Management's Letter to Unitholders

For the Year Ended December 31, 2017

NOTICE TO READER

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 to which Ravensource is exposed. 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. You can get a copy of the aforementioned documents along with the Fund's proxy voting policies and procedures, proxy voting disclosure record, 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.

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 Annual Information Form. Forward-looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements and should be aware that the Fund may not update any forward-looking statements whether as a result of new information, future events or otherwise.

About the Ravensource Fund

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

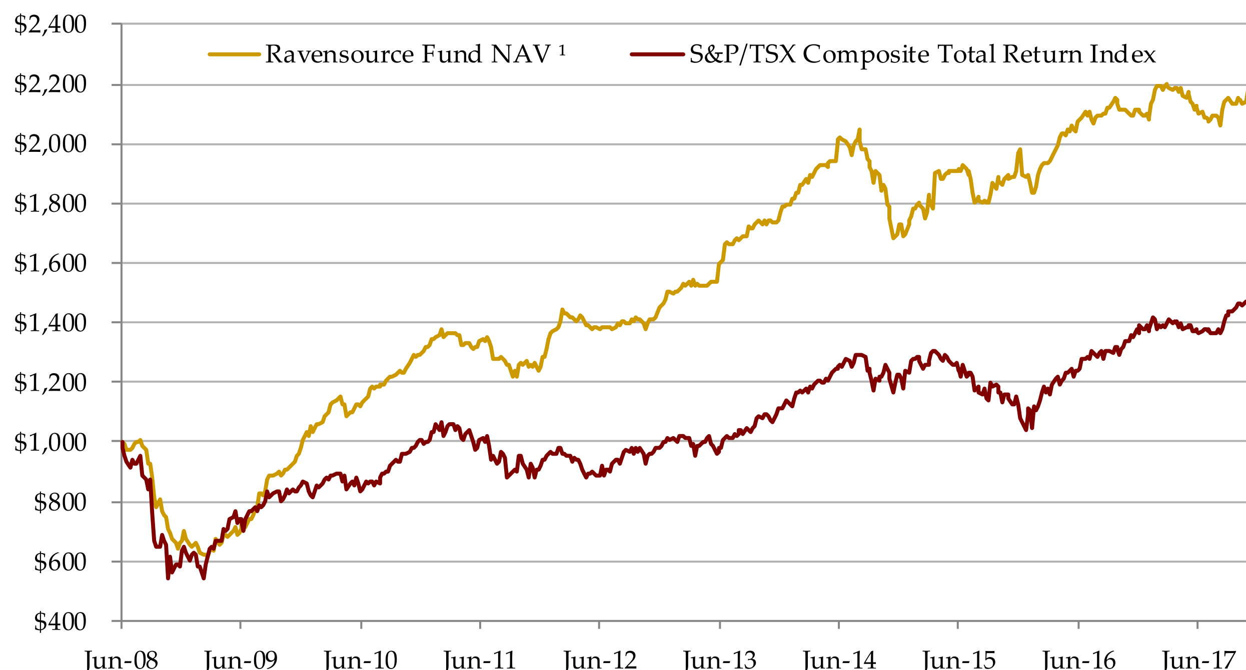
1. *High Yielding Securities:* investing in corporate debt, income fund units, or other securities that produce a sustainable high level of income for the underlying credit risk.

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

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 catalysts to unlock value.

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

MANAGEMENT'S LETTER TO UNITHOLDERS



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

Fellow unitholders,

After a brief hiatus, we have decided to bring back the annual (and semi-annual) "Management's Letter to Unitholders." This decision is borne out of our belief that the more formal documents that we are required to publish contain a wealth of important information yet do not address some of the reasons why you own Ravensource Fund units: the composition and performance of the portfolio and the team that executes the investment mandate.

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

Stornoway Portfolio Management ("Stornoway")
Stornoway was appointed the Fund's Investment Manager on July 1, 2008 to execute Ravensource's investment strategy. With the capitalistic world looking like it would stop spinning, it was an inauspicious time to take over the management of an investment fund. But in keeping with the Chinese proverb that crisis springs forward both danger and opportunity, we chose opportunity.

Stornoway took over the management of Ravensource from Pat Hodgson. Pat was the buccaneer who in 2003 transitioned away from investing in debt of Asian companies — the Fund was formerly The First Asia Fund — to focus on out-of-favour North American securities and become the Ravensource Fund in the process. Pat and I had invested together since 2000 and shared a true passion for contrarian investing. He was an extraordinarily shrewd investor and a trusty partner. More importantly, he was a true gentleman and one class act. Sadly, Pat passed away in December 2016; however, his insights, contrarian spirit and the many lessons he taught us left a tremendous legacy that forms the guiding principles we embrace in managing Ravensource.

