RAVENSOURCE
FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2022

NOTICE TO READER

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to aid Ravensource's unitholders in the 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, and the factors that could cause actual events, results, etc. may 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 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.

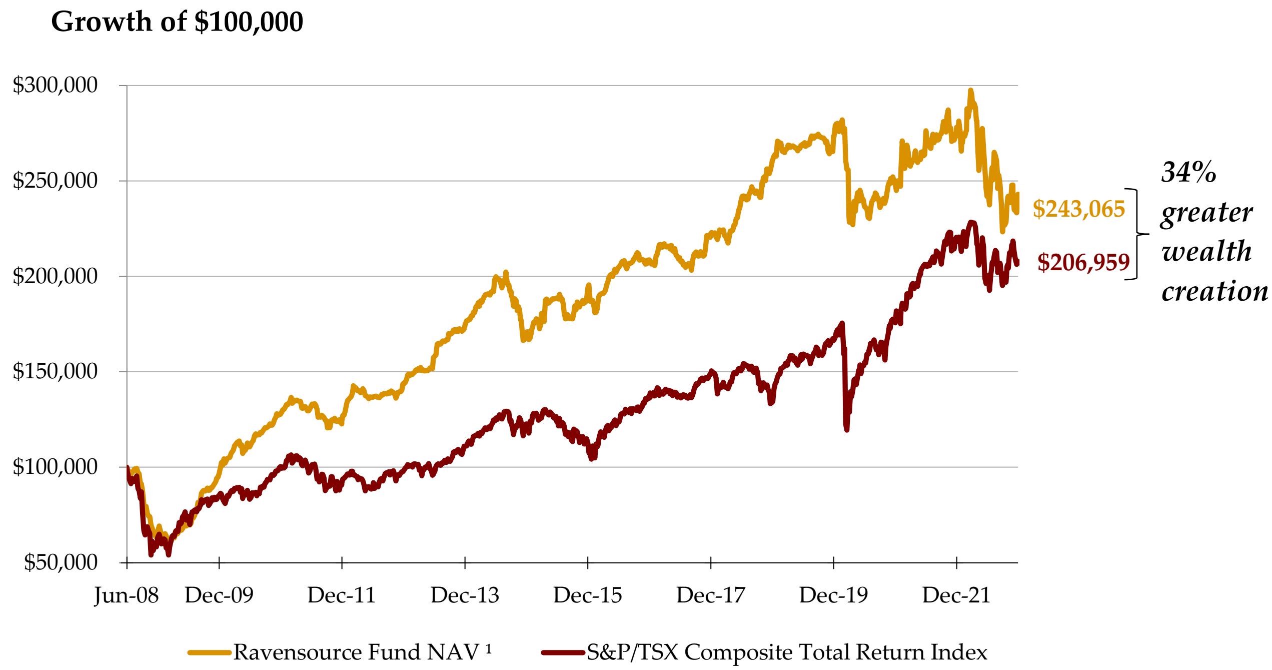
About Stornoway Portfolio Management ("Stornoway")

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 deep-value, 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 Scott Reid, Daniel Metrikin, and Alex Gelmych. 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



(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 declined by 12.6% over 2022, including distributions received by investors versus the 5.8% decline in the TSX.

As we reflect on 2022, our reaction is mixed. We are unquestionably disappointed about the recent performance of the Fund. Our mission, however, is to generate *long-term* wealth on your investment. Moving towards that goal, we are very pleased by the developments achieved by most of our investees that created significant future value and materially de-risked our investments over 2022.

We typically invest in companies that have failed their past investors. The market does not quickly forget this legacy nor reward our investment in a straight-line once its prospects have improved. Rather, the path to realizing the value that has been created takes time, change and often, our active involvement. Critically, the company must prove to an audience of skeptical investors a clear distinction between its revitalized future against its insolvent past. This will not happen all at once. The company needs to demonstrate a consistent and sustainable track record of profitability. While most of our investments are in the late stages of their revitalization, they have not yet met the threshold demanded by the market for a significant upward repricing.

For many of our investments, 2022 was a game-changing year. Kiwetinohk Energy Corp. doubled its run-rate production rate and is reinvesting the resultant cash flow into the drill bit at 100+% returns. Despite operational hiccups, Algoma Steel Group Inc. continued to generate immense amounts of cash to fund transformative capital projects and has bought back a significant amount of shares at very accretive prices. Crystallex International Corp. saw its collateral value increase, progress towards realization advance, and pressure to resolve the legal dispute ratchet higher.

In December 2022, we successfully exited our investment in Genworth Financial Inc. and began to reduce our investment in Stelco Holdings. These sales reflect positive developments achieved over 2022 and were triggered as their market prices approached our targeted exit price. While each had a rocky start, they generated handsome annualized returns of 13.4% and 22.7% respectively over their investment life. We are laser focused on bringing other investments to a successful exit in 2023.

Not every investment has progressed as planned. In particular, the issues facing Spark Power Group have proved to be far greater than our original investment thesis and our influence to effect change far lesser. As is our discipline in times of stress, we challenged the premise of our Spark investment, considered whether it still merited investment, and increased our engagement with the company to aid in its turnaround. However, there is significant amount of risk and wood to chop to turn it around.

Looking to 2023 and beyond, we believe that the gap between the current price of our investments and the potential value that could be realized on their exit grew significantly over 2022. In our opinion, this storehouse of value now represents the greatest opportunity to generate meaningful returns for Ravensource investors since we began managing the Fund in 2008. To quantify this potential value that we are working to capture on each of our investments, we have included a section in this letter called "The Carrot". However, we recognize that our investments are still works in progress and the risk of failure remains, thus it is far too early to claim victory.

Our responsibility to you, our partners, is our utmost priority. This letter serves as a progress report, informing you of the significant milestones achieved by our investees and the disappointments along the way. We will provide a closer look at our results and portfolio developments during 2022, and the opportunities, risks and challenges we see, in a candid and open manner.

