RAVENSOURCE
FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

JUNE 30, 2012

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This document is the Management Report of Fund Performance ("MRFP") of the financial condition and results of operations for the semi-annual period ending June 30, 2012. This MRFP should be read in conjunction with the Ravensource Fund's June 30, 2012 unaudited financial statements. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and unless otherwise noted, both the financial statements and this MRFP are expressed in Canadian Dollars.

The MRFP contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievements expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits will be derived.

The Ravensource Fund

The Ravensource Fund ("Ravensource" or "the Fund") is a closed-end mutual fund trust, the units of which 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 North American securities. The investment objectives of the Fund are stated in detail in the notes to the financial statements and on the company website.

Investment Strategies

To achieve its objectives, Ravensource employs three investment strategies:

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 are perceived to be in, financial distress at a value different from what we believe to be their fundamental value.

3. *Special Situations:* investing primarily in Canadian and U.S. small and mid-cap equities that have been identified as attractively valued with the catalysts to unlock value.

Investment Manager - Stornoway Portfolio Management Inc.

Stornoway Portfolio Management Inc. ("SPM") was appointed the Investment Manager to the Ravensource Fund effective July 1, 2008. SPM's responsibilities include the evaluation, selection and negotiation of investments, ongoing monitoring and evaluation of such investments and the recommendation on the appropriate timing and structure for disposition of investments. I am the President of SPM and have over 20 years of capital markets experience in the researching, restructuring and investing in special situations with particular emphasis on companies that are in financial distress.

Steve Schaus is the other partner in Stornoway's investment team. I met Steve 12 years ago when he joined the proprietary trading desk at Scotia Capital to focus on debt and equity investments in distressed companies and other special situations. Prior to joining Stornoway in 2011, Steve was a senior restructuring professional at Ernst & Young, considered the leading restructuring practice in Canada, where he was involved in a number of large and complex CCAA and Chapter 11 restructurings.

Ravensource Investment Committee

To oversee the investment management of the Fund, Pat Hodgson, Steve and I serve on the Ravensource Investment Committee (the "RIC"). Pat is the President of Cinnamon Investments Limited ("Cinnamon") and managed Ravensource up until July 1, 2008. Through the RIC, Pat remains actively involved in Ravensource by contributing investment ideas, providing a sounding board and imparting his years of investment experience, adding depth, horsepower and balance to the management of the Fund. Further, Pat's strength and track record in the value side of equity investing provides a key counter-balance to the fixed income and distressed securities background that Steve and I share. I am truly honoured to be partners with Pat and Steve.

Steve, Pat and I firmly believe that an investment manager should have "skin in the game". As of June 30, 2012, I owned 168,000 units of Ravensource representing 9.9% of the total units outstanding. Pat, directly and through related parties, owned 716,690 units of Ravensource representing 42.1% of the units of the Fund. Lastly, Steve, directly and through related parties, owned 25,853 units of Ravensource representing 1.5% of the units of the Fund.

Investment Philosophy

We are deep value investors that often find attractive investment opportunities from situations that are overlooked by traditional investors. The reason why we embrace this style of investing can be simply reduced to its compelling risk and return characteristics. By purchasing securities at a price that is substantially below its value, we create the opportunity for attractive returns in the event that the market will ultimately agree with our valuation and reduce the amount of permanent capital loss in the event that the market does not.

We tend to find the most attractive investments from the most unattractive companies:

- debt of companies who require a financial and/or operational turnaround
- income trusts who ceased or reduced their distribution
- companies with hidden assets or misunderstood liabilities
- shares of companies lacking or losing institutional research coverage

To uncover and analyze these out-of-favour securities, Steve, Pat and I spend a lot of time combing through company filings and analyst reports, networking with contacts, and exploring other less trodden avenues. However, investment analysis and identification of opportunities is not sufficient to generate investment returns. Nor is simply being stingy at the time of purchase.

To realize value from these opportunities, we need:

- ability to see beyond current corporate/financial challenges;
- patience and an investment horizon long enough for the markets to recognize the intrinsic value that we did at the time of investment;
- businessperson's ability to assess the viability of an operational turnaround; and
- ability to recognize catalysts to unlock value.

Patience is a virtue in the type of investing we do. Having patience requires conviction in our ideas and the realization that others will take time, likely after an event has occurred, to see the profit potential that we did at the time of investment. Patience, however, does not mean simply sitting on our hands and waiting until the market catches up. Rather, we believe in rolling up our sleeves and getting actively involved in investee companies to help them to create value on our investment. As an example, I currently sit on the Board of Directors of SFG Inc., a private U.S. meat processing company that represents one of Ravensource's largest investments. We also have served on many creditor committees of investee companies that are in midst of a financial turnaround. Further, rarely a week goes by without Pat, Steve or me calling the management of a company to better understand their business and offer our services to aid their efforts. Regardless of the reception, we believe that being actively involved is a responsibility that we owe our investors and the companies we invest in.

