GOODWOOD INC.

THE

GOODWOOD

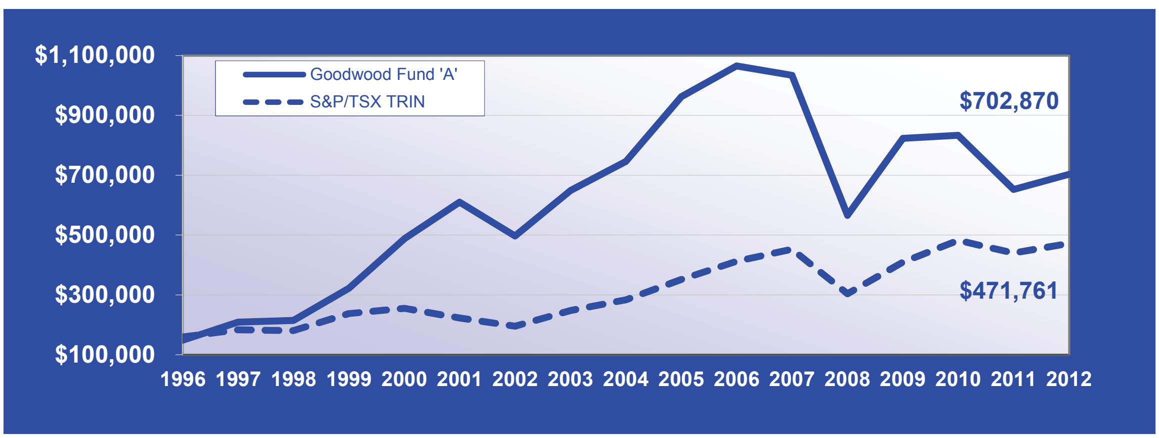
FUNDS

2012 Annual Report
Seventeenth Edition

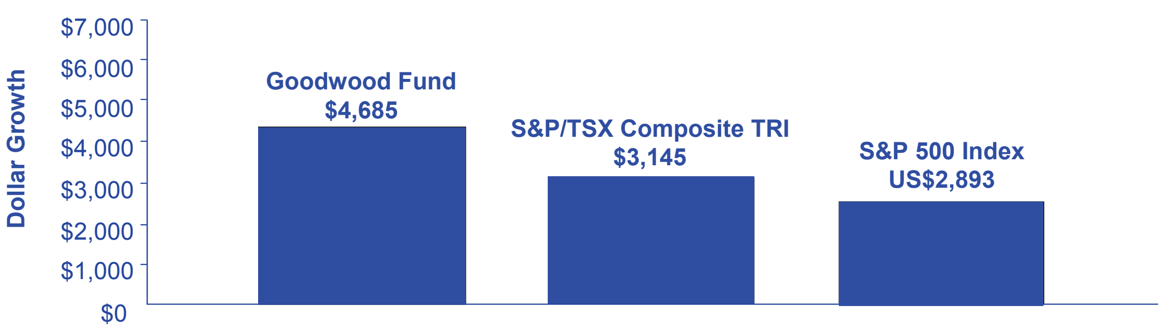
Goodwood Fund "A" Year-Over-Year Returns

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%
December 31, 2012		702,870	7.8%

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, 2012



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

GOODWOOD FUND
2012 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2012, the Goodwood Fund's (the "Fund") net asset value ("NAV") per Class "A" units increased by **+7.8%** and Class "B" units increased by **+7.9%.** The S&P/TSX Composite Total Return Index ("TRIN") increased by +7.2% in the same period.

From October 31, 1996 (commencement of the offering of the Fund) through to December 31, 2012, the Fund has returned **+10.0%** per annum net (after all fees) versus the TRIN's per annum return of 7.3%.*

No distributions were paid on December 31, 2012.

The Fund's 2012 audited financial statements are attached for your review.

During 2012 (based on month end figures), the Fund averaged a **102.4%** 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 **109.7%** invested, composed of **87.5%** long and **22.2%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **65.3%**. At the other extreme, the Fund was **96.0%** invested, or **76.5%** long and **19.6%** short for a net market exposure of **56.9%**.

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, 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 or research but rather commentaries of the Goodwood funds' holdings.

