that the capital raising playing field is level). This would be very good for Fortis' collection of assets.

- We think there is a near term, low risk opportunity to earn 20% to 30% upside plus collect some dividends along the way. Utility earnings growth comes largely from allowed capital expenditures and, in that regard, Fortis has an attractive outlook with approximately $4.5 billion of capital expenditures planned over the next five years.

Agilysys, Inc. ("Agilysys"), US$4.30, 3.8% weighting

- Agilysys is a leading provider of innovative IT solutions to corporate and public-sector customers with special expertise in the retail and hospitality markets and trailing twelve month revenue ending December, 2008 of US$776 million. The gem of this business is its Hospitality solutions group, a proprietary software based business with approximately US$100 million of revenue which sells systems that support casinos, hotels, resorts, and stadiums.

- The company trades for a market capitalization of approximately US$100 million, and has US$72 million of net cash on hand. Thus, we are currently paying approximately US$28 million for the entire US$776 million in revenues business (NB: in November, 2008 Agilysys stock traded below its net cash balance).

- After an unsuccessful sales process in 2008 (we believe it was unsuccessful primarily due to credit market conditions as the process stretched into the September/October time frame), the company replaced the CEO and proceeded to cut US$25 million out of its cost base. A recent proxy contest resulted in the replacement of two members of the Board; a development that we believe is a significant positive.

- The new CEO has hit the ground running. For the third quarter ending December 31, 2008, Agilysys produced strong results in a difficult environment. Adjusted EBITDA of US$18.1 million exceeded guidance of approximately US$10 million, and guidance for the fiscal year ending March 31, 2009 was raised.

- We believe that the replacement of the CEO, new operating leadership, a rejuvenated Board and a sharper focus on the business and costs will produce improved results moving forward. At the current share price, Agilysys is trading at approximately 1x 2009E EBITDA (March 31, 2009 fiscal year end). We believe Agilysys' "sum-of-the-parts" valuation is worth significantly more than its current enterprise value. In fact, we believe the Hospitality group alone is worth several multiples of the current enterprise value, and so, in our opinion, an investor in Agilysys stock is being paid to own or is receiving for a negative cost the technology solutions business (US$680 million of TTM revenue).

- As Agilysys executes further cost reductions and delivers results, we believe that the share price will respond accordingly.

Tundra Semiconductor Corporation (“Tundra”), $4.45, 3.3% weighting

- Tundra is a Canadian-based technology company, specializing in designing, developing and marketing advanced interconnect solutions for embedded computer systems. With trailing twelve month revenue through December, 2008 of approximately $69 million, Tundra is a bit player in the semiconductor industry but with good technology and high quality products.

- As a result of the market meltdown Tundra shares were down 36% in 2008, giving Goodwood an optimal entry point - the average cost of our position is $3.00 per share. Given that Tundra has approximately $3.28 per share of net cash on its balance sheet, an owned building we believe is worth approximately $10MM ($.52 per share), and is generating $5-7MM of free cash flow per year, we were effectively getting the business at negative enterprise value.

- Apparently we were not the only ones to see value. On March 19, 2009, Gennum Corporation announced a friendly agreement to acquire Tundra at a value of $86 million, or $4.43 per share in cash and shares. Obviously, our average cost and Gennum’s opportunistic takeover offer are extremely cheap, and it will be interesting to see how the final chapter of this story plays out.

ShawCor Limited (“ShawCor”), $19.37, 3.3% weighting

- ShawCor is enjoying a very strong back half of 2008/first half of 2009 having just reported earnings per share from continuing operations of $0.80 for the December 31, 2008 quarter. But, the second half of 2009 may present a different picture based on known work load at this time. However, massive investments in new pipelines are continuing around the World and this bodes well for ShawCor’s long term outlook and argues for largely ignoring quarterly fluctuations in results.

- We are big fans of ShawCor and its leading industry position as the World’s largest pipeline/pipe services company with operations in 20 countries. This position has been built on strong management execution and technological innovation. Further, the balance sheet is clean and strong and should allow ShawCor to make accretive acquisitions during these turbulent times while some competitors are facing financial difficulties.

- Should the stock weaken, perhaps in the face of uninspiring second half results, we would likely take our position higher as the upside would be large and the downside limited by the high quality nature of the business and the tsunami of long term projects on the design table.

- At some point, we would not be surprised to see the Shaw family seek to maximize shareholder value in a monetization event and we believe many of the World’s leading oil field services companies would have an interest in acquiring ShawCor.