Lastly, we place a large weighting on the underlying margin of safety of an opportunity prior to making an investment. This is an ephemeral concept that can include investing below intrinsic value, hidden asset values in companies losing money, excess cash, strong market positions combined with excess debt, or some other combination of ugliness and attraction. We know we will not always get it right and thus seek the protection that a large margin of safety can provide. Our experience in 2008 and the catastrophic percentage losses that followed have led us to demand wider margins of safety.

Despite our efforts and diligence, Ravensource is not immune to the ravages of another financial melt-down. It is likely that our net asset value will fall in value if we experience another freezing of credit as in 2008. However, we do believe we have a larger and more protective air-bag in case of another crash.

Semi-annual Results of Operations

Investment Performance

Strong performance of Ravensource Fund's investment portfolio over the first half of 2012 resulted in a 9.8% increase in its net asset value per unit ("NAV") prior to distributions to unitholders but after all fees and expenses. December 2011 was particularly rough on our investment performance, as the year-end window-dressing punished the market value of our less liquid securities more than usual. While this did hurt our 2011 performance, we were confident that the underlying values of our investments were intact and seized the opportunity to buy more of our favorite investments at clear-out prices. Our patience and confidence were rewarded in the first half of 2012 as many of those investments experienced gains and significantly contributed to our year-to-date performance.

Ravensource's net assets increased by $1.48 million over the first 6 months of 2012 due primarily to increases in the market value of the Fund's portfolio, partially offset by the semi-annual distribution. Notably, approximately 68% of the investment gains in the net assets of the Fund were realized. Net investment income – interest and dividends less expenses – added very little value to the Fund in this period.

	6 Months Ended		Year Ended	
	30-Jun-12	**30-Jun-11**	**31-Dec-11**	**31-Dec-10**
Investment Income	287,173	481,270	806,099	517,752
Net Investment Income (Loss)	33,362	231,528	464,790	104,004
Net Realized and Unrealized Gain (Loss) on Investments	1,596,669	405,067	(932,399)	3,633,824
Total Increase (Decrease) from Operations	1,630,031	636,595	(467,609)	3,737,827
Total Increase (Decrease) from Operations per unit	0.96	0.43	(0.29)	2.62
Total Net Assets	18,057,569	18,937,868	16,580,706	14,883,954
Net Asset Value per unit	10.61	10.64	9.74	10.45
Cash Distribution per unit	0.09	0.09	0.36	0.18
Return on Investment [1]	9.8%	2.7%	-3.3%	32.8%
S&P/TSX Total Return Index	-1.5%	0.2%	-8.7%	17.6%

(1) Total Return = (Increase in NAV per unit + Distribution) / Prior period ending NAV per unit

While our objective is to produce significant long-term rates of returns regardless of market conditions, we appreciate that some of our investors will compare our performance against the crowd. Over the first half of 2012, our results stacked up favorably as Ravensource materially outperformed the 1.5% decline in the S&P TSX Composite Total Return Index.

The specific investments that have significantly contributed – both positively and negatively – to Ravensource's performance for the first half of 2012 are in the table below:

Investment	**Per RAV Unit [1]**	**Return on Investment [2]**
Holloway Lodging REIT	$0.60	126.4%
First Uranium 4.25% due June 30, 2012	$0.41	60.1%
Tuckamore 8%	$0.12	21.7%
Winpak Ltd.	$0.11	34.1%
Pier 1 Network Enterprise	$0.09	36.4%
Crystallex 9.375% due Dec 30, 2011	-$0.08	-16.4%
Cannacord Capital	-$0.09	-26.9%
Connacher Oil & Gas Ltd	-$0.10	-30.9%

[1] Total investment income / # of RAV units outstanding

[2] Return on investment for the 6 months ended June 30, 2012

I would like to take you through two of our top performers along with one of our worst performing positions.

Holloway Lodging REIT ("Holloway")

Our investment in Holloway is a prime example of how Ravensource' opportunistic approach to investing can capitalize on short-term mark-to-market volatility to enrich the value of the Fund.

