RAVENSOURCE
FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE YEAR ENDING DECEMBER 31, 2012

MANAGEMENT'S LETTER TO UNITHOLDERS

This management's letter to unitholders contains in-depth commentary, analysis and other information but does not contain the complete annual financial statements of the investment fund. You can get a copy of the management report of financial performance and financial statements at your request, and at no cost, by calling 416 250 2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at www.ravensourcefund.ca, or the SEDAR website at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

A Note on Forward/Looking Statements

This document may contain forward/looking statements relating to anticipated future events, results, performance, decisions, circumstances, opportunities, risks or other matters. Forward/looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may", "will", "should", "could", "expect", "anticipate", "intend", "plan", "believe", or "estimate" or other similar expressions. These statements require us to make assumptions and are subject to inherent risks and uncertainties. Our predictions and other forward/looking statements may not prove to be accurate, or a number of factors could cause actual events, results, performance, etc. to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward/looking statements. These factors could include, among others, market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the fund may invest, and the risks detailed from time to time in the fund's simplified prospectus. Forward/looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward/looking statements and should be aware that the Fund may not update any forward/looking statements whether as a result of new information, future events or otherwise.

Fellow unitholders,

Welcome to the inaugural "Management's Letter to Unitholders". Its genesis is borne out of our belief that the more formal documents that we are required to publish contain a wealth of important information yet do not address some of the reasons why you own Ravensource Fund units: the composition and performance of its investment portfolio and the team that makes its investment decisions.

Our goal for this letter is simple: report to you as investors in Ravensource in a frank and open way about the philosophy/approach that guides our investment decisions; the rationale for and changes in Ravensource's investments; the performance of the investments over the reporting period; and some of the risks that Ravensource is exposed to. We are committed to publishing this letter semi-annually but from time to time we may sneak in some more informal commentary that we will post on the Ravensource website.

Lastly, this letter should be viewed as a supplemental report and not a substitute for the more formal and comprehensive documents that we publish. Similar to the due diligence we perform prior to making an investment, we urge the reader to review the following, all of which are available on SEDAR (www.sedar.com) or on Ravensource's website (www.ravensource.ca):

- Audited Financial Statements for the years ended December 31, 2012 and 2011;
- Management Report on Financial Performance ("MRFP") dated December 31, 2012;
- 2012 Annual Information Report ("AIF") dated March 26, 2013; and
- Independent Review Committee ("IRC") 2012 Annual Report.

The Ravensource Fund

The Ravensource Fund ("Ravensource" or "the Fund") is a closed-end mutual fund trust, the units of which trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns, with an emphasis on capital gains, through investments in selected North American securities. The investment objectives of the Fund are stated in detail in the notes to the financial statements and in greater detail on the company website.

To achieve its investment objectives, Ravensource's investments fall primarily in three categories:

1. *High Yielding Securities:* investing in corporate debt, income fund units, or other securities that produce a sustainable high level of income for the underlying credit risk.

2. *Distressed Securities:* investing in corporate debt, creditor claims and/or equity securities of companies which are in, or perceived to be in, financial distress at a value materially different from what we believe to be the underlying fundamental value of the securities.

3. *Special Situations Equities:* investing primarily in Canadian and U.S. small- and mid-cap equities that have been identified as not only attractively valued but also with the catalysts to unlock value.

Investment Manager - Stornoway Portfolio Management Inc.

Stornoway Portfolio Management Inc. ("SPM") was appointed the Investment Manager to the Ravensource Fund effective July 1, 2008. SPM's responsibilities for Ravensource include the evaluation, selection and negotiation of investments, the ongoing monitoring and evaluation of such investments and the recommendation of the appropriate timing and structure for disposition of such investments. Scott Reid, founded SPM in 2004 and has over 20 years of experience in the Capital Markets researching, restructuring and investing in special situations with particular emphasis on companies that are experiencing financial distress. Steve Schaus joined SPM in 2011 as a Partner. Steve has over 15 years of experience including 8 years on the proprietary trading desk at Scotia Capital and 6 years with Ernst & Young where Steve was involved in a number of large and complex CCAA and Chapter 11 restructurings.

In additional to the Ravensource Fund, SPM manages the Stornoway Recovery Fund LP which focuses exclusively on investing in distressed securities and turnaround situations.

