RAVENSOURCE
FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTICE TO READER

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to Ravensource's unitholders to allow a thorough understanding of their investment. This letter is a supplemental report to the financial statements, Management Report on Fund Performance ("MRFP"), Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report. You can get a copy of the aforementioned documents and the Fund's proxy voting policies and proxy voting record 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.ravensource.ca, or the SEDAR website at www.sedar.com.

A Note on Forward-Looking Statements

This document may contain forward-looking statements relating to anticipated future events, results, decisions, opportunities, risks or other matters. Forward-looking statements are predictive in nature requiring us to make assumptions and subject to inherent risks and uncertainties. Our forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, etc. to differ materially from expectations, estimates or intentions. These risk factors include market and general economic conditions, regulatory developments, the effects of competition in the geographic and business areas the fund may invest and others as detailed in Ravensource's Annual Information Form. 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 Ravensource may not update any forward-looking statements.

About the Ravensource Fund

The Ravensource Fund is a closed-end investment trust whose units trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns through investing in out-of-favor and deep-value North American securities. Ravensource's investments fall primarily in three strategies:

1. *Distressed Securities:* Investing in corporate debt, creditor claims and/or equity securities of companies, that are in, perceived to be in, or emerging from financial distress at a price materially different from what we believe to be the underlying fundamental value of the securities.
2. *Alternative Credit:* Investing in corporate debt, on either a primary or secondary basis, that is reasonably expected to be repaid at or above par at or before its stated maturity in a manner consistent with the terms of its indenture and earn a yield that we believe is attractive given the underlying credit risk.
3. *Special Situations Equities:* Investing primarily in Canadian and U.S. small- and mid-cap equities that have catalysts to bridge the gap between market price and intrinsic value.

About Stornoway Portfolio Management ("Stornoway")

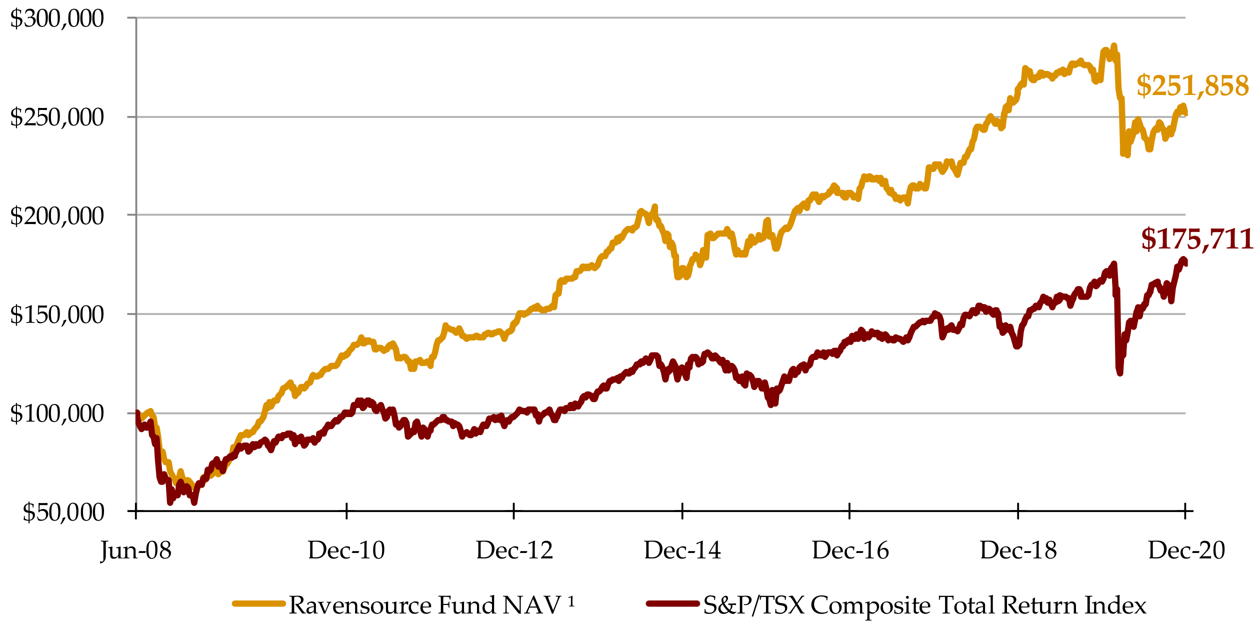
Stornoway was appointed the Fund's Investment Manager on July 1, 2008 to execute Ravensource's investment mandate. Stornoway took over the management of Ravensource from Pat Hodgson. Pat was our partner, an extraordinary investor and a true buccaneer who in 2003 transitioned Ravensource from investing in debt of Asian companies — the Fund was formerly The First Asia Fund — to focus on North American securities. Pat left us with a tremendous legacy that forms the guiding principles we embrace in managing Ravensource.

Stornoway is a Toronto-based, employee-owned investment management firm focused on investing in distressed securities and other out-of-favour investment opportunities that withstand a thorough and disciplined analytical rigor prior to investing and active involvement thereafter. The Stornoway Team is comprised of Brandon Moyse, Daniel Metrikin and Scott Reid on the investment side while Mahesh Shanmugam manages our operations. Our bios and our approach to investing can be found on the Ravensource website. In addition to Ravensource, Stornoway manages the Stornoway Recovery Fund LP ("SRFLP"), a limited partnership that invests in opportunities that arise from companies that are in or near financial distress.