The Stornoway Way

Ravensource seeks to generate superior long-term returns by investing in troubled and out-of-favour companies and profit from their revitalization. Complexity is our domain. We confront complexity with our diligence, experience, and expertise to invest in situations where others may be unable or unwilling to invest. This may take the form of securities in or emerging from financial distress, "orphan securities" that carry the stigma of former distress, or underfollowed securities with identifiable catalysts to bridge the gap between market price and intrinsic value.

Why engage with complexity? Securities left in the "too hard" pile by traditional investors often have depressed prices disconnected from their economic potential. It's our job to help "connect the dots" between a company dismissed by the market and a quality asset of strategic value. However, we believe that troubled companies don't fix themselves. Fundamental to our strategy is effecting change within our investees to unlock the potential value of the reorganized entity. We deploy our capital strategically, in opportunities that we have a high conviction in the success of their turnaround and where our investment can generate a meaningful return.

Our success is predicated on reaching tangible milestones that mark fundamental change in our underlying investees. Often, completing a financial restructuring is only the first step. Once on strong footing, these companies can then use their financial flexibility to execute an operational restructuring plan to create meaningful investor value. Once the business has been revitalized, it is more likely to be an attractive target to strategic investors, helping to secure our exit strategy. The Stornoway Way is focused on driving these outcomes to generate superior long-term wealth creation for our investors.

Investment Performance

Ravensource's investment portfolio generated a negative 9.5% return over 2022. The investments that materially impacted Ravensource's performance are as follows:

Investment	**2022 Gross Return On Investment**	**Impact on Fund** [1]
Kiwetinohk Energy Corp.	26.6%	3.4%
Stelco Holdings Inc.	23.5%	1.8%
Dundee Corp.	8.4%	1.5%
Genworth Financial Inc.	12.1%	1.3%
Crystallex International Corp.	2.3%	0.5%
GXI Acquisition Corp.	(11.2%)	(0.6%)
Spanish Broadcasting System Inc.	(83.0%)	(1.0%)
Brookfield DTLA Fund Office Trust Investor Inc.	(72.0%)	(3.4%)
Spark Power Group Inc.	(60.4%)	(3.8%)
Algoma Steel Group Inc.	(37.5%)	(3.9%)
Firm Capital Apartment Real Estate Investment Trust	(39.4%)	(4.2%)
Other Investments		(0.4%)
FX, Forwards and Other		(0.6%)
Pre Expense & GPPA Investment Return		**(9.5%)**

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

We would like to share with you what specifically drove results for the period, what has been achieved but yet to be reflected in their market price, certain opportunities, risks, and challenges that lie ahead, and the actions we are taking to maximize and protect the value of our investments.

Kiwetinohk Energy Corp. ("KEC")

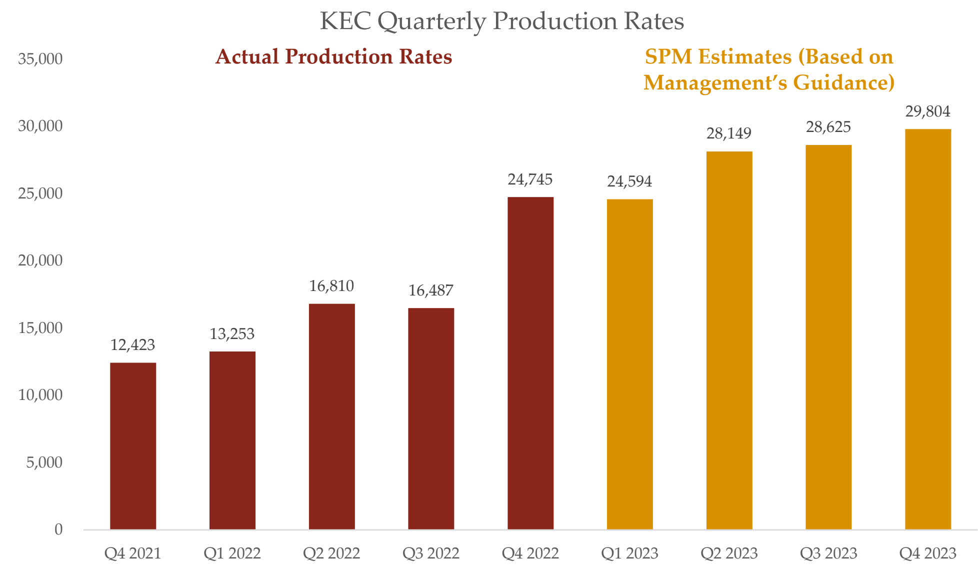
KEC was our top contributor as its shares gained 27.0% over 2022 as the company made great strides down the path to revitalization. We invested in KEC – then Distinction Energy – to capture the value created by harvesting its low-cost, undeveloped oil and gas reserves lying dormant in an insolvent entity and processing them through its underutilized infrastructure. To capitalize on this transformation, we co-sponsored a restructuring plan, injecting equity to eliminate its debt and provide liquidity. To complement the financial reorganization, we partnered with ARC Financial and Pat Carlson who contributed capital and best-in-class operating / technical expertise. To date, our KEC investment has been successful, generating a 35.5% annualized return, however, we believe there is still much more gains to come.

2022 was a remarkable year as KEC achieved significant operating and financial milestones:

1. Listed its shares on the TSX, enhancing the liquidity, reporting, and investment analyst coverage on our KEC investment.
2. Effectively doubled its oil and gas production rate from Q4 2021 to Q4 2022.
3. Generated $264 million / $5.97 per share of free cash flow, 95%+ of which was reinvested into their upstream business at 100%+ return on capital.

4. Purchased the remaining working interest in their Montney assets for $58.3 million to attain 100% ownership and full command and control of one of their core drilling areas and processing infrastructure.
5. Increased its Net Present Value ("NPV-10") of its producing wells by 55% to $16.63 per share and increased the NPV-10 of its proven reserves increased to $35.82 per share.