Ravensource Investment Committee

The Ravensource Investment Committee (the "RIC") is comprised of Scott, Steve, and Pat Hodgson, and oversees the investment management of the Fund. Pat is the President of Cinnamon Investments Limited ("Cinnamon") and managed Ravensource up until July 1, 2008. Through the RIC, Pat remains actively involved in Ravensource by contributing investment ideas, providing a sounding board and imparting his years of investment experience, which adds depth, horsepower and balance.

We firmly believe that an investment manager should have "skin in the game". Putting this concept to work, as of March 26, 2013, Scott owned 168,000 units of Ravensource representing 9.9% of the total units outstanding. Pat – directly and through related parties – owned 736,090 units of Ravensource representing 43.3% of the units of the Fund. Lastly, Steve – directly and through related parties – owned 25,853 units of Ravensource representing 1.5% of the units of the Fund. In short, we eat our own cooking.

Investment Philosophy

We are deep value investors that often find attractive investment opportunities from situations that are overlooked by traditional investors. Many of these opportunities arise from companies with warts on them. Examples include:

- debt of companies who require a financial and/or operational turnaround
- income trusts who ceased or reduced their distribution
- companies with hidden assets or misunderstood liabilities
- shares of companies lacking or losing institutional research coverage

We spend a lot of time combing through company filings and analyst reports, having discussions with our various networks, and other less trodden avenues to uncover these opportunities. However, investment analysis and identification of opportunities is not sufficient to generate investment returns. Nor is simply being stingy at the time of purchase. To realize value from these opportunities, we bring the following attributes to Ravensource's investors:

- ability to see beyond current corporate/financial challenges;
- patience and an investment horizon long enough for the markets to recognize the intrinsic value that we did at the time of investment;
- businessperson's ability to assess the viability of an operational turnaround; and
- recognition of catalysts to unlock value.

Patience is a virtue in the type of investing we do. Having patience requires conviction in our ideas and the realization that others will take their time, likely after an event has occurred, to see the profit potential that we did at the time of investment. Patience, however, does not mean simply sitting on our hands and waiting until the market catches up. We are not believers that it is just a matter of time until good fortune comes our way. Rather, we believe in rolling up our sleeves and getting actively involved in investee companies to help them to create value on our investment. As an example, Scott currently sit on the Board of Directors of SFG Inc., a private U.S. meat processing company that represents Ravensource's single largest investment. We also have served on many creditor committees of investee companies that are in midst of a financial turnaround. Further, rarely a week goes by without Pat, Steve or Scott calling the management of a company to better understand their business and offer our services to aid their efforts. Regardless of their reception, we believe that being actively involved is a responsibility that we owe our investors and the companies we invest in.

Lastly, we place a large weighting on the underlying margin of safety of an opportunity prior to making an investment. This is an ephemeral concept that can include hidden asset values in companies losing money, excess cash, strong market positions combined with excess debt, or some other combination of ugliness and attraction. We know we will not always get it right and thus seek the protection that a large margin of safety can provide. Our experience in 2008 and the catastrophic percentage losses that followed have led us to demand wider margins of safety. And the proof is in the pudding; many of our investment positions that had temporary large losses during 2008 have since recovered and only did so because we believe that they had wide enough margins of safety to see them through the storm. Of course, there would have been no harbour unless the underlying investment thesis was sound. Despite our efforts and diligence, Ravensource is not immune to the ravages of another financial melt-down. It is likely that our net asset value will fall in value if we experience another freezing of credit as in 2008. However, we do believe we have a larger and more protective air-bag in case of another crash.

Investment Performance

We are pleased to report that Ravensource Fund's net asset value per unit ("NAV") increased by 15.4% including distributions and after all fees and expenses in 2012 and that Ravensource's net assets increased by $1.76 million or 10.6% year-over-year as the increase due to the Fund's investment performance was partially offset by distributions to unitholders.

This year's performance was primarily driven by long-term investments that we harvested during the year as key milestones supporting our investment thesis were achieved and the value that we recognized at the time of investment was unlocked. Ravensource is a relatively small investment fund and we work hard – both before and after our investment is made – to make our investments sweat for Ravensource's investors. In 2012, our efforts were rewarded as four of the top five performers were investments where we invested as much intellectual capital as financial capital to achieve a successful result.