Stornoway's investment team is comprised of Brandon Moyse, Daniel Metrikin and myself, Scott Reid. Mahesh Shanmugam, our crackerjack in investment fund operations and compliance matters, rounds out the team. Our bios and our approach to investing can be found on the Ravensource website. In addition to Ravensource, Stornoway also manages the Stornoway Recovery Fund LP, a limited partnership that is dedicated to investing in opportunities that arise from companies that are in or near financial distress.

We are passionate about the approach and philosophy that drives our investment decisions, our active involvement in the companies we invest in, and the steps we take to reduce risk and generate investment returns. One of our core tenets is that we treat our fellow investors as partners. We firmly believe that an investment manager should have "skin in the game", sharing in the risk and reward of our decisions alongside other investors. As of March 31, 2017, I owned 9.9% of the total units of Ravensource outstanding and the other members of the Stornoway team have substantial personal investments in Ravensource as well. In short, we eat our own cooking.

2017 Fund Performance

Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 6.7% after factoring in the receipt of distributions over the year ended December 31, 2017. This modest return did not meet our historical performance nor our internal return on investment threshold established at the time we make an investment.

Yet as investors focused on generating long-term capital appreciation, it was a good year.

It was a target-rich environment for our style of investing. We established more investments in the past 18 months than at any equivalent period since we commenced managing Ravensource in July 2008. We believe these compelling investments will create significant returns in the future; however, it is early days as it typically takes at least two years to create and capture the value we identify at the time of investment. Further, much of the capital to make these investments came from extracting cash that laid dormant in one of our portfolio companies earning nothing. Our portfolio today is therefore much more efficient and well-positioned to generate future results.

Secondly, important milestones were achieved during 2017 on our longer-term existing investments, creating value and bringing us closer to harvesting their potential. Due to the idiosyncratic nature of our strategy and the market's skepticism towards these type of investments, we tend to earn our reward in a lumpy, back-loaded manner rather than sprinkled equally over their life. While we continue to make significant progress with the investments in our portfolio, we did not benefit from exit bonuses in 2017 like we have over the past five years. However, we believe we did greatly increase their potential in the future.

When viewed over a longer time horizon, the Fund's returns are attractive. As of December 31, 2017, an investment in Ravensource units has increased by 125.4% or 8.9% annually, including re-invested distributions, since Stornoway took over its management in July 2008. Over the same period, the S&P TSX Composite Total Return Index has increased by 48.6% or 4.3% annually. Our long-term track record speaks to our efforts to focus on creating meaningful, long-term wealth creation rather than short-term and often short-lived results.

Performance by Investment Holding
The investments that have made the most significant contributions — positively and negatively — to Ravensource's performance in 2017 are found in the table below:

Investment	**Impact on Fund** [1]
NAPEC Inc.	7.3%
Specialty Foods Group	4.3%
Firm Capital American Realty Partners Corp.	2.1%
Winpak Ltd.	0.7%
Plazacorp Retail Properties Ltd.	-0.6%
Genworth Financial Inc.	-1.4%
Old PSG Wind-Down Ltd.	-1.8%
Crystallex International Corp. 9.375% due December 30, 2011	-1.9%
Other [2]	0.2%
Pre Expense & GPA Investment Return	**8.7%**

[1] Increase in Class A NAV due to investment's total return for the period
[2] Includes other asset investment returns

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

NAPEC Inc. ("NAPEC")
The largest contributor to the Fund's performance in 2017 was NAPEC. As often the case with a new opportunity, we established a toe-hold position in NAPEC's common shares in 2013 and gradually grew our position over time at attractive prices as our familiarity with and conviction in the opportunity increased. By the start of 2017, it grew to Ravensource's fourth-largest investment representing 6.8% of the Fund's net assets.

In many ways, NAPEC was a classic Ravensource investment: a small, underfollowed company with significant value hidden under a history of executional setbacks and large operational changes. The company began its life as a designer and manufacturer of continuously variable transmission systems for automotive vehicles and ended up as engineering and construction service provider to public utilities and heavy industrials. NAPEC followed a disciplined growth strategy in the U.S., where it was led by some very skilled operators whose work was mostly overshadowed by poor performance in the Canadian operations. Despite the many hiccups along the way, we continued to buy on market weakness as it was clear to us the company's profitability and intrinsic value was not reflected in the price of its stock.

