RAVENSOURCE FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE SEMI-ANNUAL PERIOD ENDED JUNE 30, 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 investment trust whose units trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns through investing in out-of-favor and deep-value North American securities. Ravensource's investments fall primarily in three strategies:

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

About Stornoway Portfolio Management ("Stornoway")

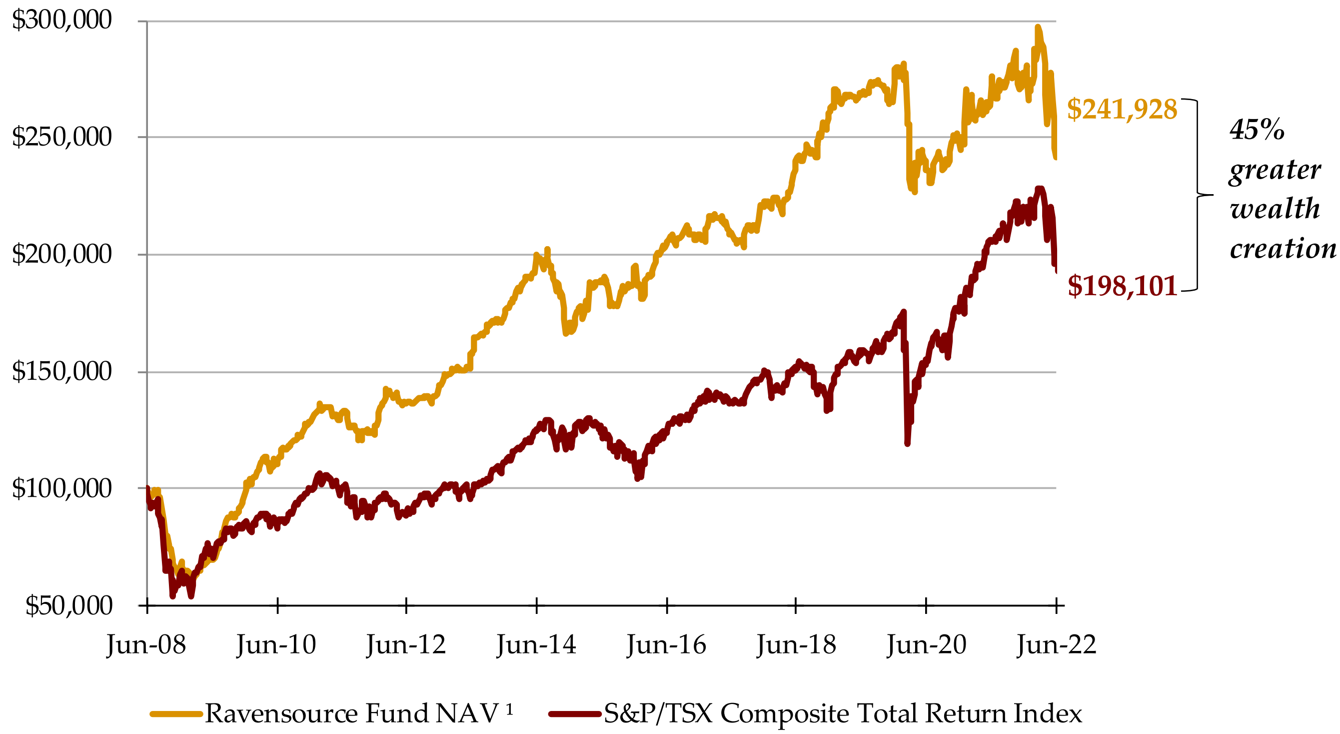
Stornoway was appointed the Fund's Investment Manager on July 1, 2008 to execute Ravensource's investment mandate. Stornoway took over the management of Ravensource from Pat Hodgson. Pat was our partner, an extraordinary investor and a true buccaneer who in 2003 transitioned Ravensource from investing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

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

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

MANAGEMENT'S LETTER TO UNITHOLDERS

Growth of $100,000



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

Dear Fellow Unitholders,

Ravensource Fund's ("Ravensource" or the "Fund") net asset value ("NAV") per unit declined by 13.0% over the first six months of 2022, including distributions received by investors versus the 9.9% decline in the TSX.

We are never pleased with anything but superior results. Notwithstanding this period's failing report card, we are, however, pleased with the value created on our underlying investments. That is our objective: to increase the *long-term value* of your Ravensource investment by investing in troubled and out-of-favour companies to profit on their turnaround. Our conviction on most of our investments strengthened over 2022 as they progressed materially along their paths to revitalization.