While KEC's 2022 achievements were extraordinary, much of their success came at the end of 2022. As evidenced in the graph below, KEC delivered a significant boost in its Q4 2022 production, proving out the superior economics of its reserves and the efficacy of its expansive drilling program. Over 2023, we expect KEC to continue to grow albeit at a more modest 12% production growth from Q4 2022 levels. However, when measured on a year-over-year basis, we expect 2023 production will be 50% higher than 2022.



Despite KEC's large share price increase over 2022, we – and members of the energy investment analyst community – believe KEC's shares are extremely attractive, possibly one of Canada's most undervalued energy companies. We get it though. Investors demand repeatable performance and KEC's drilling program is just beginning to deliver on its potential and generate results. As a newly minted public company that emerged from insolvency only two years ago, it is not surprising that the market is taking a "prove it to me" stance. But therein lies the opportunity.

While the market waits for further evidence, we have confidence that KEC will provide it. During Stornoway's deep engagement during its restructuring, we scrutinized its capital expenditure program and the individual well-level economics. Over our 2.5-year relationship with the senior management team, we have further developed our understanding of their asset base and respect for their technical expertise. To date, KEC's results have far exceeded our estimates and those of the analyst community. We are convinced the Q4 2022 results are not a blip but a new normal.

The market typically values energy companies as a multiple of their Debt Adjusted Cash Flow ("DACF"). For companies the size and shape of KEC, the market valued its peers at 3.5x their FY2022 DACF. At KEC's year-end share price of $14.57, the market valued KEC at 2.9x its 2022 DACF, a 17.2% discount to peers. When considering their Q4 performance step up, it traded at only

1.7x their Q422 DACF annualized, a 50.5% discount to its peers! Clearly, given this steep discount to its peers, the market remains skeptical.

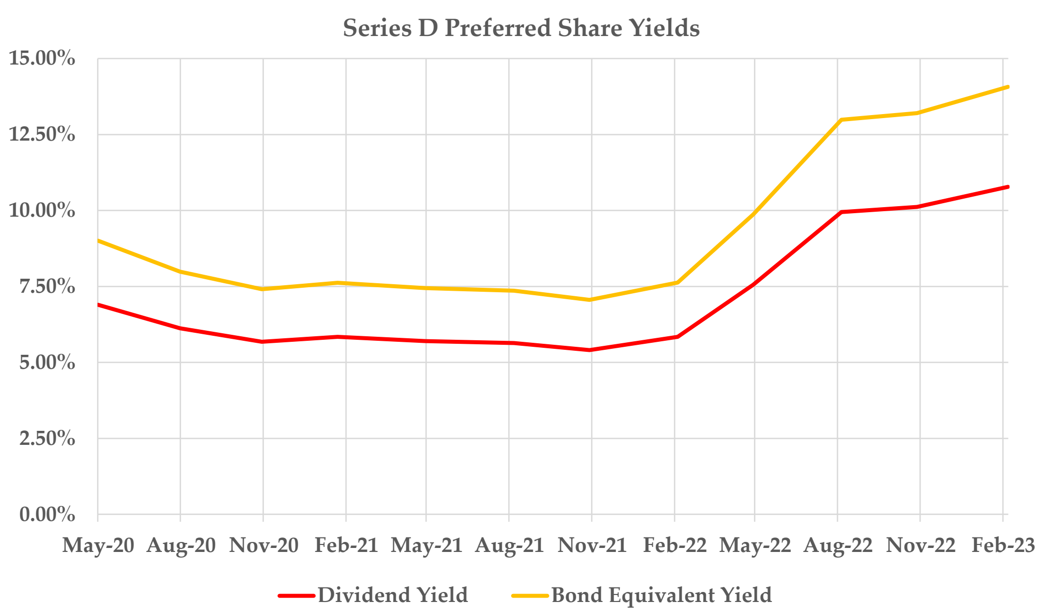
Over the course of 2023, we expect KEC will generate \$355 – \$410 million of DACF. As KEC reports quarterly milestones in line with their Q4 2022 performance, we believe the market will start to capitalize their new established earnings stream. Applying the 3.5x peer multiple, KEC shares would trade at \$25.36 – \$29.72, a 74.1% – 104.0% increase vs. the December 31, 2022, price.

Dundee Corp. ("Dundee")

Dundee is a publicly listed holding company (DC.A-TSX) with a portfolio of 40+ public and private companies with a focus on junior mining. Over the past 4 years, we made a significant investment in its Series D Preferred Shares at an average cost of \$12.00 per \$25 par value after Dundee registered several significant asset write-downs. Going against the market as our nature, our investment thesis was rooted in fact that the Series Ds were more than 3x covered by the company's assets; were the most senior security in the capital structure with no debt in front of them; and the company was highly motivated to repurchase them – even at significantly higher prices – to create material risk-free shareholder value and align its capital structure with its junior mining focus.

In the years since our investment, Dundee has transformed its business and de-risked our investment by monetizing underperforming private assets, selling its crown jewel – Dundee Precious Metals – and using part of the proceeds to repurchase a substantial amount of its preferred shares. As it trades at a discount to par value and is the company's most senior security, Dundee's Series D Preferred Shares have been the primary beneficiary of this ongoing de-risking. Accordingly, the market price of the Series Ds has increased by 62% over the life of our investment.

More significantly, the escalation in interest rates had a substantial positive economic impact on our investment as the Series D preferred dividend rate is reset quarterly based on 3-month T-bills plus 4.10%. Over 2022, the Series D dividend yield increased from 5.41% to 10.78%. Factoring in the relative tax advantage of dividends versus interest on bonds, the Series Ds pay investors a bond-equivalent yield of over 14%. Again, on the most senior security in Dundee's capital structure with asset coverage of over 3x!



