RAVENSOURCE
FUND

MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE YEAR ENDING DECEMBER 31, 2013

NOTICE TO READERS

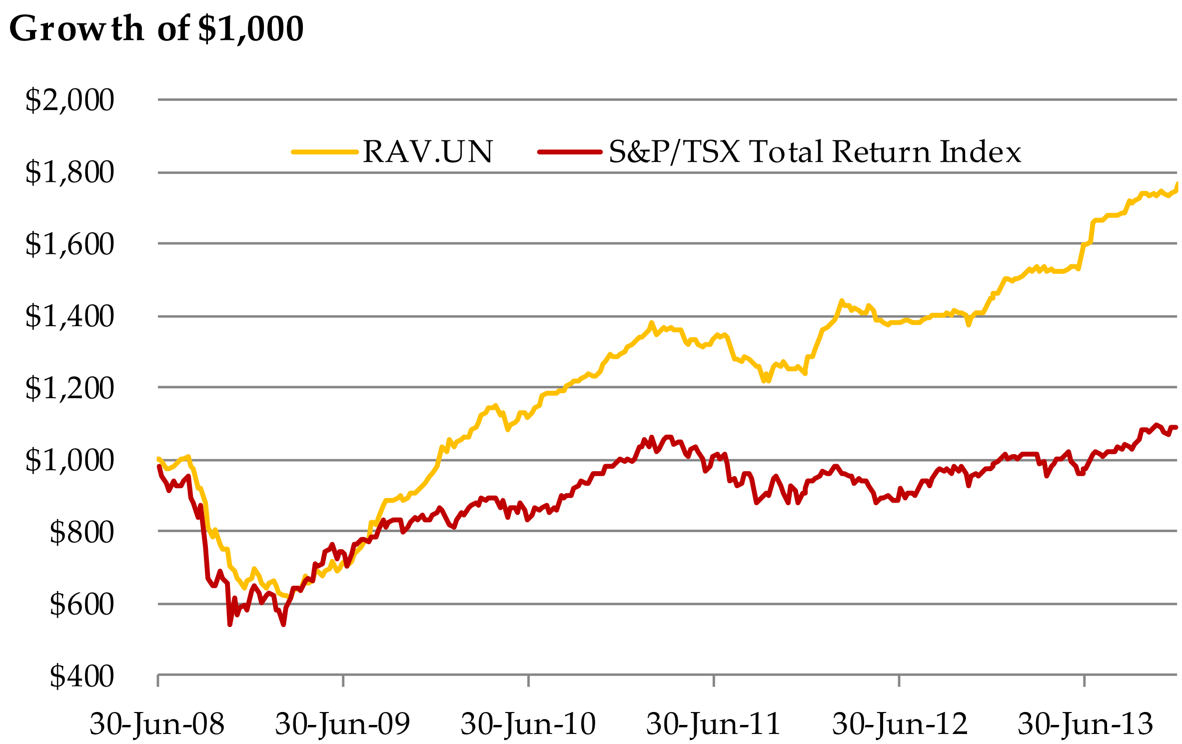
This management's letter to unitholders contains candid and in-depth commentary, analysis and other information about the Ravensource Fund. However, this letter does not contain the complete semi-annual financial statements of the investment fund nor the supplemental information found in the Management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

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

A Note on Forward/Looking Statements

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

MANAGEMENT'S LETTER TO UNITHOLDERS



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

Fellow unitholders,

We are pleased to report that Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 21.6% including distributions in 2013. By comparison, the S&P TSX Composite Total Return Index increased by 13% in 2013.

Building on strong performance from prior periods, as of December 31, 2013, an investment in Ravensource units has increased by 76.8% or 10.9% annually, including re-invested distributions, since Stornoway Portfolio Management ("Stornoway") took over its management in July 2008. Over the same period, the S&P TSX Composite Total Return Index has increased by 11.0% or 1.9% annually.