Past investment performance by the Ravensource Fund is not indicative of future results and there cannot be any assurances that its investment objectives will be achieved. This letter is not a solicitation to invest.

Management's Letter to Unitholders

Growth of $100,000



(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.

Dear Fellow Unitholders,

Ravensource Fund's ("Ravensource" or the "Fund") net asset value ("NAV") per unit decreased by 9.1% over 2020, including distributions received by investors. While other investments bounced off their COVID-19 lows to end 2020 higher than where they started the year, Ravensource's did not.

Yet, 2020 was a good year.

A bold statement to be sure. Over 2020, our investee companies performed well in achieving milestones that created value and moved us closer to a successful exit. As a result, our portfolio is significantly better off today than it was a year ago. Despite this progress, none of our investments completed their ultimate crystallization event — emergence from a restructuring or sale to a strategic investor, for example — in 2020. Thus, to the market, our investments remain distressed and "difficult". Typically, only when we finally and fully remove that stress do we earn our rewards.

Put differently, distressed cats don't bounce, but revitalized ones do.

Take our investment in Spanish Broadcasting System. Over the course of 2020, the market price of our SBS preferred shares fell from $800 to $450. By February 15, 2021, we reached an agreement to exchange our preferred shares for a consideration package that we valued at over $850, mostly in cash. Nothing changed in those 45 days since year-end other than the fact we reached a deal. Price and value suddenly converged, but we laid the foundation to achieve this outcome in 2020 and the years before. Until then, the market did not care or know; in fact, it only grew more skeptical.

Make no mistake: we will never be satisfied to generate anything but superior results. However, we do not invest with a 1-year horizon, so we do not expect to generate steady 1-year returns. The time when our investment is rewarded may be years after the actions taken to create that value. As evidenced by SBS, we believe the milestones achieved in 2020 significantly advanced many of our investments towards crystallization. And as we share in 'The Carrot' section at the end of this letter, we believe your capital and patience will be handsomely rewarded if these occur.

You are our partner. Our objective is to meaningfully increase the value of your investment over the long term. Our goal with this letter is to help you better understand your investment by sharing the philosophy and approach we take to meet that objective. We will also provide a closer look at our results and developments during 2020 in a candid and open manner. In other words, we will walk you through the value creation opportunities that exist in our portfolio and what actions we are taking to capture them. If you would like to discuss your investment in more detail, please reach out to us. Our proverbial door is always open.

Investment Performance

Over 2020, Ravensource's investment portfolio generated a loss of 7.1% before fund expenses. The investments that significantly contributed to Ravensource's performance are as follows:

Investment	**2020 Gross Return on Investment**	**Impact on Fund** [1]
Dundee Corp.	30.9%	3.1%
Hudson's Bay Co.	10.1%	0.6%
Colabor Group Inc.	24.5%	0.3%
Quad Graphics Inc.	(9.3%)	(0.6%)
GXI Acquisition Corp.	(20.0%)	(0.6%)
Genworth Financial Inc.	(14.1%)	(1.2%)
Delphi / Distinction Energy Corp.	(21.0%)	(1.5%)
Firm Capital Apartment REIT	(26.3%)	(2.2%)
Crystallex International Corp.	(12.0%)	(2.3%)
Spanish Broadcasting System Inc.	(32.2%)	(2.8%)
Other [2]		0.1%
Pre-expense / Incentive Fee Investment Return		**(7.1%)**

[1] Increase in NAV due to investment's total return for the period

[2] Includes other asset investment returns

We would like to share what specifically drove this year's results.

Dundee Corp. ("Dundee")

Our Dundee preferred share investment was the Fund's star performer, generating a total return of 30.9% over 2020 and increasing the value of Ravensource by 3.1%. This year's gains reflect the actions Dundee took in 2020 to proactively fix its capital structure and restore investor confidence.

Dundee is a public company (TSX: DC.A) with a storied past. Founded in 1991, it grew Dynamic Mutual Funds to become one of Canada's largest asset managers. In 2011, Dundee began selling its asset management and real estate crown jewels, generating over $1.6 billion in proceeds. It promptly plowed $1 billion into dozens of speculative investments, many in industries where Dundee had no expertise. This pivot failed miserably, requiring Dundee to write down these new investments by over $760 million to date. Dundee's investors lost confidence, panicked and fled.

Our Dundee investment is rooted in our contrarianism: most investors hate preferred shares and they really hated Dundee's given its track record of destroying value. When Dundee hit our radar screen in August 2018, its preferreds traded below 50 cents on the dollar with double-digit yields. Our analysis: Dundee's assets were worth more than their $25 par value *and* its preferreds ranked atop the capital structure — unusual since most preferred shares have lots of debt ahead of them.

Dundee's problem: it financed risky, non-cash generating assets with dividend-paying preferred shares whose leverage significantly magnified the risk to common shareholders. The solution: Dundee needed to sell assets and buy back preferreds. By doing so, Dundee would lower its cash burn, reduce risk, and create significant value for common shareholders. Three birds, one stone. Our carrot? The potential to turn a $12 preferred into up to $25 of cash. We started buying in August 2018 and began vigorously advocating solutions to Dundee's leadership to fix its capital structure.