Ravensource originally purchased Holloway's 6.5% convertible bonds in December 2010 and over the course of the past year, have added significantly to the position. On December 23rd, 2011, Holloway announced that it was prematurely redeeming their bonds in the form of equity / units rather than cash. While we expected this to eventually occur, the timing of the announcement caught the market – and us – off guard. The sudden loss of income and the increased uncertainty as to what lay ahead caused panic within Holloway's mostly retail investor base. Their immediate reaction was to sell at any price thereby causing the market price of the bonds to fall from $60 to a low of $40 in one fell swoop. The impact on the Fund as a result of this year-end drop in price was two-fold: first, it created a significant mark-to-market loss on the Holloway bond position for 2011, and second, since our fundamental valuation of the bonds was unaffected by the news, it presented an attractive opportunity to add to our investment at a price far below what we believed the bonds were worth (which we did in spades).

On January 27th, 2012, investors seeking control of Holloway became aggressive purchasers of the equity, to whom we sold our position. In effect, just 27 days after recording a mark-to-market loss for 2011, we sold our units at the equivalent bond price of $100, thereby crystallizing significant gains on our investment. While our Holloway bond position was our second-worst performing investment for 2011, it was our best performing investment for the first half of 2012 contributing $0.60 per unit of NAV (compared with a $0.14 per unit loss for 2011). Such whip-saw mark-to-market volatility underscores how the somewhat arbitrary nature of reporting dates can translate into misleading performance measures. However, while we report to our investors formally on a semi-annual basis, we internally measure the performance of each investment over the horizon we own it. In the case of our Holloway investment, the return on our investment was 66.4% for the term that we held the investment or 125.3% on an annualized basis, adding $0.47 per unit to Ravensource net asset value in the process.

First Uranium Corp. ("FIU")

We are not by inclination natural resource investors. For us, forecasting commodity prices is akin to voodoo and we don't like exploration risk. However, with the plethora of resource companies in the Canadian market, resource names are bound to hit our radar screen and we have developed a set of criteria to invest in this sector that is consistent with our investment philosophy. First Uranium 4.25% convertible bonds are one such investment and we established a position in June 2011.

In 2011, FIU's bonds began to trade at a price that reflected an escalated fear factor that the company would fail to deliver as promised and leave its investors with fancy alpha-numeric wallpaper in exchange for their original investment. Investors' patience with FIU wore thin as the cascade of negative operating news worsened. As FIU's cash reserves ran dangerously low, the deadline by which the company would either have to sell their assets or come up with another solution to repay our debt by its June 2012 maturity loomed larger. With each disappointment, "resource play" investors became more fatigued and the price of its securities fell further.

We did not invest in FIU in the hopes of an improvement in their gold mining operation and actually attributed no value to its more sexy mining assets. Rather, we invested as distressed lenders paying approximately 70 cents on the dollar in the belief that we would be fully repaid by the company's attractive processing assets alone. We are not qualified to give you the reasons as to why the mining assets were not up to snuff, we just wanted them to stop burning cash to resuscitate their mining activities. Our focus and interest in FIU was based on the quality and value of its ore processing assets and whether they could be attractive on a stand-alone basis. According to our analysis, the processing assets were worth substantially more than the price of the bonds and would be of strategic interest to other mining companies.

With the increased uncertainty whether FIU would remain a going concern and the resultant fall in price of its securities, it was clear in early 2012 that it was time for decisive action. Realizing that the company might well be headed to bankruptcy court, we created an ad-hoc bondholder committee with two other large bondholders to protect our interests. With continued conviction in our investment, we also purchased more bonds.

In February 2012 our conviction proved warranted when the Company approached our committee looking for support for a potential sale transaction. However, the deal being contemplated by the company would require the bondholders to give up certain contractual rights, including being fully repaid on the maturity date. We decided it was in our interest to work with the company to find a solution. After several bouts of negotiation, we worked out a compromise and agreed to support a two-part transaction which would result in AngloGold, and Gold One carving-up FIU into pieces and ultimately repaying our bonds in cash in August 2012. FIU bonds closed out June 2012 at a price of $95, generating a tidy return of 60% for the Fund and increasing Ravensource's net asset value by $0.41 per unit for the six months ended June 30, 2012.

Connacher Oil & Gas Ltd ('Connacher")

Connacher is a special situation equity investment; a company that we believe is undervalued by the market. However to date, we have been wrong. Over the first half of 2012, Connacher's share price has fallen by 38.2% erasing $0.10 per unit of net asset value in the process. Despite this mark-to-market loss, we increased our investment during the period. Here is why:

As noted above, we are not natural resource investors. We do not invest in resource companies based on the hope of shouting eureka after the finding reserves under the ground. We do, however, believe in the long-term supply and demand fundamentals of natural resources, especially oil. Connacher's problem has not been uncertainty regarding the quantity of its oil reserves. Rather operational issues and an overextended balance sheet are their main challenges.

