GOODWOOD INC.

THE

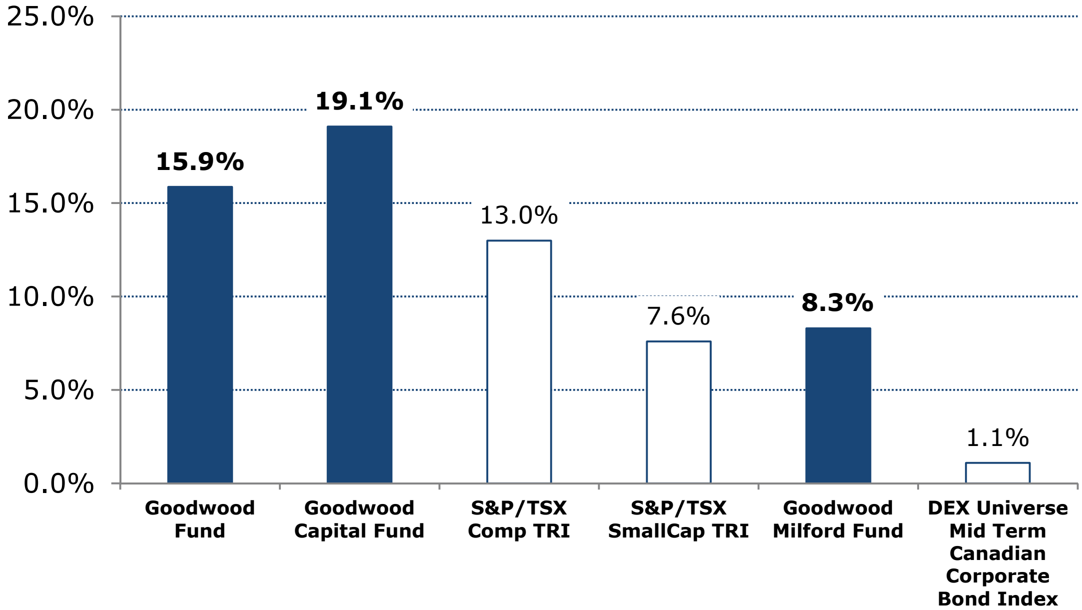
GOODWOOD

FUNDS

2013 Annual Report
Eighteenth Edition

2013 Performance

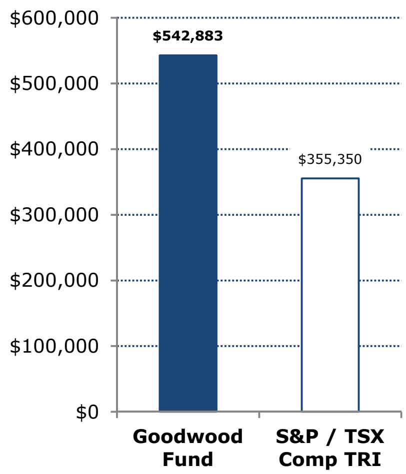
(net of fees)



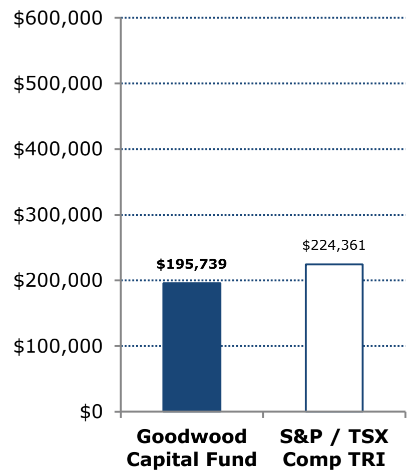
Long-Term Performance

Value of $100,000 invested since inception of Fund to December 31, 2013

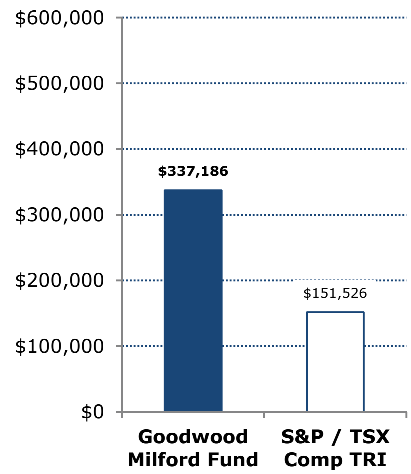
Goodwood Fund



Goodwood Capital Fund



Goodwood Milford Fund



	Goodwood Fund	Goodwood Capital Fund	Goodwood Milford Fund
CAGR:	10.4%	4.9%	16.4%
Inception:	October 26, 1996	December 23, 1999	January 1, 2006
Description:	Goodwood Fund is a long/short fundamental value oriented fund that uses a bottom-up, company specific approach to long-term investing.	Goodwood Capital Fund is a long-only fundamental value oriented mutual fund that uses a bottom-up, company specific approach to long-term investing.	Goodwood Milford Fund uses a fundamental bottom-up, company specific focus with a strategy of combining higher yielding corporate bonds and long/short equity positions.
FundSERV:	Class B – GWD022 Class F – GWD222	GWD001	Class A – GWD012 (Q2'14) Class F – GWD112 (Q2'14)

Source: Goodwood Inc., Bloomberg, BMO Capital Markets. Past performance may not be repeated. Performance data from certain S&P/TSX Composite TR Index, S&P/TSX SmallCap TR Index and DEX Universe Mid Term Canadian Corporate Bond Index are provided in this report for information purposes only. See annual report enclosed for full disclosure details.