2020 was a landmark year of achievements: Dundee sold its largest asset and tendered for its Series 2 preferred shares at $19.50 per share, connecting the dots of our thesis. Although it did not repurchase our Series 3 preferred shares, it significantly de-risked them by retiring equal-ranking liabilities at a steep discount to par. Conservatively, each $25 preferred share is now backed by $75 of assets vs. ~$35 when we initially invested.

However, the job is not complete. Dundee still employs too much leverage and burns too much cash. While it can comfortably retire its remaining preferred shares with cash on hand, it's also investing in junior mining ventures, a notoriously risky sector where Dundee has only achieved middling success in the past. Notwithstanding these challenges, our conviction remains that Dundee's Series 3 preferreds are a compelling investment earning an attractive 8.9% bond-equivalent yield with capital gain potential and supported by a large safety net.

Hudson's Bay Co. ("HBC")
In June 2019, a consortium of insiders and financial investors owning over 57% of HBC announced it was planning to take the iconic retailer private at $9.45 per share, a 48% premium to the prior trading price. For the typical "merger arbitrage" fund — who depend on a deal to close — HBC wasn't attractive as the take-over faced strong opposition from minority investors, casting doubt it would receive the necessary shareholder approval. With a large potential decline back to the pre-deal price if the deal failed, most "deal" investors stayed away.

However, we are contrarian investors, and through our work developed a differentiated view. The consortium was made up of sophisticated investors and insiders who had an executable plan to earn a significant return over and above its $9.45 bid. Our thesis was either the consortium would increase its bid to win over the minority shareholders, or the deal would fail and the consortium would still pursue its value-maximizing plan, only now with public shareholders participating. After much sabre-rattling the consortium upped its bid to $11.00 per share which investors accepted, and the deal closed in February 2020. Our investment generated a 14.2% total return over its 7-month life, increasing Ravensource's NAV by 0.6% in 2020.

While we realized an attractive return on our HBC investment, our exit was admittedly fortuitous. Mere weeks after the go-private transaction closed, COVID-19 crushed the price of brick and mortar retailers and commercial real estate. We wish the now-private HBC success navigating these troubled waters. If it fails, it may re-appear on our radar screen as a distressed opportunity.

Firm Capital Apartment Real Estate Investment Trust ("FCA")
FCA is a publicly listed (TSXv: FCA-U) Canadian real estate entity that invests directly in U.S. multi-residential, rental properties. FCA targets bite-sized, value-added real estate opportunities and injects capital and operating discipline to create meaningful investor value. However, today's FCA is a far cry from where our experience began.

We invested in FCA — then Delavaco — in 2015 when it was on the brink of insolvency due to terrible capital allocation decisions, too much debt and incompetent leadership. Along with others, Ravensource injected equity at fire sale prices to rescue FCA and position it to prosper. We partnered with Eli Dadouch's team at Firm Capital Corporation, who expertly engineered a complete asset makeover, revitalized the operations, and restructured the balance sheet. To oversee FCA's revitalization and protect and grow our investment, Scott became a director.

FCA's turnaround was a tremendous success. By February 2020, it had a strong balance sheet, its properties were generating cash flow, its investors were receiving a 4% distribution, and its net asset value had grown by 44%. Reflecting these achievements, FCA's share price had increased 70% to USD $8.00. We determined it was time to sell and redeploy our energy and capital on new opportunities where we could once again move the needle. Unfortunately, our timing could not have been worse. Days later, COVID-19 rocked the markets and FCA's share price fell to USD $4.00.

Rather than sell, we elected to hold. Why? When facts change materially, so do our actions. When a price of an investment falls like FCA did, our discipline requires a complete "re-underwriting", challenging our thesis, examining whether FCA had been impaired and if an investment remained compelling. Critically, our conviction was re-affirmed that FCA shares are worth much more than USD $8.00. We were also emboldened by the actions of FCA's leadership as it bought back 8% of its units at USD $4.00 in August with the very proceeds it raised at USD $8.20 just 6 months prior. Soon after, FCA's management and directors stepped-up to increase their already sizeable investment. For us, it was a no brainer to hold our FCA shares until they recover. We actually would have bought more had we not already had a full position.

It was frustrating for us to just miss an opportune exit window and then watch our shares decline by 42.7% over 2020 despite FCA's postive operating achievements. However, we know FCA is well-managed by insiders with significant skin-in-the-game; its real estate portfolio still generates cash; and it has a rock-hard net asset value greater than USD $9.80. In this sea of over-valued securities, FCA stands out as a compelling opportunity that we believe will ultimately appreciate back over USD $8.00. If so, we stand to earn a 70%+ potential return from 2020 year-end levels.

Genworth Financial Inc. ("Genworth")

Genworth is a U.S. publicly listed (NYSE: GNW) insurance company that covers mortgage, life and long-term care needs. Our interest in Genworth common shares was sparked by the October 2016 announcement that it was being acquired by China Oceanwide for $5.43/share in cash. Since the announcement, Genworth's shares persistently traded at a >30% discount to the take-over price versus typical merger spreads of 10% or less. Merger arbitrage investors were staying away due to Trump's hard-line on China while most value investors typically avoid "deals".