The good news is that Connacher's problems are well-known by the market and we believe are more than adequately reflected in the current market price. Further, change seems to be near as Connacher recently experienced a management shake-up and has engaged with some of its investors to address its future. In addition, we find the tremendous leverage and long-term optionality the company has to oil prices attractive. While often lured to financial options, in our experience the investing public doesn't really understand *real options:* i.e. the ability for a company to defer, expand, abandon, or stage a capital investment until it is more advantageous to execute. We believe that some of the deep-pocketed investors who have shown an interest in securing access to long-term energy resources will be attracted to Connacher. Essential to harvesting these projects will be a low cost of capital and a long investment horizon. As Connacher has none of these characteristics, I believe that these assets are in need of new owner.

Of course, there is risk that the above assessment is wrong. However, we believe that the low value the market is assigning to Connacher's assets provides a margin of safety against a potential capital loss and such protection is fundamental to our investment decision to continue investing in Connacher. Time will tell whether the price we are paying for Connacher shares rewards us for the risk we are assuming or proves us guilty of trying to catch the proverbial falling knife.

Expenses

Expenses for the year, aka the Management Expense Ratio or "MER", amounted to 3.08% of average NAV on an annualized basis. The break-down of the expenses is found in the table below.

Management Expense Ratio Composition

	2012	2011
Management, administrative and IR fees	1.34%	1.28%
Trust, transfer agency, and listing fees	0.32%	0.30%
Audit fees	0.12%	0.17%
Other professional fees	1.10%	0.38%
Other expenses	0.15%	0.03%
Expenses before incentive fee	**3.03%**	**2.17%**
Incentive fee	0.05%	0.00%
Total expenses	**3.08%**	**2.17%**

2012 ratios are annualized ratios for the six month period ended June 30, 2012
2011 ratios are for the year ended December 31, 2011

The increase in MER is primarily attributable to an increase in legal expenses – included in "Other professional fees" in the above table – that are tied directly to investments in the portfolio. We believe in rolling up our sleeves and getting actively involved in investee companies in order to protect and create value on behalf of unitholders. Depending on the nature of our involvement, there may be legal or other expenses incurred in order to maximize the impact of and control the risks associated with our investment. We do not make the decision to incur such expenses lightly and only do so after careful consideration of the associated risks and rewards. We view these additional expenses as a component of the overall cost of a given investment, on which we fully expect to earn an attractive return and to mitigate the risk of loss.

Liquidity and Investment Activity

As of June 30th, 2012 we held approximately 9.9% of Ravensource's net assets in cash, net of accruals and current liabilities, up from the 4.9% figure registered at the start of the year. Over the first half of 2012, Ravensource's net cash increased by almost $1 million as investment activities were skewed towards divestitures versus purchases. The largest contribution to the increasing cash level was the January 2012 sale of our Holloway Lodging investment.

	Amount	per Unit	% of NAV
Sources			
Net Investment Income	33,362	0.0196	0.18%
Investment Divestitures	4,316,873	2.5365	23.91%
Other	9,818	0.0058	0.05%
Total	4,360,053	2.5619	24.15%
Uses			
Distributions to Unitholders	153,168	0.0900	0.85%
Investment Purchases	3,242,274	1.9051	17.96%
Total	3,395,442	1.9951	18.80%
Change in Cash	964,611	0.5668	5.34%

Investments

While the first half of 2012 was a relatively quiet period from a new investment perspective, we were quite active in adding to existing positions as we found the best opportunities in the companies we already owned. In total, we made investments representing approximately 18% of average net assets. Where did we invest our capital? We increased our existing positions in the bonds of Tuckamore Capital, First Uranium Corp., and Crystallex, and the shares of Jovian Capital Corporation, Melior Resources Inc., Connacher Oil and Gas Ltd., and Tuscany International Drilling Inc. In aggregate, we invested approximately 3% of average net assets in two new opportunities: GLV Inc. and NuVista Energy Ltd.

Jovian Captial Corporation ("Jovian")

We have been in the press lately regarding Jovian. Attracted by its cheap share price and prospects that near term asset sales may provide the catalyst to drive the share price closer to our valuation, Ravensource made a significant investment in Jovian shares. However, in March 2012 we became aware that Jovian had recorded a provision to pay Jovian's senior management a bonus of $12.2 million. According to our calculations, the proposed bonus amounted to 17.6% of Jovian's 2012 net income and 10.5% of its market capitalization.

Alarmed by the sheer scale of the proposed payment, we met with Jovian's senior management team to address our concerns. Unsatisfied with management's response, we had several discussions with representatives of Jovian's Board of Directors to whom we put forward our analysis of the existing bonus plan along with an alternative proposal. The Board of Directors ultimately struck a deal with management that reduced the bonus payment by 43%. In addition, the company has significantly increased their disclosure, providing its investors with reasonable clarity as to management's participation in the company's future profitability.