To no small extent, we are the beneficiaries of extraordinary capital allocators at the helm of some of our investees. Consider the once-insolvent, now-revitalized Kiwetinohk Energy Corp. ("KEC"). KEC's share price has increased by 87% since our initial investment, yet it remains grossly undervalued as it boldly reinvests back into the drill bit at 100%+ returns. Other investees are showing their conviction by buying back shares in unprecedented amounts. Algoma completed a buyback for 28% of its stock and Stelco is in the midst of one for 44%. Other investees such as Quad and Genworth are also allocating capital to highly accretive buybacks. Like us, they are all capitalizing on the extraordinarily large gap between their shares' market price and underlying value.

Not every investment is performing to plan. Our most recent investment — Spark Power Group — the largest detractor of the period, is off to a rocky start. Soon after we injected capital into Spark, the company's situation worsened measurably. Investing in troubled and failing companies can be like trying to catch a falling knife. Compelling long-term investments often come at the cost of near-term toil, trouble, and volatility. Rather than running away however, we have increased our engagement with the company in efforts to aid in its turnaround.

This letter is meant to be a frank and open report to you, our partners. We will describe the value of the opportunities we are striving to realize as well as the problems we are working diligently to fix. Our goal is to inform you, update you, and allow you to better understand your investment and our approach to protecting and growing it over the long term.

The Stornoway Way

Ravensource seeks to generate superior long-term absolute returns by investing in troubled and out-of-favour companies and profit from their revitalization. Our differentiated approach to investing – our Edge – focuses our capital and expertise on "connecting the dots" between a challenged company dismissed by the market and a quality asset of strategic value. We deploy our capital strategically, in high conviction investments that both meet our specific mandate and where we can employ our Edge. This enables us to become actively involved in the revitalization process, which we believe reduces our risk and helps to capture the value we saw at the time of our investment.

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 put on strong footing, these companies can then use their financial flexibility to undertake initiatives that create meaningful further value. Through these final steps of the revitalization process, as the financial restructuring gives way to business revitalization, our investments are materially rewarded. It is at this stage that our value creation is recognized, and we look to exit. As agents of change, we are focused on driving these outcomes. This is what generates superior returns for you, our partners.

Investment Performance

Ravensource's investment portfolio generated a negative 11.6% return over the first six months of 2022. The investments that materially impacted Ravensource's performance are as follows:

Investment	H1 2022 Gross Return on Investment	Impact on Fund [1]
Kiwetinohk Energy Corp.	21.9%	2.8%
Firm Capital Apartment REIT	(9.9%)	(1.0%)
Stelco Holdings Inc.	(16.9%)	(1.3%)
Genworth Financial Inc.	(12.8%)	(1.3%)
Algoma Steel Group Inc.	(13.6%)	(1.4%)
Brookfield DTLA	(32.5%)	(1.5%)
Quad Graphics Inc.	(32.1%)	(2.7%)
Spark Power Group Inc.	(45.0%)	(2.8%)
Other [2]		(0.8%)
Pre-expense / Incentive Fee Investment Return		**(11.6%)**

[1] Increase in NAV associated with the investment's gross return for the period.

[2] Includes other asset investment returns

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 current market price, certain opportunities and challenges that lie ahead, and the actions we are taking to maximize and protect the value of our investments.

Kiwetinohk Energy Corp. ("KEC")

In late 2020, Ravensource co-sponsored an exit financing that enabled Distinction Energy Corp., an insolvent oil & gas production company, to emerge from CCAA as a healthy going concern. We recognized the potential of its vast, largely untapped assets was burdened by excessive debt and a mediocre management team. We paid a fire-sale price reflecting the dearth of investors willing to bail out a bankrupt energy company amidst $40 oil prices. Our conviction was based on the opportunity to pair our restructuring expertise with Pat Carlson and his team's best-in-the-business track record at squeezing energy out of the ground. To date, we have bet on the right horses.