The Westaim Corporation ("Westaim"), $0.265, 3.2% weighting

- Our average cost per Westaim share is below $0.24 while the Company's book value per share is approximately $0.53 and is heavily composed of cash. Westaim is one of the stocks trading below net cash that we have become so interested in (more on net cash plays later).

- Westaim's stock actually held in relatively well during 2008 but had become orphaned previous to 2008 when its major technology bet failed. Hence, the stock drifted below net cash per share. The situation was further muddied with the botched attempt to merge with a Western Canadian-based construction company just before the oil and gas industry turned sour in late 2008 (the proposed deal was subsequently aborted).

- We are looking forward to working with the Board of Westaim (of which we are members) in finding opportunistic situations in which to invest Westaim's capital and grow shareholders' equity at a meaningful pace. There are high-return transactions that can be pursued in a concentrated manner through Westaim given its capital base is permanent. Ultimately, the shareholders of Westaim and the unitholders of the Goodwood Funds will best be served by maximizing Westaim's non-cash holdings (in particular, its tax loss carry forwards and 75% interest in Nucryst Pharmaceuticals) and finding new avenues of long-term, profitable growth.

The Jean Coutu Group Inc. ("Jean Coutu"), $7.59, 2.8% weighting

- The Board of Jean Coutu has now overseen the buyback and cancellation of roughly 20% of the public float, taking the Coutu family's ownership to approximately 53% of the common equity (more on a voting basis through their ownership of all of the multiple voting shares). In summary, they have purchased 25,983,800 subordinate voting shares since and including fiscal 2008 at an average cost of $10.32 per share (36% above the current share price).

- Well-positioned, strong drug store chains have superb economics and that is even all the more true in the province of Quebec where the best operating results are on display. The Quebec industry for sure is getting more competitive (e.g., witness the recent acquisition of Uniprix Inc. by US pharmaceutical distributor McKesson) but Jean Coutu has great locations (accumulated over many years), and the advantage of strong consumer and brand awareness.

- Drug store chains in North America stand to benefit from the ageing of the population resulting in much greater prescriptions per capita per annum and, these businesses have far less economic sensitivity than other retailers.

- We would not be surprised if the aggressive share buybacks are a precursor to an eventual sale of the business and we suspect such a transaction could be at a significant premium to the current share price.

- A Jean Coutu shareholder owns roughly one share of Rite Aid Corporation for every Jean Coutu share held (Rite Aid stock currently trading for US$0.46). To the extent that Rite Aid can avoid a balance sheet restructuring, there is further upside in Jean Coutu stock due to its owned Rite Aid shares. Most importantly, the Rite Aid debt is non-recourse to Jean Coutu.

BFI Canada Ltd. ("BFI"), $9.36, 2.8% weighting

- At approximately $1.2 billion in annual revenues, BFI is the third largest publicly-traded solid waste services company in North America. The other two larger companies, Waste Management and Republic Services Group, are considerably larger ($12.4 and $8.7 billion of annual revenues respectively) and may be bumping up against regulatory issues in making further acquisitions. This leaves room for BFI to continue to make accretive acquisitions in what is still a fragmented industry (of the estimated US$70 billion of total industry revenues in North America, the top four control just US$20 billion).

- This industry tends to be economically resilient and generate high returns on invested capital.

- BFI targets high-density urban or exclusive markets where it can lead with vertically-integrated assets (i.e., collection, transfer, recycling and landfill assets) which allow for greater economies of scale and better operating margins. BFI serves more than 1.8 million customers in five provinces and ten states.

- BFI stock has suffered not just from the bear market in general but as well from the Company's transition in late 2008 from an income trust to a regular corporate entity and due to concerns about the Company's debt covenants. It will take some time for the recycling of income trust owners to shareholders but the debt concerns have been nipped in the bud as a result of the March 2009 $93 million equity financing.

- With the equity deal out of the way and a 17% free cash flow yield at our cost (of which a $0.50 per share regular dividend and a $0.50 special dividend are being paid out) we believe there is an opportunity for the shares to trade higher in the short-to-intermediate term.

Catalyst Paper Corporation, Senior Notes, 8.625%, June 15 of 2011 (“Catalyst Notes”), US$0.4625 per US$1 of face value, 2.7% weighting

- Catalyst is the largest producer of specialty printing papers and newsprint in Western North America, produces market kraft pulp and owns Western Canada’s largest paper recycling facility. The Company’s six mills have a combined annual production capacity of 2.5 million tones. In an industry facing Armageddon-level problems, Catalyst possesses one of the better collection of assets (and, thus one of the lowest cost assets) and is managed by a very cost-conscious and realistic senior management team.

