GOODWOOD INC.

THE

GOODWOOD

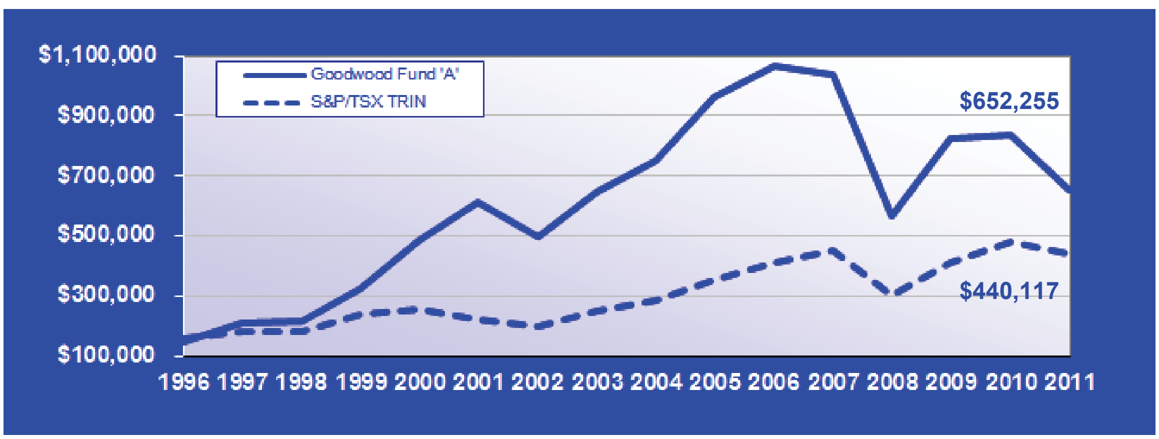
FUNDS

2011 Annual Report
Sixteenth Edition

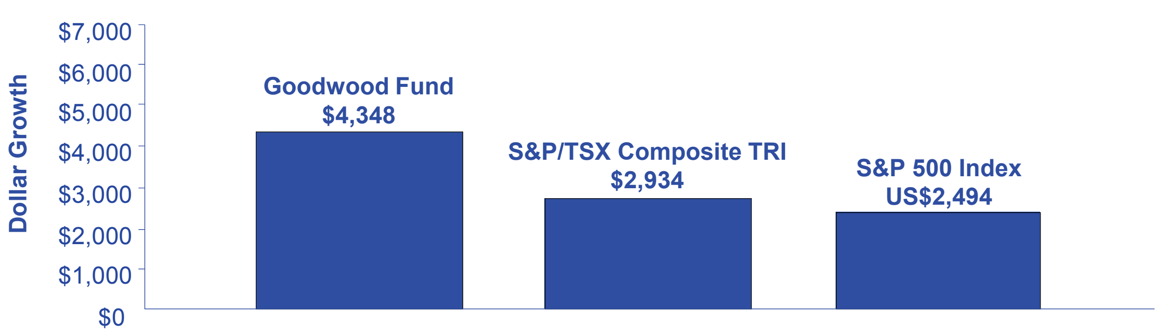
Goodwood Fund "A" Year-Over-Year Returns

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%
December 31, 2009		823,683	45.6%
December 31, 2010		833,979	1.3%
December 31, 2011		652,255	-21.8%

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



Goodwood Fund "A"
Value of $1,000 Invested in October, 1996 net of fees to December 31, 2011



S&P/TSX Composite Total Return Index is a broad-based market capitalization weighted index of the largest, most widely held stocks traded on the Toronto Stock Exchange. The index includes reinvestment of dividends and capital gains.

S&P 500 Index measures the total return of the broader U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries and assumes reinvestment of dividends

TABLE OF CONTENTS

THE GOODWOOD FUND
2011 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2011, The Goodwood Fund's (the "Fund") net asset value ("NAV") per Class "A" units and Class "B" units decreased by **-21.8%.** The S&P/TSX Composite Total Return Index ("TRIN") decreased by -8.7% in the same period.

From October 31, 1996 (commencement of the offering of the Fund) through to December 31, 2011, the Fund has returned **+10.2%** per annum net (after all fees) versus the TRIN's per annum return of 7.4%.[*]

No distributions were paid on December 31, 2011.

The Fund's 2011 audited financial statements are attached for your review.

During 2011 (based on month end figures), the Fund averaged a **98.3%** 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 **106.5%** invested, composed of **83.0%** long and **23.5%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **59.5%**. At the other extreme, the Fund was **83.2%** invested, or **74.1%** long and **9.1%** short for a net market exposure of **65.0%**.

We have included a copy of the "Goodwood Philosophy" at the end of this letter which provides a detailed 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 applicable to the Fund and other important information. In addition, performance data represents past performance and is not necessarily indicative of future performance. The Annual Reports are not recommendations but rather commentaries of the Goodwood funds' holdings.

Comments on 2011, Early 2012 and Investment Focus

In 2011 the majority of the Fund's long holdings generated ongoing improvements in their fundamentals only to be rewarded with mostly declining share prices (we also had a few situations where the fundamentals deteriorated, more on that below). This disconnect between improving fundamentals and declining share prices mostly stemmed from major macro-economic issues such as renewed European sovereign debt concerns, worries of a Chinese economic "hard landing" and fears of U.S. political deadlock and the attendant negative impact on the financing of ongoing U.S. budget deficits (all of these being potential drags on worldwide economic growth rates). In this sort of an environment, fear is highly contagious and equity fund flows turn negative having a particularly undesirable impact on small capitalization stocks as they are more sensitive to general fund flows and investors' perception of future economic growth. On the impact of negative funds flows, note that, according to data compiled by Scotiabank and the Investment Funds Institute of Canada, Canadian equity funds have been in net redemptions since and including 2003. This includes an estimated $7.4 billion redeemed in 2008, $1.9 billion in 2009, $4.5 billion in 2010, $3.8 billion in 2011 and, $668 million in the two months ending February 2012.

However, in early October 2011, North American equity indices made their lows for the calendar year and have been moving steadily higher ever since (climbing one heck of a proverbial "wall of worry"). And, in the Goodwood Fund's case, we are now up +10.3% on the year-to-date (as of March 16, 2012) and would be up an additional +5.7% if we were to mark our position in AMP Solar Group secured convertible notes at the same price at which they expect to shortly conclude a significant equity financing from a deep-pocketed, third-party.