We believe that the management of the companies in which we invest should be well compensated when they deliver superior operating performance and create shareholder value. In addition, we expect our investee companies to do so in a transparent manner with full and proper disclosure. When the company fails to achieve both tests, we will not hesitate to get involved and be strong advocates for change. While far from perfect and still overly generous in our view, the bonus has been significantly reduced and the new plan has increased transparency. With this issue out of the way, the management and Board can focus on increasing shareholder value.

Divestitures

Over the first half of 2012, the Fund exited its positions in Aecon Group Inc. and Holloway Lodging REIT. Additionally, our shares of March Networks were acquired for cash and our shares of Compass Petroleum were acquired for a mix of cash and shares in Whitecap Resources in takeover transactions.

Aecon Group Inc. ("Aecon")

Aecon was a position we have held for a number of years and have made prior sales accounting for approximately half of our original position. However, in this period, we decided to exit the position completely. Aecon is a large construction and engineering firm. Given the large and lumpy nature of the contracts in this business, it is susceptible to the risk of poor contract performance and cost overruns which can have dramatic effects on earnings and share price. As the business and the share price rotate through this cycle of good and bad contract/operating performance, it presents attractive opportunities to enter and exit this investment. With positive operating performance from Aecon in early 2012, the share price appreciated and we took the opportunity to crystallize our gains by selling the remainder of our investment.

Investment Portfolio by Strategy

Ravensource employs three investment strategies to generate investment returns. Over the first half of 2012, we saw a small shift away from equities and high yielding and into distressed securities. This is simply a reflection of where we found the best opportunities; we do not target specific strategy weightings. Rather we hunt wherever we believe the most attractive investment opportunities are to be found.

	% of Investment Portfolio	
Investment Strategy	**30-Jun-12**	**31-Dec-11**
Special Situation Equities	58.5%	61.5%
Distressed Securities	29.7%	24.0%
High Yielding Securities	11.8%	14.5%
Total	**100.0%**	**100.0%**

Industry Concentration

While Ravensource does not specialize in specific industries, as a result of our experience and investment philosophy, we tend to focus on investing in 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 and thus 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

By Industrial Group	**Fair Value**	**% of Net Assets**
Metals & Mining	3,870,577	21.4%
Food Products	2,834,853	15.7%
Financial	2,446,921	13.6%
Conglomerate	1,749,050	9.7%
Paper & Packaging	1,174,126	6.5%
Real Estate	1,145,912	6.3%
Energy	1,062,827	5.9%
Media & Publishing	803,847	4.5%
Information Technology	552,500	3.1%
Manufacturing	200,000	1.1%
Construction	189,600	1.0%
Retail	157,878	0.9%
Other	84,704	0.5%
Total	**16,272,795**	**90.1%**

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.

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 our 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 macro 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. I encourage all investors to carefully read the Fund's financial statements, including the additional disclosure contained in the notes to the financial statements, just 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. I 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.

Diversification
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 one investment that exceeds 10% of net assets – First Uranium bonds – due to an increase in its value, and only six of our investments exceed 5% of Net Assets. Our top 10 investments – ranked by the market value of the investment – represented 61.2% of Net Assets as of June 30, 2012, up slightly versus 59.4% from the start of the year. We will continue to limit our exposure to between 2.5% to 5% of Net Assets when making a new investment, depending on its relative attractiveness, liquidity and the degree of risk/margin of safety. However, as mentioned earlier, we have increased the size of our holdings in existing positions that we know the best and hold the strongest convictions.

Distributions
The Ravensource Fund declared a semi-annual distribution of $0.09 per unit that was paid on July 5, 2012. The mid-year distribution for 2012 was the same amount as paid in June 2011 albeit significantly smaller than the $0.27 per unit distribution that was made in December 2011. As many of you will be more accustomed to a steady and predictable dividend / distribution stream emanating from some of your other investments, I feel it is necessary and appropriate to give you a more thorough explanation of the Fund's distribution policy.

As articulated in the December 31st, 2011 MRFP, Ravensource Fund's distribution policy is to make semi-annual distributions that in aggregate will ensure that the Fund does not incur any tax liability for the fiscal year and to provide a reasonable yield for investors. We execute this policy by having a modest mid-year distribution – currently $0.09 per unit – and a "true-up" distribution paid in December once we have an accurate assessment of Ravensource's income for the full year. While we continue to have significant capital loss carry forwards, the Fund does not have a corresponding tax shelter for dividends and net interest income. As such, the amount of the December "true-up" distribution will reflect the amount of the non-capital related income (i.e. interest and dividend income) that the Fund has earned over the year to ensure that it avoids any tax liabilities. The greater the weighting of high yield bonds and dividend paying equities that we hold in the portfolio, the greater amount of interest and dividend income we will earn and in turn, will increase the size of the annual distributions in order to remain tax neutral. Hopefully, in my attempt to provide clarity, I haven't just confused you further!