- However, barring a sharp improvement in operating results over the next year plus, Catalyst will have to do something about its two Senior Note issues outstanding (we own the one with the nearest maturity and the largest size but they share the same security and there is debt that ranks ahead of the Notes). At this stage, it looks likely that these Notes will become the new equity and perhaps offer substantial upside with a less burdensome balance sheet should the industry find a floor. In the meantime, we continue to collect cash interest payments every six months which, based on our average cost equates to a 15%+ annual running yield.

AGF Management Limited (“AGF”), $8.24, 2.6% weighting

- In terms of the large Canadian mutual fund operators, AGF shareholders have suffered the most over the last year. The Company has exposure to both equity markets and to non-bank mortgage lending through its 100%-owned AGF Trust. Of particular concern has been AGF Trust’s lending to clients of mutual fund dealers who have used the loans to purchase now-much-depreciated-in-value mutual fund units (we are comfortable that these loans will not harm AGF Trust in a material way for a variety of reasons).

- Reflecting these concerns, the stock trades with a roughly 12% dividend yield but the longevity of this dividend payment is questionable. AGF now trades for the lowest multiple of EBITDA of any of the Canadian major mutual fund managers at just 4.5X estimated calendar 2009 EBITDA (versus the comparables in the 6X+ range).

- Our long position, which we would characterize more as a trade than a long term investment, will generate greater profits than already earned if the overall stock market stabilizes or has a bounce and it should be noted that AGF continues to generate meaningful free cash flow even at current levels of assets under management (in fact, counter-intuitively, near term free cash flow is augmented by the lack of new mutual fund sales as there is less of an upfront commission cost for AGF to finance). If we became more comfortable that a base has been formed in its business, we would consider taking the position higher. In a sale (which we do not expect near term), AGF would be able to capture a significantly higher valuation given its brand awareness and solid reputation in the Canadian marketplace and as there would be substantial synergies available for the acquiring operator.

The Great Atlantic & Pacific Tea Company, Inc. ("A&P"), US$5.31, 2.6% weighting

- A&P transformed its business with the December 2007 acquisition of Pathmark Stores, Inc. ("Pathmark"), making A&P the market share leader in northeastern US supermarket industry. We believe the synergies of this acquisition, along with improvements underway in A&P's core business and those planned at Pathmark will result in A&P becoming a very attractive acquisition candidate for the other national supermarket players (Kroger, Safeway, Super Valu and Delhaize). None of these companies have a presence in the northeastern US, and we believe A&P represents the best opportunity for any of them to enter this market.

- On January 8, 2009 A&P reported results that exceeded analyst expectations, resulting in the share price rising by 26%. The core A&P business is performing well in a difficult economic environment - comparable store sales increase of 1.9%, with significantly increased earnings. While experiencing some integration issues with Pathmark in 2008, these issues have been largely resolved and the US$150MM of synergies expected from the transaction will be achieved ahead of schedule. A&P expects to be free cash flow positive in Q4 2008 and moving forward.

- We believe that as A&P captures the synergies of this transaction, demonstrates their ability to grow the core A&P/Pathmark business, and begins generating free cash flow to reduce debt, they will be rewarded. A takeover of this company remains likely as we move through 2009/2010, at a significant premium due to the scarcity of the assets, low valuation multiple currently (approximately 5X F2009E EBITDA), and synergies that would accrue to any strategic acquirer. Backing this up, Tengelmann, A&P's largest shareholder, purchased over 1.9 million shares in the open market from July – November 2008 at an average cost of US$12.42 (vs. a current share price of US$5.31), raising their ownership in the company to approximately 50%.

Gaiam, Inc. ("Gaiam"), US$3.28, 2.0% weighting

- Despite challenges, Gaiam has continued to execute its business well, especially through the final months of 2008. In the first six months of 2008, Gaiam grew its core domestic retail sales by over 30% organically, while at the same time continuing to invest in its community subscription business. As retail sales slowed in the final two quarters of the year, Gaiam used its very strong balance sheet and market leading position to expand its reach, increasing its "store-within-a-store" retail presence by 30%. As a result of this aggressive expansion and despite the extremely difficult retail environment for consumer related companies, Gaiam expects to produce record revenue in 2009.