We continue to be very excited at the share price upside potential (in other words, the large discounts to our estimates of intrinsic value) of our core long holdings and continue to believe that we have the potential to materially outperform the Fund's benchmarks. And, in addition to watching for opportunities in our traditional deep value spectrum, we have been adding positions in "special situation yield" opportunities. These are securities which pay some form of income (can be dividend income or interest income) and are trading for relatively high running yields and/or yield to maturity. There are several benefits to these sorts of securities, namely: the annualized return potential of these situations is very good when compared to recent annualized equity returns (typical total return expectations are 15% plus per annum); the downside protection afforded by the large current income and a higher standing in the issuer's capital structure results in better performance in down markets (particularly in a mildly deflationary environment); and, unlike traditional equity funds, the institutional buyers of these sorts of securities continue to experience fund inflows. Again, according to Scotiabank and Investment Funds Institute of Canada, Canadian high yield fixed income funds experienced $3.3 billion of net inflow in 2009, $1.7 billion in 2010, $1.9 billion in 2011 and $665 million in the two months ending February 2012. Canadian balanced funds also continue to experience substantial net inflows. Our expectation is that the aging demographics and pervasively low interest rates of developed economies will conspire to continue the demand for yield-oriented funds thus providing constant buying demand.

Examples of "special situation yield" include the Fund's positions in: First Uranium Corporation 7% secured notes (the Fund was recently buying at the $66/$100 principal price level versus current price of $97.00), Cenveo, Inc. 7.875% of 2013 senior subordinated notes (recently purchased at approximately US$79.60 versus current price of approximately US$95.00), Capstone Infrastructure Corporation's $1.25 annual dividend series A preferred shares (recently purchased at an average cost of approximately $16.40 per share versus current market price of $17.75) and, Veresen Inc. $1 annual dividend common shares (with potential for future dividend increases, recently purchased for as little as $14.10 versus current market of $15.15). We are currently buying and/or researching a number of additional opportunities in this space (mostly fixed income instruments trading at large discounts to principal value) featuring the prospect of 20% plus annualized total returns.

Three noteworthy examples of long holdings where the fundamentals deteriorated and thus the share price declines were justified would be: Enablence Technologies Inc. ("Enablence"), Ram Power Corporation ("Ram") and Armtec Infrastructure Inc. ("Armtec"). In the case of Enablence, the Fund made purchases at an average cost of $0.37 per share and sold for an average of $0.23 per share (versus today's price of $0.04) but the impact on the Fund's NAV was more profound as the stock first ran up to $0.72 and the Fund was only able to sell a small amount at these elevated levels. In retrospect, while our faith in Tim Thorsteinson continues (Tim is Enablence's CEO and a fellow we know well with an unusually good track record of corporate success), clearly the inherent competitive difficulties for smaller/niche telecommunications equipment suppliers were underestimated by both us and Tim. The Fund's positions in Ram and Armtec were small but still stung. Armtec was sold but the Fund continues to hold positions in Ram as the issues that caused its sell-off have been rectified (including a punitive emergency equity financing) and we believe it now represents a likely takeover candidate at a materially higher price.

Some other items worth mentioning: during 2011 yours truly increased our collective investment in the Fund and, my partners and I expect/hope to be in a position to increase our collective investment periodically. Also, unitholders should note that the Goodwood Fund has tax loss carryforwards available to shelter future realized capital gains to the tune of approximately 33% of current Fund equity. Optimistically, we would like to have to use up these carryforwards in short order.

One final comment before turning to our position overview, in a recent Fortune magazine essay ("Why Stocks Beat Gold and Bonds", February 9, 2012), Warren Buffett explained with typical common sense clarity his views on gold. We sometimes have trouble explaining to people why we have never been big proponents of gold (though would not at all be surprised to see further gold price increases) but he has done it for us. We would encourage you to read the essay if for no other reason than to cast a new light on an oft-written-about metal.

Position Comments

ATS Automation Tolling Systems Inc. ("ATS")
ATS appears closer than ever to delivering on its promise. With the benefit of hindsight, it is clear that we were too early on ATS but it also appears that the original thesis is unfolding. The troublesome French solar manufacturing business, Photowatt France, has been completely divested through a bankruptcy procedure and the Ontario solar manufacturing and development assets are expected to be transacted any day now (and for a price that we think could be materially higher than consensus expectations). At the same time CEO Anthony Caputo and his team have delivered strong order backlog (a record-setting $376 million at the end of the January 1, 2012 third quarter, up 75% from the year ago amount), steadily improved margins and are poised to significantly ramp up accretive acquisitions in the fragmented automation services industry. With a strong balance sheet, $66.3 million of net cash or $0.75 per share as at January 1, 2012 (net cash will go higher post the sale of the Photowatt Ontario assets) and a capable, acquisition/integration-experienced management team, the story could draw in many investors who have heretofore avoided ATS in light of its poor historical performance and the delays in exiting the non-core solar assets. Mason Capital Management, LLC, whom we partnered with on the proxy contest to replace the ATS board in 2007, is still represented on the Board and has continued buying stock including an additional 4.17 million shares over the last 13 months taking their ownership to approximately 19.3%. We think this is a powerful signal from a long-tenured, sophisticated insider that ATS remains on track.

The key valuation drivers going forward are: what level of earnings margin and revenues will be achievable; how much capital will be deployed into acquisitions and at what valuation and pace; and, how will acquisitions be financed (existing cash and future equity issuances or will leverage be incurred)? The quarter ended January 1, 2012, when netting out unusual items, featured $20.5 million of EBITDA on $149.1 million of automation revenues or a 13.8% EBITDA margin (this factors in corporate/head office costs). But, as ATS gains economies of scale from its growing order backlog and future acquisitions, margins will likely pick up and the impact on possible future share values can be significant. For example, at a 16% EBITDA margin, $800 million of annual revenues, $15 million of depreciation/amortization, zero net interest expense, zero stock compensation expense, a 10X pre-tax earnings multiple, the current net cash level and say $1.00/share of Photowatt Ontario value, the resultant share price would be $15.40 or approximately 77% above the current price.

Great Canadian Gaming Corporation ("Great Canadian")
Great Canadian recently released disappointing fourth quarter 2011 (the quarter ending December 31, 2011) results with revenues of $95.7 million versus $97.2 million in the year ago period and EBITDA of $30.9 million versus $35 million in the year ago period. The weakness was due to weak results at its River Rock Casino Resort, the Boulevard Casino and its British Columbia "Racinos". The release of these results was followed shortly by news that Great Canadian's Ontario operations, Georgian Downs and Flamboro Downs, may be negatively impacted by the Ontario government's decision to modernize gaming in the province (79% of Georgian Down's $16.1 million in revenues is sourced from gaming while 68% of Flamboro Downs' $18.3 million in revenues is sourced from gaming). As a result of the above two releases

Great Canadian stock dropped from the high $8 range to as little as $7.50 and currently sits at $7.91.