	2012	2011	2010
Investment Income	1,047,552	806,099	517,752
Net Investment Income (Loss)	499,244	464,790	104,004
Net Realized and Unrealized Gain (Loss) on Investments	2,044,887	(932,399)	3,633,824
Total Increase (Decrease) from Operations	2,544,131	(467,609)	3,737,827
Total Increase (Decrease) from Operations per unit	1.50	(0.29)	2.62
Total Net Assets	18,344,477	16,580,706	14,883,954
Net Asset Value per unit	10.79	9.74	10.45
Cash Distribution per unit	0.45	0.36	0.18
Return on Investment [1]	15.3%	-3.3%	32.8%
S&P/TSX Total Return Index	7.2%	-8.7%	17.6%

(1) Total Return = (Increase in NAV per unit + Distribution) / Prior period ending NAV per unit

While our objective is to produce significant long-term rates of return regardless of market conditions, we do appreciate that some of Ravensource's investors will compare our performance against the crowd. For 2012, we can report that our results stack up favorably against the overall market as Ravensource's investment results for 2012 outperformed the 7.2% increase in S&P TSX Composite Total Return Index. On a longer-term perspective, the Fund's outperformance is magnified as Ravensource's NAV has increased by 43%, including re-invested distributions, since Stornoway Portfolio Management took over its management in July 2008 while the S&P TSX Composite Total Return Index has only increased by 0.5% over the same time period. The specific investments that have significantly contributed – both positively and negatively – to Ravensource's 2012 performance are found in the table below:

Investment	Per RAV Unit [1]	Period Return [2]
Holloway 6.5% due Jun 30, 2012	$0.61	127.6%
First Uranium 4.25% due June 30, 2012	$0.49	50.0%
Pier 1 Network Enterprise	$0.32	136.4%
Specialty Foods Group	$0.27	25.9%
Jovian Capital	$0.15	15.0%
PlazaCorp Retail Prop. LTD.	$0.10	15.2%
Clairvest Group Inc	$0.08	30.6%
Winpak Ltd.	$0.08	25.6%
Supremex Inc	-$0.08	-29.0%
Nordion	-$0.08	-29.4%
Crystallex 9.375% due Dec 30, 2011	-$0.15	-18.3%
Connacher Oil & Gas Ltd	-$0.23	-54.2%

1 Total investment income / # of RAV units outstanding

2 Total Investment Income / (December 31, 2011 Fair Value + 2012 Purchases)

Total investment income = realized gains/losses + unrealized gains/losses + dividends + interes

Holloway Lodging REIT ("HLR") and First Uranium Corp ("FIU")
Our two most profitable investments for 2012, Hollowing Lodging REIT and First Uranium Corp, provided significant contributions not only to the Fund's returns, but also to the great "harvest" which occurred during 2012. SPM played an active role in both situations, sharing our thoughts on creating value with management (whether they wanted them or not!), and taking actions with fellow investors to protect our interests. This hands-on approach enabled the Fund to invest at deep discounts in periods of great uncertainty, and helped drive the ultimate outcomes allowing significant gains to be realized. We wrote extensively about both situations in our June 30, 2012 report. Suffice it to say that both were very successful investments for Ravensource, with the Fund generating a total return of 66.4% on HLR and 37.1% on FIU over the term that we were invested.

Specialty Foods Group Inc ("SFG")
2012 was a very eventful year for SFG. At the start of the year, our initial convertible bond investment was exchanged for straight bonds and equity warrants. Using cash generated from strong operating performance, SFG redeemed all of the newly issued bonds in 2012. As a result, Ravensource reduced the capital invested in SFG freeing cash for new investments, while maintaining its exposure to further increases in the company's value via the equity warrants. On December 11th, 2012, Nathan's Famous Inc. ("NFSI") announced that it was not extending its license agreement with SFG past its March 1, 2014 expiry date. SFG put forward what they believed was a very compelling proposal to NFSI, however, NFSI elected to go with John Morrell, a subsidiary of Smithfield Foods Inc. While disappointing, the deal that NFSI struck with John Morrell simply would not have increased SFG's shareholder value relative to its next best alternative. To give you a sense of the economics of the new license agreement, John Morrell will be paying 10.8% of net sales in royalties to NFSI versus approximately 4% in SFG's existing agreement.