- In addition to its focus on revenue, Gaiam reduced costs by over US$8 million in late 2008 and early 2009. This positions the company to deliver on its guidance of over US$20 million of free cash flow for this fiscal year.

- By any measure, Gaiam is extraordinarily cheap. At a share price of US$3.28, Gaiam has a market capitalization of US$78 million. With approximately US$30 million of cash and no debt, US$20 million of shares in its publicly traded Real Goods Solar subsidiary, and owned real estate of US$15 million, we are effectively paying less than US$15 million for free cash flow of over US$20 million (NB: this does not take into account non-cash working capital of US$45 million, or US$1.88 per share).

- We believe that as the economy stabilizes, Gaiam's focus on health, fitness and green living will continue to resonate with consumers. And, cost reductions in the community and catalog business will help improve cash flow. Should liquidity return to smaller capitalization stocks, we believe Gaiam's share price will react quite positively. Supporting our outlook is that, since reporting its year end results on March 9, 2009, the Company has repurchased almost 1 million shares or roughly 4% of the public float.

Three Areas of Opportunity

We have narrowed our focus to three areas that we consider the most promising going forward and the best fit for the Goodwood Fund.

The first area is really just a re-emphasis of our historical focus. That being equity ownership of the highest quality businesses that we can find available at the most inexpensive prices. Our definition of quality includes: the presence of high barriers to entry, promising growth outlook, strong management, significant cash generation/high free cash flow yield, highest return on equity (preferably without excessive leverage … over the long run, return on equity and share price performance are well-correlated). In this category we find many of the positions that you are already familiar with. As well, we have a number of new companies that fit this bill that we have either already started to buy or are planning to invest in. Obviously, the low tide of valuations has left some very good businesses trading for prices that seem unrealistically low to us (many of these businesses have little-to-no economic sensitivity). This area is and will likely continue to be the largest component of the Fund's holdings. Our percentage allocation to this core strategy of the Goodwood Fund will partly be a function of the number of opportunities available in corporate bonds (see next paragraph) but currently we expect 50% to 60% of our long holdings to continue to be in high quality and "high opportunity" common stocks.

The second area of great interest to us is in corporate bonds. This credit crisis and extreme risk aversion has decimated corporate bond prices. When matched with the afore-mentioned flight to safety in government paper, the result is the largest credit spreads ever seen - even more substantial than the estimated credit spreads of the Great Depression of the 1930's. We are seeing an enormous number of opportunities in convertible instruments for which, in many cases, the conversion price is so far "out of the money" that the conversion feature is of little value prior to maturity and so the bond is trading strictly on its yield metrics. Currently, we expect to allocate more than 30% of the Fund's capital to a diverse collection of corporate bonds with estimated total returns (interest plus accretion to face value at maturity) in the 12% to 30% range. Should the equity markets stabilize or bounce back we would expect a coincident rally in these corporate bond prices which might give us the chance to earn a greater short term return than the yield to maturity would indicate. In essence, the intent here is to earn equity-like returns with less risk than that of the underlying equity.

The third and final area is that of stocks trading below, at or slightly above net cash. In a repeat of what happened in the 1930's there are a large number of stocks trading below net net working capital (our most recent screen showed up well over 1,000 companies trading for less than 120% of net cash between the Canadian and US exchanges). The bulk of these have too many issues to be of any real interest (e.g., their operations are burning too much cash or they have contingent liabilities or future capital commitments that they cannot meet, etc.). However some are fascinatingly cheap. How can a rational investor not be intrigued in acquiring a stock below the value of its net cash and receiving the underlying business for free (in fact, being paid to own the business)? We believe the bulk of this is due to an absence of liquidity more than investors' opinion of the future of the underlying business. We expect to bring our activist skills to this subset of opportunities as many are ripe for value-surfacing action.

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, 2009

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
2008 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2008, The Goodwood Capital Fund (the "Capital Fund") decreased **(46.0)%.** The S&P/TSX Composite Total Return Index ("TRIN") decreased (33.0)% in the same period. The S&P 500 Index declined (37.0)%.

From December 23, 1999 (the commencement of the Fund's operations) through to December 31, 2008, the Capital Fund has returned **2.75%** per annum net versus the TRIN's per annum increase of 2.82%. *

No distributions were paid on December 31, 2008. The Capital Fund's NAV per unit at this date amounted to **$10.3046.**

The Capital Fund's 2008 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
Chairman & Chief Investment Officer
Goodwood Inc.

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

March 31, 2009

* 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

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

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