RAVENSOURCE
FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

JUNE 30, 2013

NOTICE TO READERS

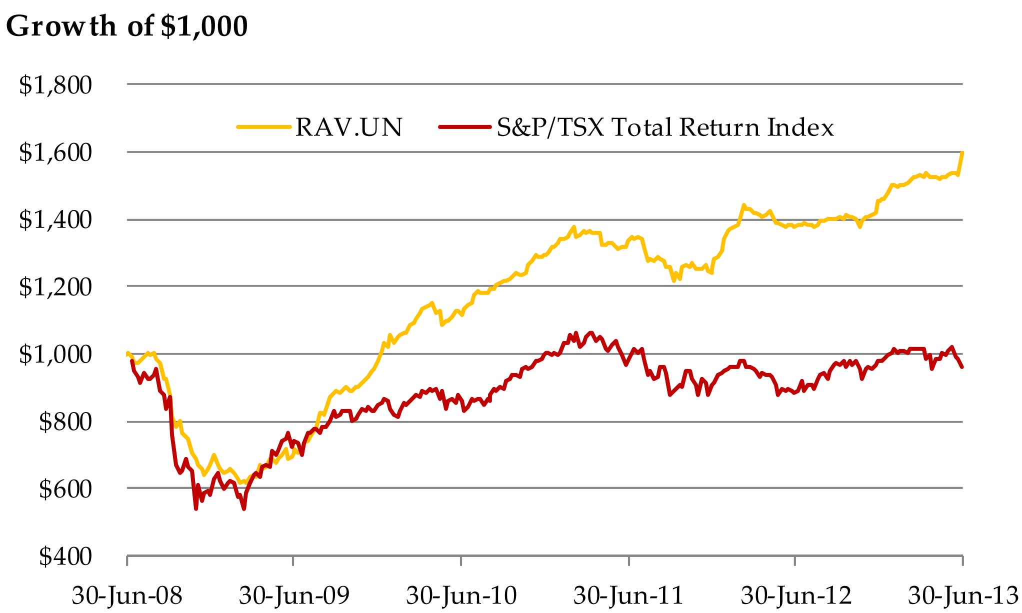
This management's letter to unitholders contains candid and in-depth commentary, analysis and other information about the Ravensource Fund. However, this letter does not contain the complete semi-annual financial statements of the investment fund nor the supplemental information found in the Management Report on Fund Performance ("MRFP"). You can get a copy of the financial statements and MRFP at your request, and at no cost, by calling 416 250 2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at www.ravensource.ca, or the SEDAR website at www.sedar.com.

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

A Note on Forward/Looking Statements

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

MANAGEMENT'S LETTER TO UNITHOLDERS



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

Fellow unitholders,

We are pleased to report that Ravensource Fund's net asset value per unit ("NAV") increased by 9.82% including distributions and after all fees and expenses in the first half of 2013. Building on strong performance from prior periods, as of June 30, 2013, an investment in Ravensource units has increased by 59.6%, including re-invested distributions, since Stornoway Portfolio Management took over its management in July 2008 while the S&P TSX Composite Total Return Index has decreased by 2.6% over the same time period.

This period's strong results – on both an absolute and relative basis – were generated against the dampening impact of Ravensource's large holdings of cash. With over 25% of the Fund's net assets being held in cash that is effectively earning a zero return, the investment portfolio had to earn over 17% to cover the fees and expenses to generate this period's result. In an otherwise sanguine investment environment, Ravensource's investment results outperformed far greater than the headline number shows.

Ravensource's results were bolstered by its position in Specialty Foods Group warrants as the hot dog maker continues to generate significant free cash flow from its operations and surfacing other sources of value for its investors. The Fund's investments in Genworth Financial (GNW:NYSE), Tuckamore Capital (TX:TSX), Fiera Sceptre (FSZ:TSX), Jovian Capital (JOV:TSX) and CML Healthcare (CLC:TSX) also contributed significantly while investments in Connacher Oil & Gas (CLL:TSX), Plazacorp Retail Properties (PLZ:TSX) and Great Basin Gold (GBG:TSX) detracted.