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

The Ravensource Fund

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

1. *High Yielding Securities:* investing in corporate debt, income fund units, or other securities that produce a sustainable high level of income for the underlying credit risk.
2. *Distressed Securities:* investing in corporate debt, creditor claims and/or equity securities of companies which are in, or perceived to be in, financial distress at a value materially different from what we believe to be the underlying fundamental value of the securities.
3. *Special Situations Equities:* investing primarily in Canadian and U.S. small and mid-cap equities that are not only attractively valued but also with the catalysts to unlock value.

To execute the investment strategy, Stornoway was appointed the Fund's Investment Manager on July 1, 2008. Stornoway's investment team is comprised of Scott Reid and Steve Schaus, whose bios are on the Ravensource website. In addition to Ravensource, Stornoway also manages the Stornoway Recovery Fund LP that is dedicated to investing in distressed securities.

Overseeing the Fund's investment management, Pat Hodgson along with the Stornoway investment team sits on Ravensource's Investment Committee. Pat is the President of Cinnamon Investments, managed Ravensource until July 1, 2008, and is the Fund's largest unitholder.

We firmly believe that an investment manager should have "skin in the game". As of February 28, 2014, Scott owned 9.5% of the total units of Ravensource outstanding while Steve – directly and indirectly – owned 1.6% and Pat – directly and indirectly – owned 42.5%. In short, we have invested significant capital alongside other Ravensource unitholders and eat our own cooking.

Investment Performance

Ravensource's NAV increased by 21.6% including distributions in 2013. The ten investments that have made the most significant contributions – positively and negatively – to Ravensource's performance are found in the table below:

Investment	Per RAV Unit [1]	Period Return [2]
Specialty Foods Group - Warrants	$1.02	225.6%
Jovian Capital	$0.50	63.3%
Genworth Financial	$0.40	120.9%
Tuckamore 8%	$0.38	42.0%
Winpak Ltd.	$0.21	53.2%
Supremex Inc	$0.18	103.8%
Fiera Sceptre Inc	$0.16	93.0%
GLV Inc.	$0.14	124.2%
Great Basin Gold	-$0.11	-98.0%
Ivanhoe Energy	-$0.14	-27.7%

1 Total investment income / # of RAV units outstanding

2 Total Investment Income / (December 31, 2012 Fair Value + 2013 Purchases)

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

We would like to review certain of the Fund's investments:

Specialty Foods Group Inc ("SFG")

The Fund's top performer in 2013 was its investment in SFG warrants. SFG is a U.S. based, leading producer of premium meat products and is Ravensource's only private company investment. The investment was acquired when SFG was on the brink of insolvency. Over the years, SFG has successfully executed a comprehensive financial restructuring and operational turnaround in which Ravensource's investment team has played a significant role: Scott sits on the board of SFG and Stornoway Portfolio Management is a financial advisor to the company.

2013 was a great year for SFG. SFG ended fiscal 2013 debt-free with close to $47 million in cash, a remarkable achievement given the company was paying for meat and packaging material with the corporate credit card and owed close to $100 million to disgruntled creditors prior to our investment. Recognizing its tremendous turnaround, its value more than doubled in 2013 thereby increasing Ravensource's NAV by $1.02 per unit. The increase in its value, as determined by a third party valuator, reflects that SFG's profitability has increased dramatically, the value of potential asset sales has exceeded prior expectations and that over half of its value is now in the form of cash thus lowering the risk of this investment.

SFG's future lies in hams. SFG's Kentucky-based operation makes a fantastic ham under the brand Kentucky Legend. Once Chicago's uglier sister, the Kentucky team has created lasting shareholder value by growing its fledgling Kentucky Legend hams into a genuine brand that has penetrated the Wal-mart / Sam's Club crucible while vastly improving the operating efficiency of the plant. Over the past couple of years, the Kentucky operation has likely created as much shareholder value as the Chicago facility / Nathan's Famous brand.

Looking forward, we are working on several initiatives to surface additional value over the next 6 to 12 months including the distribution of cash to its investors. In March 2014, our existing warrant investment will be exchanged for a 3.5% equity stake in SFG. Considering the value enhancing opportunities in front of us, we remain optimistic that the ultimate value realized will materially exceed the current valuation.