However, we think investors should stay focused on Great Canadian's long term fundamentals and discount to intrinsic value. Our confidence stems from a variety of factors. The Company's B.C. assets (currently the majority of the Company's value) are next-to-impossible to replace (due to restrictions on the issuance of gaming licenses) and, generate significant returns over the long run on invested capital (aided in part by reimbursements on qualifying capital expenditures). Great Canadian stock is trading for approximately 6X EV/EBITDA which is well below what the Company would likely fetch in a sale. The passing of founder Ross McLeod, whose estate maintains ownership over approximately 9.9% of the Company, may provide a value-maximization catalyst. There has been significant insider buying (approximately $48 million purchased during 2011 by the family of the new CEO, Rod Baker) and material corporate share buybacks (approximately 1,479,600 million shares bought back since January 27, 2011). Also, the actions recently taken by the Ontario government, while at first blush appear negative, may end up creating new, more meaningful opportunities for Great Canadian in Ontario.

We remain comfortable with the position and believe a 50%+ move higher is possible over time. We also would not be surprised to see further meaningful share buybacks or other returns of capital to shareholders as conditions allow.

General Comments

The Westaim Corporation ("Westaim") – we are restricted in what we can say about Westaim given our management and Board roles – Scotiabank, Cormark Securities Inc., GMP Securities Ltd. and CIBC World Markets Inc. provide research coverage and have current target price ranges of $0.65 to $0.80 per share (currently trading at $0.61). The December 31, 2011 book value per share was $0.65.

Cenveo , Inc. ("Cenveo") – Cenveo is, in effect, a publicly-traded leveraged buyout with strong management (led by Bob Burton who continues to buy stock on a regular basis). As a heavily-leveraged enterprise the stock is very volatile however, as debt is paid down, the potential equity returns could be meaningful. In addition to the stock, we recently purchased the Cenveo 7.875% notes of 2013 (the "Notes") for an attractive 21.7% yield to maturity (at our cost). Both the stock and the Notes benefitted from Cenveo's strong December 2011 quarter results (and the guidance provided for 2012) and from the February 29, 2012 announcement that the Company intends to refinance its debt. As we write this annual report, Cenveo has experienced some difficulties in executing the refinancing on the originally-hoped-for terms. However, it appears probable that the Company will be able to refinance on an altered basis which will still be shareholder value accretive.

Webtech Wireless Inc. ("Webtech") – as we have representation on the Board of Directors of Webtech, we would simply point out that the analyst covering the stock has a target price of $0.60 per share versus current price of $0.30 per share. As well, note that on January 12, 2012 Webtech announced that it is reviewing all of its strategic options in regards to its NextBus business which we consider a good step towards value maximization and which we fully support.

Boralex Inc. ("Boralex") – While much improved from the lows of November 2011, Boralex's stock continues to trade for a meaningful discount to its Canadian renewable power comparables. Now that Boralex's portfolio is composed entirely of the multi-year contracted power purchase agreement variety (post the disposition of its U.S. wood reside business announced in December 2011), the only rationale for this valuation discrepancy is that Boralex does not pay a dividend while the comparables do. However, we are confident that the Board will be initiating dividend payments in the not-too-distant future and we see no reason for the valuation gap against comparables to persist after that. Thus, we see upside of 60% or more from current share price levels.

Cowen Group, Inc. ("Cowen") – trading for approximately 60% of December 31, 2011 book value (and approximately 65% of tangible book value), Cowen's stock price will lag until the money-losing/severely-challenged broker-dealer business is effectively restructured, shut down or sold. Post that shareholder-happy-event, we would be left with the solidly-profitable US$10 billion plus Ramius alternative asset manager which we think deserves to trade for a meaningful premium to book value (if you can ignore the woes of the broker-dealer for a moment, we find it fascinating to think that we are, in effect, purchasing the General Partner of a large alternative fund manager for less than the value of its own cash and securities!). Share price upside could easily be 100%+ from these levels and we would like to increase our relatively small position at the right time.

Conclusion

In a departure from past years, we reproduce below our monthly commentaries going back to the date of last year's Annual Report (though excluding the April 2011 commentary which simply gave an overview of our Annual General Meeting and discussion of results in the prior year). We encourage unitholders to read our monthly commentaries, in doing so we believe you will find consistency in our investing approach and further details on current and past positions.

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

Respectfully submitted,

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

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

March 22, 2012

Monthly Commentaries

February 2012

After the close yesterday, Cenveo Inc. (“Cenveo”) reported strong fiscal 2011 fourth quarter and yearly results (quarter ending December 31, 2011). Highlights included paying down over US$41 million in debt during the quarter, non-GAAP operating income of US$46.7 million for the quarter versus US$41.3 million in the year ago period and, adjusted EBITDA (excluding discontinued operations) of US$221.6 million for the year versus US$198.6 million for the prior year. And, Bob Burton’s guidance for 2012 included a range of US$230 million to US$240 million in adjusted EBITDA, approximately US$100 million to US$110 million in free cash flow and, 2012 ending net leverage between 4.5X to 4.7X. As these results were reported after yesterday’s close their beneficial impact on Cenveo’s stock price (up 26% on the day as of the time of writing of this letter) are not reflected in our Funds’ February 2012 year-to-date performance. Bob’s overriding focus continues to be on de-leveraging the balance sheet by driving cash flow (through improving working capital and continuing to push for operational improvements) and making disciplined accretive strategic acquisitions (as an example, clearly the February 2011 acquisition of the MeadWestvaco Envelope Products Group was beneficial for Cenveo’s late 2011 results).

Also, Cenveo announced late last night that it is making a tender offer for all of its three outstanding Note issues. The tender offer is however contingent on the Company’s new debt financing transaction generating at least US$450 million of gross proceeds but we find it hard to believe that Bob, as experienced as he is, would announce the tender offer without being virtually assured of having the necessary capital. Late in 2011 we had bought a roughly 2% weight in the Cenveo 7 7/8% senior subordinated Notes of 2013 below US$800/US$1000 of principal value as we were attracted by the high roughly 21% yield to maturity and we were comfortable that these Notes were money good. If tendered early, the total consideration payable on these Notes will be US$1,002.50.

We have a 2% weight (at cost) in AMP Solar (“AMP”) 10% secured convertible Notes. We created this Note with other investors. The AMP investment reflected our desire to leverage our knowledge of the solar space and specifically to take advantage of the Ontario solar feed-in-tariff (“FIT”) program by financing an Ontario-focused development team. This has nothing to do with manufacturing solar panels, quite the opposite in fact as AMP benefits from ever-lower solar panel pricing. Essentially, the AMP team focuses on securing solar FIT contracts (20 year commitments by the Ontario Power Authority to pay a premium price for renewable solar power fed in to the electricity grid, ultimately this is a commitment of all Ontario electricity users), developing/planning & constructing the project and, arranging financing. AMP is topical for this monthly letter as the Company has just signed back a term sheet and due diligence has been completed on a $20 million equity investment from Eclipsall Energy Corporation (“Eclipsall”) at a valuation that is approximately 3.7X our equity conversion value. Eclipsall is majority-owned by an investment firm affiliated with the massive Kuwait Investment Authority. Eclipsall’s investment in AMP is a prelude to the two companies partnering on solar development opportunities beyond just Ontario and AMP management are very excited about the future possibilities given the deep capital backing available. Solar panel pricing continues to drop and is rapidly approaching grid parity or has already reached grid parity in some jurisdictions. As the dollars have yet to arrive in AMP and as this is still an illiquid investment with a yet-to-be-determined liquidity event, we are not planning on changing our current valuation.