Our goal for this letter is simple: report to Ravensource's investors in a candid and open fashion about the philosophy/approach that guides our investment decisions; the rationale for and changes in Ravensource's investments; the performance of the investments over the reporting period; and some of the risks that Ravensource is exposed to. We produce this letter in addition to the various documents required by the regulators to impart knowledge, analysis and information to Ravensource's unitholders so that they can have a thorough understanding of their investment. However, this letter should be viewed as a supplemental report to be read alongside the financial statements, MRFP, Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report.

The Ravensource Fund

The Ravensource Fund ("Ravensource" or "the Fund") is a closed-end mutual fund trust whose units trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns, with an emphasis on capital gains, through investments in selected North American securities. To achieve its investment objectives, Ravensource's investments fall primarily in three categories:

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

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

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

To implement and execute the investment strategy, Stornoway Portfolio Management Inc. ("SPM") was appointed to be Ravensource's Investment Manager effective July 1, 2008. SPM's investment team is comprised of Scott Reid and Steve Schaus, the bios of whom can be found on the Ravensource website. In addition to Ravensource, SPM manages the Stornoway Recovery Fund LP which focuses exclusively on investing in distressed securities and turnaround situations.

Overseeing the investment management of the Fund, Pat Hodgson along with the SPM investment team sit on the Ravensource Investment Committee (the "RIC"). Pat is the President of Cinnamon Investments Limited ("Cinnamon"), managed Ravensource up until July 1, 2008, and is the Fund's largest unitholder.

We firmly believe that an investment manager should have "skin in the game". As of August 28, 2013, Scott owned 9.9% of the total units of Ravensource outstanding while Steve – directly and indirectly – owned 1.6% and Pat – directly and indirectly – owned 43.2%. In short, we have invested significant capital alongside other Ravensource unitholders and eat our own cooking.

Investment Performance

Ravensource Fund's net asset value per unit ("NAV") increased by 9.82% including distributions and after all fees and expenses in the first half of 2013. The ten investments that have made the most significant contributions – both positively and negatively – to Ravensource's performance are found in the table below:

Investment	Per RAV Unit [1]	Period Return [2]
Specialty Foods Group Warrants	$0.64	140.1%
Genworth Financial	$0.20	60.4%
Tuckamore 8% due Mar 23, 2016	$0.13	14.2%
Jovian Capital Corp.	$0.11	14.3%
CML HealthCare Inc.	$0.10	50.3%
Fiera Sceptre Inc.	$0.10	56.1%
Winpak Ltd	$0.08	21.5%
Connacher Oil & Gas Ltd	-$0.06	-66.7%
Plazacorp Retail Properties Ltd	-$0.07	-10.4%
Great Basin Gold 8% due Nov 30, 2014	-$0.11	-94.6%

1 Total investment income / # of RAV units outstanding

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

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

Specialty Foods Group Inc ("SFG")

The Fund's top performer in the first half of 2013 was its investment in SFG warrants. During the first half of 2013, its value appreciated by 140%, increasing Ravensource's NAV by 6% / $0.64 per unit in the process. The striking increase in its market value reflects that SFG is hitting the ball out of the park, profitability-wise, and current and potential asset realizations that greatly exceed prior expectations.

In its final year of the Nathan's Famous ("NFSI") license agreement, SFG's Chicago operation that makes NFSI hot dogs is registering record volumes and profitability. To ensure that this golden goose keeps laying its eggs, SFG negotiated a Key Employee Retention Plan ("KERP") and a labour agreement to secure continued production by rewarding employees for their loyalty and productivity in this otherwise uncertain time. In addition, long-cited as Chicago's uglier sister, the Kentucky team has created lasting value by growing its fledgling Kentucky Legend hams into a real brand while improving the operating efficiency of the plant. On review, the Kentucky operation has likely created as much shareholder value over the past couple of years as the Chicago facility.

Uncovered in the legal process to uphold SFG rights in the NFSI license agreement, the courts found that NFSI had over-charged SFG for its proprietary spice mixture since 1997 (the "Spice Claim") and awarded SFG U$6.1 million in damages ($3.6 million net of taxes). This windfall – finalized in May 2013 and subsequently paid by NFSI – increased the value of SFG by approximately 8%.

To achieve these results, the Fund's investment in SFG has required much more than just a financial commitment. We have been very actively involved in the financial restructuring and operational turnaround of SFG since investment: Scott Reid sits on the board of SFG and Stornoway Portfolio Management is a financial advisor to the company. In addition to recent achievements, there are other key initiatives that we are working on to surface value over the next 6 to 12 months. We remain optimistic that the ultimate realizable value will materially exceed the current valuation.