Tuckamore Capital Management ("Tuckamore")

Capitalizing on the income trust mania sparked by retail investors' need for income, Tuckamore, formerly known as Newport Partners Income Fund, was created in August 2005 to take majority stakes in private businesses. Since its inception, Tuckamore spent in excess of $500 million in cash and $350 million of its own shares to acquire interests in 18 different businesses across many industries most of which had little synergy with each other.

Like many other "income funds" including one related to our top performer, SFG, Tuckamore didn't generate sufficient income to satisfy its creditors let alone its equity investors. Poor performance from its businesses brought the acquisition spree to a halt and a default to its bank facility and bond debt. After determining that its assets were worth more than its debt, we began purchasing bonds at 40 cents on the dollar and mapped a restructuring plan that we presented to management.

Our proposal was based on the analysis that the company's assets did not produce sufficient free cash flow to support Tuckamore's huge debt-load thus a debt-for-equity swap was required to deleverage the company. We also believed that the company needed to further reduce its bank debt by selling most of its non-industrial assets and focus on – and potentially invest in – the few bright stars in its portfolio. Management rejected the debt-to-equity element of our proposal but commenced selling most of its businesses, reducing debt and investing in its one star, ClearStream, all of which de-risked the company and made our investment more attractive.

Throughout the period that we have been invested, high yield bond funds have shunned Tuckamore bonds despite its attractive yield and large margin of safety that protects the principal of the bonds. In fact, even as Tuckamore's financials improved, we were able to increase our position at a price of $64.625 / 26% yield during 2013 seemingly without competition. Like most of our investments, Tuckamore's bonds required in-depth financial analysis and an understanding of corporate turnarounds, neither which are the traditional bond investor's forte. However, in the latter part of 2013, traditional investors started to recognize the merits of Tuckamore bonds and in their scramble to buy bonds, the market price increased to $82.15 by year-end, adding $0.38 per unit to the NAV of the Fund.

Winpak Ltd.
Winpak is a Winnipeg based manufacturer of plastic packaging for the food and pharma industries. They have proven themselves adept at developing innovative packaging solutions that add value to their customers. We purchased shares in February 2008 after the price had fallen 50% as rising Canadian dollar and resin prices wrought havoc on its profitability. This is a well-run company, which has never relied on debt and had a balance sheet that allowed them to make acquisitions in the US at favourable prices to offset and hedge their currency issue. Over time, the company has introduced variable resin costing in their pricing to customers that shields Winpak from resin price volatility. We were thus able to buy on the cheap a well-run company with a great old-fashioned philosophy of internal growth through innovation. Over the past year, Winpak has garnered attraction from the market and its shares are now premium priced like a growth stock rather than as a discount to book value that we enjoyed at the time of our purchase. Over the year, our Winpak investment increased the NAV of the Fund by $0.21 per unit.

Supremex Inc.
Supremex also performed well for the Fund in 2013 adding $0.18 to its NAV per unit, but this is a very different story. Supremex is Canada's largest envelope manufacturer, which is a declining business. Every year, much like the post office, their sales go down. While their sales fall a little every year, there are few capital spending needs and enough free cash flow to pay down some of their substantial bank debt and maintain a dividend. They have also been hurt by a rising Canadian dollar as US producers found themselves able to compete in Canada, creating downward pressure on prices. More so than most of our investments, the potential for an attractive return was accompanied by macro risks and adverse industry dynamics that we typically shun. As such, our position in Supremex has been relatively modest. The share price almost doubled during 2013, as the decline in the Canadian dollar eased some of the competitive pressures and cost cutting has helped to stabilize operating income. Despite these measures, we are concerned about the future. While they know how to make envelopes, there has been a worrisome series of boardroom scuffles and the long time CEO has recently departed. These issues trouble us and the continued ownership of our position rests on whether the company can convince us that they have a path to stability at their head office.

