RAVENSOURCE
FUND

Management's Letter to Unitholders

For the Year Ended December 31, 2018

NOTICE TO READER

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to Ravensource's unitholders to allow a thorough understanding of their investment. This letter is a supplemental report to the financial statements, Management Report on Fund Performance ("MRFP"), Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report. You can get a copy of the aforementioned documents and the Fund's proxy voting policies and proxy voting record by calling (416) 250-2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at www.ravensource.ca, or the SEDAR website at www.sedar.com.

A Note on Forward-Looking Statements

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

About the Ravensource Fund

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

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

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

3. *Alternative Credit:* investing in corporate debt, on either a primary or secondary basis, that is reasonably expected to be repaid at or above par, on or before its stated maturity, and in a manner consistent with the terms of its indenture.

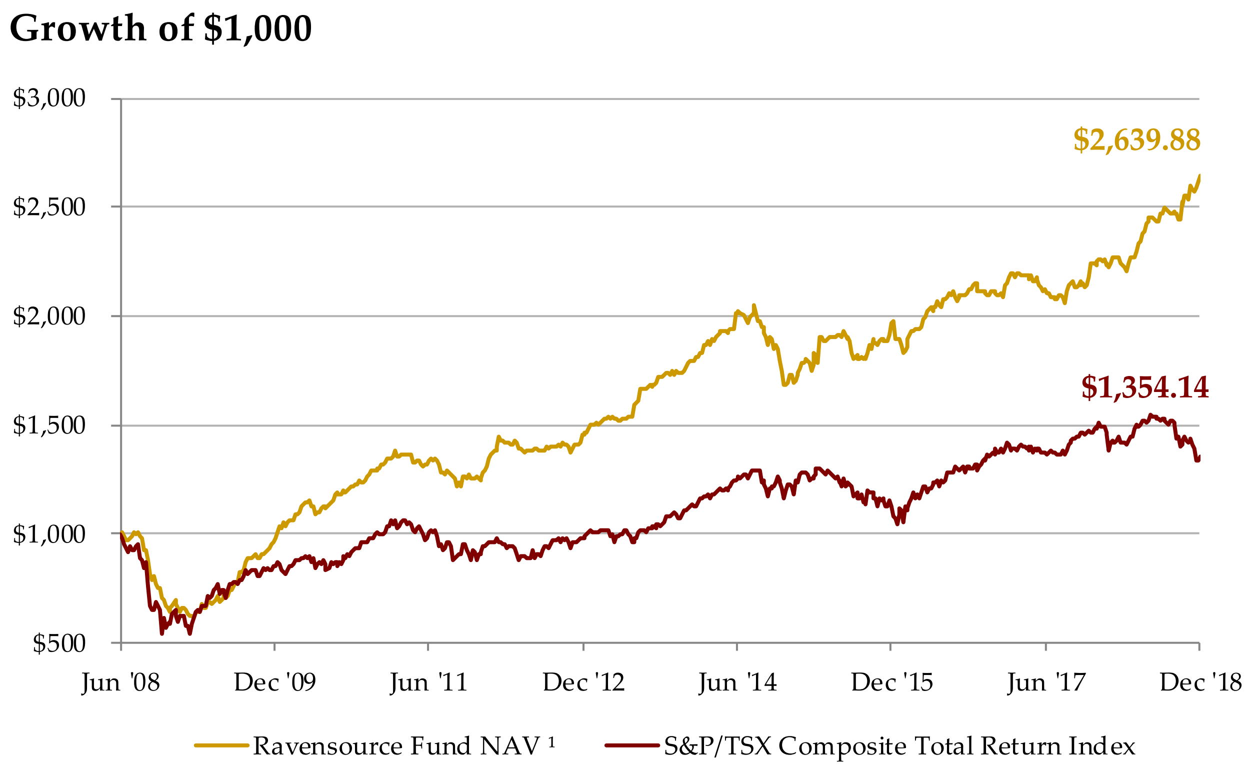
About Stornoway Portfolio Management ("Stornoway")

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

Stornoway is a Toronto-based, employee-owned investment management firm focused on investing in distressed securities and other out of favor investment opportunities that withstand a thorough and disciplined analytical rigor prior to investing and active involvement thereafter. The Stornoway Team is comprised of Brandon Moyse, Daniel Metrikin and Scott Reid on the investment side while Mahesh Shanmugam manages our operations. Our bios and our approach to investing can be found on the Ravensource website. In addition to Ravensource, Stornoway manages the Stornoway Recovery Fund LP, 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,

We are pleased to report that Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 17.0% over the year ended December 31, 2018 including the distributions Ravensource investors received over 2018.

