

Financial Statements of

RAVENSOURCE FUND

Year ended December 31, 2013

RAVENSOURCE FUND

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

We have audited the accompanying financial statements of Ravensource Fund, which comprise the statements of net assets and investment portfolio as at December 31, 2013, the statements of operations and changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ravensource Fund as at December 31, 2013, and its results of operations and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The financial statements of Ravensource Fund as at and for the year ended December 31, 2012 were audited by another auditor who expressed an unqualified opinion on March 22, 2013.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 11, 2014
Toronto, Canada

RAVENSOURCE FUND

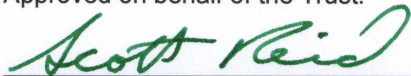
Statement of Net Assets

December 31, 2013, with comparative figures for 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 6,771,779	\$ 5,742,836
Investments at fair value (cost - \$13,437,611; 2012 - \$13,137,662)	16,064,343	12,758,609
Interest and dividends receivable	53,686	40,892
	22,889,808	18,542,337
Liabilities		
Accounts payable and accrued liabilities	54,238	66,743
Incentive, management and administrative fees payable	936,113	131,117
	990,351	197,860
Net assets	\$ 21,899,457	\$ 18,344,477
Number of units outstanding (note 5)	1,700,470	1,700,470
Net asset value per unit	\$ 12.88	\$ 10.79

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Investment Manager

Stornoway Portfolio Management Inc.

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Statement of Operations

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Investment income:		
Interest	\$ 309,626	\$ 289,808
Dividends and income trust distributions	234,317	757,744
	543,943	1,047,552
Expenses:		
Management fees (note 3(b))	147,876	133,865
Administrative fees (note 3(c))	79,626	72,081
Impact of management and administrative fee reductions (note 3(a))	(103,960)	(86,437)
Incentive fee (note 3(d))	891,886	148,162
Investor relations fees (note 3(e))	13,560	13,560
Legal fees	76,237	147,845
Trust administration and transfer agency fees	23,612	27,725
Audit fees	23,205	23,024
Accounting fees	21,696	21,018
Listing fees	19,925	24,928
Professional fees	8,628	12,254
Independent review committee fees	7,600	5,800
Other	3,746	4,483
	1,213,637	548,308
Net investment income (loss)	(669,694)	499,244
Realized and unrealized gain (loss) on investments:		
Transaction costs	(6,161)	(7,711)
Net realized gain on investments, including foreign exchange adjustments	1,632,007	2,198,284
Net change in unrealized gain (loss) on investments	3,006,941	(145,686)
Net gain on investments	4,632,787	2,044,887
Increase in net assets from operations	\$ 3,963,093	\$ 2,544,131
Average number of units outstanding	1,700,470	1,701,406
Increase in net assets from operations per unit	\$ 2.33	\$ 1.50

See accompanying notes to financial statements.

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Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Net assets, beginning of year	\$ 18,344,477	\$ 16,580,706
Increase in net assets from operations	3,963,093	2,544,131
Unitholder transactions:		
Units tendered for redemption (note 4(c))	(948,945)	(15,021)
Recirculation of units tendered for redemption (note 4(c))	948,945	—
Distributions (note 4(d))	(408,113)	(765,339)
	(408,113)	(780,360)
Net assets, end of year	\$ 21,899,457	\$ 18,344,477

See accompanying notes to financial statements.

RAVENSOURCE FUND

Statement of Investment Portfolio

December 31, 2013

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
Canadian equities:				
70,700	Canaccord Capital Inc.	\$ 592,738	\$ 491,365	2.24
80,000	Canwel Holdings Corp.	304,000	234,400	1.07
228,100	Chinook Energy Inc.	478,156	257,753	1.17
30,000	Clairvest Group Inc.	366,126	690,300	3.15
812,500	Connacher Oil & Gas Ltd.	562,701	138,125	0.63
1,000	Crystallex International Corp.	90	76	—
250,000	CVTech Group Inc.	247,500	215,000	0.98
40,000	Fiera Sceptre Inc.	173,300	560,000	2.55
140,375	Glacier Media Inc.	368,989	189,506	0.87
100,000	GLV Inc.	276,500	435,000	1.99
21,100	GVIC Comm - Class B	17,091	7,174	0.03
22,500	GVIC Comm - Class C	18,045	7,425	0.03
17,900	Indigo Books & Music Inc.	90,872	148,570	0.68
2,593,500	Melior Resources Inc.	298,305	220,448	1.01
58,400	NuVista Energy Ltd.	312,183	415,808	1.90
248,033	PlazaCorp Retail Properties Ltd.	297,640	1,069,022	4.88
274,200	Supremex Inc.	624,622	551,142	2.52
157,900	Ten Peaks Coffee Co. Inc.	446,952	527,386	2.41
245,500	Tuscany International Drilling Inc.	303,379	20,868	0.10
10,000	Westaim Corp.	—	21,100	0.10
45,400	Winpak Ltd.	295,252	1,016,960	4.64
		6,074,441	7,217,428	32.95
U.S. equities:				
75,000	Genworth Financial Inc.	441,137	1,238,030	5.65
13,157	Quad Graphics	595,635	380,911	1.74
1,323,256	SeaCo Ltd.	—	422	—
		1,036,772	1,619,363	7.39