Ivanhoe Energy ("Ivanhoe")
Ravensource's position in Ivanhoe Energy convertible bonds was the worst performer over 2013 as its market price fell by 27.7% reducing the Fund's NAV by $0.14 per unit. As the market price of Ivanhoe bonds continued to fall after our initial purchases, we could be criticized for buying too early. However, we cannot predict how desperate sellers will behave and our goal is not to predict the ultimate low price but to purchase a position of influence at what we believe are attractive prices regardless of where the next trade occurs at. As the case with Ivanhoe, we will sometimes incur mark-to-market losses at the early stages of our investment.

Ivanhoe is a heavy oil company with three development projects: the Tamarack oilsands project in Alberta; a large exploration property in Ecuador; and a proprietary heavy-to-light oil upgrading technology ("HTL"). While Ivanhoe has invested significantly in these projects, they require much more capital to bring them to fruition. These projects have tremendous potential but it is highly questionable Ivanhoe will be able to realize it. Like trying to sell a half completed building, Ivanhoe's attempt to raise capital or secure joint venture partners who will fund these projects alongside Ivanhoe is very challenging. Interested parties may instead want to acquire the projects at opportunistic prices potentially compromising the value to Ivanhoe's shareholders.

From our perspective, we believe that the Tamarack asset alone provides a large margin of safety to the price we have paid for Ivanhoe bonds. With no other debt outstanding, completely writing off its other two projects while applying a valuation on Tamarack at the absolute low end of the valuation range for comparable transactions still provides a par recovery on the bonds and close to a triple digit return on our investment. We have gradually increased this position as our conviction in its merit grows.

Relative Performance
Our objective is to produce significant long-term rates of return regardless of market conditions. This is called absolute performance and the first part of this letter outlined how we or rather the Fund's investments have accomplished it in 2013.

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

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

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

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

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

As at December 31, 2013	1 Year	3 Years	5 Years	10 Years	Since (2) 01-Jul-08
Ravensource Fund - RAV.UN(1)	**21.6%**	**10.9%**	**21.4%**	**20.1%**	**10.9%**
S&P/TSX Composite Total Return Index	13.0%	3.4%	11.9%	16.6%	1.9%
S&P/TSX Small Cap Total Return Index	7.6%	-4.2%	14.0%	6.9%	1.0%
BofA ML High Yield Master II Index	6.8%	8.8%	18.5%	17.5%	10.8%
Credit Suisse Distressed Index	13.8%	6.8%	10.2%	15.9%	5.1%

(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.
(2) Stornoway Portfolio Management was appointed as Manager of the Ravensource Fund effective July 1, 2008.

Over 2013, we can report that our results stack up favorably against the benchmarks the Investment Manager utilizes to measure the Fund's relative performance. Over a longer-term perspective, the Fund's outperformance is magnified as Ravensource's NAV per unit has increased by 76.8% in total and 10.9% on an annualized basis, including re-invested distributions, since Stornoway Portfolio Management took over its management in July 2008. By comparison, the S&P TSX Composite Total Return Index has increased by 11.0% in total or 1.9% on an annualized basis over the same time period.

Fund Liquidity and Investment Activity

Liquidity

Starting the year with over 30% of the Fund's net assets in cash, by December 31, 2013 it had declined to 26% of net assets. This decline in cash as a percentage of NAV was due to the strong performance of the Fund's investments that outpaced the increase of our cash holdings. On an absolute dollar basis, the Fund's cash holdings increased as the sales of several of our investments on M&A transactions outpaced that of our purchases.

While the Fund held a large amount of our net cash, the rate of our investment purchases have recently picked up as we have been uncovering attractive opportunities that merit investment.