Our 2018 performance was particularly striking against the negative returns of most market indices. Before you accuse us of patting ourselves too hard on the back, we do not place much weight on short-dated results. Our two largest contributors to this year's performance, Crystallex and SFG, demonstrate that it takes several years for our investment theses to crystallize and that our rewards are typically skewed to the end of an investment's life. Our objective is to generate superior long-term results which requires us to avoid the noise of short-term thinking and market fluctuations. I will let you determine if we have achieved that mark.

Our results confirm what we believe is a unique quality of Ravensource: a focus on company-driven catalysts to create value for our investors. The Fund's investments are concentrated in unconventional and often counter-intuitive opportunities – the securities of financially distressed and other unloved and out of favor companies – which most investors shun. As such, our returns do not depend on market forces but primarily arise as investee companies achieve milestones to break the chains that once held them down, as SFG and Crystallex did this year. In doing so, Ravensource's returns are generally uncorrelated with those of the broader market. A further differentiating characteristic is that we are often very actively involved with the underlying investments to help secure these milestones.

These idiosyncratic qualities of Ravensource provide individual investors exposure to investment strategies that are otherwise difficult to access and can have a powerful diversifying impact on their portfolio.

Our goal for this letter is simple: report to you in a frank and open way about the philosophy and approach that guides our investment decisions; the rationale for and changes in Ravensource's investment portfolio; the Fund's performance over the reporting period; and some of the risks to which Ravensource is exposed. We do so to help you better understand your Ravensource investment.

Investment Performance

Ravensource's investment portfolio generated a return of 22.84% before fund expenses and management / incentive fees. The investments that have made the most significant contributions — positively and negatively — to Ravensource's performance in 2018 are as follows:

Investment	**Impact on Fund** [1]
Crystallex International Corp. 9.375% Senior Notes	13.48%
Specialty Foods Group LLC.	8.08%
Genworth Financial Inc.	3.56%
Spanish Broadcasting System Inc.	0.92%
Supremex Inc.	(1.25%)
GXI Acquisition Corp.	(1.83%)
Other [2]	(0.11%)
Pre-expense / Incentive Fee Investment Return	**22.84%**

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

[2] Includes other asset investment returns

We would like to review some of these investments:

Crystallex International Corp. ("Crystallex")

Our investment in Crystallex's 9.375% senior notes (the "Senior Notes") was the largest contributor to the Fund's performance over 2018 as the market price of the Senior Notes nearly doubled over the year. Despite this significant increase in price, we believe the Senior Notes remain a very compelling investment. Here's why.

Crystallex began 2018 in the midst of the battle with Venezuela over payment of the USD $1.4 billion damages award for the expropriation of Crystallex's Las Cristinas gold property. A temporary détente was reached in September 2018 in the form of a settlement agreement (the "September 2018 Settlement Agreement") whereby Venezuela made a USD $425 million upfront payment in the form of cash and marketable securities. For Crystallex's Senior Noteholders, the September 2018 Settlement Agreement was a game changer: Crystallex now has sufficient property to pay off its creditors / us. What is now at stake is how much each stakeholder – Crystallex's management, DIP lender and shareholders – should receive of the September 2018 Settlement Agreement and when is it going to be distributed.

Crystallex hasn't paid interest on its Senior Notes since July 2011 and failed to repay its principal on its December 2011 maturity date following which it filed for bankruptcy protection. Accordingly, Crystallex contractually owes its Senior Noteholders principal and interest compounded at the 9.375% coupon since it last made an interest payment in addition to the extra consideration provided to us in the Standstill Agreement. Based on our math, those amounts greatly exceed the December 31, 2018 market price. However, we believe we are entitled to more than simply our 9.375% coupon as creditors have been exposed to far greater risks and over a much longer time than originally bargained for when the notes were issued.