Asset Allocation and General Comments

We have organized the Fund's holdings into three generic categories plus cash. The three are: core value, high yield/junk bonds and activist. As of the date of writing of this annual report we have approximately 54.2% of the Fund's equity invested in core value, 24.3% in high yield stocks/junk bonds, 7.5% in activist situations (where Goodwood had appointed a director or otherwise has some involvement in management) and 14.0% in cash & cash equivalents. Our target weightings in each category, which are really a general expectation of allocation based on the relative merits of each category in the current investment backdrop, are: core value: 40% to 60%; high yield stocks/junk bonds: 30% to 50%; activist: 5% to 10%; and cash: 0% to 10%.

We believe that the Fund's current positions offer substantial upside potential and that our future returns can be generated independently of returns generated by the major market indices. In the current environment, we see the best value being in small capitalization stocks and in small capitalization high yield/junk bonds. Large cap stocks have mostly been driven to levels that haven't been seen since the 2007 highs but many small cap stocks have yet to join the party. After four plus years of mostly equity fund net redemptions in North America it's no surprise that many small cap stocks have lagged. Their lack of liquidity discourages attention from institutional fund managers who have to be cognizant of being able to sell their positions easily to meet possibly redemptions. But, eventually improving fundamentals and inexpensive valuations win out.

A couple of other points are worth mentioning to fellow unitholders - as at December 31, 2012 the Fund had enough capital loss carryforwards to ensure that the next approximate 67% of future realized capital gains will be tax free. And, on December 31, 2012 management of the Goodwood Fund made a substantial additional investment in the Fund solidifying our position as the largest unit holder, confirming our belief in the potential of the Fund's current positions and ensuring our alignment with non-management unitholders' interests.

<u>Position Comments</u>

ATS Automation Tooling Systems Inc. ("ATS")

Our long-running and large position in ATS continues to hold great promise as evidenced by the stock trading at levels not seen since early 2007. The measures to revamp approach to business undertaken by Anthony Caputo and his team have begun yielding fruit most notably in a more consistently profitable quarterly earnings pattern, better profit margins and strong order backlog. But, to achieve greater earnings power, the missing ingredient remains greater scale. Consequently Caputo has a team dedicated to finding suitable acquisitions beyond the 2010 acquisitions of Sortimat Group and ATW Automation. Recall too that ATS enjoys a strong balance sheet including $108.3 million of net cash as at December 30, 2012 and a new, more flexible un-drawn $250 million credit line with which it can potentially make future acquisitions without incurring shareholder dilution. And, that Caputo has a history of making accretive acquisitions. We feel the stock is primed to move higher with any meaningful acquisitions reflecting the potential for greater earnings power and as many analysts and investors are now paying attention.

Great Canadian Gaming Corporation ("Great Canadian")

Our second largest position is Great Canadian whose gaming assets feature substantial free cash flow generation and large barriers to entry. In our many years as analysts we don't recall any other Canadian publicly-traded Company with such a meaningful amount of insider buying and corporate share buybacks. Since June 2011, the family of the CEO, Rod Baker, has accumulated over 10.7 million shares representing 15.2% of Great Canadian's current outstanding shares. And, between January 27, 2012 and January 26, 2013 Great Canadian has repurchased and cancelled approximately 13.66 million shares representing a 16.6% reduction of the 82.48 million common shares that were outstanding on December 31, 2011. Between the Baker family and the estate of Great Canadian's founder approximately 34.5% of the Company's stock is held. We think highly of Rod and believe that actions speak louder than words especially as applied to the subject of insider buying.

Boralex Inc. ("Boralex")

Boralex remains a core weighting. Execution on its significant primarily wind renewable power development pipeline should result in an ongoing re-rating of the stock to levels commensurate with its closest Canadian comparables. To achieve comparable valuation levels though, the Company will have to begin paying out the bulk of its available free cash flow in the form of dividends which we think is a likely occurrence. There is also the possibility of a takeover as Boralex's major shareholder, Cascades Inc., which owns approximately 35% of Boralex, may have a desire to maximize the value of its Boralex holding. The expected commissioning in late 2013 of the Company's very large Seigneurie de Beaupre wind project may act as the next catalyst to move the stock higher.