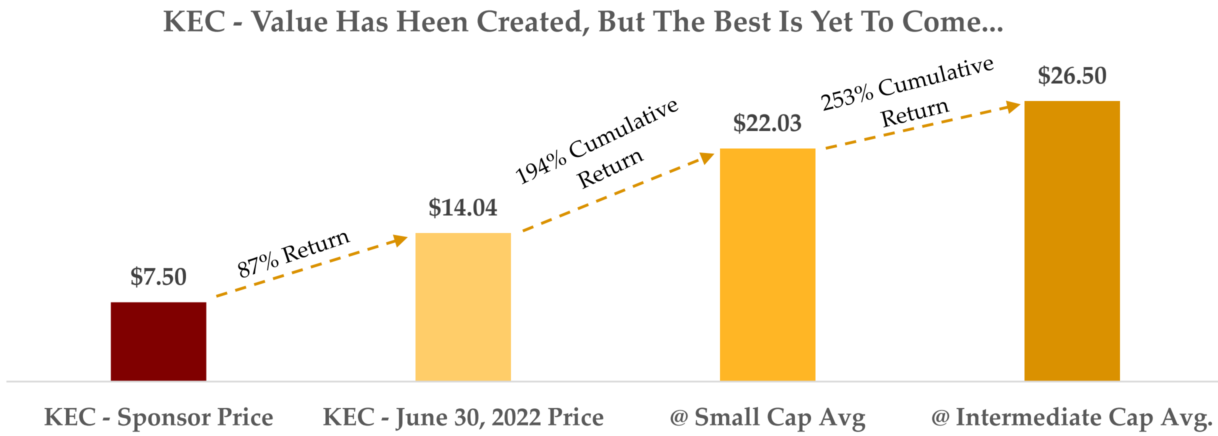
2022 has been transformative year on our investment. Distinction – now Kiwetinohk Energy Corp – has taken a giant leap forward in its revitalization as Pat and his team have used the company's newfound financial flexibility to embark on one of the most comprehensive drilling programs in the oil patch. In addition, the liquidity of our investment was bolstered by the public listing of KEC shares in January 2022. Over the first half of 2022, KEC's share price climbed 21.9% higher to $14.04, 87.2% above the $7.50 price we sponsored Distinction's exit. Despite the significant increase in price, we believe our investment remains deeply undervalued.

To understand the potential of our KEC investment, one needs to delve deeper into KEC's 2022 / 2023 drilling activities. Amidst the backdrop of strong energy prices, KEC is investing the equivalent of 46% of their market capitalization into the drill bit with the goal of increasing production by over 50% during 2022. To put as many 'straws in the ground' as they can, KEC is reinvesting their excess cash flow and assuming a modest amount of debt. With the well-level return on investment exceeding 100%, the potential impact to the value of KEC is immense.

Yet, KEC's stock price doesn't reflect this. To be fair, a drilling program of this magnitude comes with risk, and it is not unexpected for the market to take a 'wait and see approach', especially with a company still rather fresh from insolvency. However, our deep relationship with KEC has allowed us to develop high conviction in the potential rewards. Our familiarity with the asset base sourced from our private-level due diligence prior to our CCAA investment, combined with our direct understanding of Pat and his team's approach, has bolstered our conviction and sharpened our Edge.

By mid-2023, we believe KEC will have a reached a healthy plateau level of production, a much larger scale, be generating strong free cash flow and, perhaps most critically, de-risked its drilling program in the eyes of the market. When that occurs, the fear of the past will turn into greed for the future, and the discount between KEC and its peers should close. We believe KEC will then warrant a price in excess of $26.00 per share, at least 85% higher than the June 30, 2022 price.

Truth be told, our expectations for KEC from a production and even cash flow perspective are not overtly greater than most analysts' projections. Rather, it is the strength of our conviction that makes us believe the uncertainty which the market is pricing KEC is highly conservative. Solely using analyst forecasts, KEC trades at roughly 1.7x 2023 Debt Adjusted Cash Flow ("DACF"), compared to their small cap peers who trade at 2.6x average and the slightly larger intermediate cap peers who trade at 3.1x. Were KEC trading in line with those peers, the stock price would be meaningfully higher:



It bears mentioning that KEC is embracing this ambitious development path while most E&P companies today are being pressured to return capital to their shareholders. We couldn't be more pleased that KEC refuses to follow the herd. Not only are the economic returns available to KEC well in excess of what shareholders can likely generate (ourselves included!), but KEC is also deepening their knowledge base, honing their expertise as they continually learn from their drilling results. This knowledge gain significantly reduces its execution risk and drives up the return of every incremental dollar spent. More importantly, it creates an enterprise deserving of a premium valuation.

It takes a lot of conviction to go against the grain – a fact we at Stornoway know well. We are incredibly privileged to be partnered in this investment with a management team and Board that, consistent with the Stornoway Way, are willing to put their heads down, leverage their expertise, and act in the way they believe will maximize long-term shareholder value, regardless of what others are doing. The KEC decision-makers, led by Pat Carlson and ARC Financial, are experienced veterans, with aligned economic incentives and are forging a path that we believe will result in an exceptional outcome on our investment.

Stelco Holdings Inc. ("Stelco")