Any amounts paid to us represent a zero-sum game. What we gain, the other stakeholders stand to lose and as such will almost certainly challenge the amount we are due. However, we are not alone in this fight to protect our rights and maximize our recovery. We are very active members of the Ad Hoc Senior Noteholder Committee with two other financially savvy institutional investors with significant skin in the game and deep with relevant expertise and experience. We are well-advised by the restructuring team at Goodmans LLP who we believe is Canada's #1 law firm on such matters. We have resolve, conviction that the law is on our side, and are very well prepared.

With the collateral safe in Crystallex's Canadian-domiciled accounts, our investment has been significantly de-risked, the path to a large recovery has been bush-whacked out and we are now somewhat insulated from the geopolitical mayhem currently engulfing Venezuela. On the back of achieving these pivotal milestones, the market price of the Senior Notes increased significantly over 2018. Despite this increase, we believe if / when Crystallex makes good on those missing principal and interest payments, we will realize a healthy return over and above December 31st, 2018 market prices on this rather contrarian investment. As they say, fortune favours the brave…and diligent.

Specialty Foods Group ("SFG")

The courtship between SFG and potential strategic investors that began in early 2018 was consummated on August 23rd, 2018 with Indiana Packers Corporation ("IPC") winning the beauty contest to acquire SFG. After clearing various deal conditions, the sale of SFG closed on October 1st whereupon we received more than 95% of the purchase price in cash. The residual is held in escrow while post-purchase price adjustments on items such as working capital, pension plan and environmental liabilities get finalized. While the economic terms have not been publicly released, the sale price was extremely attractive from our perspective and materially exceeded the value our 3rd party valuator placed on our SFG investment at the start of 2018.

October's sale marked the end of an incredible journey that started when SFG was on the brink of bankruptcy resulting from a botched strategy of acquiring small meat processors financed with debt. From structuring the initial rescue financing right up to negotiating its sale to IPC, the Stornoway Team was actively involved in SFG's turnaround. Scott was a member of SFG's Board of Directors since 2007 while Brandon and Daniel rode herd on the investment bankers to ensure the sale process bore fruit. Our initial efforts were to stabilize SFG by returning it to its core competencies — Nathan's hot dogs and Kentucky smoked hams — through selling the other operations and reducing debt with the proceeds. Once stabilized, we focused on revitalizing SFG by feeding its ham and hot dog ambitions that its previous owners ignored and its debt load would not allow. I can confidently say our involvement played a significant role in working with the SFG's management team to increase the value of our investment. Along the way, we ate some hot dogs, ham and smoked turkey to make sure they passed Stornoway's stringent quality control.

Our investment was very lucrative, growing by approximately 6.5x our original cost over its 12-year holding period and generating an annualized return of 24.7%. It was also a large position representing 19.7% of the Fund's net assets at the time of sale even after we received cash representing almost 3.7x our cost between 2010 and 2017. Beyond the direct economic rewards, SFG taught us many lessons, made us better investors and businessmen, and sharpened our edge that we can apply to our current and future investment opportunities.

Genworth Financial Inc. ("Genworth")

Genworth is a publicly listed (NYSE: GNW) U.S.-based company focused on the long-term care, mortgage and traditional life insurance markets. In October 2016, it agreed to be acquired by China Oceanwide Holdings Group Co. Ltd. ("China Oceanwide"), a Chinese real estate and financial services firm, for $5.43 per share in cash.

Following the announcement, Genworth stock persistently traded at a large discount to the buyout price relative to most risk arbitrage opportunities. Market commentators cited larger than typical regulatory risks aka 'Trump vs. China' as the reason. We purchased the bulk of our position in 2017 below $3.75/share, believing the market was overpricing the regulatory issues and that the merger would close as advertised. If correct, we would earn a 45% un-annualized return on our investment. If not, we believe the value of Genworth's businesses exceeds the current market price of its shares although our investment would like suffer an initial mark-to-market loss.