Jovian Capital Corporation ("Jovian")

Jovian's gain of 14.3% in market value over the first six months of 2013 increased the Fund's NAV by 1%/ $0.11 per unit. Jovian's contribution was bolstered by an opportunistic purchase from a seller who needed to offload a block of shares in late January 2013. Our thorough understanding of Jovian supported by its wide margin of safety allowed us to confidently collect the spoils of providing liquidity to a rather desperate seller. By March 31, 2013, these purchases made Jovian our single largest investment at 8.37% of net assets.

The investment thesis was that Jovian was worth much more to a larger asset manager than the market was pricing Jovian as a stand-alone company. We surmised that as Jovian's lead investor was very smart, had a tremendous record of creating shareholder value in other ventures, and had significant influence over the company, it would not be long until the board arrived at the same conclusion. But we believed that we were fighting against an entrenched and well compensated management team and that the board needed a little encouragement and analytical horsepower before it took action. In 2012, after Jovian announced that they had accrued an over-sized bonus to management, we expressed our strong opposition to its size both publicly and in conversations directly with management and the board. The short-term benefit of our efforts was that we were successful in influencing the board to reduce the size of the bonus thereby saving the company approximately $4 million. The more significant longer-term benefit, however, was that it provided us with the avenue and credibility to communicate to the board the basis of our belief that Jovian had taken their operating assets as far as they were able and that in the absence of a sale, all of Jovian's operating cash flow would be consumed by its bloated head office expenses.

We will never know what role our analysis / involvement and those of other like-minded investors played in influencing the board's decision, but subsequent to the end of the period, on July 16, 2013, we received news validating our thesis and our conviction when Jovian announced that they had entered into an agreement to be acquired by Industrial Alliance in a deal valued at $10.23 per share.

Genworth Financial Inc. (“Genworth”)
Purchased in late 2012, Genworth shares had an immediate positive impact to the Fund. In the first 6 months of 2013 alone, Genworth shares have risen by more than 60% increasing Ravensouce NAV by 2%. The main driver for the market reaction is the announcement of Genworth’s comprehensive reorganization plan to carve-out its U.S. mortgage insurance business from the rest of the company and thereby positioning itself to capitalize on the improving U.S. mortgage insurance environment. The plan addressed a key risk that the market assigned to Genworth and in turn rewarded it with a bump up in investor confidence and share price.

Like many of the Fund’s investments, we initially purchased a toe-in-the-water position once completing our initial analysis. As subsequent research supports our initial investment thesis and the market opportunity remains, we will increase the investment accordingly. The pace / timeline of making an investment decision is often a balancing exercise between capitalizing on what may prove to be a temporary market opportunity and completing sufficient deep due diligence / research and thinking before putting on a sizeable position. In literature, it has been called “the hour between dog and wolf” - aka dusk - when the lack of light makes it hard to distinguish a friend from a foe. Given that Ravensource can invest up to 10% of its NAV in a single great idea, we want to be highly confident that we understand its underlying value and the margin of safety protecting us before making a full commitment.

The good news is that despite the rapid increase in the price of Genworth’s shares, a sizable gap remains between the current price of its shares and what we believe their ultimate value. For most investors, it is still dusk for Genworth and we are watching closely for an opportunity to increase Ravensource’s investment.

Great Basin Gold (“GBG”)
The largest detractor from this period’s results was Ravensource’s relatively small position in GBG bonds. Great Basin Gold (“GBG”) was a gold exploration and development company with projects in South Africa and Nevada. Mine development is an extremely challenging and capital-intensive business, and in the process of trying to simultaneously develop these projects GBG experienced significant operating problems, leading to a liquidity crisis. This sounded eerily similar to a story we had heard, and profited from, before – First Uranium bonds – unfortunately, our GBG investment ended with a very different outcome.

After completing our initial due diligence, we initiated a toe-in-the-water position in December 2012 that represented less than 1% of Ravensource’s net assets at a cost of $19.38 per $100 bond. While the goal of any toe-in-the-water position is to opportunistically establish an opening position and subsequently increase our investment as conviction in the investment thesis increases, events do not always unfold as planned.