A key component of our "edge" is that we hunt for opportunities that fall through the cracks of traditional investors. Why? We typically find the opportunities with the widest price-to-value divergence – aka our "sweet spot" – along the paths less travelled. Abandoned by all but the most contrarian investors, Genworth certainly qualified. Digging into it, we uncovered a potential "heads I win, tails you lose" situation in that if the buyout closed, we'd collect $5.43, a healthy ~40% return; while if it failed, the value of Genworth's mortage insurance unit alone was well in excess of the market price of its stock. We started buying in February 2017 below $4.00/share.

While long in doubt, by December 31, 2020 it was clear that buyout would not close as China Oceanwide simply did not have cash. As a result, Genworth's shares ended the year at $3.78, down from $4.40 in 2019. While our "deal" path to profitability was eliminated, our "stand-alone" path became more attractive in 2020. Genworth sold non-core assets to pay down debt, and its underlying businesses remained highly profitable amid COVID, posting strong underwriting results and improved capital ratios. However, with so much focus on the China Oceanwide deal, the market has ignored Genworth's stand-alone business value. To date, we have been wrong.

2021 is the "where's the beef?" year for our thesis. Genworth is seeking to IPO its US mortgage insurance unit ("USMI"), the success of which will largely determine the success of our Genworth investment. USMI is its "crown jewel" and comprises most of its asset value; however, its worth is obscured by legacy issues at Genworth's Life and LTC units. An IPO will provide investors a pure-play on its mortgage insurance business without the Life and LTC baggage. Based on publicly traded comparables, we believe an IPO will value Genworth between $4.50 to $5.00 per share — ascribing *zero* value to Life and LTC — representing 19-32% upside from December 31, 2020, market prices. However, USMI is a highly attractive asset. We wouldn't be surprised if the IPO evolved to an outright sale to a strategic / private equity investor, potentially increasing our return profile.

Crystallex International Corp. ("Crystallex")

Crystallex is the proverbial little engine that could. In its efforts to collect a USD$1.5 billion damages award against Venezuela, Crystallex has won ground-breaking legal judgments, including the right to seize and sell Venezuelan-owned CITGO Petroleum Corporation ("CITGO").

Crystallex's 9.375% senior notes (the "Senior Notes") is Ravensource's largest investment. Our investment thesis: Venezuela still owes Crystallex approximately USD$1 billion and in turn, Crystallex – by our math – currently owes its Senior Noteholders over USD $300mm / $300 per $100 face value of Senior Notes. If Crystallex successfully collects from Venezuela, Crystallex can fully repay the Senior Notes and we stand to generate more than a 170% return over December 31st, 2020's market price of $110. Stornoway is a member of the Ad Hoc Senior Noteholder Committee and is actively engaged to protect and maximize the value of our investment.

Over 2020, our conviction grew as Crystallex notched key legal wins, moving it much closer to selling CITGO and Ravensource closer to capturing significant gains on our investment. Most notably, on May 16, 2020, the US Supreme Court ("SCOTUS") rejected even hearing Venezuela's appeal as to whether Crystallex is entitled to sell CITGO, following which the Delaware courts gave Crystallex the green-light to prepare CITGO for sale. Despite these milestones, the price of the Senior Notes fell by 12% over 2020, decreasing the value of your SRFLP investment by 2.7%.

Why? Simply put, Crystallex is not home free. Due to U.S. sanctions surrounding Venezuela, Crystallex must obtain a license before completing the CITGO sale, which so far, it has yet to do. We also know Venezuela will continue to obstruct the sale of CITGO, prolonging the battle over this valuable asset. In addition, four sophisticated investors happily own more than 90% of the Senior Notes outstanding, leaving little opportunity for outside investors to buy. With no incentive to follow this complex opportunity, the market pays very little heed to its developments.

However, we are not looking to exit through the market. Consistent with most of our investments, our exit will likely come from a strategic transaction or cash distribution directly from Crystallex. If this takes two more years, we could earn a compelling 65%+ annualized return on our investment from current prices; however, given political headwinds it could take significantly longer. Until that eureka moment, the market price of the Senior Notes will remain disconnected from their underlying economic value and, as in 2020, unreflective of positive developments.

Spanish Broadcasting System Inc. ("SBS")

Spanish Broadcasting System Inc. is a publicly listed owner and operator of Hispanic-focused radio stations in the United States. It is a fantastic business: it has the #1 rated Hispanic station in all its major markets; focuses on an attractive and growing demographic; and generates strong free operating cash flow. So why did our SBS investment reduce Ravensource's value by 2.8% in 2020?

We buy things that are broken then work to fix them to capture the value that lies nascent in the distressed security. SBS's problem was its capital structure. Its 12.5% Secured Notes matured in April 2017 yet could not be repaid due to a special set of approval rights afforded to the preferred shareholders triggered when SBS failed to pay their dividends. Like other preferred shareholders, until SBS fixed its capital structure, we would not approve the re-financing of the Secured Notes. We believed SBS could create a significant windfall for both preferred and common shareholders if it reorganized its capital structure. With this plan in mind, we invested in SBS's Series B preferred shares in July 2017 and its 12.5% Secured Notes in January 2018. Stornoway then partnered with two preferred shareholders to achieve a restructuring solution with the company.