GOODWOOD INC.
2013 Annual Letter

This is the 18th edition of the Goodwood Annual Report and I would like to thank our Unitholders for their continued support and confidence. We are pleased with the Funds' 2013 investment returns and the strong performance results so far in 2014. As always, this Report will discuss the Funds' results and highlight some of the more meaningful core positions held in the various Funds.

However, I would first like to provide a brief corporate update as this past year has been significant for Goodwood. To begin, the investment team has been strengthened with the addition of Chris Currie. Chris brings considerable corporate credit experience and is the Portfolio Manager of the Goodwood Milford Fund. The Fund was launched in 2006 to exploit opportunities at all levels of the capital structure. Chris has managed corporate credit portfolios for over 25 years (formerly with OMERS, CIBC and TAL Asset Management). The Goodwood Milford Fund targets high yielding corporate bonds and selectively utilizes equity investments (both long and short) to enhance returns. We are proud to include the Goodwood Milford Fund on the Goodwood platform and look forward to Chris' continued success.

As well, Jonathan Turnbull joined Goodwood in 2013 as a Managing Director and Analyst for the Goodwood SPValue Fund. Like the other funds, the Goodwood SPValue Fund is a concentrated fund investing in companies deemed to be undervalued and that offer potential of being positively influenced by shareholders taking an active role in seeking to implement changes in the areas of corporate governance, capital allocation, strategic or management reorganization. In order to best match this investment strategy, the Goodwood SPValue Fund features an even higher level of position concentration than our other Funds and has redemption restrictions. Jonathan has over 20 years of investment banking, equity and debt capital markets experience in New York and London with Salomon Brothers, Citigroup and Lazard Freres including many years as Global Head of Citigroup's Infrastructure Investment Banking business, Head of North American TMT Equity Capital Markets at Citigroup and Head of European High Yield Capital Markets and Syndicate at Salomon Brothers. We are thrilled that Jonathan joined Goodwood and we look forward to communicating the Goodwood SPValue Fund's results (and investment opportunities) in the coming months.

In addition, we are pleased to announce that we have further strengthened the Goodwood Advisory Board with the addition of Ian Delaney. Ian is the former Chairman of Sherritt International Corporation, where he had been a director since October 1995. Prior to joining Sherritt, Ian served as Chairman and Chief Executive Officer of Viridian Inc., President and Chief Executive Officer of The Horsham Corporation, and President and Chief Operating Officer at Merrill Lynch Canada Inc. (among many other prominent positions with large Canadian institutions). Goodwood will draw upon the considerable knowledge, experience and talent of both Ian and Cam MacDonald (Chair of the Goodwood Advisory Board and CEO of The Westaim Corporation) during our on-going development.

As many of you know, Peter Puccetti founded Goodwood in 1996 and with the Goodwood Fund has an 18-year track record of long/short investing using his bottom-up, value based, common sense approach. I have had the pleasure of working with Peter since 1999 (and have known him professionally long before that) and continue to be amazed with his passion for the capital markets and his commitment to the Goodwood Funds. His unique investment style provides the core to Goodwood's ongoing success within the investment management industry. I think you will find that Peter's consistent investment approach is unique, sincere and refreshing as evidenced by the previous 17 editions of the Goodwood Fund Annual Report.

We appreciate the ongoing support and confidence of all of our Unitholders and encourage you to call directly should you have any questions.

Respectfully submitted,

Curt S. Cumming
President & Chief Financial Officer
Goodwood Inc.
416-203-2522

March 21, 2014

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The information contained herein is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or an offer to buy or sell the securities mentioned herein. The Goodwood Funds and/or the principals, officers, directors, employees of Goodwood Inc. may have a position in the securities mentioned herein and may make purchase and/or sales of these securities from time to time. Our valuations may contain forward-looking information which is subject to change. Actual results or performance may differ materially from those expressed or implied in this document as a result of unforeseen events and their effects on our valuations and opinions. Principals of Goodwood Inc. may, from time to time, accept officer positions and/or directorships from companies unrelated to Goodwood Inc. In this circumstance, such companies would be considered under relevant securities law to be “related” or "connected issuers" to Goodwood Inc. or to Funds managed by Goodwood Inc. Currently, The Westaim Corporation and Dacha Strategic Metals Inc. are considered "connected issuers" in relations to of Goodwood Inc. and/or the Funds managed by Goodwood Inc. Furthermore, Goodwood Inc., or an affiliate of Goodwood Inc., may provide services to and receive compensation from issuers in which the Funds are invested. Goodwood Management Services Ltd., an affiliate of Goodwood Inc., entered into a Consulting Agreement with UrtheCast Corp. (formerly Longford Energy Inc.). Goodwood Inc. has adopted appropriate policies and procedures to address conflicts of interest with respect to connected issuers.