January 2012

Between 2009 and 2010 we profitably traded in and out of both the First Uranium Corporation's ("FIU") 4.25% senior unsecured convertible debentures due June 30, 2012 ("Debentures") and the 7% secured convertible notes due March 31, 2013 ("Notes"). Recently we have bought some more secured Notes at roughly $66 (per $100 principal amount), representing a 1.5% weighting in the Fund, as there could be a catalyst-driven path to take the Notes back up to par or near par.

FIU is developing two gold and uranium operations in South Africa, the Ezulwini underground mine and the Mine Waste Solutions ("MWS") tailings recovery operation, with the goal of becoming a significant low cost producer (despite its name, FIU is primarily a gold producer). As is typical with mine development but especially with FIU, many issues have been encountered in ramping up to full production including safety at Ezulwini (including three fatalities in the back half of calendar 2011). These issues have resulted in a new mine plan for Ezulwini being put forward that dramatically lowers production but lowers costs and increases near term free cash flow. Prior to the new Ezulwini mine plan, the Company had indicated it expected to produce 70,000 to 80,000 ounces of gold and 110,000 to 130,000 pounds or uranium from Ezulwini for the fiscal year ending March 2012 (fiscal 2012). No new Ezulwini production target has yet been given while MWS is on track to produce between 98,000 and 100,000 ounces of gold for the year ending March 2012. If one assumes zero contribution or drag from Ezulwini, it is possible that FIU (mostly powered by MWS and the high gold price environment) could be producing $10 million to $15 million of net free cash flow in the quarter ending March 2012 (this assumes zero contribution or drag from Ezulwini and we simply adjust the forecast found in the September 2011 MD&A with the latest data).

While far too risky to own the stock, an intelligent investment case can be made for owning the Notes. First of all, the Notes are secured instruments and in our communications with FIU's CFO, we feel comfortable that there is likely sufficient asset coverage backing these Notes to make us comfortable owning them at prices well below par (there is some collateral value that is given to the Franco Nevada royalty but otherwise we have the asset claim). The capital structure is as follows: $150 million principal amount of Canadian dollar denominated 7% Notes, $52 million of 11% South African Rand-denominated Notes (functionally the same instrument as the 7% Notes), $150 million of the unsecured 4.25% Debentures and roughly 238 million shares outstanding trading at $0.19 per share for an equity market capitalization of $45 million.

Interestingly, the 4.25% Debentures which come due in approximately 5 months can be settled, at the Company's option, with FIU stock (based on an average trading price leading up to the maturity date) so there is the potential for substantial dilution should FIU not be able to find new capital to repay the 4.25% Debentures. We rank this as the most probable event and we think this would be good for our Notes as such a development in effect "re-equitizes" FIU's balance sheet and improves going forward cash flows from the elimination of interest expense on the $150 million of Debentures. We think there is a slight chance too that between now and the June 2012 Debenture maturity date the Company could display enough free cash flow generation to possibly arrange another loan (perhaps a gold-linked instrument?) in time for the June 2012

Debenture maturity. In this scenario, our Notes' $1.30 per common conversion feature might have some value as the stock would avoid being massively diluted (although there remains only 9 months between the maturity of the Debentures and the maturity date of the Notes which diminishes the value of the conversion feature in this scenario).

In either scenario, our Notes' maturity in March of 2013 cannot be settled with stock at the Company's option, they have to give us cash.

A further interesting potential M&A aspect to the FIU story is the July 22, 2011 announcement that the large gold mining company, AngloGold Ashanti Limited ("AngloGold"), had acquired a 19.8% interest in FIU's stock at the then price of $0.60. In addition, AngloGold received lock-up rights and rights of first refusal in respect of the seller's remaining 5.7% equity stake in FIU and approximately 94% of the outstanding South African rand-denominated Notes (the seller owned the bulk of the rand-denominated Notes). We think AngloGold's investment in FIU is supportive of our position in the FIU secured Notes.

December 2011
The U.S. Institute for Supply Management ("ISM") report on business for the month of December, 2011 indicated that economic activity in the U.S. expanded in December for the 29th consecutive month. Also, ISM's New Order Index came in at 57.6 representing the third month of growth after three consecutive monthly declines through to September, 2011. In short, the U.S. economy has not fallen off a cliff (the impression most often concluded when one regularly follows the media) but rather continues to plod along. The ISM New Order Index has particular importance for ATS Automation Tooling Systems Inc.'s ("ATS") U.S. manufacturing client base and ATS' future orders. We note continued insider buying with Mason Capital Management acquiring an additional 382,800 shares (0.4% of shares outstanding) over the last 14 days putting their total ownership now at 18.6%.

We remain expectant that a bout of confidence (but longer lasting than a day or two) could easily result in substantial upward movements in our collection of deep value, fundamentally sound, long holdings. In the meantime, we continue to focus on finding new long situations that offer a "total return" element (meaning both a current cash yield whether dividend or interest and a reasonable prospect of capital gains). This focus stems in part from our expectation that long term interest rates are likely to remain subdued for some time and so, the desire for sustainable income (especially on the part of the large number of ageing baby boomers in North America) will not likely dissipate.

In this vein, our December acquisition of Veresen Inc. stock and subscription receipts at average costs of $14.41 and $14.10 respectively (currently trading at $15.30 and $15 respectively) is fitting. Veresen (formerly Fort Chicago Energy Partners L.P.) owns and operates energy infrastructure assets across North America in three principal segments: pipeline transportation, natural gas liquids and power. On December 7, 2011 the Company announced a $920 million acquisition of EnCana Corporation's Hythe/Steeprock midstream gas gathering and processing complex located in the Cutbank Ridge region of Alberta and British Columbia and this gave rise to our interest. This acquisition is accretive to future cash flows and diversifies Veresen's portfolio into the prolific Montney and Cadomin natural gas and natural gas liquids formations (with likely decades of production ahead). In connection with the transaction, Veresen and EnCana entered into a long-term Midstream Services Agreement under which EnCana will provide a competitive, long-term, take-or-pay throughput commitment averaging 370 MMcf/d, representing 72 percent of the functional capacity of the Hythe/Steeprock complex. To help pay for the acquisition, Veresen entered into a $303 million bought deal equity financing priced at a discount to Veresen's then share price. The stock closed at $14.66 immediately prior to the deal announcement as compared to the $14.10 subscription receipt issue price (note the receipts will turn into regular stock upon the acquisition finalizing or, if the acquisition does not close, a remote event in our opinion, purchasers of the receipts will see a return of their cash).