Rising interest rates have a two-sided benefit to our investment. First, we have effectively doubled our dividend income. Second, Dundee is even more motivated to repurchase the preferred shares as the higher dividend represents a greater cost to Dundee's common shareholders, especially as Dundee is required to pay a 40% Part IV.1 tax on top of the dividend. By our math, the Series Ds cost of capital to Dundee has escalated to ~15%, highly incentivizing Dundee to repurchase the remaining preferred shares. It will be very difficult for Dundee to create shareholder value on a sustainable basis as long as the Series Ds remain outstanding.

To date, our Series D investment has generated a 24% annualized return. While Dundee Series D preferred shares have become a very attractive opportunity for savvy income investors, they are now in the mature phase of our lifecycle as the company has largely removed the financial distress present at time of our original investment. Accordingly, we have begun to sell our Series Ds.

Crystallex International Corp. ("Crystallex")

Crystallex is a Toronto-based company that focused on mining projects in Venezuela until 2008 when the Government of Venezuela expropriated Crystallex's Las Cristinas project for "convenience and opportunity." At the time, Crystallex had US$100mm of 9.375% Senior Notes (the "Senior Notes") due to mature in December 2011. Unable to repay the Senior Notes on the maturity date, Crystallex filed for insolvency protection under the CCAA on December 23, 2011, and raised a US$75mm Debtor-in-Possession Loan to fund litigation against Venezuela.

Crystallex brought a US$3+ billion claim against Venezuela, and in April 2016 Crystallex won a US$1.4 billion judgment (the "ICSID Award"). In August 2018, Crystallex received a writ of attachment from the US District Court for the District of Delaware against Venezuela's indirect ownership of CITGO Petroleum Corporation ("CITGO"). The writ has withstood several legal challenges by Venezuela including up to the Supreme Court of the United States and provides Crystallex the right to sell an interest in CITGO to collect what it is owed, subject to certain conditions. While there are other creditors of Venezuela looking to CITGO to be repaid, Crystallex is at the front of the line.

Stornoway Funds purchased Senior Notes on our conviction that Crystallex's ultimate recovery value on the ICSID Award would be more than sufficient to fully repay the Senior Notes with interest. After years of unpaid interest, as of December 31, 2022, we believe the company owes the Senior Notes ~US$350+ per $100 par value. Stornoway is actively involved with Crystallex's restructuring, serving on its "creditor committee" to maximize the value of the Senior Notes, protect our investment, and work with other Crystallex stakeholders to achieve a successful outcome.

Over 2022 the CITGO sale process was finalized in Q3 2022 and the Special Master – the court-appointed professional that is overseeing the sale of CITGO – formally kicked off the sale process in Q4 2022. More significantly, the value of CITGO has materially increased over 2022 as it generated US$2.8 billion of net income, reduced debt by ~US$1.6 billion, and ended the year with US$2.1 billion of cash. Not only do we believe CITGO is worth well more than what Venezuela owes Crystallex, Venezuela may have access to sufficient cash to fully repay Crystallex through CITGO's balance sheet. We believe this is a more palatable outcome for Venezuela rather than to lose CITGO – its self-proclaimed national treasure – in a sale.

To complete the sale of CITGO, Crystallex and the buyer must receive a license from the U.S. Government. Due to its sanctions against Venezuela, the U.S. Government has yet to grant a license nor are there any assurances they ever will. In January 2023, the Special Master began engaging with the U.S. Government as to whether they will allow the sale of CITGO. Ultimately, we believe the US Government will either allow the sale or pressure Venezuela to settle with Crystallex and other creditors with CITGO's cash on hand.

Overall, we are very pleased with the developments on Crystallex over 2022: our collateral value has increased, progress on the path to monetization has advanced, and the pressure on Venezuela and the US Government to resolve the legal dispute has ratcheted higher. Based on our analysis of CITGO and the terms of our Senior Notes, we believe Senior Noteholders will receive US$350+ per US$100 face value. Notwithstanding our optimism, we recognize there is considerable risk that the fight over CITGO will continue without resolution for the foreseeable future, and even once resolved, that Crystallex or other stakeholders will seek to limit recoveries on the Senior Notes.

Brookfield DTLA Fund Office Trust Investor Inc. ("BDTLA")

In 2021, Ravensource made a small investment in the preferred shares of Brookfield DTLA (DTLA.PR-NYSE), a Brookfield-owned real estate entity that owns six Class A office buildings in downtown Los Angeles. Through our analysis, we determined that Brookfield could not distribute excess equity value from the venture without repaying or renegotiating these preferred shares. As the preferred shares haven't paid cash dividends since 2008, we were able to purchase the preferred shares at price equal to just 32% of its claim value. Due to this deeply discounted purchase price, we believed a win-win negotiated outcome existed, whereby Brookfield could redeem the preferred shares for ~$20.00 per share, or 43% of their claim value, generating a 34% return for us, and unlocking over $257 million for Brookfield.

Brookfield DTLA's assets are top-tier office buildings in downtown LA, and at the time of our investment were likely worth close to $3.4 billion, enough to cover the total claim value of the preferred shares. Over the past 18 months, the value of the portfolio has declined markedly given rapidly rising interest rates, little progress in the revitalization of downtown Los Angeles, and slow return to office policies. As a result, we believe DTLA's asset value has declined to $2.6 – 2.7 billion, roughly $10.00 – 15.00 per preferred share. While the environment for office assets remains highly uncertain, at these levels we would recover most of our cost and would earn a significant return over the December 31, 2022 market price.

Following the decline in value of DTLA's office towers, the market value of the preferred shares has fallen significantly. Brookfield, as one of the preeminent managers of real estate, particularly in distressed / value-add opportunities, remains firmly linked with the preferred shareholders. Not only are they prevented from accessing any equity value until we are repaid, they own a large issue of preferred shares (claim value of $465 million) that rank equally to our preferred shares. As it was unlikely for Stornoway to attain control / significant influence, our Brookfield DTLA investment was a sub-5% position in Ravensource at the time of purchase. Following the price decline in 2022, Brookfield DTLA represented 1.4% of the Fund's total assets at the end of the year.