The Offering Memorandum (Goodwood Fund & Goodwood Milford Fund) and Prospectus (Goodwood Capital Fund) contain important information about the funds, including management fees, other charges and expenses and should be read carefully before investing. Fund performance is not guaranteed; net asset values change frequently and past performance is not indicative of future performance and may not be repeated. **Performance returns in this report are calculated for the founding Class of Units for each respective Fund** - Goodwood Fund Class A Units, Goodwood Capital Fund and Goodwood Milford Fund Class S. The returns and are net of all management fees, expenses and incentive performance fees. The performance fee for Goodwood Fund Class A units is 20% of positive returns over a 10% hurdle. Therefore in periods of positive performance the Class A is subject to lower performance fees. Currently only the Class B and Class F units of the Goodwood Fund are offered. Goodwood Milford Fund Class S charges a 1.5% management fee, other classes may charge different fees and therefore returns between the different classes may vary. Goodwood Inc. became the Investment Manager of the Goodwood Milford Fund on October 1, 2013 and Chris Currie, CFA joined Goodwood Inc.’s investment team continuing as portfolio manager for the Fund. There will be no change to the investment strategy of the Fund.

GOODWOOD FUND
2013 Annual Report

To the Unitholders of the Goodwood Fund:

For the year ending December 31, 2013, the Goodwood Fund's (the "Fund") net asset value ("NAV") per Class "A" units and Class "B" units both increased by **+15.9%.** The S&P/TSX Composite Total Return Index ("TSX") increased by +13.0% in the same period.

From October 31, 1996 (commencement of the offering of the Fund) through to December 31, 2013, the Fund has returned **+10.4%** per annum net (after all fees) versus the TSX's per annum return of 7.7%.*

No distributions were paid on December 31, 2013.

The Fund's 2013 audited financial statements are attached for your review.

During 2013 (based on month end figures), the Fund averaged a **99.7%** 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 **113.9%** invested, composed of **95.5%** long and **18.4%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **77.1%**. At the other extreme, the Fund was **90.7%** invested, or **77.6%** long and **13.1%** short for a net market exposure of **64.5%**.

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, Goodwood Milford 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 are net of all management fees, expenses and performance incentive fees and 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. Performance data from certain market indices (S&P/TSX Composite Index, S&P/TSX SmallCap Index and DEX Universe Mid Term Canadian Corporate Bond Index) are provided in this presentation for information purposes only. A comparison of the Funds' performance to such market indices is of limited use because the composition of the Funds' portfolio may contain other securities not found in the market index. As a result, no market indices are directly comparable to the results of the Funds and are displayed for comparison purposes to the broad market. ***The Annual Reports are not recommendations or research but rather commentaries of the Goodwood funds' holdings.***

“Commitment” and the Investment Process

The multiple definitions of the word commitment include: “a promise to do or give something; a promise to be loyal to someone or something and; the attitude of someone who works very hard to do or support something.” In the case of the Goodwood Funds, the fulfillment of “commitment” took the form of a substantial additional investment in the Goodwood Fund being made by yours truly at the beginning of 2013. Fellow unitholders would certainly be comforted by an analysis of our quantitative level of commitment (always so as a percentage of our total capacity available but all the more so now in terms of quantity). We will avoid for now another definition of commitment that being: “a consignment to a penal or mental institution” as we are committed but aspire to not be “committable”.

So, why is commitment so important in the management of investment funds? The answer lies within the nature of the process. There is an unending need to look and dig into new ideas and existing positions, to understand what is driving them and what may be missed by the broad universe of investors. One must be willing to never stop questioning the facts as they are presented and to do so effectively first requires an understanding of the prima facie facts. All of the foregoing leads to a need to read a lot of material and to listen to a lot of conference calls, annual meeting presentations, investor day presentations, etc. In short, it is a never ceasing, arduous process of turning over many stones to find a few interesting situations and it thus necessitates a large time commitment. A recent interview of Warren Buffett’s two investment management hires (to help manage pieces of Berkshire Hathaway’s considerable investment capital) speaks to the amount of hard work that goes into their investment process. One of the two, Todd Combs, mentioned how Buffett had advocated the reading of 500+ pages per day as a method of preparing for a successful investment career.

But, the reward, available only on occasion (if it was frequently and easily available large swaths of the investment industry would become unemployed) can be immense. Immense rewards as in a stock that rises many times higher than its purchase price (we have several candidates in the Funds that we believe have the potential to generate these sorts of returns over time).

The inescapable conclusion though is that, to be effective in the investment process requires the investor to be committed. And, as a subset within the investment industry, performance-oriented fund managers who stand to earn performance fees if results allow, must show an even higher level of commitment vis-à-vis major personal investments in their Funds and reasonable limitations on the amount of overall capital they manage.

Comments on Portfolio Holdings

Each month and once a year we walk a tightrope of sorts in that we would love to share with unitholders our most recent ideas but are very aware that many who are not unitholders are able to read our communications (or those who have a small amount of capital with us but substantially more capital away from us). And so, we run the risk of giving away ideas that we are still purchasing thereby reducing our ability to buy effectively for the Funds (obviously not a risk in the case of a large market capitalization/very liquid stocks). So what follows is again a discussion of some but not all of the Goodwood Fund's holdings.