At our subscription receipt cost we have a roughly 7.1% yield on the current $1 per annum (monthly pay) dividend. But, we expect the dividend will be lifted higher over the next year plus and, we think a new dividend level of $1.15 per share is achievable. Also, we believe the Company deserves to trade for a lower yield, more in line with the other Canadian energy infrastructure stocks (the average dividend yield of these comparables is approximately 5.1%). Should the stock ultimately trade for a 6% dividend yield (a lower valuation than that implied by the average dividend yield of its comparables) and on say a $1.15 per annum future dividend level, we would enjoy a roughly 43% total return on our subscription receipt cost (this includes one year of our 7.1% dividend rate).

November 2011

In late November, forceful coordinated central bank actions caused an astonishing one day rally (albeit off of severely oversold levels created earlier in the month). We have no idea if this is the beginning of a serious attempt to deal definitively with the Euro area banking/sovereign debt crisis or just another false start unable to clear German opposition to massive European Central Bank action. However, as committed long term investors in businesses, we continue to find current valuation levels on our long holdings exceptionally attractive and especially so as compared to the likely future, long term returns for North American sovereign debt from these very low yield levels. For example, current free cash flow and/or earnings yields on our long holdings are much higher than yields on 10 year US or Canadian government bonds and appear well poised to grow from current levels while sovereign debt yields are fixed.

While we expect it will take more than just a single day of confidence to ignite the share prices of our predominantly midcap and small cap long holdings, we are happy to see some early signs of fundamental progress actually translating into share price appreciation. In this category belongs Great Canadian Gaming Corporation which is one of our largest positions and which hit a new 52 week high yesterday ($9.11 high, closed at $8.93). We think much upside remains.

In the category of fundamental progress but little translation to appreciating share price would belong our position in Boralex. The Company released three important news items all during the week of November 7th: the sale of its U.S. wood-residue power stations for after-tax proceeds of US$81 million (analysts generally valued these assets for much less), the completion of a $725 million non-recourse debt financing package for the 272 MW (Megawatts) Seigneurie de Beaupre Wind Farms project and, the third quarter report (the quarter ending September 30, 2011 – the results were a bit weaker than expected but almost entirely due to the assets that have now been sold for a better-than-expected price). On the back of these positive developments

Boralex's stock bounced, currently $6.95 versus as low as $5.85 at the end of October but this is well below the $8 to $9 range experienced through the first two thirds of 2011.

We continue to creep our Boralex position size higher as we like the asset quality (focus now firmly on contracted, predictable pricing "Power Purchase Agreements" with concomitant attractive IRR's), the strength of the balance sheet (now well north of $200 million of cash while the debt is either non-recourse project debt or convertible debt), large insider share ownership position, substantial contracted growth pipeline, the material discount to comparative group valuations and, the likelihood that dividend payments will begin at some point in the future which will likely eliminate the valuation discount. We continue to believe Boralex offers the potential for a low risk almost double from current levels.

October 2011
European authorities are taking ever more substantial steps to deal with the Euro sovereign debt issues and potentially undercapitalized banks (the two being very much inter-connected in light of the large Euro sovereign debt holdings of the European banks). Equity markets are bouncing between pricing in possible solutions to these problems (and the attendant positive ramifications for economic growth) and alternatively pricing in that the problems are too large to solve and/or the solutions too slow to be delivered. Against this seesaw backdrop lies generally superb corporate margins/earnings/free cash flow generation, cheap stock valuations, strong balance sheets with record-setting amounts of corporate cash and notable levels of insider buying.

Paralleling the public's distaste for equities generally is the disclosure by Bloomberg News that, for the first time since before the US Civil War (for the first time since 1861 to be exact), the 30 year total return (coupon payments plus price appreciation as yields decline) on long dated US government bonds exceeded the 30 year return on US stocks (11.5% average annual gain for long-term US government bonds to the end of September 2011 versus 10.8% for the S&P 500 index). Currently the US government 30 year bond is yielding 3.0%. Interestingly, approximately half the S&P 500 companies have dividend yields greater than the 10 year US government bond yield. And, according to data assembled by Omega Advisors, the average of earnings yield minus 10 year US Treasury bond yields for all US equity bear markets going back to 1960 is 1.76% while it is currently 6.15% (in other words current equity valuations are very inexpensive relative to earnings and US bond yields and relative to historical bear markets). Also, the Credit Suisse Global Risk Appetite Index, as of early October, was more in negative territory than it was even during late 2008, sitting at -6.61 on October 4/'11 versus -5.54 as at November 20/'08. Historically it has been very profitable to go long equities when this index is below the -4 level which has only happened four times since 1982 including the current reading which is the lowest reading of the four.

So, again, equities are cheap but to receive a more historically fair valuation we need the Euro concerns to be firmly dealt with. And, those that have found bonds to be a very comfortable and rewarding place to be for the last few months are now dealing with a much more problematic outlook as even a minor uptick in forward inflation expectations can produce material jumps in yield from these very low current levels (and a material drop in price). We much prefer the higher earnings yields of good businesses from these levels especially as businesses tend to have built in inflation protection from rising earnings over time as compared to fixed bond coupon payments.

While continuing to test our patience (but not our confidence in the ultimate result), we believe that even a small reduction in the macro fear gauge could result in material bounces in our core long positions (in a stable macro environment we think many of our long positions can double or more off their currently depressed prices). This belief is backed up by the improving fundamentals (e.g., better margins, meaningful free cash flow, etc.), generally strong balance sheets and notable levels of insider buying. Recent additions to the long side of our Funds (but in modest position size so far as we make use of some of our cash balance) include: Bank of America Corporation common, Bombardier Inc. class B common and Magna International Inc. common.

September 2011

What more eloquent and apt a description of the current environment can we offer than …this sucks. We shared with you this past July that the Puccetti family added an additional roughly $3.5mm into the Goodwood Fund (the Goodwood partners remain amongst the largest unitholders), so we feel uniquely qualified to opine thus. We've always known that stock prices can and will deviate from probable long run value (in fact, that's the very root of our long run results in excess of the market) possibly for extended periods but this has been a very long and frustrating period for "value" investors.

Nonetheless, we believe wholeheartedly that the Fund will come out of this period with outsized returns, a belief we think is bolstered by the investment facts underlying each of our holdings. In many of our core holdings we are of the view that the investment case argues for the possibility of doubles and triples or more. And, our history of "lumpy" returns supports this thinking - we have had a number of positions in our past that did nothing encouraging in the first few years only to generate returns many times above our cost in the latter years of our holding., We have always been drawn to value situations that offer the potential for multiple returns even though the path to investment success in these securities can test one's patience. In other words, we'll live with the possibility of being down 30% (or more) on a particular security when we feel confident that we could have a 200% winner.