But all is not lost – far from it. SFG continues to generate significant free cash flow and its non-Nathan's business continues to improve. Accordingly, the value of Ravensource's SFG warrants appreciated significantly during the year. Through Scott's activities as a member of SFG's Board of Directors and a member of the Value Creation Committee, SPM continues to be very involved in the value-enhancing initiatives underway at SFG. Furthermore, SPM has entered into a Services Agreement with SFG, providing additional strategic advice and analysis as the company maneuvers through the many critical decisions that lie ahead. We expect our investment in SFG to again be a strong contributor to our performance in 2013.

Peer 1 Network Enterprises ("Peer 1")
Peer 1 came to our attention at a time when the company was rapidly building capacity with few tenants and a depressed share price to show for it. In our minds, Peer 1 was not a technology stock. Rather, it was akin to purchasing a real estate property with a high vacancy rate without paying a premium for its additional rent potential. True, it does take time to get new customers into a new data center as dependability is the key decision criteria and promises of reliability do not make a convincing argument. But once secured, these tenants are very sticky as the relatively small cost advantages of switching to another facility pale in comparison to the associated risks and the hassle involved. In short, our thesis was that Peer 1 would be able to fill up the facility thus dramatically increasing its earnings, which the market would ultimately reward. Like investing in troubled companies, Peer 1 required us to be patient and look beyond the status quo, but if change occurred the value of our investment would appreciate greatly. Based on our analysis, we purchased shares at average cost of $1.10 per in May 2010.

While Peer 1's marketing / sales team filled its green-field data centers with customers, we also benefited from the active involvement of Peer 1's lead investor, Clairvest Group Inc, who injected capital and strategic focus. This is one of Ravensource's tactics: align ourselves with other like-minded investors focused on creating shareholder value. Ultimately, Peer 1 was a fantastic investment that concluded with the December 21, 2012 announcement that Cogeco Cable was making a $3.85 per share offer for the company. Ending the year at effectively the take-over price, Peer 1 was Ravensource's 3rd largest contributor to 2012's performance;

generating a 247% total return / 61.3% annualized return over the 2.5 year investment period. Further, we were so impressed by Clairvest's strong leadership team, assets and attractive share price, Ravensource purchased Clairvest shares which in turn have appreciated in price – but we will save that for future report.

Winpak Ltd ("Winpak") & Plazacorp Retail Properties Ltd ("Plazacorp")

Two contributors to our positive results are seasoned positions that have rewarded us before. Plazacorp and Winpak share certain characteristics we find appealing. They have top quality management who act like owners. They care and are careful with capital allocation. Both have lacked market liquidity partly because large, long term shareholders own so much and have not shown any interest in reducing their positions. Both companies have strong balance sheets. Winpak has no debt and its substantial growth since inception has been financed from internal cash flow. They also have strong customer relationships that are sticky as long as the products and service remains top of class.

Winpak is a Winnipeg based manufacturer of packaging materials for the food industry. They often develop distinctive new products that offer food manufacturers competitive advantages such as longer shelf life. The company is benefitting from the trend to single serving in many food products such as yogurt, cheese or coffee. We purchased shares at an average cost of $6.50 back when Winpak was struggling with a dual problem of rising Canadian dollar and resin prices thereby squeezing profit margins. Currency problems were addressed by new facilities and production in the USA. Escalating resin costs, which were an industry issue, are now addressed by raw material surcharges when appropriate on a formula basis, mitigating commodity risk in the process. Winpak is now back on a growth trajectory, and the market has taken notice – the share price closed 2012 at $14.70 and generated a total return of 25.6% for the year, and more recently has traded up to $19.75! As value investors we need to consider when the share price has exceeded the likely value of the business in spite of the strong appeal of a well run company able to self-finance growth through free cash flow. With that said, at a recent meeting to discuss our investment with the company, Winpak's CEO Bruce Berry turned the tables on us and pitched us on the merits of changing SFG's hot dog packaging to Winpak. Exceptional management indeed!

Plazacorp is a landlord and developer of commercial properties primarily in the Maritimes and Quebec. We purchased shares at an average cost of $1.20 in its early days as a public company, liking their story and the people who ran it. Their success has been found outside the major urban markets where the real estate competition has been less intense. They are often in communities that do not expect a new mall every few years and once built a property has a long useful life if well maintained. Their strategy of A tenants in B towns has generated steady and superior returns when compared to most REITs. But Plazacorp is not a REIT structure, at least not as of yet. They are constantly developing new properties which take time to be reflected in income, and often the share price does not fully reflect their progress. However, their growth strategy has led to a steady appreciation in the share price, rising to $4.90 at December 31, 2012 generating a total return of 15.2% for the year. As of this writing, Plazacorp has announced a proposal to acquire a small REIT that will take them into the business of fast food restaurant location leasing, strengthen their already strong relationship with Shoppers Drug Mart and extend their geographic reach. It remains to be seen if their bid will succeed, as it is a contested acquisition.