When you study the pattern of how certain stocks have become "multi-baggers" one thing in particular becomes obvious - that being the unfolding of a multi-year trend or theme. Yet, in contrast, it is very difficult for investors to ignore a short term focus which is perpetuated by regular quarterly releases and daily mark-to-market (and, in the case of fund managers, the desire to attempt to always have happy clients/avoid underperformance periods as much as possible). But, an investor must to a large degree ignore the short term and instead maintain a focus on long term potential if one is to invest in a potential "multi-bagger" (which by the way is very tax efficient as compared to earning a series of smaller gains).

All of this to support our assertion that there is a chance (not a certainty but a decent chance) that **ATS Automation Tooling Systems Inc. ("ATS")** is on a multi-year path towards rewarding its shareholders with substantial returns.

ATS:

The ingredients for such a possible path include: a well-valued currency (now that ATS' stock has begun to trade for a fair multiple of earnings) and balance sheet with which to execute acquisitions; a strong management team which has recruited skilled personnel to execute the sourcing, acquisition and integration of acquisitions; a plethora of potential acquisition candidates; and, the ever-increasing advancement of factory automation (so organic growth available too). Also, corporate America seems destined to increase its capital expenditures on plant and equipment as highlighted in a recent Barron's article ("Profit From the Next Spending Wave", March 15, 2014 edition) in which a couple of interesting statistics were mentioned. Specifically that capital expenditures are running at just 46% of operating cash flow for non-financial companies in the S&P 500 (against an average since 1989 of 57%) and that the average age of U.S. structures is the highest it has been since 1965 while equipment hasn't been this old since 1995.

We are determined to not sell prematurely as we had with Paladin Labs Inc. ("Paladin") which long term unitholders will recall was a substantial win for the Funds. While in a completely different industry, ATS shares some characteristics that Paladin had in terms of substantial future opportunity set and a well-defined niche. We bought Paladin stock for as little as roughly $4 per share and sold it for as much as $19+ per share. However, if we had held on to the position for an additional almost 5 years, we would have realized more than $140 per share.

Similarly to ATS, we expect continued share price appreciation from a number of our other long term holdings such as: **Great Canadian Gaming Corporation ("Great Canadian"), Boralex Inc. ("Boralex") and Cowen Group, Inc. ("Cowen")**. You've heard us discuss these names many times over the years so we won't be needlessly repetitive but a few updates are deserved.

Great Canadian:

Great Canadian's management and Board continue to exceed the normal Canadian definition of share buybacks. Over the last approximate 3 years they have spent circa $187 million on share buybacks and have shrunk the number of shares outstanding by approximately 24% (versus what was outstanding 3 years ago). In addition, according to public filings, the CEO and his family own approximately 11 million shares which have a current market value of approximately $157 million[1]. This is truly abnormal based on what we have seen over the last circa 25 years of following Canadian publicly-traded companies.

[1] Source: SEDAR, SEDI, S&P CapIQ, Bloomberg.

David McFadgen of Cormark Securities Inc. in his March 17, 2014 update note on Great Canadian speaks to the powerfully positive impact these share buybacks have when combined with good cost controls and a fundamentally sound, good return on equity underlying business:

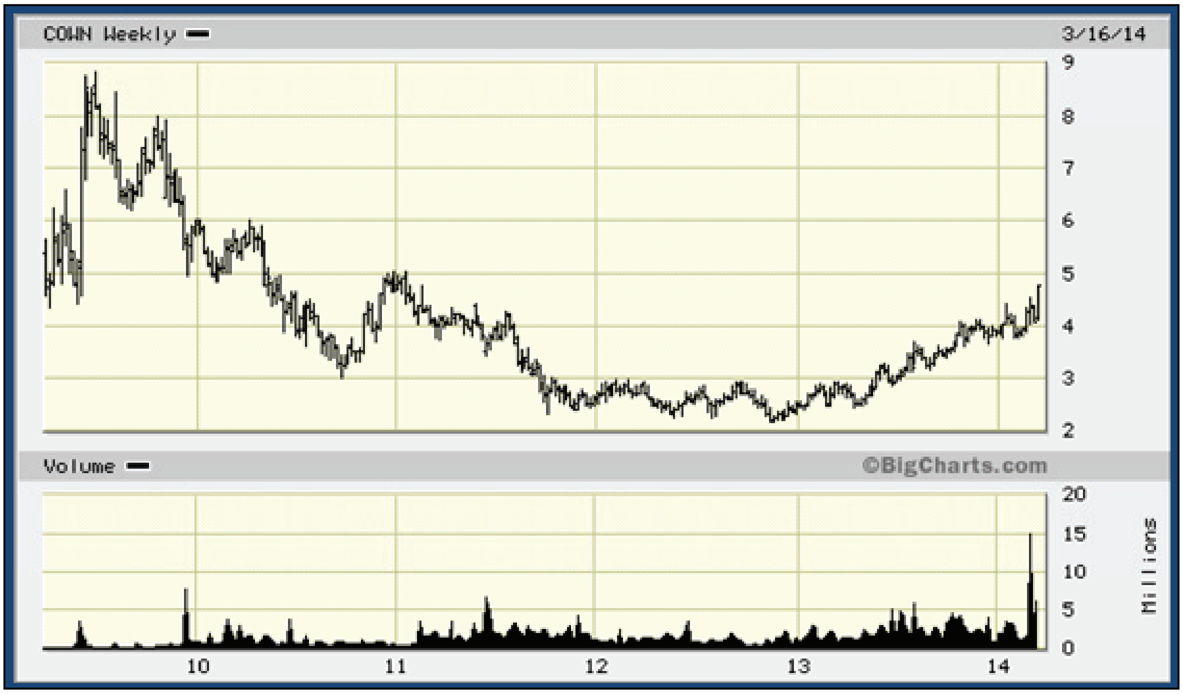
> "We note that GC's ROE has been trending up over the last few years as it has repurchased significant amounts of stock. In 2013, GC's ROE was 14.7% versus 12.5% in 2012 and 8.5% in 2011. We're forecasting ROE of 17.2% in 2014 and 16.4% in 2015. If GC repurchased $100 MM of stock for $14.00/share in each of Q3/14 and Q3/15, this would raise GC's ROE to 19.9% and 25.1% for 2014 and 2015, respectively."