Our investment process begins by analyzing what we consider to be the four most important investment keys: Specifically: (1) Are the fundamentals improving? (2) Is the stock/valuation cheap? (3) Are the insiders buying and/or do they own lots of stock? And, (4) is the Company financially strong? In fact, the level of recent insider buying is striking in some cases and this is from insiders who are not new to the situation so they very much know and understand what they're buying. In this vein, we note with interest Warren Buffett's announcement last week that Berkshire Hathaway Incorporated ("Berkshire") has bought a net US$4 billion of common equities in the September quarter which is similar to what it had purchased in the entire first half of 2011. And, contrary to many decades practice, Berkshire announced a material share buyback program (a first in the company's history). Despite Mr. Buffett creating significant shareholder value over the past few years, Berkshire shares have been down as much as 35% from December 2007 to September, 2011. Within Goodwood's own universe, the high earnings or free cash flow yields of a number of our core long holdings (well above US or Canadian 10 year bond yields) is compelling and, based on management latest guidance this level of earnings and/or free cash flow seems set to continue.

We still plan to invest our reasonably large cash position (now approximately 23%) in liquid, very inexpensive, high quality names and/or high yield corporate bonds with the prospect of 20%+ total return and/or adding to some of our existing positions that are particularly attractive. So far, it has been correct to sit on the cash and maintain a short position (ranging from 9 to 15%) as the sell-off has continued.

August 2011

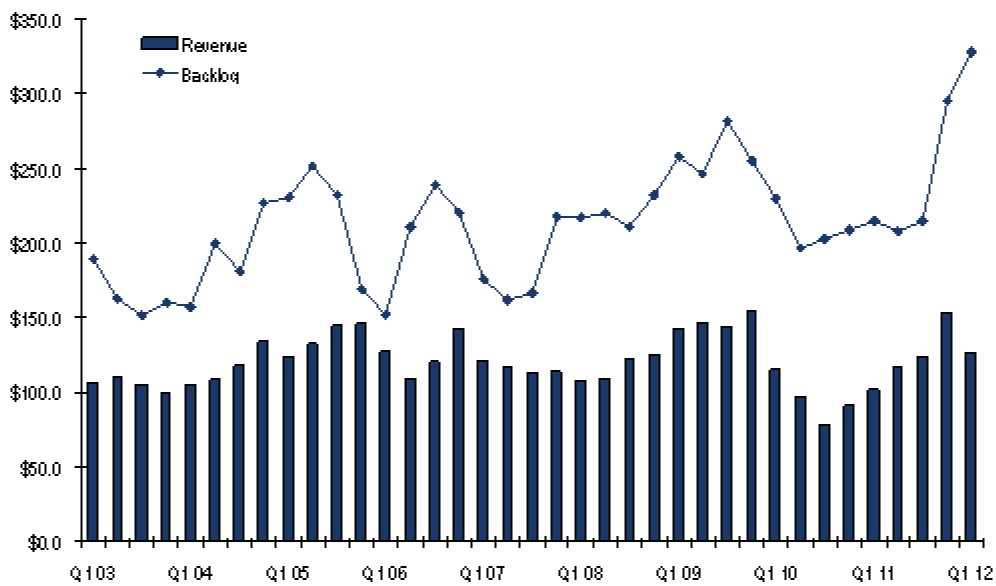
During August the unrelenting focus on macroeconomic issues continued to weigh heavily on equity valuations. The current backdrop appears to be a mix of the 1970's stagflation (slow/no economic growth coupled with high commodity prices), the Japanese experience post 1989 (slow economic growth and ongoing mild deflation) interspersed with periodic bouts of European sovereign debt woes and also, the possibility of US Federal Reserve-induced liquidity steroids (introduces the periodic possibility of both inflating commodity and equity prices). All of the foregoing has resulted in investors and corporations continuing to hold onto unprecedented amounts of cash despite inconsequential interest rates. In summary and, having made our bed as bottom-up focused value investors, we are now sleeping with some very cheap stocks.

It helped somewhat that we came into this latest market sell-off with roughly 30% cash and a net market exposure of less than 55%. But, that was not enough to offset the widening deviation between the positive fundamentals of our core positions and their wilted share price quotations. ATS Automation Tooling Systems Inc. ("ATS") stock declined to a low of $6 during August despite reporting another quarter with strong order bookings and good margins - more clear evidence that it is marching towards a substantially higher-earning brighter future (we attach at the bottom of this letter a telling chart tracking ATS' automation business order backlog and revenues). We remind unitholders too that between February and June 2011 Mason Capital Management (a long-running insider of ATS through Board representation) took its ownership from 14.5% to 18.2%. Great Canadian Gaming Corporation stock declined despite reporting another quarter of improved EBITDA margins, achieving 38.0% for the June 2011 quarter versus 36.1% in the year ago quarter and recently improving its credit facilities. We remind unitholders that in June of this year an investment company affiliated with the President of Great Canadian bought an additional 6 million shares of Great Canadian from the founder to take its total ownership to 10 million shares or approximately $79 million of Great Canadian stock. The stock of Cowen Group, Inc. ("Cowen") declined to as low as US$3.12 per share in August despite reporting tangible book value of US$5.11 per share (or US$5.49 all-in book value) as at June 30, 2011 and instituting a share repurchase program (we think Cowen should at least trade for the value of its cash and securities in other words, its tangible book value). The stock of Cenveo, Inc. ("Cenveo") dropped to as little as US$3.59 in August despite reporting solid year-over-year improvements in operating profitability (e.g., June 2011 quarter adjusted EBITDA of US$57.6 million up 6.7% from the year ago period), the continued insider buying by Bob Burton, bringing our estimate of his total beneficial ownership to approximately 9.7% ending August and, a roughly 38% free cash flow yield (at current share price).

Our excess cash is being cautiously deployed into liquid, large capitalization, dividend-yielding, single-digit-P/E-multiple, high quality companies. And, we are back to screening for corporate debt situations that offer the prospect of 20%+ total returns between interest income and capital appreciation (a strategy that worked well in 2009). Thus far, we have only spent a modest amount of our excess cash balance.

We note that the current environment shares some similarities to the 1973-1974 period. Back then the macro concerns were abundant (as they are now) and damaging to investor psyche – e.g., the Arab oil embargo, high unemployment, high commodity prices, the ignominious US exit from Vietnam and the Nixon Watergate scandal. Stock prices suffered sharp declines. Buffett's Berkshire Hathaway Inc. ("Berkshire") was sitting on positions he had begun buying in 1973 (like Washington Post Company) that were now trading for 50% to 65% less. Luckily for the Berkshire shareholders, Buffett was focused on the fundamentals of those businesses and so viewed the much lower share prices as simply opportunities to buy more at an even better price. Over the next many years the earnings power of those businesses generated returns that equaled multiples of Berkshire's cost. We find it immensely prophetic to see Buffett acting again with his recent investment in the much-maligned Bank of America Corporation and Berkshire's National Indemnity Company's bid for Transatlantic Holdings, Inc.