Shortly after the initial purchase, GBG’s problems went from bad to worse deteriorating from what should have been a controlled restructuring process into a fire-sale. Realizing that GBG had devolved beyond repair, we decided to put down our pencils. However, the negative developments occurred so rapidly that there was no opportunity for us to exit along the way. All told, the short lived and small sized GBG bond investment shaved $0.11 per unit off the Fund’s NAV.

Plazacorp Retail Properties Ltd ("Plazacorp")
Ravensource has been a long time shareholder of Plazacorp, an owner and developer of retail properties. In the last six months the company's market price has fallen 12.7% representing one of our larger losses in the first half of 2013. Kept in perspective, the Fund has more than tripled its original investment while receiving dividends of approximately 5% a year.

Plazacorp is converting to a REIT and to put it mildly, the market price of REITs have dropped considerably since the start of the year as interest rates commenced their ascent. Plazacorp was down more than the average REIT as the market was disappointed by Plazacorp's acquisition of Key REIT, owner of mostly restaurant properties across Canada. The restaurant tenants are franchisees of mature and in some cases weak brands like KFC and Pizza Hut and its largest tenant had recently gone through CCCA proceedings. The market is concerned with the operational risk of this transaction as it takes PLZ well beyond their normal geography in Eastern Canada. It will be an ongoing risk that owning properties so scattered will dilute management effort and skills, but this risk can be reduced by selling properties in certain geographic areas. Adding to the downward pressure on the share price, some of the former KEY REIT shareholders were less than thrilled with the lower yield of Plazacorp and elected to dump the shares they received in the transaction.

As luck would have it we were familiar with the acquired properties as one of our team members knew most of them from a previous transaction. Most of the properties were gas stations in another era and therefore they tend to be good locations. Many properties are in great neighbourhoods and well aligned with Plazacorp's business model, while some of the less desirable locations may have renewal and redevelopment potential. We met with management to understand the transaction and from these discussions we understood the business opportunity in repositioning the acquired properties and became confident that Plazacorp's proven management team was more than capable of executing the turnaround. While we cannot predict where long term interest rates will settle, we are opportunistic that the Key REIT acquisition will prove to be accretive and that Plazacorp will perform once again for the Fund.

Relative Performance

Our objective is to produce significant long-term rates of return regardless of market conditions. This is called absolute performance and the first part of this letter outlined how we or rather the Fund's investments have accomplished it.

While generating absolute performance for the Fund's investors is our job, we believe that it is essential for investors to monitor their investments and in the case of investment funds, to judge the performance of their investment managers. To facilitate this process, we have identified several commonly used benchmarks that directly correspond to the investments strategies that Ravensource employs:

1. *High Yielding Securities:* the B of A ML High Yield Master II Index is probably the most commonly used benchmark to track the performance of U.S. dollar denominated, high yield / below investment grade rated corporate debt.

2. *Distressed Securities:* the Credit Suisse Distressed Index is a widely recognized index that tracks the performance of funds whose mandate is to invest in distressed securities.

3. *Special Situations Equities:* we use both the S&P /TSX Composite along with the S&P/TSX Small Cap indicies as the Fund primarily invests in Canadian securities, many of which are smaller and under-followed companies.

The table below outlines Ravensource's and the various benchmarks' historical performance. Please note that all index and fund returns are calculated on a total return basis and that while the table contains 10 years of data, Stornoway Portfolio Management only became Ravensource's Investment Manager in July 2008.

	YTD	1 Year	3 Years	5 Years	10 Years	Since [2] July 2008
Ravensource Fund - RAV.UN[1]	**9.8%**	**15.6%**	**12.6%**	**9.8%**	**8.5%**	**9.8%**
S&P/TSX Composite Total Return Index	-0.9%	7.9%	5.4%	-0.5%	8.4%	-0.5%
S&P/TSX Small Cap Total Return Index	-6.8%	-1.0%	0.9%	-1.8%	4.6%	-1.8%
BofA ML High Yield Master II Index	1.5%	9.6%	10.4%	10.6%	8.7%	10.6%
Credit Suisse Distressed Index	8.0%	15.5%	7.4%	4.4%	8.1%	4.4%

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

(2) Stornoway Portfolio Management was appointed as Manager of the Ravensource Fund effective July 1, 2008. Annualized returns except YTD return.