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Statement of Investment Portfolio (continued)

December 31, 2013

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
Fixed income:				
178,000	Anderson Energy Ltd. 7.5%, due January 31, 2016	116,368	128,605	0.59
16,000	Anderson Energy Ltd. 7.25%, due June 30, 2017	9,780	10,560	0.05
1,500,000	Arcan Resources Ltd. 6.5%, due October 31, 2018	901,875	732,000	3.34
300,000	Connacher Oil & Gas Ltd. 8.75%, due August 1, 2018	223,500	204,000	0.93
2,250,000	Crystallex International Corp. 9.375%, due December 30, 2011*	1,164,912	957,240	4.37
1,000,000	Delphi Holdings Corp. 6.55%, due June 15, 2006*	732,498	34,886	0.16
9,000	Gasfrac Energy Services Inc. 7%, due February 28, 2017	6,311	7,425	0.03
1,050,000	Great Basin Gold Ltd. 8%, due November 30, 2014*	203,500	3,937	0.02
1,302,900	Ivanhoe Energy Inc. 5.75%, due June 30, 2016	820,353	573,276	2.62
2,460,000	Tuckamore Capital Management 8%, due March 23, 2016	1,875,334	2,020,890	9.23
		6,054,431	4,672,819	21.34
Warrants and options:				
160,000	MEGA Brands Inc.	32,000	43,200	0.20
58	Specialty Foods Group	239,967	2,511,533	11.47
		271,967	2,554,733	11.67
Net investments owned		13,437,611	16,064,343	73.35
Brokerage commissions		(1,152)	—	—
Total portfolio of investments		<u>\$ 13,436,459</u>	16,064,343	73.35
Other net assets			5,835,114	26.65
Net assets			<u>\$ 21,899,457</u>	100.00

*Defaulted

See accompanying notes to financial statements.

RAVENSOURCE FUND

Notes to Financial Statements

Year ended December 31, 2013

1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003 and as at July 1, 2008 (the "Declaration of Trust"). The Trust's units are listed on the Toronto Stock Exchange ("RAV.UN").

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest and reinvest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 185,753 (2012 - 193,853) units, representing 10.9% (2012 - 11.4%) of the outstanding units as at December 31, 2013.

The capital of the Trust is represented by the net asset value of the Trust, and is comprised of investments, and cash and equivalents offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors including liquidity risk, market risks, investment in options, and leverage from borrowed funds.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

2. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies followed by the Trust:

(a) Valuation of investments:

The Trust's investments are presented at fair value determined as follows:

- (i) Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.
- (ii) Securities not listed upon a recognized public stock exchange are valued using valuation techniques which take into account market factors, valuation of similar securities and interest rates.
- (iii) Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments are valued at bid quotations from recognized investment dealers.

(b) Investment transactions and income recognition:

Purchases and sales of securities are recorded on a trade date basis. Interest income is recognized on an accrual basis; however no accrual is made on defaulted bonds. Dividend income (including distributions from income funds) is recognized at the ex-dividend dates. Net realized gains (losses) on the sale of investments include net realized gains or losses from foreign currency changes and are based on weighted average cost.

(c) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

2. Significant accounting policies (continued):

(d) Foreign currency translation:

Investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the year-end dates. Purchases and sales of investments and income derived from foreign currency-denominated investments are translated at the exchange rate prevailing on the respective dates of such transactions. The Trust does not separately report the effects of changes in foreign exchange rates from changes in market prices on investments held. Such changes are included in net realized gain or net change in unrealized appreciation on investments.

(e) Transaction costs:

Transaction costs are expensed and are included in the statement of operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets (primarily with respect to less liquid investments) and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from management's best estimates as additional information becomes available in the future.

(g) Cash and cash equivalents:

Cash and equivalents represent cash positions as well as any trades that are in transit as at December 31, 2013.

(h) Net asset value per unit:

The net asset value per unit is calculated by dividing the net assets of the Trust by the total number of units outstanding at the end of the year.