We feel Great Canadian's solid operating execution combined with smart capital allocation leaves us with a free call option on what may happen in Ontario in terms of new casino opportunities. In other words, the current share price does not reflect any potential extra value (which could be significant) for what Great Canadian may win through the ongoing modernization efforts of the Ontario Lottery and Gaming Corporation.

Boralex continues to execute well while Cowen continues to improve its operating results. Both remain inexpensive on a variety of metrics.

Boralex:

Cowen:



A few new positions should be discussed here. In each case we have followed the companies for a number of years but have not purchased meaningful amounts of stock until relatively recently. **Encana Corporation ("Encana")** is an approximately $15 billion market capitalization, natural gas-weighted, North American-focused production company.

Encana:

What caught our attention was the arrival of the new CEO in June, 2013, Doug Suttles, and his new game plan for this massive (and massively under-performing) company announced in November of 2013. The key points of the new plan being as follows:

- Focus capital investment on five oil and liquids-rich resource plays in North America.
- Continue to lower cost structures by leveraging operational expertise and focusing operations to improve efficiency.
- Grow liquids production to build greater commodity diversity while retaining significant high quality natural gas resource options.
- Align the organizational structure with strategy.
- Reset the Company's dividend to align this return of cash to shareholders with current cash flow generation, while maintaining financial discipline and a strong balance sheet.
- Unlock additional value through asset divestitures and an initial public offering (IPO) of its Clearwater mineral fee title lands and associated royalty interests.

At a recent conference, Encana management specified that from this year on 75% of overall capital expenditures have been allocated to the five core growth areas (the Montney, Duvernay, DJ Basin, San Juan, and Tuscaloosa Marine Shale properties) versus past management's approach which had been to widely spend on 25 different properties. And so, by 2017, it is expected that 75% of upstream operating cash flow will come from liquids-rich plays which carry better economics than dry gas properties. Underscoring the much better economics of the five core properties are that they are expected to deliver in 2014 roughly $4.20/Mcfe (Mcfe = 1,000 cubic feet equivalent determined using the ratio of 6 Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids)(pre-hedging) versus just $1.90/Mcfe for Encana's overall portfolio.

This new, sharp focus applied to Encana's huge portfolio has the potential to generate superior shareholder returns going forward. As always, execution as much as the underlying commodity price will determine ultimate success.

Guestlogix Inc. ("Guestlogix") is a Toronto-based, leading global provider of onboard retail and payment technology solutions to airlines, railways and generally the passenger travel industry. Guestlogix has underperformed for a number of years but now appears to have hit its stride.

Guestlogix:

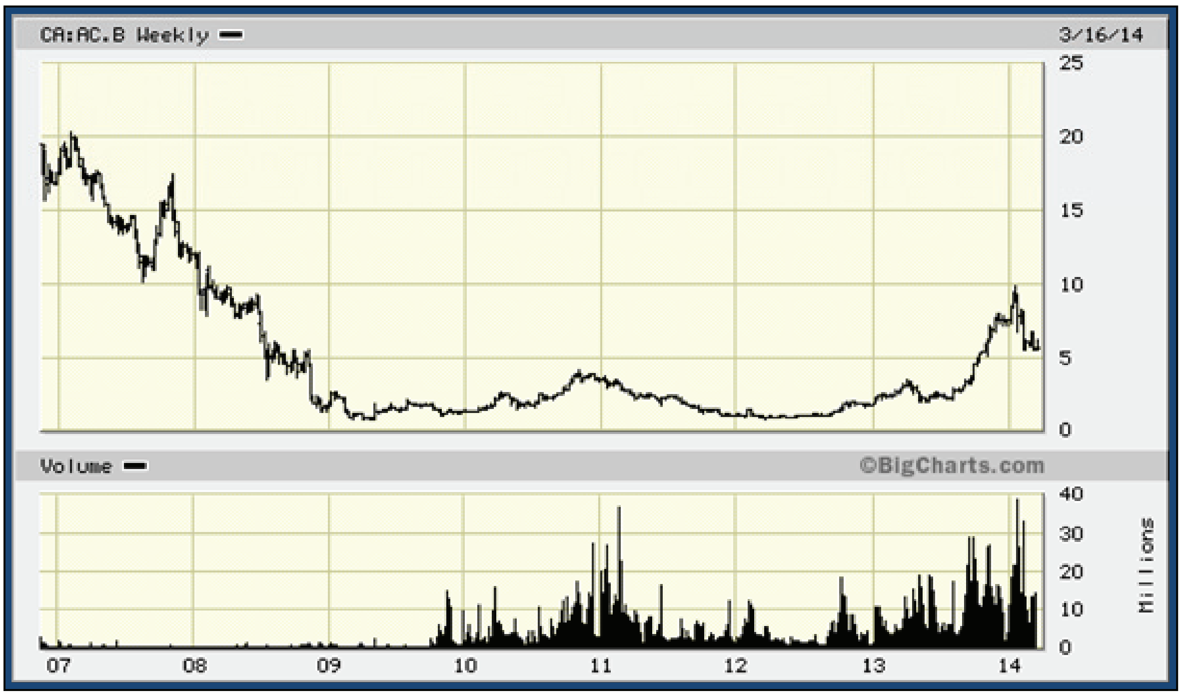
The trend towards airlines charging for ancillary services is part of the reason for the dramatic improvement in airline finances in North America over the last few years. And, this trend is very unlikely to abate now that it has begun in earnest. Guestlogix provides an interesting and potentially substantially undervalued method of participating in this new trend, having signed multi-year agreements with the major suppliers of in-flight entertainment and connectivity systems, Panasonic Avionics ("Panasonic") and Thales Group ("Thales"). As well, in November 2013, Guestlogix signed a 10 year agreement with NCR Corporation ("NCR"), the leading provider of airport self-service kiosks in North America (and with aspirations to make significant inroads into airports globally). The NCR relationship provides a secure and compliant means for airlines to sell additional products and services at multiple touch points throughout a passenger's journey.

During 2013, Guestlogix' software facilitated approximately US$914 million of underlying gross transaction value ("GTV") of transactions. With the new agreements in place with Panasonic, Thales and NCR and given the expected roll-out of new in-flight entertainment/services systems and airport kiosks, 2014 underlying GTV could be north of US$2 billion and over the next five plus years that figure could reach US$11 billion. Much of the ultimate GTV realized depends on what percentage of passengers make use of the substantially enhanced menu of offerings they will now have access to and to what degree they purchase these new offerings. And, the transaction fee earned by Guestlogix, estimated at 3.3% for 2013, will likely face downward pressure but we suspect not enough to offset the likely substantial growth in GTV looming. Another positive for Guestlogix is that the new business should carry much higher margins as Guestlogix will no longer have to provide the hand-held units that characterize the historical method of in-flight transaction processing.

Our sense is that, if Guestlogix was a U.S.-listed company, it would likely trade for a much higher market capitalization than its current circa $130 million. Supporting this premise is a loose comparable in the form of Gogo Inc. ("Gogo") and it's approximately US$1.8 billion market capitalization. Admittedly, Gogo is a much larger company but we think, all things considered, Guestlogix is materially undervalued on a relative basis. Further, as the roll-out of new Panasonic, Thales and NCR systems unfolds and Guestlogix EBITDA ramps higher, we believe Guestlogix becomes a compelling takeover candidate.

Continuing with the airline theme, we find the recent sell-offs in **Air Canada** and **Transat A.T. Inc. ("Transat")** interesting and potentially rewarding in a shorter or medium term sense (6 months to a year out).

Air Canada – Class B:



They've both always been cheap stocks reflective of the rightful distrust investors have concerning volatile airline results. But they are truly cheap and Transat beats out Air Canada on this metric and deservedly so given it is probably more vulnerable to predatory competition than Air Canada. Both companies have recently been hammered by the descent of the Canadian dollar versus the U.S. dollar as rapid changes in this FX rate wreak havoc with short term results. Through surcharges and other measures they are able to offset the new FX rate however it takes a quarter or two to catch up and that assumes no further deterioration in the exchange rate in the interim.

Transat – Class B:

At the time of writing of this Annual Report and after reporting disappointing results for the quarter ending January 31, 2014 (the company's first quarter of its fiscal 2014) Transat stock closed at $8.61 which is a hefty retracement of its 2013 rise (having hit $14.70 on December 12, 2013). At this level Transat has a market capitalization of approximately $332.6 million versus $359.6 million in net cash. Transat is trading for EV/EBITDAR multiples of just 3.9X fiscal 2014E and 3.1X fiscal 2015E (using S&PCapIQ consensus estimates and company financials).

Absent the FX factor, overall both Air Canada and Transat appear to be on a path to greater earnings not less in 2015. And, Transat is a viable acquisition candidate for a number of potential acquirers in particular Air Canada, WestJet and Sunwing (Sunwing has a deep-pocketed German shareholder).

Final Comments

We look forward to the balance of 2014 and feel that we are well-positioned to generate superior performance. We would highlight three factors that we think argue for the Funds being in a good position going forward: renewed manager commitment and alignment; a focus on performance not asset growth; and, meaningful remaining tax loss carryforwards with which to shelter future realized net gains.