Nordion Inc. ("NDN")

One of our key investment criteria is the presence of catalysts which will help surface value and crystallize profitable exit opportunities. However, despite our due diligence, there are times when these catalysts do not unfold as anticipated. When this occurs, our disciplined investment approach requires us to swiftly gauge the situation and take necessary action to cut or mitigate our losses. Nordion is one such example.

We purchased Nordion shares in August, 2012 based on our view that there was a high probability Nordion would win a substantial award in its pending arbitration with Atomic Energy Canada, that such an outcome was not recognized in the market value of Nordion's shares, and that a positive arbitration outcome would provide the catalyst to increase the market value. In September, Nordion announced that it had lost the arbitration, causing a precipitous drop in the share price. While the drop in price resulted in a market value that appeared compelling based on the value of Nordion's remaining businesses but that was not the basis of our investment. We invested based on expectations of a specific catalyst, and had carefully gauged the risk/reward of our investment based on the possible outcomes of this catalyst event. When the catalyst failed to materialize as expected, we sold our position, resulting in a loss of 29% on our investment.

Expenses

The annualized Management Expense Ratio ("MER") measures the amount of annual fund expenses expressed as ratio to average net assets. For the year ended December 31, 2012, Ravensource's MER was 3.14%, an increase of 97 basis points over 2011 levels of 2.17%. The increase in MER for 2012 is primarily a result of increases in professional and incentive fees moderated by a partial waiver of Management and Administration fees charged by the Investment Manager.

Management Expense Ratio Composition

	2012	2011
Management, administrative and IR fees	0.76%	1.28%
Trust, transfer agency, and listing fees	0.30%	0.30%
Audit fees	0.13%	0.17%
Other professional fees	1.07%	0.38%
Other expenses	0.03%	0.03%
Expenses before incentive fee	**2.29%**	**2.17%**
Incentive fee	0.85%	0.00%
Total expenses	**3.14%**	**2.17%**

Professional fees increased Ravensource's MER by 69 basis points in 2012 over 2011 levels. Ravensource incurs professional expenses, especially in our Distressed Securities strategy, in the negotiation and/or protection of the Fund's investments. In 2012, legal expenses were particularly higher than normal due to Crystallex's CCAA insolvency proceedings, the negotiation of the amendment to First Uranium's bond indenture and conversion of Holloway Lodging bonds to units. Being frugal by nature, we do not incur such expenses lightly and only do so if they can be justified in furthering our goal to maximize the impact of and control the risks of our investments.

SPM, as Ravensource's Investment Manager, is eligible to earn an incentive fee equal to 20% of the amount by which the net asset value per unit at the end of the year, adjusted for contributions, distributions, and redemptions during the year, exceeds the net asset value per unit at the beginning of the year by more than 5%, plus any shortfalls from prior years. In 2012, the incentive fee was equal to 85 basis points of average net assets in 2012, while no incentive fee was earned in 2011. The incentive fee is structured in a way to ensure that the interests of unitholders and SPM are aligned and only earned if the value of the Fund exceeds its life-time high and after investors have been compensated with an additional 5% preferred return.

The increase in professional expenses and incentive fees was somewhat offset by a 52 basis points decline in the management and administrative fees resulting from SPM's policy to pass on the economic benefit of fees SPM earned under the SFG Services Agreement by reducing the management and administrative fees charged to the Fund. The SFG Services Agreement was discussed in further detail in the June 30, 2012 MRFP and in the notes to the December 31, 2012 financial statements.

Distributions

Ravensource Fund's distribution policy is to make semi-annual distributions to unitholders in an amount sufficient to avoid tax liability for the fiscal year and to provide a reasonable yield for investors. The Fund made semi-annual distributions of $0.09 per unit on July 5, 2012, $0.09 per unit on December 28, 2012, and $0.27 per unit on December 31, 2012. The final distribution was necessitated largely as a result of the receipt of large special dividends from some of our equity investments.