Spark Power Corp. ("Spark")
Spark is a publicly listed Canadian company (TSX: SPG) that provides electrical contracting, construction, and maintenance services to industrial, utility, and renewable power customers. Stornoway invested in Spark in January 2022 at $1.20 per share which declined to $0.4750 by the end of the year, reducing the value of Ravensource units by 3.8%. Our Spark investment represents a significant mark-to-market loss, but we do not believe this loss to be permanent.

Spark was formed to capitalize on the transition to electrification by acquiring regional electrical service providers across North America. However, the hard part of a growth by acquisition strategy – integration – was ignored. Burdened by overhead and debt that funded the acquisitions, Spark needed equity capital to de-risk their balance sheet and partners to help execute the integration. Stornoway Funds injected $10 million of equity in January 2022, alongside a $30 million rights offering primarily funded by Spark's founders and two sophisticated institutional investors.

However, soon after our investment, Spark released Q4 2021 results that revealed the problems of the business were more fundamental than we had believed. As a B2B electrical contractor, much of Spark's work is on long-term contracts. Spark's accounting for these projects did not accurately reflect the realizable economics, and in Q4 they took a significant write-down to correct this. We invested in Spark to participate in the integration of the acquired businesses and help prepare the company for sale within two years of our investment. We were wrong. A more comprehensive operating restructuring, debt reduction plan and overhaul of its business model is necessary.

The Q4 financial results triggered a default on their bank facility, restricting the company's access to its bank line and escalating its insolvency risk. On the news, investors rushed for the exit, cutting Spark's share price by more than half. Unlike other investors, Stornoway increased its engagement with the company. We spent considerable time with Spark's management team, scrutinizing their business practices and identifying opportunities to enhance its cash generation, reduce SG&A and pivot to shorter-term, less risky, and less capital-intensive jobs. Despite our efforts, the company has been slow – even resistant – to effect the change we believe is critical to revitalize Spark.

Over the course of 2022, Spark has shown the green shoots of a turnaround, recording revenue growth and margin expansion. More importantly, Spark completed the sale of their non-core Bullfrog division for $35.0 million and repaid the bank with the proceeds. This allowed the company to normalize its relationship with the bank, resolving the default and removing the existential risk facing the business.

Despite these positive developments, there remains much wood to chop. Spark's recent profitability has not been echoed by cash flow generation. Working capital inefficiencies caused by its long contract billing cycle require more capital and larger bank facilities. Corporate overhead remains bloated, and Spark has made no headway upgrading their Board even though Spark's troubled business model, over-leveraged capital structure and failure to integrate have all been on their watch. It remains a head-scratcher that there have been no repercussions nor responsibility taken for these failures.

As the issues currently facing the company are more fundamental than we anticipated, the $3.00+ potential exit price we identified at the time of our investment is likely out of reach. However, we do believe the company is worth significantly greater than its $0.475 per share market price in the event the company can get their act together to affect the change required to participate and capitalize on the global economy's transformation to electrification.

Algoma Steel Group Inc. ("Algoma")

Algoma is a publicly listed, Canadian steel manufacturer located in Sault Ste. Marie, Ontario. Over the years, Algoma has oft danced in the dragon's jaws with too much debt and volatile commodity prices. Emerging from insolvency with no debt, a board with significant skin in the game, and an ambitious capital project plan, Stornoway invested in Algoma in August 2021 to profit on its revitalization.

The first year of our Algoma investment was extremely disappointing as the company faced numerous operational issues: a fire in their coking facility, work stoppages from a labour dispute, and production delays related to its plate mill modernization. These challenges compounded the market's aversion to the company, and the stock price declined by 43% in 2022 to US$6.34 per share, reducing the value of Ravensource units by 3.9%. However, these issues were one-time in nature, are relatively insignificant over the long term and are now behind them. While it is frustrating to begin an investment with a mark-to-market loss, we invested in Algoma to capture its longer-term value creation opportunities which we believe remain intact.

Despite these challenges, Algoma is a cash flow machine. In 2022 the company generated $526 million of cash from operations, and $954 million in 2021. Algoma is directing that cash flow into two highly accretive channels: (1) two capital projects that should provide significant upside, and (2) sizeable share buybacks taking advantage of their discounted share price.

Algoma's two capital projects offer immense opportunity. The first is a modernization of its plate mill facility, the first phase of which was completed in 2022. This improved their production quality, enabling them to better compete with imports and expand their potential customer base. The second phase, which will double their output capacity, is scheduled for later this year. For the past year, plate prices have held a significant premium to steel sheet, and this upgrade materially improves Algoma's position to capture the enhanced profitability of the plate market. When phase two is complete, the additional capacity could add over $90 million of EBITDA at current prices.

Algoma's second capital project is transformative, converting from a blast furnace to a more environmentally friendly electric arc furnace ("EAF"). As EAFs generate far less harmful emissions, the Canadian government has provided Algoma with generous grants to support the construction. More economically important, EAFs produce much more stable profit margins and therefore earn a higher valuation multiple. Algoma has made significant progress on their EAF conversion, and the project remains on-time and on-budget with the initial EAF production slated for mid-2024.

Algoma has used some of its substantial cash flow to opportunistically repurchase shares. In 2022, Algoma repurchased 44 million shares, representing 30% of their shares outstanding at the beginning of their fiscal year. At our price target of US$16.35 per share, these repurchases created US$301.2 million in value, or US$2.91 per share, for the remaining shareholders.