However, effecting change is challenging. We underestimated the majority owner's singular desire to maintain control. In February 2020, we finally began to build momentum as SBS made an initial proposal after years of silent stalemate. COVID-19 swiftly killed that momentum and significantly decreased SBS' advertising revenue and operating performance. The market price of our preferred shares fell from $800 to $450 per $1,000 face value over 2020, as the market saw nothing but deadlock, uncertainty and lower near-term economics.

In February 2021, less than 45 days *after* year-end, peace broke out in an agreement whereby SBS redeemed our preferred shares for consideration we valued at more than $850 per preferred share — $692 of which was cash — or 89% higher than the $450 2020 year-end market price. Nothing changed in those 45 days other than we finally reached a deal. This exemplifies the value created at the end of the long and often contentious road to a restructuring. It is typically only at that tipping point where price and value on our investments converge. The returns we earned on SBS in 2021 was built on actions taken in 2020 and earlier. Change happens slowly — then immediately.

Long Term and Relative Performance

The Fund's objective is to produce significant long-term returns for its investors regardless of market conditions. While we trust you share our objective of "absolute" returns, you likely also want to measure how we perform against the broader investment universe. Given the idiosyncratic nature of the Fund's investments, we have not uncovered an index that sufficiently resembles Ravensource to the degree it should be considered a "benchmark". Instead, we have identified several indices — see Appendix 1 for descriptions — that are relevant due to their relationship to one of our three investment strategies.

	Annualized Total Return				Since July 1, 2008	
	1 Year	**3 Year**	**5 Year**	**10 Year**	**Annual**	**Total [2]**
Ravensource Fund [1]	**(9.1%)**	**3.8%**	**5.1%**	**6.9%**	**7.7%**	**151.9%**
S&P/TSX Composite Total Return Index	5.6%	5.7%	9.3%	5.8%	4.6%	75.7%
S&P/TSX Small Cap Total Return Index	12.9%	2.3%	8.8%	1.3%	2.5%	36.0%
ICE BofAML US High Yield Index	6.2%	5.9%	8.4%	6.6%	7.8%	156.9%
Credit Suisse Distressed Hedge Fund Index	3.8%	1.2%	3.4%	3.6%	3.5%	53.2%

(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.
(2) Un-annualized return.

Clearly, 2020 was a poor year for the Fund as we underperformed return-wise on both an absolute and relative basis. Unlike most asset classes, our investments did not shrug off the impact of COVID and rebound strongly in price over Q3 and Q4 2020. Investors were willing to pay a hefty price for very liquid and new economy investments, but for the distressed securities in which Ravensource invests — not so much. We'd love to generate outsized returns for our investors year in and year, yet our collection of contrarian and idiosyncratic investments typically don't co-operate. Our revitalization / value-creation process takes years to effect, and the rewards are generally isolated at the end, with many twists and bumps in the market price along the way.

To evaluate our performance against our objective, Ravensource should be judged over a longer time horizon. Since Stornoway became Ravensource's Investment Manager in July 2008, Ravensource's NAV per unit has increased by 151.9% in total / 7.7% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 75.7% in total / 4.6% annualized over the same time period. If you had invested $100,000 in July 2008, a Ravensource investment would be worth $76,147, or 43% more than a similar investment in the S&P/TSX. By those results, we believe we have met our long term objective.

Fund Liquidity and Investment Activity

We started 2020 with 20.4% of the Fund's opening net assets in net cash. In the midst of the COVID pandemic and related market disruption, Ravensource experienced its largest unit redemption to date. The Fund had ample liquidity to comfortably meet this redemption and make significant opportunistic investment purchases throughout the year. Altogether, our net cash decreased to 14.6% of net assets by December 31, 2020.

The sources and uses of the Fund's net cash during the year are outlined below:

	Amount	**% of NAV** [(1)]
Starting Net Cash	6,054,593	26.8%
Sources		
Investment Divestitures	3,023,799	13.4%
Dividends and Interest	520,972	2.3%
Foreign Exchange	358,458	1.6%
Return of Escrowed Funds [2]	348,689	1.5%
Total Sources	4,251,918	18.8%
Uses		
Unitholder Redemptions	(3,904,802)	(17.3%)
Investment Purchases	(2,069,169)	(9.2%)
Operating Expenses	(582,483)	(2.6%)
Distributions to Unitholders	(464,530)	(2.1%)
Total Uses	(7,020,984)	(31.1%)
Change in Net Cash	(2,769,066)	(12.3%)
Ending Net Cash	3,285,527	14.6%

(1) % of Dec 31, 2020 NAV

(2) Relating to Delphi Energy Corp. Subscription Receipts

Unitholder Redemptions

Ravensource provides its unitholders with the annual right to redeem 100% of their units for cash at a price equal to the Net Asset Value calculated as of the Annual Redemption Date. In turn, Ravensource has the right to recirculate the units tendered for redemption to interested investors at the redemption price. For further details, please refer to the Declaration of Trust, which can be found in the "Key Documents" section of the Ravensource Website at www.ravensource.ca.

In 2020, 319,508 Ravensource units were tendered for redemption, representing 19.1% of units outstanding, at a price of $15.69 for a total redemption value of $5,013,081. With the help of BMO, Ravensource's redemption agent, we successfully re-circulated 22% of the redeemed units. As we only have two weeks to market the redeemed units to potential investors – a tight time-line at the best of times – we were very appreciative of swift and strong participation by both new and existing investors.