	Amount	per Unit	% of NAV (1)
Sources			
Investment Divestitures	4,258,826	2.5045	23.22%
Net change in working capital	779,697	0.4585	4.25%
Total	5,038,524	2.9630	27.47%
Uses			
Investment Purchases	2,931,774	1.7241	15.98%
Net Investment Loss	669,694	0.3938	3.65%
Distributions to Unitholders	408,112	0.2400	2.22%
Total	4,009,580	2.3579	21.86%
Change in Cash	1,028,943	0.6051	5.61%

(1) % of December 31, 2013 NAV

Investments
Where did we invest our capital? Approximately half of Ravensource's purchases were directed to establishing new positions, primarily in the bonds of Anderson Energy (AXL:TSX) and Arcan Energy (ARN:TSX) and in the shares of CVTech Group (CVT:TSX) and CML Healthcare (CLC:TSX). The rest of the purchases were additions to our existing holdings of Ivanhoe Energy (IE:TSX) and Tuckamore Capital (TX:TSX) bonds and in the shares of Jovian Capital Corp (JOV:TSX).

Energy Bonds
Approximately half of our purchases during the year were in the energy sector: Arcan Energy, Anderson Energy, and Ivanhoe Energy. To date, we have kept our positions relatively small.

Developing oil and gas reserves is a capital-intensive exercise. The typical model has been: go to the equity market and to your bank to raise money, spend the money drilling wells, increase production, increase your share price and your bank line, repeat until a larger company buys you out. In 2010 and 2011, many junior oil and gas companies issued convertible bonds. By paying away a small coupon, the dilutive impact of an equity issue could be reduced. Retail investors gobbled these bonds up because it gave them the "best of both worlds" – yield in a yield-starved market and equity upside when things went well. Unfortunately for investors, things have not gone so well: depressed natural gas prices, bottlenecks in getting oil to the market, and an absence of large foreign acquirers of Canadian energy assets. As a result share prices and convertible bonds prices have declined significantly.

As a buyer of bonds in these companies at deep discounts to par, we are less concerned about the near-term production and cash flow. Nor are we satisfied by earning a single digit coupon. Rather, we believe these assets are significantly more valuable in the hands of a well-capitalized developer, allowing us to recover par on our bonds in the event of a take-over. Arcan's properties, for example, are surrounded by property held by much larger players in the oil patch who would seem to be natural buyers of Arcan at the right price. The problem for the companies and their shareholders is that they may find the price very underwhelming with little if any left over after paying off its debt. As bondholders, however, the price may look much more appealing.

Despite their attractive potential, we have limited our total exposure to energy related opportunities due to their sensitivity to commodity prices. Absent a significant drop in commodity prices, we are comfortable in our belief that the asset values provide an attractive margin of safety well above the price we have paid. However, for us increase our energy exposure we would require additional safety measures such as an effective hedging strategy. In addition, the value of an energy company can be more volatile and less visible than the typical company that we invest in, our total exposure to energy related opportunities might remain conservative despite their potential.

CVTech Group Inc. ("CVT")
CVT is in the business of providing construction and maintenance of electrical transmission and distribution lines primarily in the eastern United States. While historically profitable, more recent results have been closer to breakeven with question marks around accounting and revenue recognition issues and a build-up of completed work that is yet to be billed. In the construction business, this often means they are having a dispute with a customer and for the sake of future negotiations it would not be in the best interest of the company to disclose the details. As well, there have been board room disputes, a failed acquisition, and rumours that a bid to buy the company at

well above the market price was rejected, culminating in a long time senior executive and large shareholder departing and selling most of his shares. So you might ask why would we want to buy into this?

The reason why we like CVT can be summed up in two words: price and opportunity. When a company's troubles are well known and the market over-penalizes its securities with a large discount to its intrinsic value, we get interested. Holding all else equal, the lower the price, the greater the potential return while decreasing the risk of owning it. Further, CVT is in a sticky business, providing essential services to their long-term customers. They have the equipment and people that are critical to their utility customers when faced with a power failure or system problem. With shares currently trading below book value, all of this points to the potential for a significant recovery in the share price once their problems are resolved. While currently there is little transparency as to how these problems will be resolved, we are hopeful that once year-end statements are published management will be more forthcoming with the issues facing the company and their future plans.