Total distributions for the year amounted to $0.45 per unit compared to $0.36 per unit in fiscal 2011. Despite the increase in distributions, there is no change in our policy as the increase in distributions was to maintain the Fund's non-taxable status. With approximately $19 million in capital losses carry forwards, there is substantial room to absorb capital gains, but the Fund does not have a corresponding tax shelter for interest or dividend income. This is consistent with our investment style as Ravensource's portfolio is skewed towards producing capital gains rather than interest income.

Using the closing market price of $10.52 on December 31st, 2012, the units had an annualized current yield of approximately 4.3% assuming distributions remain constant going forward. However, for the reasons stated above, Ravensource investors should not expect the 2012 distribution level to be maintained.

Investment Activity and Liquidity

2012 was Ravensource's year of harvest as 60% of its net assets were sold / realized, approximately half coming from closing out of its First Uranium, Holloway and SFG bond positions. As discussed in the Investment Performance section, the conclusions to these positions were very successful, generating significant increases in the value of Ravensource and creating a deep war-chest to invest in new opportunities. And to some degree we did, redeploying approximately half of the capital from positions that were sold / monetized in new and existing investments. However, from starting the year with very little cash, we ended 2012 with 30.5% of Fund's net assets in cash.

	Amount	per Unit	% of NAV (1)
Sources			
Investment Divestitures	10,032,962	5.9001	60.51%
Net Investment Income	499,244	0.2936	3.01%
Net change in working capital	311,566	0.1832	1.88%
Total	10,843,772	6.3769	65.40%
Uses			
Investment Purchases	4,986,142	2.9322	30.07%
Distributions to Unitholders	765,339	0.4501	4.62%
Redemption of Units	15,021	0.0088	0.09%
Total	5,766,502	3.3911	34.78%
Change in Cash	5,077,270	2.9858	30.62%

(1) % of December 31, 2011 NAV

Investments

Where did we invest our capital? Well, it was split approximately 50/50 between adding to our existing investments and new investments. The Fund increased its existing positions in the bonds of Tuckamore Capital (TSX: TX) and Crystallex International and the shares of Connacher Oil & Gas (TSX: CLL), Jovian Capital Corporation (TSX: JOV), Melior Resources Inc. (TSX: MLR) and Tuscany Drilling (TSX: TID).

Planting the seeds of future harvest, the Fund established positions in the shares of GLV Inc. (TSX: GLV.A), NuVista Energy Ltd. (TSX: NVA), Genworth Financial Inc. (NYSE: GNW) and in the bonds of Connacher Oil & Gas (TSX: CLL), Great Basin Gold (TSX: GBG) and Ivanhoe Energy Inc. (TSX: IE) over the course of 2012.

Jovian Capital Corporation ("Jovian")

The largest incremental investment made in 2012 was to our ownership of Jovian shares. Though Jovian was Ravensource's second largest position coming into 2012, we increased the number of Jovian shares that we owned by 70%, funded primarily by re-investing special cash dividends received in May and December along with the injection of incremental capital. Asset rich, cash flow poor like most small asset managers, we are attracted to Jovian by its cheap share price and the prospect that near term asset sales may provide the catalyst to drive the share price closer to our $10 to $12 per share valuation. So far we have been right: Jovian has completed some asset sales to date at prices that have outstripped our internal valuation of these assets and the market price of Jovian's shares has gone up by 12.4% in 2012 including dividends. However, the asset sale process has seemingly stalled, or at least the announced transactions have. We are cognizant that its head office – pre "senior management profit plan" that is – effectively spends the income that the underlying investment management subsidiaries generate, and thus little value is created for shareholders from cash flow from operations. But we do not make investments with such zero-sum results nor are we good at being idle spectators / speculators when we believe the company should take a different path. We believe that Jovian's operating assets are worth significantly more in larger asset manager' hands and have been strong advocates to Jovian's management and board of directors to complete the asset sale path that they have started on.

Genworth Financial Inc. ("Genworth")

It was through the investment letters of investors whom we follow that the shares of Genworth appeared on our radar screen. Spun-out from General Electric in 2004, Genworth's businesses include life insurance, mortgage insurance and wealth management. Punished for its exposure to U.S. housing market, the failed IPO of its Australian operations, and pricing blunders in its long term health care business, Genworth shares traded down to a price equal to a massive 80% discount to book value and a paltry 4.9x forward price-to-earnings multiple. At first blush, we thought that Genworth might be a classic value trap. Yes, Genworth shares seemed cheap but it also had sizeable risk as its enormous debt load leaves it vulnerable to a ratings downgrade, which if occurred, would likely cripple its recovery. So, opportunity yes, but we needed to keep digging.