The impact of 2020's redemption is two-pronged. Remaining unitholders benefit by effectively increasing their ownership share of: i) our existing investments, which are mid-stream in their value creation path and difficult to buy outside the Fund; and ii) the Fund's considerable tax assets that defer taxes on future capital gains. However, as some of Fund's costs — legal, listing, IRC fees — are "fixed", our expense ratio going forward will marginally increase with fewer units oustanding.

Investment Purchases

During 2020, we increased our investments in Quad/Graphics Inc. common shares, Dundee Corp. preferred shares and Colabor Group Inc. convertible debentures at very attractive prices on the back of the market weakness that followed the arrival of COVID-19. Much more prominently, Ravensource injected equity capital to help fund Delphi Energy's restructuring plan that allowed it to emerge from insolvency. In total, investment purchases over 2020 represented approximately 9.2% of the Fund's net assets as of December 31, 2020.

Distinction Energy Corp. ("Distinction")

In late 2019, we made a small investment – primarily in 2nd lien debt – in Delphi Energy, based on our analysis that its assets were worth significantly more than the distressed prices its 2nd lien debt traded at. However, our thesis didn't have sufficient time to play out. The oil price shock in March 2020 unnerved Delphi's bankers, causing them to call "DEFAULT". Delphi sought CCAA protection from said bankers, crushing our initial investment in the process.

As opportunistic vultures, we swooped in to protect the value of our existing investment while circling for an opportunity to participate in Delphi's revitalization in a much more meaningful way. The partnership we fostered with Delphi's controlling creditor along with the restructuring expertise we brought to the table enabled us to play a key role in crafting the reorganization plan (the "Plan"). To finance the Plan's implementation, in July 2020 we committed to inject a significant amount of equity at $15 per share. In October 2020, Delphi emerged from CCAA rebirthed as Distinction Energy, debt-free, fully recapitalized and armed with cash equal to ~50% of its assets.

We believe Distinction has enormous opportunity to optimize its own assets and acquire attractive ones from distressed sellers needing liquidity. To realize this vision, it needed a partner and landed a kingpin: Kiwetinohk Resources Corporation ("KRC"). KRC is led by Pat Carlson, one of Canada's preeminent energy investors, best known for his homerun on Seven Generations precisely in the target-rich Montney region where Distinction's assets are located. KRC is backed by ARC Financial, a highly respected and disciplined energy investor. To have meaningful skin in the game, KRC invested sufficient capital to become Distinction's majority shareholder.

Distinction has hit the post-CCAA pavement running. They have: enhanced production yields; tightened its capital allocation discipline; streamlined operating costs; and recently announced a transformative acquisition of Ovintiv's non-core Montney assets. We chalk these accomplishments up to the ownership mentality its new management team has instilled in the corporate decision-making process. All this has occurred amidst rising oil prices, with WTI now in the USD $60s vs. the sub-$40 strip off which we invested. Significant value has been undeniably created.

Looking into 2021, one of Distinction's key milestones will be securing a listing on the TSX to create a currency for further acquisitions and provide liquidity for shareholders. In doing so, we will receive an early scorecard on how the new team is doing. Based on the operating efficiencies achieved to date, the Ovintiv acquisition, rising energy prices and energy company market valuations, we believe that once listed on the TSX, Distinction shares will trade in the $20s with more to come as KRC flexes its muscles to drive shareholder value.

Divestitures

Ravensource's cash increased by 13.4% of the Fund's net assets during 2020 from the successful exit of HBC in January, a partial exit on our Dundee preferred share investment at $19.50 into the company's substantial issuer bid in September, and cash distributions from Old PSG Wind-Down Ltd. and Specialty Foods Group. In additon, we sold our remaining Flow Capital common shares as our thesis had successfully played out.

Distributions

Ravensource's distribution policy is to make semi-annual distributions in an amount that ensures it does not incur any tax while providing a reasonable yield for our investors. Distributions over 2020 amounted to $0.30 per unit, unchanged from $0.30 per unit paid over 2019, equating to a 2.0% annual yield using December 31, 2020's closing / last bid price of $15.10.

Operating Expenses

Ravensource's operating expenses include management fees, legal fees, trustee fees, TSX listing fees, accounting expenses, transaction costs and a host of other operating expenses. The table below shows how these expenses reduced the Fund's gross return on investment to arrive at the Fund's net investment return during 2020 and 2019.

	Dec 31, 2020	Dec 31, 2019	YoY Change
Pre-expense / Incentive Fee Investment Return	**(7.07%)**	**7.14%**	
Less:			
Management, administrative and IR fees	1.07%	1.21%	(0.14%)
Other operating expenses	0.38%	0.44%	(0.06%)
Legal fees	0.34%	0.39%	(0.05%)
Audit and accounting fees	0.23%	0.22%	0.01%
Total Expenses Before Incentive Fee	**2.02%**	**2.26%**	**(0.24%)**
Pre-Incentive Fee Investment Return	**(9.09%)**	**4.88%**	
Less:			
Incentive Fee	0.00%	0.00%	
Ravensource Fund Net Investment Return	**(9.09%)**	**4.88%**	

Over 2020, operating expenses represented 2.02% of Ravensource's starting NAV, 24 basis points lower from 2019's levels. Though the Fund had small reductions in other operating expenses (6 basis points) and legal fees (5 basis points), the Fund's 1% management and administrative fee has not changed. It simply declined as a percentage of *starting* net asset value at the beginning of the year rather than *average* net assets throughout the period.