Divestitures

The vast majority of our divestitures during the year were the result of corporate actions. When we analyze a potential investment, we consider the potential for price appreciation and the catalysts that will deliver it. Buying a security solely because it is "cheap" is not enough. One of the catalysts we often consider is the potential for M&A activity which generally comes down to determining whether a company's assets would be more valuable in somebody else's hands. In 2013, several of our investments were acquired (Peer 1 by Cogeco Cable, Jovian Capital by Industrial Alliance, CML by LifeLabs) at significant premiums to our cost, creating very profitable exits for the Fund.

In addition, the Fund exited its positions, Village Farms (VFF:TSX), and First Uranium bonds as the final payment on the redemption of the bonds was received.

Village Farms International ("VFF")

As the long time depressed share price rebounded in the Fall of 2013, we took advantage of the improved liquidity to exit our long held position of VFF shares. The result: a small gain for the Fund for 2013 but a loss for the Fund over the total holding period of the investment. Our investment rationale was that VFF's planned investments in greenhouses and related infrastructure should have reduced the weather-related risks in the inherently unpredictable agricultural business and turn into something more akin to a controlled "manufacturing" process. However, the company's capital programs were fraught with poor planning and bad luck due to a hailstorm. In a nutshell, the company spent a tremendous amount of capital to shield itself from operating risks due to weather only to have some of their physical assets destroyed by it. Secondly, the company faced intense competition as Mexican produce flooded into the marketplace driving prices lower. Effectively, the risk reduction that we were drawn to did not occur. Perhaps the company will ultimately iron things out and make the business model work as planned. However, we decided to take our chips off the table on market strength in order to focus our capital and our time elsewhere.

Risks
At the time of investment and throughout the period that we own a security, we take particular care in assessing its risk and the impact that it has on the overall risk of the portfolio. A key risk management tool is that we purchase securities at prices substantially below what we have identified as its margin of safety and often become actively involved with the company to ensure that our rights are upheld. However, despite our thorough analysis and involvement, sometimes we are just wrong or the potential of a given investment does not materialize thus exposing our investors to a loss of capital.

In addition to the risks specific to a particular investment, the Fund is exposed to changes in foreign exchange rates, interest rates, credit conditions and other economic factors as described in the Annual Information Form, available on SEDAR and on the Ravensource website, and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements, including the additional disclosure in the notes to the financial statements, as we do prior to making an investment.

There has been no change in the Fund's stated investment strategy or other changes that would materially affect the risk of investing in Ravensource. We continue to believe the Fund is suitable for those investors seeking long-term capital growth, have a long term investment horizon, and possess a medium to high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

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

Portfolio Composition
Investment Portfolio by Strategy
Over 2013, we shifted away from High Yielding Securities and Special Situation Equities and into Distressed Securities. With investors clamouring for yield, prices have increased above where the Investment Manager deems them to be attractive. The shift from equities towards Distressed Securities is partly the result of realizing gains in some of our Special Situation Equities positions combined with strong gains on our Distressed Securities investments. We do not target specific strategy weightings; rather we select the most attractive investment opportunities wherever they are found.

By Investment Strategy	% of Investment Portfolio	
	2013	2012
Special Situation Equities	55.3%	77.6%
Distressed Securities	44.7%	20.5%
High Yielding Securities	0.0%	1.9%
Total	**100%**	**100%**

Investment Portfolio by Enterprise Value
The Fund's investment approach focuses largely on situations that are overlooked by traditional investors and where we can have influence and create value. As a result, the Fund's investments gravitate towards smaller companies. To put this in perspective, the average enterprise value of

the companies we are invested in is approximately $700 million versus $9 billion average – excluding bank shares – for the S&P TSX Composite index and $990 million for S&P TSX Small Cap index. In other words, the average non-bank company in the TSX Composite Index is approximately 13 times the average size of Ravensource's investments.