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Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Related party transactions:

(a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group Inc. ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and in return will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During 2013, the Investment Manager reduced management fees by \$59,775 (2012 - \$49,720) and reduced administrative fees by \$32,225 (2012 - \$26,772), which fees and costs would have been subject to HST. Therefore, the total impact of fee reductions amounted to \$103,960 inclusive of HST (2012 - \$86,437) as noted on the financial statements. The Investment Manager will continue to reduce the management fee and administrative fees accordingly, for so long as the Trust is invested in SFG securities and the Investment Manager continues to receive fees under the SFG Services Agreement.

(b) Management fees:

The management fee payable to the Investment Manager is based on the Trust's average weekly net assets at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets	Management fee
Up to and including \$250 million	0.65% of net asset value plus harmonized sales tax ("HST")
Between \$250 million and \$500 million	0.60% of net asset value plus HST
\$500 million and more	0.55% of net asset value plus HST

The net management fees for 2013 amounted to \$80,330 (2012 - \$77,681). The Investment Manager reduced the net management fees by \$59,775 (2012 - \$26,772), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees for 2013 would have amounted to approximately \$147,876, inclusive of HST (2012 - \$133,865).

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Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Related party transactions (continued):

(c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets	Administrative fee
Up to and including \$250 million	0.35% of net asset value plus HST
Between \$250 million and \$500 million	0.30% of net asset value plus HST
\$500 million and more	0.25% of net asset value plus HST

The net administrative fees for 2013 amounted to \$43,211 (2012 - \$41,828). The Investment Manager reduced the net administrative fee by \$32,225 (2012 - \$26,772), as described in further detail in (a). In the absence of the net administrative fee reduction, total net administrative fees for 2013 would have amounted to approximately \$79,626, inclusive of HST (2012 - \$72,081).

(d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset value per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net asset value per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but calculated and paid annually. Incentive fees payable for 2013 amounted to \$891,886, inclusive of HST (2012 - \$148,162).

(e) Investor relations fees:

The Investment Manager is paid a monthly investor relations fee of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fee for 2013 amounted to \$13,560, inclusive of HST (2012 - \$13,560).

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Notes to Financial Statements (continued)

Year ended December 31, 2013

3. Related party transactions (continued):

(f) Other related party transactions:

Certain members of the Investment Committee and their affiliated entities (excluding senior executives of the Investment Manager and their affiliates) are unitholders in the Trust. At December 31, 2013, such related parties held 722,790 (2012 - 726,890) units representing approximately 42.5% (2012 - 42.7%) of the units of the Trust.

4. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets and distribution of income are generally as follows:

(a) Entitlement in respect of net assets:

A pro rata share of the net assets of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

(b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

(c) Redemption of units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable Annual Redemption Date, being the valuation date following August 31 in any year, subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding at net asset value as of the Annual Redemption Date.

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Notes to Financial Statements (continued)

Year ended December 31, 2013

4. Unitholders' entitlements (continued):

(d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made a \$0.09 per unit distribution on June 28, 2013 and a \$0.15 per unit distribution on December 27, 2013, for total distributions of \$0.24 per unit (2012 - \$0.45) and aggregate distributions of \$408,113 (2012 - \$765,339).

The Trust has cumulative net capital losses of \$17,769,037 (2012 - \$18,772,612) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

5. Units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Trust. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset value per unit calculated on the redemption date.

During the year, 76,700 units were tendered for redemption at a redemption price of \$12.37217 per unit. The Fund entered into a recirculation agreement with BMO Nesbitt Burns whereby BMO Nesbitt Burns would use commercially reasonable effort to find purchasers for the units tendered for redemption at the redemption price. All 76,700 units tendered for redemption were successfully recirculated and as a result there was no change in the number of units outstanding.

	2013	2012
Units, beginning of year	1,700,470	1,701,870
Units tendered for redemption	(76,700)	(1,400)
Recirculation of units tendered for redemption	76,700	—
Units, end of year	1,700,470	1,700,470

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

6. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

7. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2013.

8. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Financial instruments risk management (continued):

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

(a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. As at December 31, 2013, market value of the Trust's debt portfolio was \$4,672,819 (21.3% of net assets) (2012 - \$2,860,913 (15.6% of net assets)), and comprised non-rated bonds (15.9% of net assets), defaulted bonds (4.5% of net assets) and B-rated bonds (1.0% of net assets).