Respectfully submitted,

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

March 21, 2014

GOODWOOD CAPITAL FUND
2013 Annual Report

To the Unitholders of Goodwood Capital Fund:

For the year ending December 31, 2013, the Goodwood Capital Fund's (the "Capital Fund") net asset value ("NAV") per unit increased **+19.1%.** The S&P/TSX Composite Total Return Index ("TSX") increased +13.0% and the S&P/TSX SmallCap Total Return Index ("SmallCap Index") increased +7.6% in the same period.*

From December 23, 1999 (commencement of the offering of the Capital Fund) through to December 31, 2013, the Capital Fund has returned **+4.9%** per annum net versus the TSX's per annum increase of +6.0% and the SmallCap Index per annum return of +2.7%.

No distributions were paid on December 31, 2013.

The Capital Fund's 2013 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 2 through 10 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 21, 2014

* The proportion of assets of the Fund invested in any particular market capitalization will vary and may include a large portion invested in small-cap issuers The 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 S&P/TSX SmallCap Total Return Index provides an investable index for the Canadian small cap market. These indices includes reinvestment of dividends and capital gains.

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 are net of all management fees, expenses and performance incentive fees and 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.

GOODWOOD MILFORD FUND
2013 Annual Report

To the Unitholders of the Goodwood Milford Fund:

For the year ending December 31, 2013, the Goodwood Milford Fund's (the "Fund") net asset value ("NAV") per "Class S" unit increased by **+8.3%.** The S&P/TSX Composite Total Return Index ("TSX") increased by +13.0% in the same period. The DEX Universe Mid Term Canadian Corporate Bond Index ("DEX Index") returned 1.1% in 2013.

From January 1, 2006 (commencement of the offering of the Fund) through to December 31, 2013, the Fund has returned **+16.4%** per annum net (after all fees) versus the TSX's per annum return of 5.3%.*

The Fund's 2013 audited financial statements are attached for your review.

During 2013 (based on month end figures), the Fund averaged a **125.4%** 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 **186.1%** invested, composed of **141.7%** long and **44.3%** short, leaving a "net market exposure" (i.e., longs minus shorts as a percentage of the Fund's equity) of **97.4%**. At the other extreme, the Fund was **65.8%** invested, or **56.1%** long and **9.7%** short for a net market exposure of **46.4%**.

The Fund has a similar value philosophy to the other Goodwood Funds. The focus is on creating investment return by recognizing companies whose bonds will rise in price as a result of improving credit quality. We forecast improvements in credit quality by analyzing fundamental bottom up factors and watch for improvements in corporate performance, implementation of successfully new business lines, asset sales, deleveraging and equity raises.

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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. Performance data from certain market indices (S&P/TSX Composite and DEX Universe Mid Term Canadian Corporate Bond Index) are provided in this report for information purposes only. A comparison of the Fund's performance to such market indices is of limited use because the composition of the Fund's portfolio may contain other securities not found in the market index. As a result, no market indices are directly comparable to the results of the Fund.

A New Chapter for Milford

I am pleased to provide my inaugural comments for the Goodwood Milford Fund Limited Partnership (the "Fund") in the Goodwood Annual Report. The Fund was launched on January 1, 2006 to invest in opportunities at all levels of the capital structure. As at December 31, 2013, the Fund has earned a compounded annual rate of return of 16.4% since inception. October 1, 2013 was a major milestone for the Fund as we moved to the Goodwood platform when I joined Goodwood as a Portfolio Manager. Goodwood and I share a similar investment style – bottom-up and company specific. While the Goodwood Funds are primarily focused on equities, the Goodwood Milford Fund primarily focuses on corporate bonds. The most valuable skill in a Portfolio Managers toolbox is the effective allocation of time and resources to the most profitable ideas. The Goodwood Milford Fund can now leverage the analysis and idea generation of members of the Goodwood team, and vice-versa, to more fully analyze the landscape for superior risk-adjusted return ideas. We are excited by the potential synergies this partnership brings to our investors and hope to share more details of the cross-pollination of investment ideas and the resultant benefits on performance in the future.

The Fund's strategy is a core of high yielding corporate bonds designed to provide a stable income, while holding a smaller weighting in value-based special situation securities (both equity and debt) where we believe a catalyst exists to unlock value for investors. We prefer to invest in corporate debt as we can apply fundamental investment analysis to uncover situations that we believe will appreciate from credit upgrades, a deleveraging balance sheet or improved corporate performance. Special situation investments (both long and short) are selected to enhance returns and on occasion to provide hedges to other portfolio exposures.

Looking at 2013 we were surprised by the strength of the U.S. equity markets in the face of considerably negative macro-economic events. The three big economic news events were:

1. the Federal Reserve's initial talk of tapering its asset purchase program,
2. the debt ceiling debate in the U.S. and,
3. the potential and realized U.S. government shutdown.

Only the first event had an outsized negative impact on the markets. The bond markets were hit the hardest losing over 4% in May and June 2013 while the TSX was down a similar amount. After the Fed's tapering talk, the Fund increased its short Treasury Bond position and started to sell small cap stock positions to raise cash as a defensive strategy. The negative 0.56% return in June 2013 was the Fund's only down month in 2013.