Over the first half of 2013, we can report that our results stack up favorably against all of the benchmarks the Investment Manager utilizes to measure the Fund's relative performance: a 0.9% decline in the S&P TSX Composite Total Return Index, a 6.8% decline in the S&P/TSX Small Cap Total Return Index, a 1.5% increase in the B of A ML High Yield Master II Index and a 8.0% increase in the Credit Suisse Distressed Index. Over a longer-term perspective, the Fund's outperformance is magnified as Ravensource's NAV per unit has increased by 59.6%, including re-invested distributions, since Stornoway Portfolio Management took over its management in July 2008 while the S&P TSX Composite Total Return Index has decreased by 2.6% over the same time period.

Fund Liquidity and Investment Activity

Liquidity

Starting the year with 30.5% of the Fund's net assets in cash, gains in the value of the non-cash assets along with the impact of the June 2013 distribution resulted in a fall in the cash position to 25.8% of net assets as of June 30, 2013. While at historically high levels, we have had minor success in uncovering attractive opportunities that merit investment.

Sources	**Amount**	**per Unit**	**% of NAV [1]**
Investment Divestitures	1,037,560	0.6102	5.19%
Net Investment Income before Incentive Fee	131,497	0.0773	0.66%
Other	44,558	0.0262	0.22%
Total	1,213,615	0.7137	6.07%
Uses			
Investment Purchases	1,084,338	0.6377	5.42%
Incentive Fee	393,789	0.2316	1.97%
Distributions to Unitholders	153,042	0.0900	0.77%
Total	1,631,169	0.9592	8.16%
Change in Net Cash	-417,554	-0.2456	-2.09%

(1) % of December 31, 2012 NAV

Investments

Where did we invest our capital? Approximately 1/3 of Ravensource's purchases were directed to establishing new positions, primarily in CML Healthcare (TSX: CLC) shares but also establishing a toe-hold position in the bonds of Gasfrac Energry Services (TSX: GFS). The remaining 2/3 of the Fund's investments was focused on adding to our Jovian Capital Corp (TSX: JOV) equity position and in the bonds of Tuckamore Capital Management.

CML Healthcare Inc. ("CML")
The largest investment made in the first half of 2013 was the purchase of CML shares. Our analysis of CML began in early in 2013 as the company's stock sold off after announcing disappointing earnings results and a 30% reduction in its dividend. In today's environment of anemic interest rates, yield-starved investors tend to severely punish companies who cut their dividends. Historically, this has been a very fertile hunting ground for Ravensource. Furthermore, the investment community was in panic mode, fearing that fiscal challenges facing provincial governments would lead to reduced pricing in CML's government funded medical laboratory space. While CML's blemishes were in clear view, we needed to determine whether there was an identifiable path / catalyst to capture the market discount and sufficient margin of safety to make it a Ravensource-worthy investment.

Digging deeper into the company and the industry, we developed a view that there was indeed hidden value and that investors were over-penalizing CML for the risk of cuts in government funding. In fact, we came to the conclusion that CML was an essential provider of medical tests that could be used as a tool to better manage provincial healthcare costs and that the use of such tests would increase over time. Additionally, we viewed CML was a pseudo utility company, under-levered and a prime candidate for a levered buy-out by a long-term investor seeking stable returns. Our thesis was buoyed by OMERS buy-out of MDS' diagnostics business (rebranded as Lifelabs) by OMERS in 2006.

In early June 2013, in the midst of a relatively strong pullback in the overall markets, we purchased CML shares at $7.00. Less than 2 weeks later, CML announced that they had entered into an agreement to be acquired by Lifelabs in a deal valued at $10.75 per share. CML shares closed at $10.55 on June 30, 2013, increasing the Fund's NAV by $0.10 per unit.

Divestitures
The Fund exited its positions in Peer 1 Network Enterprises shares in February via the acquisition of Peer 1 by Cogeco Cable, and First Uranium bonds as the final payment on the redemption of the bonds was received. While providing modest positive contributions to our first half 2013 results, in totality, First Uranium bonds and Peer 1 shares were terrific investments which significantly increased the value of Ravensource.