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

(b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. Other than the high yield and defaulted bonds, the Trust primarily invests in equity securities that are traded in active markets and can be readily disposed of. In addition, the Trust retains sufficient cash to maintain liquidity.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Financial instruments risk management (continued):

(c) Market risk:

(i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. The Trust's exposure to another currency as at December 31, 2013, is as follows:

	Canadian dollar	% of net asset value
2013:		
United States dollars	\$ 5,601,534	25.58
2012:		
United States dollars	3,077,431	16.78

As at December 31, 2013, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately 0.26% (\$56,015) (2012 - 0.17% (\$30,774)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Financial instruments risk management (continued):

As the Trust has significant exposure to high yield and defaulted bonds with no exposure to government bonds, its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. However, high yield bonds do have a degree of interest rate risk, which is illustrated in the table below.

As at December 31, 2013, the Trust's exposure to debt instruments by maturity and the impact on its net asset value if the yield curve is shifted in parallel by an increase of 25 basis points ("bps"), holding all other variables constant ("sensitivity"), would be as follows:

	2013	2012
Market* by maturity date:		
1 - 3 years	\$ 2,722,771	\$ –
3 - 5 years	953,985	1,373,940
More than 5 years	–	205,125
Sensitivity to 25 bps yield change increase or decrease	20,885	10,821

* Excludes cash and defaulted bonds.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

(iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

8. Financial instruments risk management (continued):

As at December 31, 2013, 56.41% (2012 - 57.24%) of the Trust's net assets were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately 5.64% (\$1,235,275) (2012 - 5.72% \$1,050,022)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

9. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis, as at December 31:

2013	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 3,472,756	\$ 204,000	\$ 996,063	\$ 4,672,819
Equities	8,836,791	—	—	8,836,791
Warrants and options	43,200	—	2,511,533	2,554,733
	\$ 12,352,747	\$ 204,000	\$ 3,507,596	\$ 16,064,343

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

9. Fair value measurements (continued):

2012	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 1,373,939	\$ 230,145	\$ 1,256,829	\$ 2,860,913
Equities	9,103,881	—	—	9,103,881
Warrants and options	22,400	—	771,415	793,815
	\$ 10,500,220	\$ 230,145	\$ 2,028,244	\$ 12,758,609

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2012 or 2013.

The table below shows a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, January 1, 2013	Realized fair value gain	Unrealized fair value gain (loss)	Sales or purchases	End of year, December 31, 2013
Specialty Foods Group - warrant	\$ 771,415	\$ —	\$ 1,740,118	\$ —	\$ 2,511,533
Crystallex International - 9.375% bonds	1,104,265	—	(147,025)	—	957,240
Delphi Holdings - 6.55% bonds	6,964	—	27,922	—	34,886
Great Basin Gold - 7% bonds	145,600	—	(189,163)	47,500	3,937
	\$ 2,028,244	\$ —	\$ 1,431,852	\$ 47,500	\$ 3,507,596

	Beginning of year, January 1, 2012	Realized fair value loss	Unrealized fair value gain (loss)	Sales or purchases	End of year, December 31, 2012
Specialty Foods Group - warrant	\$ —	\$ —	\$ 531,448	\$ 239,967	\$ 771,415
Specialty Foods Group - 8% bonds	1,779,750	(144,543)	—	(1,635,207)	—
Crystallex International - 9.375% bonds	826,313	—	(248,656)	526,608	1,104,265
Delphi Holdings - 6.55% bonds	17,798	—	(10,834)	—	6,964
Great Basin Gold - 7% bonds	—	—	(10,400)	156,000	145,600
	\$ 2,623,861	\$ (144,543)	\$ 261,558	\$ (712,632)	\$ 2,028,244

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

10. Future accounting standards:

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the Trust will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013. The Trust will also be publishing unaudited interim financial statements in accordance with IFRS for the 6-month period ending June 30, 2014.

The Investment Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Investment Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Trust's adoption of IFRS (see commentary below). The criteria contained within IAS 32, Financial Instruments: Presentation, may require unitholders' equity to be classified as a liability within the Trust's statement of net assets, unless certain conditions are met. The Investment Manager is currently assessing the Trust's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a statement of cash flows in the financial statements.

Upon adoption of IFRS, the Trust will apply IFRS 13, Fair Value Measurement. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It applies when other IFRSs require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. Overall, enhanced disclosure requirements are expected.

RAVENSOURCE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2013

10. Future accounting standards (continued):

In October 31, 2012, the IASB published *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*, which provides an exemption from consolidation of subsidiaries under IFRS 10, Consolidated Financial Statements, for entities which meet the definition of an 'investment entity'. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. The consolidation exception is mandatory, not optional.

11. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the offering document. Information about the capital is described in the statement of changes in net assets and the Trust does not have externally imposed capital requirements.

12. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.