SFG Service Agreement

We have written about the merits of the Fund's investment in Specialty Foods Group ("SFG") – the manufacturer and distributor of the world's greatest tasting hot dogs, aka Nathan's Famous – many times in the past and it continues to be one of the Fund's s largest investments. Another fund managed by Stornoway – Stornoway Recovery Fund LP ("SRFLP") – is also invested in SFG. SFG is poised to make a number of critical strategic decisions regarding its future direction and has asked Stornoway to provide, among other things, strategic advice and analysis and subsequently entered into a Services Agreement. We believe that this increased involvement is beneficial to Ravensource's unitholders, as it will improve our insight and influence over the important decisions that lie ahead.

It is Stornoway's policy that revenue derived from the provision of services to investee companies of its funds should benefit the investors in those funds, just as expenses related to an investment are borne by them. To capture the economic benefits for Ravensource's investors, Stornoway will reduce the management fees and administrative services fees that it charges to Ravensource in an aggregate amount equal to Ravensource's proportion of the service fees that SFG will pay to Stornoway. Looking forward, we expect that Ravensource will incur no management fees or administrative services fees for the remainder of 2012. In future years, we estimate that management fees and administrative services fees payable by Ravensource will be reduced by approximately 40% for as long as Ravensource remains invested in and Stornoway continues to provide services to SFG.

To address the potential and/or perceived conflict of interest issues associated with the Services Agreement with SFG and similar transactions, we presented Stornoway's policy of waiving management, administrative and / or other regularly recurring services fees which would otherwise be payable by Stornoway's clients, including Ravensource, for consideration by Ravensource's Independent Review Committee ("IRC"). After a careful and thoughtful review, the IRC recommended that Stornoway follow such waiver policy as a way to manage the conflicts of interest inherent in the provision by Stornoway of services to investee companies, concluding that this would, in the IRC's opinion, achieve a fair and reasonable result and ensure the alignment of the interests of your Manager with those of the Ravensource investors.

Concluding Remarks

We are pleased with the performance of the investment portfolio in the first half of 2012. Not only did the investment portfolio generate high returns, it did so in a falling market. Moreover, most of the companies in which we are invested have not yet seen the full increase in their intrinsic value reflected in the market price of their securities, thus providing the fuel for investment returns for periods to come. We are grateful to the employees at these companies for their hard work and focus, often in times when corporate survival was far from certain. We receive great satisfaction – and handsome rewards for our investors – when our faith in their efforts and potential is vindicated.

This period's results were primarily generated by the decision to invest in situations when other investors were fleeing. We often find our most attractive investment opportunities when a company – and/or its investors – faces a crisis. During such times, existing investors' greed turns to fear providing the opportunity to purchase assets at what we believe to be an irrational discount. In those situations, the investment's success hinges on managing the crisis effectively, patience, active involvement with the companies coupled with opportunistic investment purchases. This period's top two performing investments – Holloway and First Uranium – are prime examples of such opportunities, the actions we took and the results that followed.

Since June 30th, our liquidity has grown: the repayment of our First Uranium bonds and the redemption of 1/3rd of our Specialty Foods Group bonds have added significantly to our cash position. While we have also found some attractive opportunities, we are harvesting our existing investments faster than we are uncovering new ones. As a result, our net cash has risen to 26.9% of net assets versus 9.9% as of December 31st, 2012. While selling a position is a simple task, investing is hard work. As Steve, Pat and myself scour the capital markets for compelling ideas, I can assure you, we will remain patient, stick to our philosophy and seek an appropriate margin of safety before we commit your capital.

I look forward to hearing via phone or e-mail from unitholders. Any ideas that the Fund should consider or any opinions on existing positions are also most welcome. I also encourage any feedback on how investee companies treat their customers, employees, and communities.

We are appreciative of your partnership, trust and patience.

Scott Reid

August 31, 2012

Scott Reid, President
Stornoway Portfolio Management Inc.
Manager of the Ravensource Fund

Financial Highlights

The following tables show selected key financial information and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements. This Management Report of Fund Performance contains financial highlights but is not the complete annual Financial Statements of the fund. Please see the last page for information about how you can obtain the Fund's annual or interim financial statements.