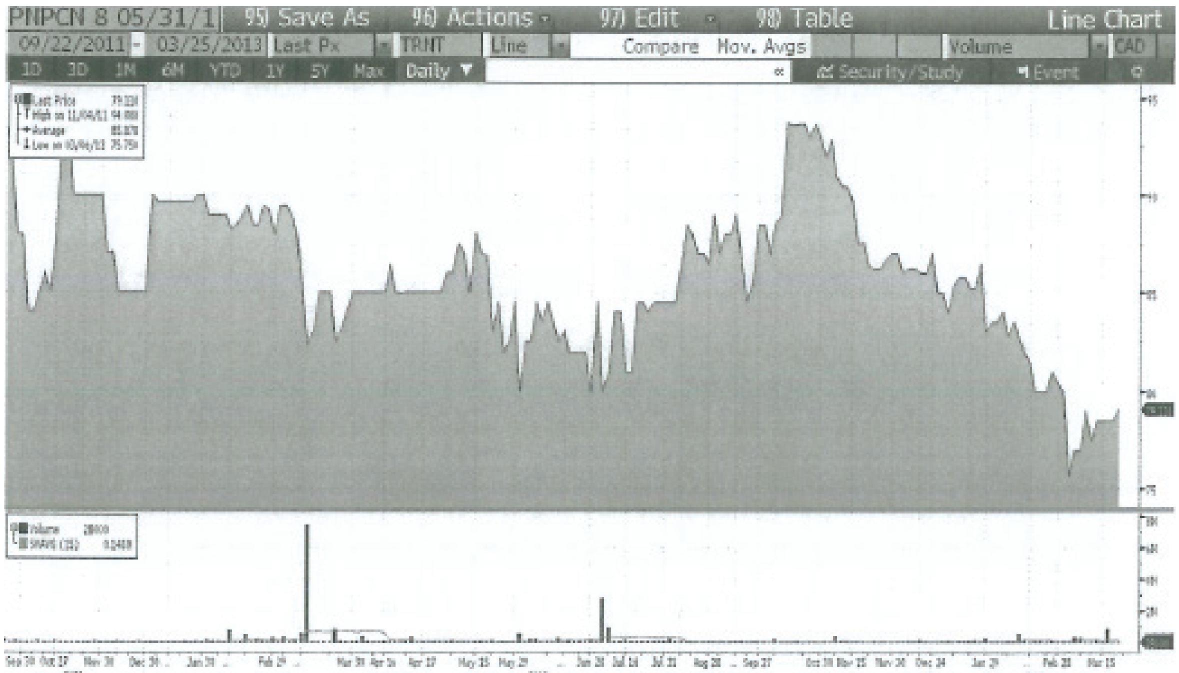
Cowen Group Inc. ("Cowen")

Cowen's stock will meander at substantial discounts to tangible book value/liquidation value until such time as investors begin to anticipate that the Company's Ramius-branded alternative fund management business and its eponymous brokerage/investment banking business will collectively produce profits without reliance on Cowen's significant proprietary capital. Another step closer to this goal was recently taken with the acquisition of privately-held Dahlman Rose & Company, LLC. Given the substantial insider ownership, which we estimate is currently over 23% of shares outstanding, we think it's only a matter of time before Cowen achieves a reasonable level of profitability though that may require further cost-cutting not just scale enhancement through acquisitions. We believe the stock has substantial upside should Cowen achieve this definition of profitability and given its trading for approximately 71% of tangible book value.

Ram Power Corporation ("Ram Power")

Ram Power's signature San Jacinto-Tizate geothermal power project in Nicaragua has achieved commercial operation after some hiccups that required expensive additional capital infusion. With the benefit of hindsight, it would be good to be making our initial investment now however, we do now have a good shot at material upside from here. We have been holding off on averaging down on what is fundamentally a very attractive investment space/initial asset until the right moment. And, to be able to do so through an advantaged instrument in the form of secured debt with meaningful equity warrants attached is a plus. In all likelihood, Ram Power or at least its initial operating asset is a takeover target for an entity with a cheaper cost of capital (e.g., a utility or larger renewable power investor). The logic for Nicaragua in replacing expensive fuel burning electricity capacity with low cost, base load, locally-available geothermal power is inescapable.