First Uranium's ("FIU")
As what best can be described as a gift that keeps giving, First Uranium's ("FIU") 4.25% convertible bonds – one of Ravensource's best performing investments of 2012 – contributed again to the Fund's performance in 2013. In August, 2012, following the sale of FIU's operating assets, the company repaid $97 per $100 face value on our convertible bonds which we had purchased at significant discounts. However, FIU retained $3 per $100 as the purchasers of FIU's assets held back $30 million to protect themselves from negative surprises. When FIU's bonds were delisted, the market placed a value of $1 per $100 face value for the residual principal amount due on the FIU bonds that we owned, given the uncertainty of receiving the full $3. On January 21, 2013, Anglo Gold released $25 million of the holdback providing FIU with the funds required to repay the remaining amount owed on our bonds. Our final payment was received, in full, from FIU on January 28th providing a small incremental gain for January and closing the books on what was a very profitable investment.

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

In addition to the risks specific to a particular investment, the Fund is exposed to changes in foreign exchange rates, interest rates, credit conditions and other economic factors as described in the Annual

Information Form, available on SEDAR and on the Ravensource website, and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements, including the additional disclosure in the notes to the financial statements, as we do prior to making an investment.

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

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

Portfolio Composition

Investment Portfolio by Strategy

Ravensource employs three investment strategies to generate investment returns. Over the first half of 2013, we saw a shift away from High Yielding Securities and Special Situation Equities strategies, and into Distressed Securities. With investors continuing to clamour for yield causing their price to rise beyond where the Investment Manager deems them to be attractive, Ravensource currently has no investments in the High Yielding Securities strategy. The shift from equities towards Distressed Securities is partly the result of strong gains in our Distressed Securities investments led by our SFG Warrant position, and a reflection of where we found the best opportunities. We do not target specific strategy weightings; rather we hunt in all sectors and select the most attractive investment opportunities wherever they are found.

By Investment Strategy	**% of Investment Portfolio**	
	Jun-13	**Dec-12**
Special Situation Equities	64.9%	77.6%
Distressed Securities	35.1%	20.5%
High Yielding Securities	0.0%	1.9%
Total	**100%**	**100%**

Investment Portfolio by Enterprise Value

The Fund's investment approach focuses largely on situations that are overlooked by traditional investors and where we can have influence and create value**.** As a result, the Fund's investments gravitate towards smaller companies. To put this in perspective, the average enterprise value of the companies we are invested in is approximately $600 million versus $8.7 billion average – excluding bank shares – for the S&P TSX Composite index and $843 million for S&P TSX Small Cap index. In other words, the average non-bank company in the TSX Composite Index is approximately 14 times the average size of Ravensource's investments which is also lower than of the average company in the TSX small cap index.

By Enterprise Value	**% of Investment Portfolio**	
	Jun-13	**Dec-12**
Less than $100 million	36.4%	24.9%
$100 - $250 million	31.4%	30.9%
$250 - $500 million	3.9%	15.2%
$500 million - $1 billion	19.9%	17.3%
> $1 billion	8.3%	11.7%
Total	**100%**	**100%**

Investment Portfolio by Industrial Group

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

Industrial Group	**% of Portfolio**
Financial	22.4%
Food Products	16.5%
Conglomerate	15.8%
Metals & Mining	9.6%
Energy	7.7%
Paper & Packaging	7.7%
Real Estate	7.2%
Media & Publishing	3.9%
Healthcare	3.6%
Industrials	2.2%
Construction	1.3%
Retail	1.3%
Other	0.9%
Total	**100%**

Concentration

As we believe that the most effective method to reduce/manage risk is to know your investments inside and out, Ravensource may be a more concentrated portfolio than other investment funds. However, the Fund currently has only five investments exceeding 5% of net assets. After cash, the next top 10 investments – ranked by market value of the investment – represented 53.5% of Net Assets as of June 30, 2013, up versus 46.8% from the start of the year due primarily to gains in market values of some of our larger positions. Going forward, I expect that the Fund will continue to hold relatively high concentrations in positions that we know the best and hold the strongest convictions.

Expenses

Ravensource's expenses consist of Investment Manager fees, Trustee fees, TSX listing fees, taxes (including but not limited to GST/HST), interest and borrowing costs, accounting and audit expenses, the Independent Review Committee ("IRC") costs, legal and professional expenses. The annualized Management Expense Ratio ("MER") measures the amount of annual fund expenses expressed as ratio to average net assets and is commonly used by investors and fund analysts to compare the operating costs of an investment fund.