By Enterprise Value	% of Investment Portfolio	
	2013	2012
Less than $100 million	24.1%	24.9%
$100 - $250 million	15.4%	29.0%
$250 - $500 million	29.2%	17.1%
$500 million - $1 billion	14.9%	19.8%
> $1 billion	16.4%	9.2%
Total	**100%**	**100%**

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

By Industrial Group	% of Portfolio
Food Products	18.9%
Conglomerate	16.9%
Energy	15.5%
Financial	14.4%
Paper & Packaging	9.8%
Metals & Mining	7.4%
Real Estate	6.7%
Industrial	4.3%
Media & Publishing	3.6%
Construction	1.5%
Retail	0.9%
Other	0.3%
Transportation	0.0%
Information Technology	0.0%
Total	**100%**

Concentration
As we believe that the most effective method to reduce/manage risk is to know your investments inside and out, Ravensource may be a more concentrated portfolio than other investment funds. However, the Fund currently has only three investments exceeding 5% of NAV as we exited some of our larger positions. After cash, the next top 10 investments – ranked by market value – represented 51.9% of NAV as of December 31, 2013, down slightly versus 53.5% from the start of the year. Going forward, we expect that the Fund will increase its exposure in positions that we know the best and hold the strongest convictions.

Expenses

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

In the case of Ravensource and other funds that have an incentive fee structure, the MER is a little more complicated. Incentive fees are different than other fund expenses as they are not naturally reoccurring but are only incurred / paid at the end of the year if the annual investment performance of the Fund exceeds the 5% hurdle rate while meeting other conditions. Considering this, we believe the appropriate way to incorporate the incentive fee is to report the MER on both a pre and post incentive fee basis.

Management Expense Ratio Composition

	2013	**2012**
Management, administrative and IR fees	0.68%	0.76%
Trust, transfer agency, and listing fees	0.23%	0.30%
Audit fees	0.11%	0.13%
Other professional fees	0.52%	1.07%
Other expenses	0.02%	0.03%
Expenses before incentive fee	**1.56%**	**2.29%**
Incentive fee	4.43%	0.85%
Total expenses	**6.27%**	**3.14%**

For the year ended December 31, 2013, Ravensource's MER, excluding the incentive fee, was 1.56%, a decrease of 73 basis points versus 2012 levels. This decrease in the MER is due to lower legal and management and administration fees. Although Ravensource continued to incur significant legal expenses on its Crystallex investment in the first half of 2013, overall legal and professional fees have declined in 2013 due to having fewer investments that are involved in legal processes. The decline in management and administration fees is due to Stornoway's policy to pass on the economic benefit of fees earned under the SFG Services Agreement by reducing the management and administrative fees charged to the Fund.

Factoring in the impact of the incentive fee, Ravensource's MER for 2013 was 6.27% versus 3.14% for the same period in 2012. The 313 basis point increase in the MER is due to a 358 basis point increase in the incentive fee partially offset by the above-mentioned decreases in management, administration, and legal/professional fees.

Distributions

Ravensource's distribution policy is to make semi-annual distributions to unitholders in an amount to ensure that it does not incur any tax while providing a reasonable yield. Total dividends for the year ended December 31, 2013 amounted to $0.24 per unit, down from total distributions of $0.45 per unit in 2012. The 2012 dividend was unusually large due to the receipt of large special dividends on two of the Fund's investments. Using December 31, 2013's closing price of $12.40, the units had an annualized current yield of 1.9% assuming distributions remain constant.

Concluding Remarks

Ravensource Fund delivered strong performance for its investors in 2013. Our results were bolstered by the acquisition of several of our investments by strategic investors who recognized the value and other merits that we identified at the time of purchase. Further, several of our longer-term investments – SFG, Tuckamore Capital and Winpak – continue to increase in value. Lastly, we initialized several positions which detracted from this year's results but we believe have the potential to deliver significant results in the future.

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

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

We are appreciative of your partnership, trust and patience.

March 10, 2014	Scott Reid, CFA Chief Investment Officer	Steve Schaus, CA, CFA Partner

Stornoway Portfolio Management Inc.
Investment Manager of the Ravensource Fund

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