Ratios and Supplemental Data	2012	2011	2010	2009	2008	2007
Total net asset value (000's) (1)	$18,058	$16,581	$14,884	$11,402	$8,021	$13,556
Number of units outstanding (1)	1,701,870	1,701,870	1,424,016	1,424,016	1,424,016	1,433,343
Management expense ratio (2)	3.08%	2.17%	3.15%	2.27%	2.05%	1.59%
Trading expense ratio (3)	0.13%	0.07%	0.30%	0.17%	0.20%	0.19%
Portfolio turnover rate (4)	28.97%	18.45%	37.02%	32.57%	28.45%	65.43%
Net asset value per unit	$10.61	$9.74	$10.45	$8.01	$5.63	$9.46
Closing market price (5)	$10.50	$10.00	$10.25	$7.05	$5.00	$9.20

(1) This information is provided as at December 31 except for 2012 which is as of June 30, 2012.

(2) Management expense ratio is based on total expenses (excluding commissions and transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its investments. A portfolio
The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the fund.

(5) The Closing market price refers to the last bid for a given period end.

The Fund's Net Assets per Unit ($) (1)	2012	2011	2010	2009	2008	2007
Net Assets, beginning of year	9.74	10.45	8.01	5.63	9.46	8.99
Increase (decrease) from operations:						
Total revenue	0.17	0.50	0.36	0.36	0.41	0.27
Total expenses	0.15	0.21	0.29	0.16	0.15	0.28
Realized gains (losses) for the period	0.65	0.36	1.19	0.20	0.08	1.38
Unrealized gains (losses) for the period	0.29	(0.94)	1.36	2.14	(4.06)	(0.69)
Total increase (decrease) from operations (2)	0.96	(0.29)	2.62	2.55	(3.72)	0.68
Distributions:						
From income (excluding dividends)	0.01	0.16	-	-	-	-
From dividends	0.01	0.14	0.04	0.03	-	-
From capital gains	-	-	-	-	-	-
Total Distributions (3)	0.09	0.36	0.18	0.18	0.09	0.17
Issuance of units (4)		0.15				
Net assets, End of Period (5)	10.61	9.74	10.45	8.01	5.63	9.46

(1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

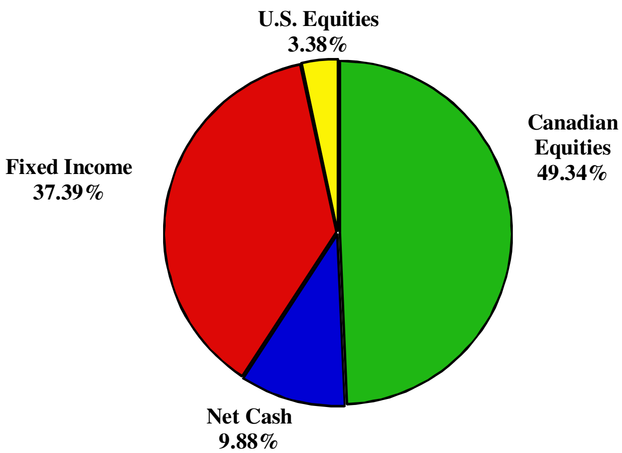
(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding.

(3) Distributions were paid in cash.

(4) Represents the negative impact on NAV per units from the issuance of units at a discount plus associated expenses.

(5) This information is provided as at December 31 of the year shown except for 2012 which is as of June 30, 2012

SUMMARY OF INVESTMENT PORTFOLIO



Top 25 Holdings as of June 30, 2012

Issuer/Security	Security Type	% of Net Assets
First Uranium Corporation - 4.25% due June 2012	Convertible Bonds	13.17%
Net Cash *	Cash	9.83%
Specialty Foods Group - 8% due June 2014 **	Convertible Secured	7.90%
Jovian Capital Corporation	Common Shares	7.57%
Tuckamore Capital - 8.00% due March 2016	Secured Bonds	6.82%
Crystallex International - 9.375% due Dec 2011	Senior Bonds	6.73%
PlazaCorp Retail Properties Ltd	Common Shares	6.35%
Winpak Ltd.	Common Shares	3.96%
Peer 1 Network Enterprises Inc	Common Shares	3.06%
Clairvest Group Inc.	Common Shares	2.88%
Clearwater Seafoods Inc - 10.5% due Dec 2013	Convertible Bonds	2.77%
Supremex Inc.	Common Shares	2.54%
Canaccord Financial Inc	Common Shares	2.15%
Westaim Corp.	Common Shares	2.05%
Ten Peaks Coffee Company	Common Shares	2.01%
Specialty Foods Group -Equity Warrants **	Warrants	1.98%
Fiera Sceptre Inc.	Common Shares	1.79%
McGraw-Hill Ryerson Ltd.	Common Shares	1.72%
Glacier Media Inc	Common Shares	1.56%
Melior Resources Inc.	Common Shares	1.51%
Chinook Energy Inc.	Common Shares	1.49%
Connacher Oil & Gas Ltd	Common Shares	1.30%
Nuvista Energy Ltd	Common Shares	1.16%
GLV Inc.	Common Shares	1.11%
Quad Graphics Inc	Common Shares	1.07%
Total % of Net Assets		**94.46%**