It was clear from our analysis that Genworth's turnaround hinges on its mortgage insurance book. Genworth provides insurance to home buyers who put up less than 20% equity and require added security to appease their mortgage lender. With U.S. housing starts on the rise and existing houses selling at prices that make it cheaper to buy than to rent, the volume of Genworth's mortgage business is improving. Further with the retrenchment of the FHA – the government entity that dominates the US mortgage insurance industry – pricing is also improving. With the improved economics on new mortgage insurance it is underwriting, the earnings drag from the "liar loans" and other dubious mortgages Genworth insured prior to the credit crisis is moderating. However, despite the improving fundamentals, Genworth is not out of the woods and needs to further de-risk its balance sheet. With that said, given the cheap price and the margin of safety provided by its 25% discount to the cash on its balance sheet, we purchased shares at $5.92 at the end of November. Soon after purchase, Genworth shares ran up in price ending the year at $7.51, up 26.8% by end of year. At the time of our purchase, we made an investment equal to 2.5% of Ravensource's NAV. This is at the low-end of our range of investment size reflecting the absence of a clear path to reduce the risks that Genworth is facing.

Divestitures

Over the course of 2012, the Fund exited its positions in shares of Aecon Group Inc.(TSX: ARE) and McGraw Hill Ryerson Ltd. (TSX: MHR) and in the bonds of Holloway Lodging Corporation, and reduced our holdings in Supremex Industries Ltd (TSX: SXP). Lastly, our shares of March Networks (TSX: MN) and Compass Petroleum (TSX: CPO) were acquired in takeover transactions and our bonds of Clearwater Seafoods Inc., First Uranium Corporation and Specialty Foods Group Inc. were redeemed for cash by the company.

Risks

At the time of investment and throughout the period which we own a security, we consider its risk and the impact that it has on the portfolio. However, despite our thorough analysis and good intentions, sometimes we are wrong in our investment decision, exposing our investors to a fall in the market value of the investment and net asset value of the Fund.

In addition to the risks specific to a particular investment, the Fund is exposed to changes in foreign exchange rates, interest rates, credit conditions and other economic factors as described in the Annual Information Form, available on SEDAR and on the Ravensource website, and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements, including the additional disclosure in the notes to the financial statements, as we do prior to making an investment.

There has been not been a change in the Fund's stated investment strategy or other changes that would materially affect the risk of investing in Ravensource. We continue to believe the Fund is suitable for those investors seeking long-term capital growth, have a long term investment horizon and possess a medium to high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

To give you a better understanding of the risks that Ravensource is exposed to, we have broken out the portfolio by investment strategy, enterprise value, industrial grouping, and concentration.

Investment Portfolio by Strategy

Ravensource employs three investment strategies to generate investment returns. In 2012, we saw a shift away from high yielding and distressed securities and into equities. The main implications to this change is that the portfolio is relatively more sensitive to changes in the equity markets and less exposed to interest rate and credit risk than last year, and the composition of the Fund's investment income was more biased towards capital gains and dividends than interest income. This shift is result of the monetization of a number of high-yielding and distressed securities and a reflection of where we found the best opportunities. We do not target specific strategy weightings; rather we hunt wherever we believe the most attractive investment opportunities are to be found. For quantification of the portfolio's exposure to interest rates, credit, and equities, we encourage you to review the risk section of Ravensource's financial statements.

Investment Strategy	**% of Investment Portfolio**	
	2012	**2011**
Special Situation Equities	77.6%	61.5%
Distressed Securities	20.5%	24.0%
High Yielding Securities	1.9%	14.5%
Total	**100%**	**100%**

Investment Portfolio by Enterprise Value

The Fund's investment approach focuses largely on situations that are overlooked by traditional investors and where we can have influence and create value**.** As a result, our investments gravitate towards smaller companies. To put this in perspective, the average enterprise value of the companies we are invested in is \$590 million versus \$8.3 billion average – excluding bank shares – for the S&P TSX. In other words, the average non-bank company on the TSX is more than 14 times the average size of our investments.