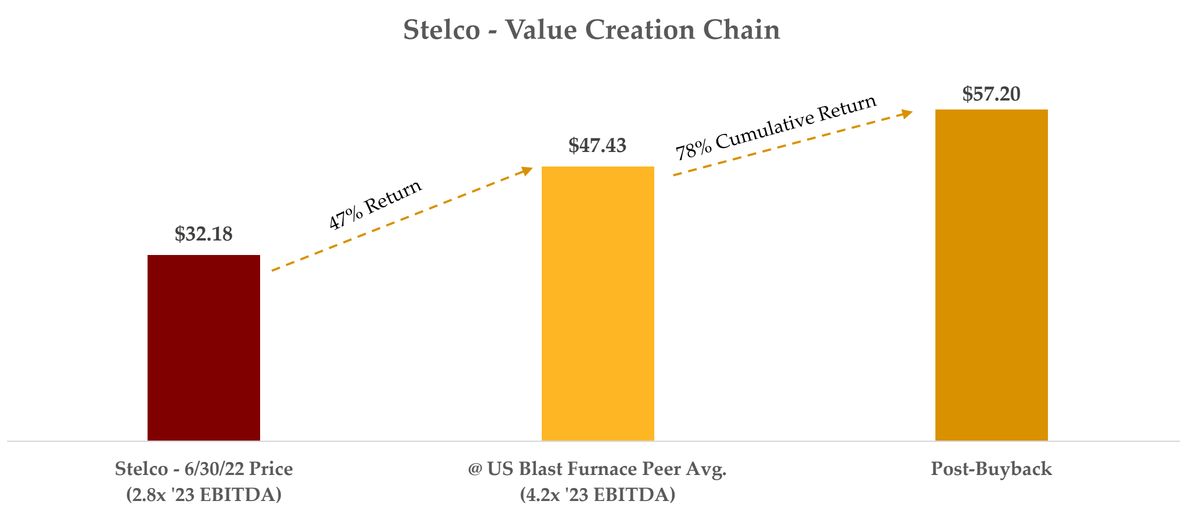
We invested in Stelco is November 2021, soon after we made our initial investment in Algoma Steel. Stelco is further along in its revitalization: it emerged from CCAA and went public in 2017 and has already completed its major capital projects. Stelco is generating tremendous cash flow and has no debt. However, the market could not care less. Steel companies were already a hard sell with their cyclicality and history of insolvencies; layer on ESG and they are now pariahs. So even though Stelco is progressing along our thesis, its shares fell from $41.22 to $32.18 over the first half of 2022, decreasing the value of Ravensource by 1.3%. Undeterred, we stepped up and bought more.

Based on where U.S. blast furnace steel producers trade — and we think those are cheap, too — we believe Stelco is worth at least $47 per share, 47% above June 30, 2022's price. Given Stelco has one of the lowest cost bases in the industry and the highest EBITDA margins, we believe it warrants a premium valuation. The market, however, disagrees: Stelco trades 2.8x 2023 consensus EBITDA vs. 4.2x for its U.S. blast furnace steel producer peers.

Enter Alan Kestenbaum, Stelco's CEO. He is a savvy metals trader / investor by background, adept at creating shareholder value beyond the blast furnace. He lives and breathes capital allocation and opportunism – he thinks like us and acts like us. Few CEOs we have met match his rapaciousness and contrarianism. Best of all, we are completely aligned: he owns 13% / $250 million worth of Stelco shares. Believing Stelco's intrinsic value is significantly more than its current share price, Kestenbaum has been directing Stelco to aggressively repurchase stock. Since its 2017 IPO, it has reduced its share count by 18% and remains on the hunt for more. In January 2022, Stelco bought back 5.7% of its shares at $37, and in July Stelco announced a massive $1.1 billion tender for 44% of its shares at $35.

Being a great capital allocator demands a discipline to flow capital towards its most economically productive paths, sometimes at great near-term sacrifice. Kestenbaum could have chosen to declare a $1.1bn dividend, pocketing ~$140mm for himself. He didn't. Instead, if Stelco completes this tender offer, he – along with other long-term investors – will effectively be buying from the "non-believers," paying $35 for shares worth $47+ and increasing his ownership from ~13% to ~23%. That is how Kestenbaum creates value for himself and Stelco investors who elect not to cash out. We are pleased to be invested alongside a CEO as opportunistic with his capital as we are with ours.

The chart below illustrates the rewards of completing this "Value Creation Chain". If Stelco simply trades in line with its blast furnace peers, its shares should be worth $47.43, generating a 47% return over its June 30th, 2022 market price. The current tender offer may be the catalyst to close this value gap while also creating another ~$10 of shareholder value further increasing our potential return. Today's discounted price, combined with Kestenbaum's laser-beam focus to create shareholder value, underpins our conviction in our Stelco investment.



Algoma Steel Group Inc. ("Algoma")

When we invested in Algoma in October 2021, it was a newly public steel company that had been thoroughly rinsed through a comprehensive restructuring and came out the other side as a healthy, going concern. Algoma was 40%+ owned by its former creditors who received shares in exchange for their pre-insolvency debt. Now, these former creditors want to cash out. With few investors willing to wade in, we were able to invest in Algoma at a 45%+ discount to where its steel peers trade. Despite generating a record US$4.40 / share in cash over the first half of 2022, Algoma shares fell from US$10.81 to US$8.98. Our response: we bought more.