Contrary to the market's expectation, the proposed merger received a number of key regulatory approvals in 2018 including the all-important Committee on Foreign Investment in the US (CFIUS) and the Chinese National Development and Reform Commission. In response, Genworth shares rose to $4.66 by December 31, 2018, generating a 50% return over 2018 and rendering it our 3rd best performing investment. Risks that the merger does not close remain: key approvals from Canada's Office of Superintendent of Financial Institutions / Minister of Finance and China's State Administration of Foreign Exchange remain outstanding. However with a potential 16% return from December 31, 2018 market prices, we continue to believe the reward is worth the risk.

GXI Acquisition Corp. ("GXI")

Guestlogix is a private Canadian technology company whose enterprise software solutions are tailored to capture ancillary revenue for its airline customers. GXI is the holding company through which Ravensource, the Stornoway Recovery Fund LP, and two other investors acquired Guestlogix out of insolvency. Over the course of 2018, Guestlogix's revenue declined as it lost a couple customers. As a result, our third-party valuator reduced the value of our investment which was the largest negative contributor to the Fund's performance last year.

When we bought Guestlogix, we recognized massive untapped potential in the captive audience of the million-plus daily passengers on flights using its technology. To complement our financial know-how, we partnered with a very successful technology investor who brought his views as to how Guestlogix could leverage its passenger relationships into new markets. Over 2018, the Guestlogix team took major steps to engineer software and develop partnerships to enable it to capture this opportunity. As board members, we took unconventional actions by replacing the existing CEO with the Senior Vice President of Product who had the vision to take this leap. By the end of 2018 the initial passenger application was completed and a forward-thinking airline had committed to signing, validating the company's strategic evolution. Since then, other airlines have expressed interest and we expect to launch commercially this year.

Despite the write-down of our GXI investment, we are confident the company is on the right path. However, it is still early days. While in 2018 Guestlogix engineered a product that has re-captured the interest of airlines, commercial success will ultimately depend on passenger usage which we won't have clarity on until the latter half of 2019 / early 2020. We remain excited about the potential of our GXI investment.

Relative Performance

The Fund's objective is to produce significant long-term returns for its investors regardless of market conditions. This is called "absolute" performance and the first part of this letter outlined the Fund's investments that have contributed to — or detracted from — attaining this objective.

While generating attractive, long-term results is our mission, we realize that you may want to measure our performance relative to other investment vehicles or benchmarks. To help facilitate this process, we have identified several indices — see Appendix 1 for their descriptions — that we believe are appropriate in assessing Ravensource's "relative" performance. However, given the idiosyncratic nature of the Fund's investment strategy, we have not uncovered an index that sufficiently resembles Ravensource to the degree it should be considered / used as a benchmark.

The table below outlines the historical performance of Ravensource and the various indices. Please note that all returns are calculated on a total return basis and only reflect the Fund's performance since Stornoway became Ravensource's Investment Manager in July 2008.

		Last	Last	Last	Since July 1, 2018	
Annualized Total Return	**2018**	**3 Years**	**5 Years**	**10 Years**	**Annual**	**Total** (2)
Ravensource Fund (1)	**17.1%**	**10.3%**	**8.3%**	**14.7%**	**9.7%**	**164.0%**
S&P/TSX Composite Total Return Index	(8.9%)	6.4%	4.1%	7.9%	2.9%	35.4%
S&P/TSX Small Cap Total Return Index	(18.2%)	5.2%	(0.3%)	6.6%	0.4%	4.1%
ICE BofAML US High Yield Index (3)	6.0%	6.7%	9.1%	12.2%	10.4%	182.4%
Credit Suisse Distressed Hedge Fund Index (3)	6.8%	3.4%	7.0%	7.3%	6.5%	94.4%

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

As seen in the table above, our absolute returns in 2018 significantly outperformed all of the indices we use to measure the Fund's relative performance.

While the Fund's short-term results are encouraging, we believe that investment performance is more appropriately judged over a longer time horizon as it reveals whether the investment process is repeatable and how it weathers the ups and the downs of the market. In addition, that approach is consistent with our objective to create long term capital appreciation for our investors and the 2- to 4-year period it typically takes the market to recognize the value we did at the time of investment.