As with nearly all the post-restructuring companies we invest in, achievements must be stacked in a long-term and consistent way for a business to be revaluated independent of its past failures. Algoma is on that path: following the operational missteps of 2022, as of January 1, 2023, they were back to producing at 100% capacity; their plate mill facility is outputting a much higher quality product; and they continue to make consistent progress on their EAF conversion. We expect Algoma to generate upwards of $600 million – ~US$4.29 per share – of free cash flow this year, and believe the shares are worth at least US$16.35. Thus, absent a significant change in the market price of Algoma shares, we believe the company will continue to use this cash flow to repurchase shares, generating further accretion for remaining shareholders. Accordingly, Algoma remains a high conviction investment for Ravensource.

Firm Capital Apartment REIT ("FCA")
FCA is a Toronto-based, publicly listed (TSXv: FCA.U) Canadian real estate investment trust focused on U.S. real estate opportunities. In 2016, Eli Dadouch and his team at Firm Capital took over management of FCA – then known as Delavaco – as part of a comprehensive restructuring. Under new leadership, the company effected a debt-to-equity swap and sold its single-family home portfolio to reduce its financial risk and raise cash to pivot into multi-residential properties. Stornoway Funds helped backstop an equity raise to implement the restructuring plan. In doing so, Stornoway Funds became FCA's second largest investor and Scott joined the FCA Board up to February 2020 to help oversee its restructuring.

Our investment thesis was that the market value of FCA's assets far exceeded the cost of our investment and that the Firm Capital team would create additional value on – and liquidity for – our investment. The Firm Capital team has created significant asset value: FCA's real estate holdings now are of excellent quality, located in markets whose fundamentals have improved tremendously with mid-90% occupancy rate and rent increases well above inflation. By December 31, 2021, FCA's net asset value per unit ("NAV") grew to US$10.15 / ~10% annual growth rate since our investment. However, the FCA team has failed to gain traction with investors and improve the trading volume / liquidity of its units.

2022 was a setback on our FCA investment. The hefty rise in interest rates hit the US real estate market hard, causing FCA to write down its NAV by ~17% to US$8.44 per unit as of Q3 2022. Exacerbating this negative headwind, FCA eliminated its quarterly distribution in September 2022, causing the market price of its units to fall precipitously. As REIT investors are income-oriented, no one shows up to a REIT party if they are not serving distributions. By December 31, 2022, FCA's shares had declined to US$3.97, down 41% over 2022.

FCA is now at a crossroads. Despite its strong operating performance and NAV growth over the years, its units trade at a 53% discount to its Q3 2022 NAV with little market liquidity even at these depressed prices. This lack of investor interest has frustrated both management's growth aspirations and our exit strategy. In November 2022, the company announced it had initiated a strategic review process to identify, evaluate and pursue a range of strategic alternatives with the goal of maximizing unitholder value.

With little investor interest, FCA has lost access to the capital markets, the lifeblood of real estate entities. Consequentially, we do not think FCA remains viable as a stand-alone company. However, FCA's Board is highly motivated to deliver a successful outcome as they own over 28% of FCA, and other investors with whom Firm Capital has a strong relationship with likely own an additional 15%. As FCA's assets are high quality, highly occupied, and highly marketable, we believe the outcome of the strategic review will be a sale of the company or monetization of its assets with the proceeds returned to investors. While the outcome is far from certain, we believe FCA investors may receive between US$7.50 to US$8.50 per share representing a potential gain of 102-127% over December 31, 2022's closing price.

The Carrot

The Investment Performance section reviewed how Ravensource performed over 2022. But investing is a forward-looking business with investors rightly focused on their ultimate results over their intended investment horizon.

Our approach to meeting this objective is to "connect the dots" between companies that few others want to invest in, and revitalized companies of great value to strategic acquirers. In this section, we seek to help you better understand the longer-term profit potential of Ravensource's investments if we are successful connecting the dots that lie in front of us. We call it the 'Carrot'. That 'Carrot'— the gap between the December 31, 2022 market price of our investments and the value we are working to realize when it comes time to sell — is quantified below:

	31-Dec-22	"The Carrot"		
Investment	**Price**	**Exit Proceeds**[1]	**Total Return**[2]	**Estimated Time to Exit**
Crystallex International Corp.	$112.49	$280.00	148.9%	2 - 4 years
Dundee Corp.	$19.50	$21.00	7.7%	6 - 9 months
Kiwetinohk Energy Corp.	$14.57	$25.00	71.6%	6 - 12 months
Quad/Graphics Inc.	$4.08	$6.85	67.9%	1 - 2 years
Firm Capital Apartment REIT	$3.97	$8.05	102.7%	6 - 12 months
Algoma Steel Group Inc.	$6.34	$16.35	157.9%	1 - 2 years
Stelco Holdings Inc.	$44.29	$55.00	24.2%	0 - 3 months
Spark Power Group Inc.	$0.48	$1.70	257.9%	2 - 3 years
Brookfield DTLA	$3.70	$9.50	156.8%	2 - 4 years

[1] *Stornoway's estimate of the proceeds received on a succesful realization plus any interim dividends / distributions received.*

[2] *Unannualized return to the midpoint Estimated Time to Exit.*

The Carrot is a living and breathing metric: we regularly update it based on key developments and our assessment of the value we can realize upon a successful exit. The following table shows how our current estimates compare to last year's Carrot:

	Carrot[(1)] as of,		
Investment	**Dec. 31, 2021**	**Current**	**Change**
Crystallex International Corp.	$220.00	$280.00	27.3%
Dundee Corp.	$21.80	$21.00	(3.7%)
Kiwetinohk Energy Corp.	$17.00	$25.00	47.1%
Quad/Graphics Inc.	$7.50	$6.85	(8.7%)
Firm Capital Apartment REIT	$8.30	$8.05	(3.1%)
Algoma Steel Group Inc.	$16.00	$16.35	2.2%
Stelco Holdings Inc.	$63.00	$55.00	(12.7%)
Spark Power Group Inc.	*n/a*	$1.70	*n/a*
Brookfield DTLA	$25.00	$9.50	(62.0%)

[1] *Stornoway's estimate of the proceeds received on a succesful realization plus any interim dividends*

As this is an annual letter, we believe it is most appropriate to compare our current estimates to last year's Carrot. For our most recently published interim-period Carrot, please refer to our Letter to Unitholders for the semi-annual period ended June 30, 2022 on the Ravensource website.