Transforming Algoma to an asset coveted by investors or a strategic acquirer will take time and a steady hand at the helm. Fortunately, we are patient investors and Algoma's Board is armed with the right combination of savvy capital allocators and steel industry veterans. Critically, they and senior management personally own 11% of the outstanding shares – undeniable skin-in-the-game. They may be quieter than Stelco's Kestenbaum, but they carry an equally big stick and are no less incentivized. Over 2022, they have taken bold actions to create value on our investment.

Algoma is undertaking two transformative capital projects: modernizing its plate mill, which is expected to be completed by July 2023; and transitioning from a blast furnace to an electric arc furnace ("EAF") which will be largely ramped up by 2025. The EAF should bring substantial long-term benefits: more stable earnings; reduced carbon taxes; and lower fixed costs. More impactful on our investment, EAF producers trade at a ~50% premium to blast furnace producers as their operating profits are much less volatile. However, we believe the plate mill is the hidden driver of near-term shareholder value. Algoma is the only steel plate producer in Canada but has been plagued by quality issues. The upgrade will both improve quality and increase capacity, enabling Algoma to displace a significant portion of imports. With plate prices hovering around US$1,800/ton, this could add up to US$1.75/share of annual earnings. Applying the 4.2x multiple at which blast furnaces trade, the earnings from this project alone could add US$7.35/share of value.

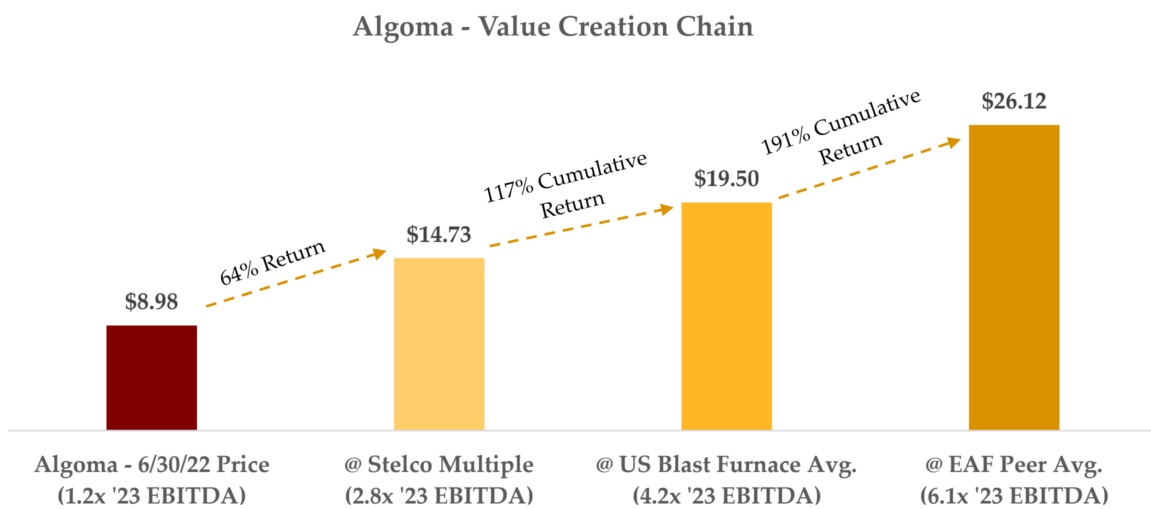
With these capital projects fully funded, in late July Algoma announced it was re-purchasing US$400 million / ~28% of its stock at US$9.75/share. With its shares worth conservatively more than US$15.00 per share, we are pleased Algoma is aggressively capitalizing on its depressed share price. Like Stelco, Algoma insiders are not selling / taking money off the table. Rather, they – like us - are increasing their pro rata ownership along with all other shareholders who elect to forgo their share of the cash. With Algoma still generating significant excess cash and creating value through its capital projects, as long as the market continues to discount the value of Algoma shares, we believe it is likely there will be more buybacks, creating even more shareholder value in their wake.

We believe these twin capital allocation initiatives will be the key catalysts to closing the current valuation gap between Algoma and its peers: Algoma currently trades at 1.2x analyst consensus 2023 EBITDA in a sea of steel companies valued from 2.8x on the low end to 6.1x on the high end. We believe it will be a 3-step path to generate compelling returns on our investment:

1. Stelco Valuation: in the near-term, we believe Algoma should at least trade in line with its Canadian peer Stelco, implying a price of US$14.73 / 64% return. We do maintain that Algoma deserves a premium valuation given the potential of its capital projects.

2. Blast Furnace Valuation: once the plate mill is completed in mid-2023 and its economic impact de-risked and realized, we believe Algoma should trade in line with U.S. blast furnace peers implying a price of US$19.50 / 117% return.