For periods exceeding one year, Ravensource's performance remains at or close to the top of the table. Since Stornoway began managing Ravensource in July 2008, the Fund's NAV per unit has increased by 164.0% in total and 9.7% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 35.4% in total / 2.9% annualized over the same time period. Admittedly, our 2008 results tried the fortitude of our investors, but the lessons learned from it led to the refinement of our investment process, hardened our selection criteria and, in our view, are responsible for the Fund's outperformance ever since.

Fund Liquidity and Investment Activity

Liquidity

The purpose of reporting the Fund's net cash position is to quantify the gunpowder available to opportunistically add to existing positions or establish new ones. In addition, the change in net cash can be viewed as a barometer of our investment activities in that it will capture whether the Fund is a net buyer or seller during the period. Measured as a percentage of net assets, our net cash increased from 6% at the beginning of the year to 27% as of December 31, 2018.

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

	Amount	per Unit	% of NAV (1)
Sources			
Investment Divestitures	11,411,832	6.82	39.6%
Dividends and Interest	601,669	0.36	2.1%
Total	12,013,501	7.18	41.7%
Uses			
Investment Purchases	3,707,450	2.22	12.9%
Financial Contract & FX on Cash	308,415	0.18	1.1%
Expenses	1,429,288	0.85	5.0%
Distributions to Unitholders	501,861	0.30	1.7%
Total	5,947,014	3.55	20.6%
Change in Net Cash	6,066,487	3.63	21.1%

(1) % of December 31, 2018 NAV

Divestitures

We divested approximately 40% of the Fund's net assets over the course of 2018. Most notably, we exited our investments in Specialty Foods Group Inc., NAPEC Inc., and Dealnet Capital Corp. In each case, these were very successful investments that had reached the end of their lifecycle which we monetized at valuations which met or exceeded our thresholds.

NAPEC Inc. ("NAPEC")

As we wrote in our June 30th, 2018 Letter to Unitholders, NAPEC announced in December 2017 that it had agreed to be acquired by Oaktree Capital Management at a price of $1.95 per share. The transaction received its requisite approvals and closed in February 2018. We supported the Oaktree transaction as it met our long-term valuation of the company. However, we elected to sell Ravensource' position at $1.94 per share prior to the vote to eliminate the risk that shareholders voted down Oaktree's proposal, which could have caused NAPEC shares to fall back to their $1.25 pre-announcement trading price. For a mere penny, we were able to secure cheap insurance against a large loss triggered from a failed vote. Over the approximate four years that Ravensource owned the position, the NAPEC investment generated a 27% annualized compounded return.

Dealnet Capital Corp. ("Dealnet")

Frequently, we invest in companies that are solid at their core and rough around the edges. Dealnet, however, was the opposite. In December 2017, when Dealnet came knocking for capital to fund their liquidity needs, we were unexcited by their core consumer loan business for HVAC equipment. From our perspective, we simply did not see a path to profitability; lending less than $10k at a time at a sub-10% interest rate would likely not cover the costs associated with administrating the loans let alone provide an adequate return to shareholders. Yet by sifting through its non-core assets and applying our structuring ingenuity, we led a $12 million rescue financing in the form of a bond secured against Impact Mobile, one of Dealnet's non-core segments, at a loan-to-value ratio of about 50%.

In structuring our investment, we were mindful that as Dealnet needed to sell assets, we needed an exit. We embraced that alignment by including positive and negative covenants to motivate Dealnet to sell Impact Mobile quickly and repay us out of the proceeds. We further aligned ourselves with Dealnet's decision makers by requiring the senior management team and corporate directors to participate alongside us in the bond offering. Lastly, by paying only 90 cents on the dollar for the bonds, as long as we were repaid, the return would take care of itself.

In July 2018, Dealnet closed the sale of Impact Mobile for $27.5 million and we were repaid in full in just over 6 months, earning an attractive 28.2% annualized return on our capital. This successful outcome reflects our creative approach to deal structuring and proactive risk management, both key components of the 'Stornoway edge'.