Chart of ATS Automation Tooling System Inc.'s quarterly revenue versus order backlog (automation business only):



Source: ATS public filings, GMP Securities

July 2011
We spent most of the month of July between +1% and +2% only to see renewed macroeconomic concerns (primarily US debt ceiling negotiations and weaker European sovereign credits) pull the month's results lower. It seems likely that these macro issues will be dealt with over time but their solutions are not likely to be supportive of economic growth in the short to medium term. Our focus continues to be on finding substantially undervalued, well-managed companies which are likely to continue to grow their earnings and/or generate free cash. Over time owning a portfolio of such securities, purchased at inexpensive prices, we expect will produce good returns particularly as these free cash flows eventually find their way into shareholders' pockets (through dividends and/or share buybacks).

Boralex Inc. ("Boralex") is an example of the foregoing and is trading well below intrinsic value and the valuations of its close comparables. The Company also features significant insider ownership, something we value highly and that is prevalent in many of our core positions, as the Board's ownership is 49.2% (including 34.8% owned by Cascades Inc., a Company that is managed and significantly owned by members of the Lemaire family, Patrick Lemaire is President and CEO of Boralex). Boralex is a renewable power producer with a total installed capacity of greater than 700 megawatts ("MW") in Canada, the Northeastern U.S. and France. As well, Boralex is committed through various power development projects both independently and with European and Canadian partners to add an additional 400 MW to its portfolio of wind, hydroelectric, thermal and solar assets. The Company plans to have a portfolio of 1,500 MW by 2015.

Of the 700 MW currently in operation, 252 MW from 21 sites are wind power, 136 MW from 15 sites are hydroelectric, 267 MW provided from 8 sites are wood-residue and, 45 MW from 2 sites are natural gas-fired. And, of this current portfolio, 73% operates under long term power purchase agreements with high quality counterparts such as Electricite de France, Hydro-Quebec and the Ontario Power Authority. As Boralex builds out its pipeline the proportion of its portfolio under these desirable, long term power purchase agreements will rise. For example, the 272 MW (phase 1) and 69 MW (phase 2) Seigneurie de Beaupre wind development projects in Quebec will move the mix materially towards contracted production. On a cash flow basis this mix shift towards contracted cash flows is even more pronounced and supports the argument that Boralex should eventually be valued more highly and more in line with its peers.

The highest valuations in the renewable independent power producer space are reserved for those companies that pay a dividend. Boralex currently does not pay a dividend preferring to maintain a healthy cash balance ($131.3 million as at March 31, 2011 versus a current market capitalization of $304 million) so that it can self-finance the equity requirements of its large pipeline. We believe that this valuation gap at approximately 4.6 EV/EBITDA multiple points (i.e., Boralex trading for roughly 8.1X while the comparables are averaging approximately 12.7X) is currently excessive and that, over time Boralex's substantial looming growth in cash flows will attract investor capital. A partial closing of this valuation gap combined with strong growth in EBITDA could easily result in a greater than 60% move up in Boralex's stock price.

June 2011
During the month of June we saw good performance from some of our key long holdings both in terms of reported results and share price (and ongoing significant insider purchases). This was offset by general market weakness which negatively impacted a variety of our smaller positions and, the severe business impact caused by the unusually wet Canadian spring for one of our small positions.

On June 1st, ATS Automation Tooling Systems Inc. ("ATS") reported its results for the quarter and fiscal year ending March 31, 2011. The automation results continued their strong showing of late with the Automation Systems Group's ("ASG") March 2011 quarter record order bookings of $206 million (roughly double the year ago quarter) and $153.8 million of revenues (68% higher than the year ago quarter). Approximately $38.5 million of the $62.2 million increase in ASG quarterly revenues year-over-year were as a result of the June 2010 Sortimat and January 2011 ATW acquisitions.

We feel strongly that our ATS position is coming very close to the point of general investor recognition as improving ASG results coincide with the imminent spin-off/sale of the various solar assets (anticipated to occur this year). We may not be alone in this assessment as Mason Capital (recall we waged a successful proxy fight to change the ATS Board with Mason Capital), whose representatives continue on the ATS Board, has bought an additional 3,209,500 common shares between February and June 2011 taking their ownership from 14.5% at January 31, 2011 to 18.2% at June 13, 2011.

Further on the theme of insider buying, we are encouraged to note that in two of our other top five positions there has been further insider buying. Bob Burton of Cenveo purchased another 17,000 common shares in the open market in June 2011, bringing our estimate of his total beneficial ownership to approximately 9.5% ending June 2011. And, on June 13, it was announced that a Company controlled by Ross McLeod, the founder and CEO of Great Canadian Gaming Corporation ("Great Canadian"), would sell 6 million shares of Great Canadian stock to Mr. Neil Baker at a price of $8 per share (approximately $0.28 above the current market price). Neil Baker is the father of Rod Baker who has been involved in a senior management role with Great Canadian for the last three years and as President beginning in February 2011. Rod has been instrumental in helping to drive margin improvements. Neil Baker already owned 4 million shares and so this transaction means that the Baker family owns 10 million shares in Great Canadian (current market value of about $77 million). We take significant comfort in these additional purchases and, to be clear, Ross McLeod, who continues to be the largest shareholder, made this sale to reduce his personal debt and for estate planning purposes so we are not concerned that he has sold in this transaction.

Finally, we should point out that Cowen Group Inc.'s merger with LaBranche & Co. Inc. was consummated on June 28. We estimate the combined Company tangible book value to be approximately US$5.22/share versus a Cowen stock price that got as low as US$3.41 during June after starting the month at US$4.12 per share. Should the market deem Cowen's circa US$10 billion of alternative assets under management and the brokerage business to have value, than the stock should trade for more than tangible book value (note that in this case the bulk of tangible book is made up of cash and public securities).

If we are correct on our estimate of future trading values of ATS, Cenveo, Great Canadian and a few other more significant positions then the impact on the Goodwood Funds would be very material given their current weights.

May 2011

A variety of corporate developments in a variety of our long holdings are worthy of mentioning in this month's letter. In no particular order:

- On May 31st Agilysis, Inc. ("Agilysys" – one of the cheapest stocks the Funds own based on a sum-of-the-parts analysis) announced an agreement to sell its Technology Solutions Business ("TSG") thereby freeing up an additional US$64 million in cash. This leaves the Company with more than US$120 million in cash and no debt versus a pre-announcement capitalization of approximately US$109 million. And, Agilysys will now focus exclusively on its higher-margin Hospitality and Retail Solutions businesses. The stock has rallied to US$6.81 per share post the announcement but we think it's worth US$10 to US$12 per share.