3. EAF Valuation: on the completion of the EAF project over the next 2-3 years, Algoma should be promoted to where other EAF producers trade at, equating to a US$26+ stock price, or 191% total return from today's value.



Quad Graphics Inc. ("Quad")

Quad is a small cap stock, in the declining printing industry, with no Wall Street analyst coverage, and no real institutional investor base: a textbook example of a contrarian investment that we are attracted to and that the market eschews. With the market's recent focus on liquidity, it was not a surprise that the price of Quad common shares fell sharply over the first half of 2022, reducing the Fund's NAV by 2.7%.

Our Quad investment was based on our assessment that management had crafted a highly credible turnaround plan enabling it to grow sales, expand margins and strengthen its balance sheet while smaller peers are forced into bankruptcy or sold at the auctioneer's hammer. Management has indeed executed, evolving Quad into a cash flow generator by cutting costs; shifting production to higher-margin products; and selling non-core assets. Along the way, Quad has significantly de-risked our investment by paying down over $420 million of debt. Quad has grown stronger financially and competitively even as the broader print industry declines. Despite these accomplishments, Quad's stock is trading at fire-sale prices.

We remain cautiously optimistic on our Quad investment. For the first time in years, Quad is imbued with financial flexibility and options. We believe it will use this flexibility to create value whether through buybacks or a dividend. As is the case with Stelco and Algoma, we are invested alongside management that is highly competent, incentivized and aligned, as the founding family / CEO owns 25% of the company. With the current depressed share price, buybacks will have the compounding effect we wrote about in Algoma and Stelco; meanwhile, a dividend may bring back many of the income-oriented investors Quad lost when it cut the dividend immediately prior to our investment.

Spark Power Corp. ("Spark")
The decline in value of our new investment in Spark Power Corp. was the largest detractor from the Fund's performance this period, decreasing the value of the Fund by 2.8%. Our investment thesis and review of Spark is covered in the Investment Purchases section.

The Carrot

The Investment Performance section reviewed how Ravensource performed in the first half of 2022 and the actions we have taken to create and capture value on our investments. But investing is a forward-looking business with investors rightly focused on future results, not past ones.

Our approach to investing 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 your profit potential if we are successful connecting the dots that lie in front of us. We call it the 'Carrot'. That 'Carrot'— the gap between the June 30th, 2022 market price of our investments and the value we are working to realize when it comes time to sell — is quantified below:

	June 30, 2022	"The Carrot"		
Investment	Price	Exit Proceeds[1]	Total Return[2]	Estimated Time to Exit
Crystallex International Corp.	$110.00	$220.00	100.0%	2 - 4 years
Dundee Corp.	$18.60	$20.86	12.2%	3 - 9 months
Kiwetinohk Energy Corp.	$14.04	$26.00	85.2%	9 - 18 months
Firm Capital Apartment REIT	$6.02	$7.21	19.8%	12 - 18 months
Genworth Financial Inc.	$3.53	$5.50	55.8%	6 - 18 months
Algoma Steel Group Inc.	$8.98	$19.00	111.6%	1 - 2 years
Stelco Holdings Inc.	$32.18	$55.00	70.9%	1 - 2 years
Quad/Graphics Inc.	$2.75	$6.85	149.1%	1 - 2 years
Brookfield DTLA	$8.91	$20.00	124.4%	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 thing: we update it based on key developments and our assessment of the value we can realize upon a successful exit. Over the last six months we have thoroughly scrubbed and re-rated several of our investments.

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 the first half of 2022, investing 11.6% of the Fund's total assets by establishing one new investment while increasing three existing investments. Ravensource ended the first half of 2022 with negative net cash of 27.6% of total assets, funded by Ravensource's margin facilities provided by its prime broker. 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)	(19.4%)
Sources		
Investment Divestitures	1,521,156	6.0%
Dividends and Interest	153,353	0.6%
Foreign Exchange	(331,731)	(1.3%)
Total Sources	1,342,778	5.3%
Uses		
Investment Purchases	(2,957,796)	(11.6%)
Operating Expenses	(296,928)	(1.2%)
Distributions to Unitholders	(179,600)	(0.7%)
Total Uses	(3,434,324)	(13.4%)
Change in Net Cash	(2,091,546)	(8.2%)
Ending Net Cash	(7,041,133)	(27.6%)

(1) % of June 30, 2022

Investment Purchases

We initiated an equity investment in Spark Power Group over the first half of 2022 through a private placement directly into the company while increasing our equity investments in Stelco, Algoma, and Kiwetinohk through the secondary market.