Investment Purchases

During 2018, we increased our investment in Flow Capital Corp. debentures, Crystallex International Corp. Senior Notes, and Genworth Financial Inc. common shares while establishing new positions in Dundee Corp. preferred shares and Spanish Broadcasting System Inc.'s Senior Notes.

Flow Capital Corp. ("Flow Capital")

Flow Capital is a publicly listed Canadian company (TSXv: FW) that resulted from the amalgamation of Grenville Strategic Royalty Corp. ("Grenville) and LOGiQ Asset Management ("LOGiQ") in 2018. Grenville invests in emerging high-growth companies through royalty structures while LOGiQ is a fee-based third-party marketer for investment funds. Ravensource owns a significant portion of the former Grenville 8% bonds due in December 2019 at a cost of $80 per $100 bond. Over 2018, Ravensource increased its investment by 38%.

The amalgamation was a very positive event for us as the assets backing our Flow bonds now included LOGiQ's. Against $22 million of Flow bonds there is now $9 million of cash, $24 million of royalty investments and a funds marketing business generating $1.5 million of annual cash flow, conservatively worth $9 million. By our math, there is almost $2 of assets for every $1 of bonds. The market agreed with us and the price of the bonds increased from $80 to $93 by the end of 2018. While the price of the bonds has increased, the margin of safety has improved even more significantly creating a more attractive risk / reward profile. As such, we continue to acquire bonds opportunistically at yields in excess of 18%.

Dundee Corporation ("Dundee")

Dundee (TSX: DC.A) is a publicly listed holding company headquartered in Toronto. Founded in 1991, Dundee became one of the largest independent asset managers in Canada.

In 2011, Dundee sharply pivoted from what worked in the past by selling its asset management and real estate crown jewels only to hastily spend the proceeds on speculative new investments across ~100 holdings mostly in industries in which Dundee had no expertise. These new investments have performed abysmally, causing Dundee to write-down approximately 70% of its invested capital only a few years after they were made. In turn, Dundee's common shares has fallen in value by over 95% since its peak in 2013 while its Series 2 & 3 preferred shares tumbled to approximately 50 cents on the dollar despite being Dundee's most senior securities. Across the capital structure, Dundee's investors lost confidence, panicked and fled.

Free of emotional baggage carried by existing investors, we worked to determine whether there was opportunity within the chaos. With Dundee's portfolio of ~100 names, we first performed triage to cull the smaller and speculative investments and focused our analytical rigour on the remaining few with tangible and obvious value. Our analysis concluded Dundee's assets were worth in excess of the face value and 3x the market value of its preferred shares. We were also attracted to the preferred shares' 12% dividend yield, equivalent to 15.7% interest on a bond factoring in the tax advantages of dividends. In the third quarter of 2018 we began buying the Series 2 & 3 preferred shares, based on a large margin of safety, healthy yield and potential catalysts for meaningful capital appreciation.

Distributions

Ravensource'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. Total distributions for 2018 amounted to $0.30 per unit, down from $0.37 per unit in 2017.

Operating Expenses

Ravensource's operating expenses include investment management fees, trustee fees, TSX listing fees, interest and borrowing costs, accounting and audit expenses, IRC costs, legal and professional expenses, transaction costs and other sundry 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 in 2017 and 2018. Please note, operating expenses as expressed below is not to be confused with the Management Expense Ratio ("MER"). Operating expenses for the purposes of MER are calculated using the Fund's *average* net assets during the period while operating expenses as expressed below are calculated using the Fund's *starting* net assets for the period. For further details regarding the Fund's MER, please refer to the Management Report on Fund Performance.