Enterprise Value	**% of Investment Portfolio**	
	2012	**2011**
Less than \$100 million	24.9%	29.3%
\$100 - \$250 million	29.0%	33.9%
\$250 - \$500 million	17.1%	23.1%
\$500 million - \$1 billion	19.8%	11.5%
> \$1 billion	9.2%	2.2%
Total	**100%**	**100%**

Industry Concentration

While Ravensource does not specialize in specific industries, as a result of our experience and investment philosophy, we tend to focus on investing in companies with hard assets. At the risk of being called old fashioned, the portfolio has little exposure to Technology, Pharmaceutical and other companies whose primary assets are work-in-progress and thus like buying a car with no steering or brakes. When investing in natural resource companies, we shy away from exploration and other situations that we dismiss as akin to a promise of a kiss. We like to invest in companies in which we understand the products/services they offer and more importantly have a strong grasp of the business model and its tangible asset value. Further, our emphasis on an investment's margin of safety generally results in avoiding the more sensitive sectors of the economy.

By Industrial Group

	Fair Value	**% of Portfolio**
Food Products	1,372,972	10.8%
Financial	2,139,269	16.8%
Conglomerate	1,726,440	13.5%
Metals & Mining	1,560,243	12.2%
Energy	1,310,865	10.3%
Real Estate	1,215,362	9.5%
Information Technology	957,500	7.5%
Paper & Packaging	955,290	7.5%
Media & Publishing	844,729	6.6%
Construction	203,200	1.6%
Industrial	200,964	1.6%
Retail	178,284	1.4%
Transportation	71,091	0.6%
Other	22,400	0.2%
Total	**12,758,609**	**100.0%**

Concentration

As we believe that the most effective method to reduce/manage risk is to know your investments inside and out, Ravensource may be a more concentrated portfolio than other investment funds. However, the Fund currently has only five investments exceeding 5% of net assets. Cash was our largest holding by a significant margin, at 30.5% of net assets. After cash, the next top 10 investments – ranked by market value of the investment – represented 46.8% of Net Assets as of December 31st, 2012, down versus 59.4% from the start of the year. While the Fund has become less concentrated over the past year, it is a direct result of exiting from our three largest bond positions – First Uranium, Holloway Lodging and SFG – as positive events unfolded and moving the proceeds to the cash. Going forward, I expect that the Fund will continue to hold relatively high concentrations in positions that we know the best and hold the strongest convictions.

Concluding Remarks

2012 was a year of harvest as 60% of Ravensource's net assets were realized during the year. Several of our star performers – Holloway Lodging, First Uranium and McGraw-Hill – delivered superior results and were put to bed as the value potential that we identified at the time of investment was captured during the year. Our style of investing tends to deliver results that are concentrated in the tail end of the investment period, as we generally do not get rewarded until the catalysts to unlock value emerge and it is rare that we enjoy significant progress payments along the way.

Despite the amount of liquidations in 2012, our existing portfolio is filled with work-in-progress with the potential to deliver superior results in 2013 and beyond. In addition, we established three new toe-in-the-water positions in December that are both attractive and scalable in size. Since year-end, Ravensource's investment portfolio has continued to gain in market value. Using closing prices as of March 21st, 2013, Ravensource's net asset value has increased to $11.33 per unit, up 5.1% from its December 31st, 2012 level versus the 3.1% rise in the S&P TSX Composite Total Return Index.

The results of our efforts over the year to scour the markets for compelling new ideas are currently somewhat underwhelming as we only replaced half of what we sold in 2012. It is always difficult for us to find investments that meet our stringent criteria from which we will not stray. Looking back, we are amazed and humbled at the somewhat randomness of the path to which we find some of our best ideas. While some arise from well-publicized news about a company's collapse, more often it is a whisper of an idea – a passing remark if you will – that leads us on the hunt. But that is just where the road starts. It takes a lot of work and thought for us to evolve a "good story" into a great investment and much more effort to realize it. While we are patient investors, admittedly we are also somewhat control freaks and realize that others may not be as motivated as us hence our decision to be active and play our part in the value creation process. This is not a job for us, but a passion that we share.

We look forward to hearing via phone or e-mail from unitholders. Any ideas that the Fund should consider or any opinions on existing positions are also most welcome. We also encourage any feedback on how investee companies treat their customers, employees, communities and the environment.

We are appreciative of your partnership, trust and patience.

March 26, 2012 Scott Reid, President Steve Schaus, Partner

Stornoway Portfolio Management Inc.
Investment Manager of the Ravensource Fund