As with any forward-looking analysis it comes with a necessary caveat: this is not a projection of future annual returns. Rather, it is our assessment of the value we believe we can receive on exit. 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. We have not priced our end-goals 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. Investing is an inherently uncertain pursuit. As the great philosopher, Yogi Berra, was aware: "It's tough to make predictions, especially about the future."

Fund Liquidity and Investment Activity

Ravensource was active over 2022, investing 13.3% of the Fund's total assets by establishing one new investment while increasing four existing investments. Ravensource ended 2022 with negligible cash and a margin loan equal to 20.3% of total assets. Your capital has never sweat harder. The sources and uses of the Fund's net cash during the period are as follows:

	Amount	**% of Total Assets** (1)
Starting Net Cash	(4,949,587)	(22.3%)
Sources		
Investment Divestitures	7,209,512	32.5%
Dividends and Interest	482,140	2.2%
Total Sources	7,691,652	34.6%
Uses		
Investment Purchases	(2,957,796)	(13.3%)
Unitholder Redemptions	(2,238,386)	(10.1%)
Foreign Exchange	(1,085,324)	(4.9%)
Operating Expenses	(625,767)	(2.8%)
Distributions to Unitholders	(337,204)	(1.5%)
Total Uses	(7,244,477)	(32.6%)
Change in Net Cash	447,175	2.0%
Ending Net Cash	(4,502,412)	(20.3%)

(1) % of December 31, 2022

Investment Purchases

We initiated an equity investment in Spark Power Group over the first half of 2022 along with increasing our existing equity investments in Stelco, Algoma and Kiwetinohk.

Divestitures
During the period, we sold investments equal to 32.5% of the Fund's total assets. This included exiting our position in Canadian Government bonds, Genworth, and Glacier Media Inc and a partial sale of our Stelco investment. These divestitures funded investor redemptions and reduced our leverage.

Genworth Financial Inc. ("Genworth")
Genworth is a U.S. publicly listed (NYSE: GNW) insurance company that provides coverage to the mortgage, life, and long-term care insurance market. Over 2022, Genworth completed many key milestones including divesting non-core assets, executing a successful partial IPO of its U.S. mortgage insurer – Genworth's crown jewel – and de-risking its balance sheet by reducing debt with the proceeds. Through these initiatives, Genworth emerged from its time of troubles as a much stronger company and remarkably, began returning capital to shareholders, the first time it has done so since 2008. These developments contributed to the increase in the market value of Genworth's shares over 2022, providing the opportunity for us to exit our investment near our target price. Our investment in Genworth was successful, producing a return of 12.1% in 2022 and increasing the value of Ravensource units by 1.3%. Over the life of our investment, Genworth generated a 13.4% annualized return.

Stelco Holdings Inc. ("Stelco")
Attracted by the tremendous cash flow this Canadian steel company was spinning off and its CEO's track record of using its cash to create additional significant shareholder value, we began investing in Stelco in November 2021. Over 2022, we benefitted greatly as Stelco used its cash in an audacious $1.1 billion tender for 44% of its shares at $35 in July and a $3 per share special dividend paid in December. Ending the year at $44.29 while receiving dividends of $4.20 per share, our Stelco investment generated a total return of 23.5% over 2022, increasing the value of Ravensource units by 1.8%. Meeting our internal price targets, we began selling our shares in late December 2022.

Use of Leverage
As of December 31, 2022, Ravensource's indebtedness represented 20.3% of total assets, well within the Fund's restriction of 30.0%.

As this is the first time Ravensource has employed a meaningful amount of leverage, we took particular care prior to taking this step. Our decision was greatly influenced by the confluence of the historically low risk and greater liquidity in our portfolio and the opportunity to modestly increase the investments we know best at extremely attractive prices. We recognize the incremental risk leverage poses, and accordingly we have implemented enhanced monitoring policies and procedures to manage it. Please see the "Risks" section of this report for more detail.

Distributions
Ravensource's policy is to make semi-annual distributions to ensure it does not incur any tax while providing a reasonable yield for our investors. Distributions over 2022 amounted to $0.30 per unit, unchanged from $0.30 per unit paid in 2021.

Operating Expenses

Ravensource's operating expenses include management fees, legal fees, trustee fees, TSX listing fees, accounting expenses, transaction costs and 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 2022 and 2021.

	Dec 31, 2022	Dec 31, 2021	YoY Change
Pre-expense / Incentive Fee Investment Return	**(9.52%)**	**14.39%**	
Less:			
Management, administrative and IR fees	1.11%	1.27%	(0.16%)
Other operating expenses	1.35%	0.50%	0.85%
Legal fees	0.24%	0.45%	(0.21%)
Audit and accounting fees	0.38%	0.32%	0.06%
Total Expenses Before Incentive Fee	3.08%	2.54%	0.54%
Pre-Incentive Fee Investment Return	**(12.60%)**	**11.85%**	
Less:			
Incentive Fee	0.00%	0.00%	0.00%
Ravensource Fund Net Investment Return	**(12.60%)**	**11.85%**	

Over 2022, operating expenses represented 3.08% of Ravensource's starting NAV, 54 basis points higher than 2021's levels. The increase was due to the interest expense on the Fund's margin facility.

Incentive Fee

As Ravensource's Investment Manager, Stornoway is entitled to an annual incentive fee equal to 20% of Ravensource's net profits over its 5% annual hurdle rate, after making up any losses and shortfalls from prior years hurdle rate. Simply put, we only get rewarded if you do first.

As Ravensource generated a negative return in 2022, we did not earn an incentive fee. As of December 31, 2022, Ravensource's net asset value per unit would have had to exceed $19.36 for us to begin earning incentive fees. Given our net asset value was $14.93 on December 31, 2022, regardless of the price you paid for your Ravensource units, you get the next 29.7% of returns 'free' of incentive fees.