	Dec 31, 2018	Dec 31, 2017	YoY Change
Pre-expense / Incentive Fee Investment Return	**22.84%**	**8.75%**	
Less:			
Management, administrative and IR fees	0.87%	0.66%	0.21%
Audit and accounting fees	0.23%	0.24%	(0.01%)
Legal fees	0.40%	0.19%	0.21%
Interest expense	0.36%	0.24%	0.12%
Trust administration and transfer agency fees	0.06%	0.05%	0.01%
Listing fees	0.08%	0.09%	(0.01%)
Independent review committee fees	0.13%	0.05%	0.08%
Transaction costs	0.12%	0.06%	0.06%
Other operating expenses	0.04%	0.03%	0.01%
Total Expenses Before Incentive Fee	**2.29%**	**1.61%**	**0.68%**
Pre-Incentive Fee Investment Return	**20.55%**	**7.14%**	
Less:			
Incentive Fee	3.53%	0.49%	
Ravensource Fund Net Investment Return	**17.02%**	**6.65%**	

For the year ended December 31, 2018, Ravensource's operating expenses, excluding the incentive fee, was 2.29%, 68 basis points higher than the comparable period in 2017. The increase in operating expenses was primarily the result of a period-over-period increase in management, administrative and IR fees (21 basis points), legal fees (21 basis points), interest expense (12 basis points), independent review committee fees (8 basis points) and transaction costs (6 basis points).

Management, administrative and IR fees remained low / less than 1% of Net Assets during 2018 due to the Investment Manager's policy of passing along the economic benefit of fees received for providing services to investee companies back to the Fund by reducing its management fees. However, as the Investment Manager sold its Specialty Foods Group investment during 2018, we were not able to reduce the Management Fee by the magnitude we have in the past. This resulted in a 21 basis point period-over-period increase in these fees versus 2018. We expect management and administrative fees to increase to 1.13% of average net assets in 2019.

Ravensource incurs legal fees to maximize and / or protect the Fund's investments, to comply with securities regulations, and to deal with general Fund matters. Over 2018, legal fees related to Ravensource's investments - primarily on Spanish Broadcasting and Crystallex - increased by 10 basis points compared to 2017 while regulatory, compliance and other Fund legal expenses increased by 11 basis points versus 2017.

Incentive Fee

As detailed in the Portfolio Management Agreement, the Investment Manager is entitled to an incentive fee equal to 20% of the amount by which the net asset value per unit at the end of the year, adjusted for contributions, distributions, and redemptions during the year, exceeds the net asset value per unit at the beginning of the year over and above the 5% hurdle rate, plus any shortfalls from prior years (the "Incentive Fee").

As Ravensource's investment portfolio generated a return of 20.55% after expenses but prior to the Incentive Fee over 2018, the Incentive Fee for the year ended December 31, 2018 amounted to 3.53% of starting net assets versus 0.49% for the comparable period in 2017. The increase in the Incentive Fee is somewhat of a high-class issue for investors as it is a direct result of the increase in value of their Ravensource investment over and above the 5% hurdle rate. The correlation between the Incentive Fee and the Fund's performance highlights our alignment with Ravensource's investors.

Risks

At the time of investment and throughout the period we own a security, we take particular care in assessing its risk and impact on the portfolio. A key risk management tool is that we purchase securities at prices substantially below what we have conservatively determined as their intrinsic value and often become actively involved to ensure that our rights and recoveries are protected. As demonstrated in our Dealnet bond investment, to the extent possible we structure our investments to mitigate the risk of loss. However, despite our deal structuring, thorough analysis, and active involvement, sometimes we are just wrong or the potential of a given investment does not materialize thus exposing our investors to a loss of capital.

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, 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 investing.

There has been no change in the Fund's stated investment strategy or in the execution of the investment mandate that would materially affect the risk of investing in Ravensource in 2018. 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.

Portfolio Composition

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

Investment Portfolio by Strategy

In 2018, we renamed our "High-Yielding Securities" investment strategy to "Alternative Credit" to better describe the range of investing activities we employ in our "going concern" debt / lending strategy. This is only a change of nomenclature, not a change to our lending / credit investing practice.

Over 2018, the investment portfolio became more weighted towards our Distressed Securities strategy and away from Special Situations Equities. However, this was not a product of a decision at the strategy level as we do not target specific strategy weightings. Rather, we select the most attractive investment opportunities wherever they are found. Over 2018, our Distressed Securities strategy was simply a more fertile hunting ground as evidenced by our new investment in Dundee preferred shares.