Management Expense Ratio Composition

	2013	**2012**
Management, administrative and IR fees	0.57%	1.21%
Legal & Accounting Fees	0.58%	1.00%
Trust, transfer agency, and listing fees	0.27%	0.29%
Audit fees	0.14%	0.10%
Other expenses	0.14%	0.14%
Expenses before incentive fee	**1.71%**	**2.74%**
Incentive fee	2.05%	0.02%
Total expenses	**3.76%**	**2.76%**

In the case of Ravensource and other funds which have an incentive fee structure, the MER is a little more complicated. Incentive fees are different than other fund expenses as they are not naturally reoccurring but are only incurred / paid at the end of the year if the annual investment performance of the Fund exceeds the 5% hurdle rate while meeting other conditions. If the incentive fee is simply annualized in the interim MER, it implies that the investment portfolio will continue to grow at the same pace for the remainder of the year. Secondly, it would ignore the fact that incentive fee for the year will decrease if investment performance falls in the second half of the year. In contrast, accountants, auditors, lawyers and other sources of fee expenses will demand full payment regardless of the Fund's results. Considering the above issues, we believe the appropriate way to incorporate the incentive fee is to report the MER on both a pre and post incentive fee basis and not to annualize the incentive fee for interim periods.

For the six months ended June 30, 2013, Ravensource's MER, excluding the incentive fee, was 1.71%, a decrease of 103 basis points versus the June 30, 2012 MER. This decrease in the MER is due to lower legal and Management / Administration fees. Although Ravensource continued to incur significant expenses on its Crystallex investment in the first half of 2013, overall legal and professional fees have declined in 2013 due to having fewer investments that are involved in legal processes. The decline in Management and Administration Fees is due to SPM's policy to pass on the economic benefit of fees earned under the SFG Services Agreement by reducing the Management and Administrative Fees charged to the Fund.

Factoring in the impact of the incentive fee, Ravensource's MER for the first half of 2013 was 3.76% versus 2.76% for the same period in 2012. The 100 basis point increase in the MER is due to a 203 basis point increase in the incentive fee partially offset by the above-mentioned decreases in management, administration, and legal/professional fees.

Distributions

Ravensource Fund's distribution policy is to make semi-annual distributions to unitholders in an amount to ensure that it does not incur any tax while providing a reasonable yield. During the first 6 months of 2013, the Fund made a semi-annual distribution of $0.09, the same as in 2012. Using June 30, 2013's closing price of $10.93, the units had an annualized current yield of 1.6% assuming distributions remain constant.

In keeping with its distribution policy, the Fund will likely make a further distribution in December 2013 in order to maintain the Fund's non-taxable status for 2013. Total dividends for the year ended December 31, 2012 amounted to $0.45 per unit. The 2012 dividend was unusually large due to the receipt of large special dividends on two of the Fund's investments. However, Ravensource investors should not expect the 2012 distribution level to be maintained given such extraordinary circumstances are unlikely to repeat in 2013.

Concluding Remarks

To date, Ravensource Fund has delivered superior results in 2013. However, to be frank, we had more success in having other investors recognize and pay up for the value inherent in our existing positions than we had in uncovering hidden value in new investments. Hence, while Ravensource's net asset value grows, so does its cash position. We do not hold cash because we believe that the market will go down. Rather, the current large cash balance reflects the gap between the time we sell our investments at values approaching our appraisals and the time which we identify attractively priced securities with a large margin of safety. Given the relatively long period which we tend to own investments, short terms periods of excess cash is not a big concern. Changing our criteria just because the Fund has loose change, however, would be.

Please feel free to contact us - we look forward to hearing from unitholders. Any ideas that the Fund should consider or any opinions on existing positions are also most welcome. We also encourage any feedback on how investee companies treat their customers, employees, communities and the environment.

We remain highly confident that our existing investments and our discipline in selecting future ones will continue to produce significant returns in a risk-controlled manner. With yours, our capital is on the line.

We are appreciative of your partnership, trust and patience.

Scott Reid

St Schaus

August 28, 2013 Scott Reid, President Steve Schaus, Partner

Stornoway Portfolio Management Inc.
Investment Manager of the Ravensource Fund

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