Spark Power Group Inc. ("Spark")

Spark (TSX: SPG) provides electrical installation and maintenance services to the industrial, utility and renewable power markets. It was founded by thematic investors who looked to ride the wave of electrification and acquired a collection of 13 companies in Canada and the US to do so. While they purchased strategic assets at arguably attractive prices, Spark funded them with too much debt and failed to integrate them into a synergistic platform. Like other failed roll-ups, Spark has been burdened with too much debt, weak reporting and financial controls, and bloated corporate overhead that has led to financial and operational difficulties since its IPO in 2018. Unsurprisingly, its share price has fallen to less than $1.00 from its $3.00 IPO price.

To recapitalize the business and spark a comprehensive turnaround, in January 2022, Ravensource and Stornoway Recovery Fund LP injected $10.0mm of new equity alongside a $30.0mm equity rights offering at $1.20 per share. In addition to third-party investors, Spark's Founders invested $12.2mm of equity through the rights offering. We invested at what we believed was an attractive price: it reflected the difficulties facing Spark with the potential for a significant return if it was turned around. We believed that with our capital and involvement, a culture of discipline and capital efficiency could drive real change at Spark. To date, we have been wrong.

We are exposed when we invest in a troubled company that has yet to reach its bottom. Soon after we invested, Spark released disastrous Q4 2021 results that triggered a default of its bank facility. Rather than taking an adversarial role, Stornoway ran into the fire, providing significant support and guidance to the company. Spark successfully received a temporary waiver and much-needed breathing room from its bank. A Band-Aid, but not a long-term solution to its capital structure issues.

The early stages of a restructuring are often fraught with challenges. A successful turnaround requires urgency, focus, and discipline. This starts at the top. We note the Board of Directors that presided over Spark's failures remains there today. Spark's lack of proactivity and discipline sharply contrasts the decisive leadership at KEC, Stelco and Algoma. However, in our experience, crisis has a way of foisting change upon the unwilling. Recently, the green shoots of a turnaround have appeared on the surface; there remains much work to do to nurture them. We are not standing by, though: Stornoway remains vigorously engaged and will take all necessary action to protect our investment.

Divestitures
During the period, we sold $1.5mm face value of our Canadian government bond position.

Use of Leverage
Over 2022, Ravensource utilized its margin facility to fund its investment purchases. As of June 30, 2022, Ravensource's indebtedness represented 27.7% of total assets, within the Fund's restriction of 30.0%. While this is the most leverage Ravensource has employed since we assumed management in 2008, we believe it is a measured approach to capitalize on the compelling opportunities in front of us for several reasons:

- Our portfolio has never been more liquid. To balance the risks associated with leverage, Ravensource has a large position in Government of Canada bonds (9.5% of total assets) and publicly listed securities (64.3% of total assets), that the Fund could sell to meet liquidity needs that may arise.
- The majority of our investments are late-stage in their revitalization cycle, and thus much of the risk that was present at the time of investment has been reduced. This is generally the most opportune time for us as the value we have worked hard to create becomes recognized.
- Our investees are almost all under-levered, or in some cases, in positions of significant excess cash. Many portfolios employing leverage can be much riskier if they are investing in highly levered companies. The opposite is the case with us, and we are cognizant that we are not putting leverage on top of leverage.
- The opportunity set into which we are investing is highly compelling. For the most part, our leverage is being used to fund purchases of investments in which we already have a position. We know these names very well, understand the risk and potential rewards of the opportunity and believe the prices we are paying are simply really, really cheap.

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. Ravensource paid a semi-annual distribution of $0.15 per unit on June 30, 2022, unchanged from $0.15 per unit paid on December 31, 2021, equating to a 2.1% annualized yield using June 30, 2022's closing bid of $14.10.

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 the first six months of 2022 and 2021.

	June 30, 2022	June 30, 2021	YoY Change
Pre-Expense / Incentive Fee Investment Return	**(11.56%)**	**11.54%**	
Less:			
Management, administrative and IR fees	0.59%	0.63%	(0.04%)
Interest expense	0.23%	0.00%	0.23%
Other operating expenses	0.23%	0.24%	(0.01%)
Legal fees	0.21%	0.21%	(0.00%)
Audit and accounting fees	0.16%	0.15%	0.01%
Total Expenses Before Incentive Fee	1.42%	1.23%	0.19%
Pre-Incentive Fee Investment Return	**(12.98%)**	**10.31%**	
Less:			
Incentive Fee	0.00%	0.00%	(0.00%)
Ravensource Fund Net Investment Return	**(12.98%)**	**10.31%**	

Over the first half of 2022, operating expenses represented 1.42% of Ravensource's starting NAV, 19 basis points higher than 2021's levels. The increase in expenses was due to interest expenses on our margin loan as the Fund did not employ any leverage in the first half of 2021. Excluding interest expense, expenses were 4bps lower than 2021 levels.

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 over the first six months of 2022, we did not earn an incentive fee. As of June 30, 2022, Ravensource's net asset value per unit would have had to exceed $19.10 for us to begin earning incentive fees. Given our net asset value was $15.01 on June 30, 2022, regardless of the price you paid for your Ravensource units, you get the next 27% of returns for 'free'.