* Includes interest and dividends receivables, and is net of all liabilities

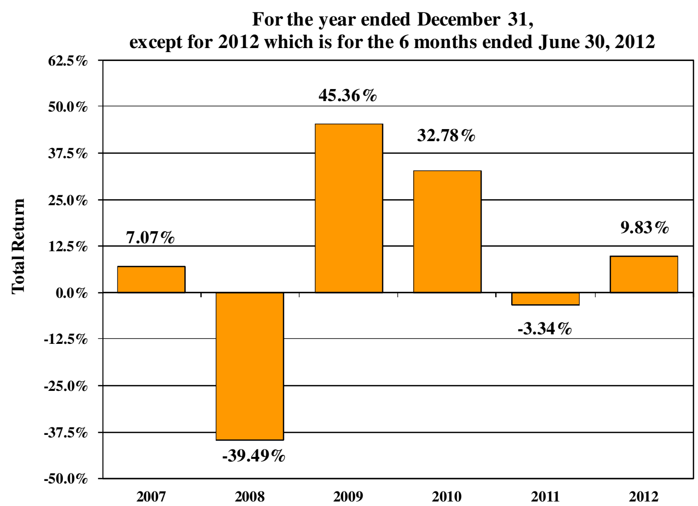
** Not publicly traded company. Valued by independent valuation

This summary will change due to ongoing portfolio transactions and fluctuations.
The top 25 holdings are made available quarterly, 60 days after quarter end.

Past Performance

The charts and tables that follow show the past performance of the Fund but will not necessarily indicate how the Fund will perform in the future. Mutual fund values change frequently and past performance may not be repeated.

The bar chart shows the Fund's annual performance in each of the past 5 years. The chart shows in percentage terms how the net asset value has increased (decreased) during each period.



Total Returns

	Six Months	One Year	Three Year	Five Year
RAV.UN	9.83%	2.06%	20.35%	2.69%
S&P/TSX Total Return Index	-1.53%	-6.96%	5.71%	-0.68%

Total returns for period ended June 30, 2012
Annualized returns except for six months ended June 30, 2012

Additional Information

Ravensource Independent Review Committee ("IRC")

To adhere to National Instrument 81-107 and to provide an arms-length vehicle to deal with matters that involve potential conflicts of interest between the Fund and the Manager, Ravensource established and maintains an Independent Review Committee ("IRC"). The role, composition and responsibilities of the IRC can be summarized as follows:

- size of the IRC is 3 members that are independent from the Manager with no material relationships to the Manager;
- its mandate is to consider and provide impartial judgment on any conflict of interest referred to it by the Manager;
- when a conflict of interest arises, the IRC will review and recommend to the Manager what action it should take to achieve a fair and reasonable result for Ravensource;
- report to the relevant securities regulators any instance where the Manager acted in a conflict of interest matter in such a way that did not comply with conditions imposed by securities legislation or the IRC;
- meet at least annually with at least one of the meetings to be held "in camera";
- for each calendar year, the IRC must prepare a report to the Ravensource Fund that describes the IRC and its activities for the fiscal year. This report is posted on the Fund's website @ www.ravensource.ca

The IRC is comprised of Michael Siskind (Chairman), David Magahey, and Michael Gardiner.

Access to Information

We continue to meet the requirements of National Instrument 81-106 and publish our 25 largest holdings quarterly and net asset value weekly. All of the key Fund documents along with further information on the Fund and the investment team that manages your investments can be accessed through our website (www.ravensource.ca). We are committed to keeping the website current and I encourage you to make use of this resource tool. In addition, we are likely to expand our current reporting to include periodic postings on subjects that may be of interest to unitholders expressed in a less formal manner than is appropriate for this document. Over time we have been mandated to tell you so much in the management discussion and analysis that your patience might be tested by greater length to cover discretionary subjects. Aside from the website, Fund documents can also be retrieved through SEDAR (www.sedar.com).

Fund Information

Trustee, Registrar and Transfer Agent

Computershare Trust Co. of Canada

Auditor

Deloitte & Touche LLP

Investment Manager

Stornoway Portfolio Management Inc.
30 St. Clair Avenue West, Suite 901
Toronto, ON M4V 3A1

Investor Relations

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