Incentive Fee

Stornoway as Ravensource's Investment Manager is entitled to an annual incentive fee equal to 20% of Ravensource's net profits over and above a 5% annual hurdle rate, after making up any losses or shortfalls from prior years (the "Incentive Fee").

As Ravensource did not generate a positive return during 2020, Stornoway did not earn an Incentive Fee. Until Ravensource investors are rewarded with tangible investment returns once again – and you first earn your 5% hurdle rate above this/previous years' shortfall – Stornoway is not entitled a dollar of Incentive Fee. Simply put, we only get rewarded if you do first.

"Skin in the Game"

The Stornoway Team is passionate about the approach and philosophy that drives our investment decisions, our active involvement in the companies we invest in, and the steps we take to reduce risk and generate compelling long-term investment returns. We believe that an investment manager should have significant "skin in the game", sharing in the risk and reward of our decisions alongside other investors. Accordingly, each member of the Stornoway Team has a substantial personal investment in Ravensource. As of December 31, 2020, we owned approximately 11.8% of Ravensource's outstanding units, and together, we are likely Ravensource's second largest investor. In short, we eat our own cooking. We are your partner.

Risks

We define risk as the potential for a permanent loss of capital. While assumed at the time we make an investment, risk is a dynamic metric that for us varies primarily as a result of attaining – or failing to attain – key milestones such as reaching a restructuring agreement, closing of a merger or repayment of a loan. We continually monitor the risk of each investment and its impact on our portfolio, taking actions or making changes to the size of our investment when warranted.

The most effective risk management tools we employ are: to establish a large "margin-of-safety" by investing at prices substantially below what we believe is intrinsic value; structure our investment to mitigate the risk of loss; and become actively involved with our investees to protect our investment. Through these mechanisms and processes, we can substantially reduce risk while increasing the potential for returns. However, sometimes we are wrong, ineffective in de-risking a company, or an investment's potential fails to materialize exposing our investors to a loss.

We also note that our investments will likely experience periodic mark-to-market gains and losses over their investment life. While our investments are typically uncorrelated to most asset classes, when markets become disrupted – e.g in 2008 and 2020 – there will be a flight to the most liquid of assets. As we invest in underfollowed and unloved opportunities, Ravensource's investments can be particularly exposed to temporary market losses during flights to quality. We may seek to capitalize on lower prices by prudently increasing an investment as we did over 2020 if the opportunity is compelling and the underlying company has ample liquidity to ride out the storm.

In addition to investment-specific risks, 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 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 investing.

There has been no change during 2020 in the Fund's stated investment strategy or in the execution of the investment mandate 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 rather than income, 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.

The Carrot

The bulk of this letter has been devoted to reviewing how Ravensource performed over 2020 and the actions taken to create and capture value on our investments. But, investing is a forward-looking business with investors rightly focused on future results. We don't have a secret crystal ball, nor possess the ability to divine the future. However, we recognize the importance of helping you better understand the potential results we are working to achieve on our individual investments – the proverbial "carrot". We have added this new section to address that goal.

The table below lays out our internal estimate of the gap between the market price of our investments as of December 31, 2020 and the value we are working to realize upon a successful exit. Throughout this report we have described the steps we took in 2020 to reach the conclusive milestones which will unlock this value. This analysis quantifies that potential value for you.

Investment	Market Value as % of Fund [1]	"The Carrot" [2]	Estimated Timeline to Realization
Realized / Partially Realized			
Spanish Broadcasting System Inc.			
Series B Preferred Shares	5.1%	76.9%	93% Realized - Feb-21 / Residual - 1-2 years
12.5% Senior Notes	2.4%	2.7%	Fully Realized - Feb-21
Colabor Group Inc.	2.2%	4.4%	Fully Realized - Feb-21
Unrealized			
Crystallex International Corp.	24.6%	122.7%	2 - 4 years
Dundee Corp.	15.1%	9.6%	6 - 12 months
Genworth Financial Inc.	10.3%	19.0%	1 - 2 years
Firm Capital Apartment REIT	7.8%	55.2%	6 - 18 months
Quad Graphics Inc.	7.6%	30.9%	1 - 2 years
Distinction Energy Corp.	6.3%	66.7%	6 - 18 months

[1] As of December 31, 2020

[2] Conservative estimate of the investment's return to the time of a succesful realization vs. market value at December 31, 2020

While we have made great strides in 2020 on all our investments, some are closer to being realized than others. For example, our investments in Spanish Broadcasting System and Colabor Group were realized in February 2021 while others such as Crystallex may still be years away. Timing is one of our most uncertain and uncontrollable factors. However, as long-term investors who focus on creating value over time, these longer termed investments are often our most rewarding – the power of compounding is one of investing's most potent forces.

As with any forward-looking analysis it comes with a necessary caveat: this is not a projection of future annual returns – it is an assessment of the value we believe we can achieve if we are successful. We believe our assessments are conservative and grounded in today's reality, not based on hopes and dreams that the underlying businesses will sell more widgets or increase their profit margins. Rather they represent value that exists today that can be realized by achieving the milestones as we have laid out in the individual write-ups. As an example of this conservatism, despite our conviction that we are currently owed — and should ultimately be paid — $300 per $100 face value Crystallex bond, we have instead shown a target almost 20% lower. We have not priced our endgoals to perfection. In any investment, there are a range of potential outcomes; the values in this table reflect our low estimate of that successful range.