With the spectre of the upcoming debt ceiling showdown and a potential U.S. government shutdown in the Fall, we maintained our strategy of selling small cap equities and increasing the Fund's cash levels. The U.S. and Canadian equity markets however went the other way - straight up! The TSX ended the year up 13% and the DEX Index was up 1.1%. The Fund returning +8.3% in 2013, underperformed the broad market but outperformed the mid-term corporate bond index, while maintaining an 8 year annual compound return of 16.4% since inception.

Comments on Holdings

Alliance Grain Traders Inc. 9.00% February 14, 2018 ("AGT 9%")

Alliance Grain Traders (AGT) is a value-added processor of beans, lentils and pulses around the world through its network of shipping, terminaling, processing and distribution assets. These are high value fixed assets which would be extremely difficult to recreate and thus are the basis of the value of these bonds. While crop yields and pricing are extremely volatile, we find owning the underlying assets of processing, storage and distribution to be much more compelling for our strategy then having exposure to the vagaries of commodity prices. AGT continues to expand into upstream markets and in 2014 should benefit from the impact of its recent entry into the higher-margin food ingredients market. This should provide cash flow growth and further diversify the company's earnings stream away from the traditional grains business.

AGT 9%:

North American Energy Partners 9.125% April 7, 2017 ("NOA 9.125%")

North American Energy Partners (NOA) bonds represent the type of multi-year investment we are attracted to. The company specializes in earth moving and site preparation primarily in Alberta's oil sands. This type of work typically entails long term contracts but getting these contracts requires impeccable safety records and superb execution. Under recent CEO appointee Martin Ferron, NOA has taken a number of steps that have increased the credit quality of the bonds. Mr. Ferron has sold off non complementary businesses, reduced debt, and significantly reduced overheads in the business. Bondholders were rewarded in July of 2013 with a partial redemption of their bonds by the company at 104% of the par price.

NOA 9.125%

Aimia Inc 6.25% Preferred - Series 3 ("Aimia 6.25%")

Aimia Inc. (Aimia) is better known to most people by its core Canadian operations – Aeroplan – the most successful loyalty rewards program in Canada. As the global economy continues to slowly recover, 2013 saw a strong recovery in the global airline industry with strong passenger traffic growth. Aimia continues to expand its portfolio of global loyalty programs and ancillary businesses. We had previously owned Aimia's 5.6% bonds but switched to these preferreds when they were issued as we find the risk-reward characteristics of owning Aimia's preferred shares to be compelling vis-à-vis the company's bonds. We are happy to trade off some seniority for the higher tax-efficient yield and to pick up the optionality to potentially convert these preferreds into a floating rate security in the future.

Aimia 6.25%:

In closing I am excited about the future at Goodwood for myself and the Fund's investors. I thank all of you for your support and encouragement these past years.

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

Respectfully submitted,

Chris Currie, CFA
Portfolio Manager
Goodwood Inc.

March 21, 2014

The Goodwood Philosophy

<u>Expectations and Rate of Return:</u> 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. Unitholders should not expect a steady, positive monthly return from us.

<u>Bottom-Up not Top-Down:</u> 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.

<u>Concentrated positions:</u> 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 15% at cost (the Goodwood Capital Fund must remain under 10% at cost). 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.

<u>Activism:</u> 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.

<u>Longs versus shorts:</u> 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.

<u>Derivatives and leverage:</u> The Funds do not currently buy or sell options or futures contracts. While we are permitted to go to 200% of equity invested in the Goodwood Fund (the exception Goodwood Capital Fund 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 Goodwood Fund's history we have been below 100% invested (i.e., market value of longs plus market value of shorts all divided by equity is below 100%) thus we usually have excess cash. The Goodwood Fund's 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 the Goodwood Fund, 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 Fund	Goodwood Capital Fund	Goodwood Milford Fund
Strategy:	Long/Short Fundamental bottom-up value oriented	Long-only Fundamental bottom-up value oriented	Long/Short Fundamental corporate credit with equity overlay
Exposure:	North America	North America	North America
Valuation/Liquidity:	Weekly & Monthly	Weekly & Monthly	Weekly & Monthly
Fund Type:	Mutual Fund Trust	Mutual Fund Trust	Limited Partnership
Inception Date:	October, 1996	December, 1999	January, 2006
RRSP Eligible:	Yes	Yes	N/A
Prime Broker/ Custodian:	National Bank Correspondent Network (NBCN Inc.)	National Bank Correspondent Network (NBCN Inc.)	BMO Capital Markets
Trustee/ General Partner:	Computershare Trust Company of Canada	Computershare Trust Company of Canada	Milford Capital Management Partners Inc.
Fund Accounting:	CommonWealth Fund Services Ltd.	CommonWealth Fund Services Ltd.	CommonWealth Fund Services Ltd.
Auditor:	KPMG, LLP	KPMG, LLP	CW Partners LLP
Legal Counsel:	Borden Ladner Gervais, LLP	Borden Ladner Gervais, LLP	Borden Ladner Gervais, LLP
FundSERV Code:	Class B – GWD022 Class F – GWD222	GWD001	Class A – GWD012 Class F – GWD112 Series Codes - Q2 2014

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