By Investment Strategy	% of Investment Portfolio	
	31-Dec-18	31-Dec-17
Special Situation Equities	38.3%	47.9%
Distressed Securities	54.1%	43.2%
Alternative Credit	7.6%	8.9%
Total	**100.0%**	**100.0%**

Investment Portfolio by Industrial Group

While Ravensource does not specialize in specific industries, our experience and investment philosophy lead us to focus on companies with hard assets. 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. Thus, it should not come as a surprise to see more traditional industries favored in our portfolio, which is more of an outcome of our investment process than a pre-ordained allocation. Further, our emphasis on an investment's margin of safety generally results in avoiding the more sensitive sectors of the economy.

By Industrial Group	% of Portfolio
Metals & Mining	30.5%
Financial	28.3%
Real Estate	16.5%
Media & Publishing	13.8%
Technology	3.2%
Food & Beverage	2.9%
Retail	2.8%
Industrial	2.0%
Total	**100.0%**

Concentration

We believe that the most effective method to reduce/manage risk is to know your investments inside and out, be actively involved and have sufficient influence on them to help effect change such as a restructuring. This will often lead to Ravensource having a more concentrated portfolio than other investment funds. Ravensource's position limit is 10% on a *cost* basis for a given corporate entity. For investments that we have our highest conviction in, we will invest up to the limit if prudent. Post our investment, market fluctuations may increase an investment in excess of 10% of the Fund's net assets on a *market value* basis.

As of December 31, 2018, the Fund had five investments exceeding 5% of NAV on a market value basis. The top 10 investments ranked by market value, excluding cash, represented 69.1% of NAV as of December 31, 2018. We expect that the Fund will continue to concentrate our capital in positions that we know the best and where we hold the strongest convictions.

“Skin in the Game”

The Stornoway Team is passionate about the approach and philosophy that drives our investment decisions, our active involvement in the companies we invest in, and the steps we take to reduce risk and generate investment returns. One of our core tenets is that we treat our fellow investors as partners. Accordingly, we believe that an investment manager should have significant “skin in the game”, sharing in the risk and reward of our decisions alongside other investors. Each member of the Stornoway Team has a substantial personal investment in Ravensource and as of December 31, 2018, I owned approximately 9.8% of the total units of Ravensource outstanding. In short, we eat our own cooking. We are you.

Concluding Remarks

On the surface, our performance in 2018 could be chalked up to the rewards of making counter-intuitive investments and ultimately getting them right. To generate superior results for our investors, we believe that to be true. However, our results are not an artefact of our prescient powers nor an invention that occurred in 2018 alone. Rather, they represent the work product of our curious minds to attain conviction prior to our investment followed by many years of getting our fingernails dirty through active involvement with the investee companies to capture the value we identified at the time of purchase. In layman’s words, Ravensource’s results reflect both parts *and* labour.

Rather than resting on the laurels of 2018, we look to it as a blueprint to the future. This process is one that we have continued to hone over the 15 years Stornoway has been in business. The earlier stage investments in our portfolio – GXI, Spanish Broadcasting, and Dundee – are following that blueprint and will require our capital, active involvement and focus in order to replicate our successful results of the past. We are very optimistic and excited for the future.

In writing this review, we wrestle with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest. As always, we are available via phone and/or in person to discuss your investment further. Please don’t hesitate to contact us. We always look forward to hearing from unitholders and enjoy discussing our investments and strategy with you.

On behalf of Brandon, Daniel, Mahesh and myself, we greatly appreciate the partnership, trust and long-term perspective of our fellow investors, aka you. We are dedicated to protecting and growing your capital for years to come.

Scott Reid

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

April 2019

Appendix 1 - Ravensource's Use of Comparable Indices

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

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

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

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

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

As the Fund makes idiosyncratic investments in securities which are overlooked by the capital markets, the Fund's investment portfolio contains investments that are not likely included in any of the above indices and thus an investment in the Fund should not be considered a substitute or proxy for the underlying index. For the reasons stated above, these indices should not be considered a benchmark for the Fund and there can be no assurance that any historical correlation or relationship will continue in the future. As the CSDHFI and BAMLHY indices are reported in USD while the Fund reports in CAD, the Investment Manager translates the CSDHFI and BAMLHY into CAD using the prevailing foreign exchange rate as of the date of each observation.

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