Pinetree Capital Limited ("Pinetree")



At what level of total return potential does a fixed income security with its greater certainty of payment become more attractive than owning equity? We would say the answer to that is a function of each investor's mind set and the particulars of each investment situation. In the case of Pinetree we believe the rational choice for a risk-averse investor still seeking a good long term rate of return are the Pinetree Capital Ltd. 8% May 31, 2016 convertible unsecured subordinated debentures ("Pinetree debentures") currently trading at $79.10 per $100 of principal value or a yield-to-maturity of approximately 16.7% per annum. Due to substantial declines in its wide portfolio of mostly junior resource stocks, Pinetree's investments had an estimated value of just $270 million as at December 31, 2012 versus $428 million at December 31, 2011. The $75 million in principal value of the Pinetree debentures and $8.9 million of broker margin loans form the vast majority of the Company's total debt. Importantly the Pinetree debentures have a covenant that Pinetree is bumping into, specifically that the Company's aggregate debt-to-assets ratio cannot exceed 33%. The Company can deal with covenant breaches by issuing more equity (either for cash or for new positions in investment holdings) and/or by repurchasing debentures in the market. We think management is likely to pursue both avenues and is extremely unlikely to allow a covenant breach to lead to a material re-ordering of the Company's balance sheet given the significant stock ownership held by the CEO, his likely significant wealth beyond Pinetree and, his long-running attachment to Pinetree. Also, there is the possibility that the investment holdings begin to bounce off of very depressed levels. While the stock trades for a discount to estimated net asset value, our preferred approach is through the Pinetree debentures and their high yield-to-maturity.

The Pinteree discussion provides a natural segue to outline our varied high yield/junk bond positions which include the following positions (typically 3% and under individual portfolio weights): Tuckamore Capital Management Inc. 8.0% March 23, 2016, Banro Corporation U$

10.0% March 1, 2017, Cash Store Financial Services Inc. 11.5% January 31, 2017, Capstone Infrastructure 5.0% Preferred Series 'A', Jaguar Mining Inc. U$ 4.5% November 1, 2014, Sirius XM Canada Holdings Inc, KP Tissue Inc., Partners Real Estate Investment Trust, Centric Health Corporation 6.75% convertible debentures October 31, 2017, Colossus Minerals Inc. gold-linked Notes December 31, 2016 and, North American Palladium Inc. 6.15% September 30, 2017. These positions and Pinetree in the aggregate provide high return prospects between interest or dividend income and the potential for capital appreciation. In fact, our current high yield positions in the aggregate are generating an approximate 1.9% in just annual income for the Fund.

At the moment activist positions, where Goodwood had appointed a director or otherwise has some involvement in management, represents approximately 7.5% of the Fund's equity and comprise: The Westaim Corporation, Longford Energy Inc., Dacha Strategic Metals Inc. and Webtech Wireless Inc.

Collectively, we feel the upside potential inherent in our existing positions is significant.

Respectfully submitted,

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

March 25, 2013

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 do not currently buy or sell 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.

"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 (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.

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 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.

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). It is worth noting that any drawdown since inception in 1996 has been a precursor to good performance.[1]

Independent Thinking: 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.

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.

[1] Performance is not guaranteed and past performance may not be repeated.

GOODWOOD CAPITAL FUND
2012 Annual Report

To the Unitholders of Goodwood Capital Fund:

For the year ending December 31, 2012, the Goodwood Capital Fund’s (the "Capital Fund") net asset value (“NAV”) per unit increased **+10.6%.** The S&P/TSX Composite Total Return Index ("TRIN") increased +7.2% and the S&P 500 Index (in C$) increased +13.5% in the same period.*

From December 23, 1999 (commencement of the offering of the Capital Fund) through to December 31, 2012, the Capital Fund has returned **+3.9%** per annum net versus the TRIN's per annum increase of +5.5% and the S&P 500 Index (in C$) per annum return of -1.3%.

No distributions were paid on December 31, 2012.

The Capital Fund's 2012 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 3 through 11 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 Executive Officer & Chief Investment Officer
Goodwood Inc.

March 25, 2013

*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.