Long Term and Relative Performance

Our objective is to generate superior, long-term, absolute returns for you. 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. The markets will do what they do. Our investments are highly eccentric — 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 accept that you will grade our performance relative to other investment vehicles. We have identified several indices below — see Appendix 1 for descriptions — we believe are appropriate in assessing our "relative" performance.

		Annualized Total Return				Since July 1, 2008	
	YTD 2022 [(2)]	1 Year	3 Year	5 Year	10 Year	Annual	Total [(2)]
Ravensource Fund [(1)]	**(13.0%)**	**(11.8%)**	**(3.5%)**	**3.0%**	**5.9%**	**6.5%**	**141.9%**
S&P/TSX Composite Total Return Index	(9.9%)	(3.9%)	8.0%	7.6%	8.3%	5.0%	98.1%
S&P/TSX Small Cap Total Return Index	(14.2%)	(13.8%)	6.9%	3.4%	4.5%	2.5%	40.4%
ICE BofAML US High Yield Index	(14.0%)	(12.7%)	(0.0%)	2.0%	4.4%	6.2%	132.7%
Credit Suisse Distressed Hedge Fund Index	(3.8%)	(2.0%)	3.2%	3.0%	4.4%	3.7%	65.8%

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

Our absolute performance over the first six months of 2022 has been poor, and our 1-to-5-year track record is disappointing as well. This is not because we have been unsuccessful at creating value in our investments, however. Keep in mind, we typically earn the bulk of our returns in an investment at the moment of crystallization, when a strategic acquirer comes in and pays for that value creation. Over the past couple of years, while our investees have been hard at work building up a "storehouse" of value, we have had few material exits to crystallize that value.

However, we believe our long-term track record demonstrates the superior wealth our approach has created for Ravensource investors, even if returns along the way are lumpy. Since Stornoway became Ravensource's Investment Manager in July 2008, Ravensource's NAV per unit has increased by 141.9% in total / 6.5% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 98.1% in total / 5.0% annualized over the same time period. More tangibly, a $100,000 investment in Ravensource has grown by $141,928 since July 2008, representing $43,827 / 45% more wealth creation than the S&P/TSX. We believe we are meeting our long-term objective.

"Skin in the Game"

An investment manager should have significant "skin in the game", sharing in the risk and reward of our decisions alongside other investors. Accordingly, each member of the Stornoway Team has a substantial personal investment in Ravensource. As of June 30, 2022, the Stornoway Team owned approximately 14.2% of Ravensource's outstanding units versus 11.7% one year ago. In short, we eat our own cooking. We are your partner.

Risks

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

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

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

In addition to investment-specific risks, the Fund is exposed to macroeconomic factors as described in the Annual Information Form and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements.

As we have discussed in this letter, Ravensource has assumed indebtedness through its margin facility of 27.7% of total assets to fund additional purchases of investments. 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 potential magnitude of losses on declines in the value of the investment portfolio and potential capital calls to ensure the margin position is appropriately 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 those investors seeking long-term capital growth rather than income, have a long-term investment horizon, and possess a medium-to-high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

Concluding Remarks

We recognize Ravensource has delivered pedestrian returns over the past three years. Investing in distressed and contrarian opportunities will test one's fortitude and patience, as yours undoubtedly have been. Our approach to creating value takes time; our results will be lumpy and detached away from what the broader markets are doing. For extended periods, it may look like we are wrong. We get it. However, we also strongly believe that today's opportunity to profit on the spread between the current price of our existing investments and the value we are working to realize on them is extremely compelling.

We also remain on the hunt for great new investments. Currently, we are finding our most compelling opportunities in energy and industrial companies. Despite generating significant cash flow, they are bereft of investor capital as they don't meet the litmus test of the 'ESG crowd.' Therefore, we are able to pay very low prices that increase the margin of safety and the potential return on our capital. Ironically, aspirations for a greener planet will only be realized if we have the natural gas, steel, and other raw materials essential for building out and supporting renewable infrastructure. KEC's energy transition plan – pairing 'green' energy with relatively-low emission natural gas power – is exactly what the ESG crowd should be all-in on. Other investors' aversion to exposing their fingernails to a little grit and grime is our gain.

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

The Stornoway Team — Brandon, Daniel, Mahesh and me — greatly appreciate your partnership, patience and trust. We are dedicated to protecting and growing your capital in the years to come.

Onwards and upwards.

Scott Reid September 2022
President and Chief Investment Officer
Stornoway Portfolio Management Inc.
Investment Manager of the Ravensource Fund

Appendix 1 - Ravensource's Use of Comparable Indices

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

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

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

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

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

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

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