Long Term and Relative Performance

Our objective is to generate superior, long-term, returns. We do not look in the rear-view mirror — it does nothing to grow your capital today — nor do we fuss about what the broader markets are doing. Our investments are highly idiosyncratic — after all, that is our value proposition to you — and our returns will have little correlation with the market, in good times and bad.

That said, we recognize that you will grade our performance relative to other investment vehicles. We have identified several indices below — see Appendix 1 for descriptions — that we believe are appropriate in assessing our "relative" performance.

					Since July 1, 2008	
As at December 31, 2022 [1]	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Annual**	**Total**
Ravensource Fund NAV [2]	**(12.6%)**	**(3.8%)**	**1.8%**	**5.4%**	**6.3%**	**143.1%**
S&P/TSX Composite Total Return Index	(5.8%)	7.5%	6.8%	7.7%	5.1%	107.0%
S&P/TSX Small Cap Total Return Index	(9.3%)	7.2%	3.1%	4.2%	2.8%	48.4%
ICE BofAML US High Yield Index	(11.2%)	(0.2%)	2.1%	3.9%	6.2%	140.3%
HFRI Distressed/Restructuring Index	(4.3%)	7.4%	4.6%	4.7%	4.5%	89.4%

(1) Returns are annualized, except total returns. Returns are net of all fees and expenses.

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

Our objective is to generate superior *long-term* wealth on your Ravensource investment. Ravensource has increased at an annual rate of 6.3% since we were appointed manager in July 2008, growing a $100,000 investment to $243,065 versus $206,959 had you invested in the S&P TSX instead.

Our recent performance has been poor and dulled our long-term returns and outperformance. Still, Ravensource has outperformed all these indices since Stornoway was appointed manager in July 2008, and most notably, we have significantly outperformed the HFRI Distressed / Restructuring Index which tracks the performance of funds with similar mandates to Ravensource. As expressed throughout this review, we also believe there has been much value creation accomplished over these past few years. We are confident that when the value is ultimately recognized, we will meet our goal of generating superior long-term wealth creation for you as we have done in the past.

"Skin in the Game"

We fervently believe an investment manager should have significant "skin in the game", sharing in the risk and reward of our decisions alongside other investors. Accordingly, the Stornoway Team has substantial personal investments in Ravensource. As of December 31, 2022, the Stornoway Team owned approximately 13.1% of Ravensource's outstanding units. 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 constantly 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.

We believe 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 believe 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.

Ravensource's portfolio is more concentrated than most investment funds, routinely owning only 10 or so investments at a given time. We believe our mission to create superior, long-term returns is best attained by focusing Ravensource's capital on the opportunities we know best and find most compelling. Otherwise, we risk watering-down the secret sauce: our active involvement in the value creation and revitalization process of our investees. However, this means a single investment can have a material impact – positive or negative – on your Ravensource investment.

As we invest in underfollowed, unloved and often less liquid opportunities, Ravensource's investments can be particularly exposed to temporary market losses during times when the market has flights to liquid investments. We may seek to capitalize on lower prices by prudently increasing an investment if the opportunity is compelling, our investment thesis remains intact, and the underlying company has ample liquidity to ride out the storm.

Ravensource has assumed indebtedness through its margin facility of 20.3% of total assets. While we believe this to be an attractive opportunity to increase the value of the Fund and appropriate in the context of the nature of our current holdings, the use of leverage exposes Ravensource to risks that would not otherwise be present, including: increasing the magnitude of losses on declines in the value of the investment portfolio and exposed to capital calls in the event the margin loan becomes under-collateralized. Stornoway carefully considers those risks and mitigants to them in its decision to use and continue to employ leverage over time.

There has been no change during 2022 in the Fund's stated investment strategy that would materially affect the risk of investing in Ravensource. We continue to believe the Fund is suitable for only those investors who have an otherwise diversified investment portfolio, 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.

This section is not intended to be an exhaustive disclosure of all the risks associated with investing in Ravensource. In addition to investment-specific risks, the Fund is exposed to macroeconomic factors and other risks 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 and the AIF.

Concluding Remarks

We take our responsibility to protect and grow your capital extremely seriously. As likely the largest Ravensource investors, we are also your partners and feel the consequences of our decisions and the ultimate performance of Ravensource deeply. One of the challenges of being a contrarian investor is having the fortitude to maintain your conviction over long periods of time while the market consistently repeats: "you are wrong."

We embrace this questioning. Our answer: roll up our sleeves to re-evaluate and re-underwrite each of our investments. Through this process, our conviction was largely strengthened but, in some cases, such as Spark Power, we recognized the need to pivot or alter our tactics. With clear eyes, we understand the work that needs to be done to capture the value that is being created on our investments.

From where we are now, we believe that the gap between the current price of our investments and the potential value that could be realized on their exit represents the greatest opportunity to generate meaningful returns for Ravensource investors since we began managing the Fund in 2008. Daniel and I – and now with Alex – will be applying our relentless drive, opportunism, and active approach to secure successful exits for our investments and deliver value to Ravensource investors.

The Stornoway Team greatly appreciates your partnership, fortitude and trust. We are dedicated to protecting and growing your capital in the years to come.

Onwards and upwards.

Scott Reid
President & Chief Investment Officer
(416) 250-2845

Daniel Metrikin
Principal & Executive Vice President
(416) 250-2847

April 2023

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 HFRI Distressed/Restructuring Index ("HFRIDSI") tracks the performance of investment funds focused on the credit instruments of companies trading at significant discounts to par value due to formal bankruptcy proceedings or the expectation of near-term proceedings. The HFRIDSI is a relevant index for comparison purpose as Fund's mandate broadly overlaps that of the funds that make up the HFRIDSI. 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 HFRIDSI.

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 Hedge Fund Research and ICE Data Services.

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