We also want to stress that there is a risk of loss. Despite our thorough analysis, active involvement and paying a thrifty price to acquire an investment, sometimes we are wrong, fail to de-risk the company, lose the battle over what share of the pie we are entitled to, or the potential we identify does not materialize, all of which could result in a loss of capital. Investing is an inherently uncertain pursuit. As the great philosopher Yogi Berra was well aware: "It's tough to make predictions, especially about the future."

Concluding Remarks

I recognize 2020 was a trying year to be a Ravensource investor. While the broader markets shrugged off COVID-19 and increased in value, our Ravensource investment posted a 9.1% loss.

I understand if you are disappointed. However, as we do not invest your capital with a 1-year time horizon, we do not expect a 1-year timeline to success. We are patient, long-term investors with a differentiated view from the market. Our returns will therefore differ significantly from the market's, both on an annual basis and in the long run. Ravensource's collection of distressed and unloved companies requires change to capture its underlying value and change takes time. Critically assessed, over the past 12 years our approach has rewarded our investors with a superior return, just not this year.

As we have shared throughout this letter, we achieved change in 2020 which increased the value of our investments and moved us nearer to exits. We have created a new section – "The Carrot" – to share our insight as to the potential returns we are working to create for you which will be crystallized upon those exits.

As we continue to look forward, Ravensource is well-positioned for new opportunities. Many companies survived COVID through government support, reducing working capital and taking on cheap debt. However, that support will end; inventory will need rebuilding; trade credit will need to be provided; and the debt merchants will demand their loose money back. These all require capital. As we did with Distinction Energy in 2020, our flexibility and creativity will enable us to provide specialized restart capital in difficult situations.

Lastly, on behalf of the entire Stornoway Team – Brandon, Daniel, Mahesh and me – I would like to thank our investors for your continued trust. We acknowledge that our process to create meaningful and lasting value on our investments takes time and perseverance. No doubt, 2020 certainly tested your patience. Your partnership is a key ingredient in our success. We look forward to rewarding you in the years to come.

In writing this review, we wrestle with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest! We are available via phone or Zoom to discuss your investment further. We enjoy hearing from our investors and discussing our investments and strategy with you.

Onwards and upwards.

Scott Reid April 2021
President and Chief Investment Officer
Stornoway Portfolio Management Inc.
Investment Manager of the Ravensource Fund

Appendix 1 - Ravensource's Use of Comparable Indices

Given the idiosyncratic nature of the Fund's investment strategy, the Investment Manager does not believe there is an index that sufficiently resembles the Fund to the degree it should be considered or used as a "benchmark". However, the Investment Manager provides historical performance data for several indices in addition to the results of the Fund for comparison purposes. The Investment Manager has chosen indices that it believes are relevant to the investment mandate of the Fund and / or to capital markets in general. However, while each of these indices overlap with certain aspects of the Fund's mandate, none of them share significant similarities with the Fund's investment portfolio:

- The S&P/TSX Composite Total Return Index ("S&P/TSX") is the principal broad-based measure commonly accepted by investors to measure the performance of Canadian equity markets. The S&P/TSX is a relevant index for comparison purposes as the Fund's investment portfolio contains Canadian equity investments and the Fund's debt investments are frequently converted into equity securities as part of the restructuring process. However, the performance of the S&P/TSX will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the S&P/TSX.

- The S&P/TSX Small Cap Total Return Index ("TSX Small Cap") tracks the performance of the Canadian small cap equity market. The TSX Small Cap is a relevant index for comparison purposes as the Fund invests in Canadian small cap companies that are attractively valued with catalysts to unlock value. However, the performance of the TSX Small Cap will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the TSX Small Cap.

- The ICE BofAML US High Yield Index ("BAMLHY") is a USD-denominated index that tracks the performance of USD, sub-investment grade rated corporate debt. BAMLHY is a relevant index for comparison purposes as the Fund invests in corporate debt securities that are rated below investment grade. However, the Fund's investment portfolio also includes defaulted debt and equity securities which are not included in the BAMLHY and thus the Fund's performance may vary greatly from BAMLHY.

- The Credit Suisse Distressed Hedge Fund Index ("CSDHFI") is a USD-denominated index that tracks the aggregate performance of investment funds that focus on investing in companies that are subject to financial or operational distress or bankruptcy proceedings. The CSDHFI is a relevant index for comparison purposes as the Fund's investment mandate broadly overlaps that of the funds that make up the CSDHFI. However, it is likely that the composition of the Fund's investment portfolio is unique from these peers and thus the Fund's performance may vary greatly from the CSDHFI.

As the Fund makes idiosyncratic investments in securities which are overlooked by the capital markets, the Fund's investment portfolio contains investments that are not likely included in any of the above indices and thus an investment in the Fund should not be considered a substitute or proxy for the underlying index. For the reasons stated above, these indices should not be considered a benchmark for the Fund and there can be no assurance that any historical correlation or relationship will continue in the future. Index data is provided by Credit Suisse and ICE Data Services.

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