- On May 11th, Cenveo, Inc. ("Cenveo" – the Funds' highest free cash flow yield position at an estimated 26% per annum) announced solid first quarter 2011 results and strong guidance. The extraordinary January 2011 MeadWestvaco envelope acquisition is already starting to pay dividends (was acquired for a little over 2X EV/EBITDA post synergies). We believe Cenveo will be able to rapidly pay down debt in the ensuing years thereby delivering a high return to the equity owners. As always, giving us further confidence Bob Burton and his family continue to accumulate stock having bought approximately 100,000 shares (~US$610,000) in the open market since March 2011.

- On May 15th Quadra FNX Mining Ltd. ("Quadra" – position acquired earlier this year at an estimated EV/EBITDA multiple of 2.7X versus Canadians comparables at 4.5X) announced that it had entered into a joint venture agreement with Sumitomo Metal Mining Co. Ltd. and Sumitomo Corporations (collectively "Sumitomo") to develop the large Sierra Gorda copper-molybdenum project in Chile. The joint venture terms and the project economics appear to be better than investors were generally expecting and so caused a lift in the stock. This follows on the also better-than-expected news concerning Quadra's new deposit in Sudbury, Ontario released on April 19th. As we have mentioned to our unitholders previously, we are actively trading this position (currently have a very small long position) and when we are more invested in the name we have been shorting a basket of higher-priced copper names against it.

- On May 5th the Funds participated in an equity financing the proceeds of which allow Chemtrade Logistics Income Fund ("Chemtrade") to purchase Marsulex Inc. ("Marsulex")(acquisition excluded Marsulex Environmental Technologies Corporation). The equity raise was priced at $13.60 per share and the units finished the month at $14.54 reflecting the accretive nature of the acquisition, investors' confidence that Chemtrade management know the Marsulex assets well and, the ongoing 8%+ yield.

- On May 31st the Funds participated in an equity financing the proceeds of which allow Intact Financial Corporation ("Intact") to purchase AXA Canada for $2.6 billion. The financing was priced at $47.80 per Intact share and already Intact is trading 15% higher based on the anticipated earnings accretion and synergies of the acquisition.

- During May a couple of our smaller, renewable power-focused positions also reported positive developments: Ram Power, Corp. finally priced and completed its equity raise (the prospect of which had left the Company's capital structure effectively open-ended thus putting tremendous downward pressure on the price), issuing 127.3 million units (1 common share plus a full warrant) at $0.55 per unit and raising a total of $70.6 million of gross proceeds. We expect the stock will now move higher as the Company has sufficient capital and is expected to report enough proven geothermal resources to release its already-arranged project debt (note that there was a very significant amount of insider buying on this raise). And, our small, private, Ontario-focused solar developer (positioning the Funds to perhaps profit from the new Ontario feed-in-tariff ("FIT") regime), AMP Solar, announced a game-changing, very large contract to develop all of the Toronto District School Board ("TDSB") roofs that are amenable to hosting solar panels. The contract is estimated at 66 megawatts which may be the single largest roof top solar contract worldwide. We believe the Ontario premier's office will instruct the Ontario Power Authority to fast-track granting of FIT contracts to the TDSB as it is a political positive in an election year. We also expect the Ontario government will announce reductions in the FIT rates as we get closer to the fall elections but it is important to remember that, once a FIT contract is granted, prices are locked in. Our Amp Solar position is just 1% but might be worth much more.

We hope that the above suffices as a review of some of the more noteworthy developments of the past months. Upon reviewing our positions' fundamental developments, we inevitably feel that it is just a matter of time before their share prices follow.

The Goodwood Philosophy

Expectations and Rate of Return: The 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 expect to 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, by being active, on occasion, 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 because (i) we can put more capital to work in long ideas (as long ideas are typically more "comfortable" than short ideas), (ii) our potential returns are greater (the most you can earn in a short position is 100%), (iii) our potential downside is limited to 100% versus infinite with shorts, (iv) equity markets (with some notable exceptions) tend to rise over time and, (v) management and the Board are typically well-motivated and doing their best to improve share values.

Derivatives and leverage: The Funds are prohibited from buying or selling options or futures contracts. 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 (for Funds that are permitted to have 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.

<u>"Look through" risk versus statistical measures of risk:</u> 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 (for Funds that are permitted to have shorts), 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.

<u>Transparency and Unitholder Reporting:</u> 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 website, 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.

<u>Long Term Focus:</u> 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.

<u>Independent Thinking:</u> We enjoy generating our own ideas and performing proprietary research. In situations where we are considering taking a meaningful position in a particular company, our research process will include: visiting that 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.

<u>Uncorrelated with the Major Market Indices:</u> 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.

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

THE GOODWOOD CAPITAL FUND
2011 Annual Report

To the Unitholders of The Goodwood Capital Fund:

For the year ending December 31, 2011, The Goodwood Capital Fund's (the "Capital Fund") net asset value ("NAV") per unit decreased **-21.2%.** The S&P/TSX Composite Total Return Index ("TRIN") decreased -8.7% and the S&P 500 Index (in C$) increased +4.4% in the same period.*

From December 23, 1999 (commencement of the offering of the Capital Fund) through to December 31, 2011, the Capital Fund has returned **+3.4%** per annum net versus the TRIN's per annum increase of +5.3% and the S&P 500 Index (in C$) per annum return of -2.4%.

No distributions were paid on December 31, 2011.

The Capital Fund's 2011 audited financial statements are attached for your review.

For a more detailed discussion of Goodwood Inc.'s investment philosophy and information regarding the Capital Fund's core holdings, please refer to the annual Management Report of Fund Performance available on SEDAR (www.sedar.com) and pages 4 through 20 of 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 22, 2012

* Designated Benchmarks:

S&P/TSX Composite Total Return Index is a broad-based market capitalization weighted index of the largest, most widely held stocks traded on the Toronto Stock Exchange. The index includes reinvestment of dividends and capital gains.

S&P 500 Index measures the total return of the broader U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries and assumes reinvestment of dividends.

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 and other important information. In addition, note that performance data represents past performance and is not necessarily indicative of future performance.

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
Prime Broker/Custodian:	NBCN Inc.	NBCN Inc.
Fund Accounting:	Citigroup Fund Services Canada	Citigroup Fund Services Canada
Auditor:	KPMG, LLP	KPMG, LLP
Trustee:	Computershare Trust Company of Canada	Computershare Trust Company of Canada
Legal Counsel:	Borden Ladner Gervais, LLP	Borden Ladner Gervais, LLP

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