POLICY CONCERNING CONFLICTS OF INTEREST WITH RELATED ISSUERS AND CONNECTED ISSUERS

The securities laws of certain provinces require securities dealers and advisers, when they trade in or advise with respect to their own securities or securities in certain other issuers to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their customers or clients, to inform them of the relevant relationships and connections with the issuer of the securities. Clients and customers should refer to the applicable provisions of these securities laws for the particulars of these rules and their rights or consult with a legal adviser. The definition of the terms "related issuer" and "connected issuer" can be found in National Instrument 33-105 *Underwriting Conflicts* of the Canadian Securities Administrators.

The Manager engages in activities as an investment dealer, portfolio manager and investment fund manager. In the course of its activities, the Manager may provide advice in respect of the purchase or sale of corporations, general partnerships, limited partnerships, trusts or other issuers which may be considered to be related issuers or connected issuers of the Manager, including without limitation one or more investment vehicles formed or sponsored by and/or managed by the Manager. If the Manager does provide advice or act as an agent for the purchase or sale of securities of related issuers or connected issuers, it will: (a) disclose this fact in writing to the purchasers of such securities; and (b) comply with all applicable requirements under securities legislation.

Goodwood Fund, Goodwood Capital Fund, Goodwood Fund 2.0 Ltd. and Goodwood Value Fund (the "**Funds**") are connected issuers of the Manager by virtue of their relationship with the Manager. The Funds are investment funds to which the Manager provides fund management and/or portfolio management services. In addition, the Manager is principally responsible for the distribution of the Units of the Goodwood Fund and Goodwood Capital Fund. The Manager will not accept any commission either from the purchaser or from the Funds in connection with the sale of Units of a Fund. Instead, the Manager charges a management fee, redemption fee and/or performance fee in connection with its management of the Funds and/or their investment portfolios. Information regarding the services provided to each Fund and the fees charged by the Manager is contained in the offering memorandum of the Fund. The Manager may also provide brokerage services to the Funds and to other managed accounts (each, a "client") and may, in such cases, earn fees and commission from trades of the clients' investment portfolios.

The Manager, or key personnel of the Manager, may from time to time provide services to or have other relationships with other issuers of securities, including issuers in which clients are invested. This may create perceived conflicts with the best interest of clients, as there will be competing demands on the time of the individuals involved and there may be proposed dealings from time to time which are beneficial to such issuers, to the Manager or to the individuals providing services to such issuers but potentially prejudicial to clients, or vice-versa. The Manager has in place policies and procedures aimed at addressing any potential conflicts of interest that may arise as a result of these relationships, to ensure that the first priority of the Manager is to act in the best interest of its clients and to ensure that the nature of the duties and commitment of time does not impact the ability to act in the best interest of clients.

As of the date hereof, the following individuals are officers, directors and/or key personnel of the Manager and are also officers and/or directors of another issuer:

Peter Puccetti, CFA Chief Executive Officer, Chief Investment Officer and Director of the Manager	Director of The Westaim Corporation, Longford Energy Inc. and Dacha Strategic Metals Inc. Chief Executive Officer of Longford Energy Inc. and Dacha Strategic Metals Inc. Member of the Longford Energy Inc. Investment Committee.

As Chief Executive Officer of the companies named above, Mr. Puccetti is responsible for supervising the day to day operations and implementing the strategic direction of each such company, subject to the oversight and ultimate decision-making authority of the company's board of directors. As a member of the Investment Committee of Longford Energy Inc. ("**Longford**"), Mr. Puccetti provides input and is one of three members who review and make recommendations to Longford's board of directors regarding investment opportunities for Longford.

The Funds hold shares of Longford, The Westaim Corporation and Dacha Strategic Metals Inc.

Furthermore, the Manager, or an affiliate of the Manager, may in the future provide services to and receive compensation from issuers in which clients are invested. It is the policy of the Manager to make appropriate adjustments to the fees charged by it to clients where fees or other compensation are received directly by the Manager or its officers, directors or key personnel from issuers in which clients are invested.

The Manager maintains a list of issuers for which a director, officer and/or key personnel of the Manager act as a director and/or officer or with which the Manager has another relationship. This list can be found on the Manager's website at www.goodwoodfunds.com.

	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

GOODWOOD INC.

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

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