On December 4, 2017, our patience and your capital were rewarded when NAPEC announced it was being acquired by Oaktree for $1.95 per share in cash recognizing the value we did at the time of investment. Our average cost was $0.84 per share, equating to a 2.3 times return on investment and generating a 28.0% internal rate of return ("IRR"). Needless to say, we are very pleased with this result.

Specialty Foods Group ("SFG")

Our investment in SFG was the second largest contributor to our return in 2017. Solid operational performance, the successful launch of the Artisan Crafted Series luncheon meat brand and a clean-up of the ownership structure made this a great year for our investment. Kudos to CEO Mike Bieger and the rest of the SFG team for delivering exceptional performance. From where we stand today, we believe the prospects for 2018 are even more exciting.

Operationally, revenue was up 6.4% year-over-year while EBITDA increased by 35.7% to $13.4 million. Contributing to the strong results was the success of the new "Artisan Crafted Series" ("ACS") brand. Launched exclusively at Walmart in May, ACS has shown strong potential adding $8 million of sales. With the roll-out to other SFG customers in 2018, ACS is set to continue its growth trajectory. While ACS' incremental profitability is exciting, the real ore uncovered is establishing a solid foothold in the massive luncheon meat market sponsored by the clear-cut leader in the US grocery business as our anchor customer.

With SFG's structure simplified and the path for continued growth clearly laid out, it may be time to monetize our investment. As we analyze the industry, we see trends that support this decision. The market appears ripe as transactions in the food processing sector are occurring at historically high valuations of between 8 to 11 times multiple of EBITDA, up from 6 to 7.5 times only a couple of years ago. This is partially a result of large, vertically integrated food processors — aka "Strategic Buyers" — becoming more aggressive on the transaction front to achieve sizeable cost synergies and strategic benefits that in turn allow them to pay higher prices than financial buyers.

Looking forward, as SFG is the Fund's largest single investment, the impact of a sale could be potentially very significant to Ravensource. While the prospects are exciting, it is much too premature to count our hams before they are properly smoked.

Firm Capital American Realty Partners Corp. ("FCA")

Our investment in FCA follows the tried and true Stornoway strategy: capitalizing on the bargain basement prices that arise when investors panic from a corporate crisis while partnering with management teams with the expertise to turn it around.

FCA rose from the embers of a tiny public company called Delavaco, a failed attempt to exploit the crash in the US real estate market in 2008. However, instead of being the hunter, Delavaco became the prey. Through the firm hand – pun intended – and vision of Eli Dadouch and his team at Firm Capital Corporation, supported by capital injections from Stornoway and others, Delavaco became FCA. In July 2016, I joined the Board of Directors of FCA.

The goal for 2017 was to stabilize the business and put it in a position to succeed and for its investors to prosper. FCA's achievements were remarkable:

- after years of burning shareholder capital, it generated net income during the period;
- raised equity four times throughout the year at $7.50 per share. Impressively, FCA was able to command a 5 to 10% ***premium*** to the prevailing market price at the time of issuance when a discount is the norm;
- accelerated the pivot of its real estate portfolio by shedding more than half of its single-family homes in challenging neighbourhoods while implementing a new strategy of investing in multi-family buildings in improving areas with significant value creation opportunities; and
- initiated a $0.05625 quarterly / $.2250 annual per share dividend in Q3 2017, providing a yield of ~3.5% at current market prices.

Despite these outstanding results, FCA's common shares – publicly traded on the TSX – remain very attractively priced at a 13% discount to where it last issued shares and a 19% discount to its book value assuming no value for the franchise the FCA team is building. While we realize it will take time and sustained results for the market to recognize what the FCA team has accomplished, we remain very optimistic on the continued appreciation of FCA's book value and share price.

Genworth Financial Inc. ("Genworth")
In October 2016, Genworth announced it had agreed to be acquired by China Oceanwide Holdings ("China Oceanwide") for $5.43 per share in cash. Since then, the stock has persistently traded at a large discount to the buyout price, reflecting concerns that the deal will not be consummated for regulatory reasons, a risk that has grown with the U.S.' anti-China stance.

We don't profess to have a special understanding of the geopolitics on which completion of the deal hinges; our investment thesis also does not depend on that. Fundamentally, we believe the value of Genworth's mortgage insurance operations alone exceeds its stock price and that the risk of its long-term care unit is limited. Over the past several quarters, the company's improving operating performance support our view even as the stock price languishes. If Genworth is indeed bought out, then we will realize a substantial profit on our investment. If not, we are content to wait patiently as we believe the company has paths to unlock value that the market will ultimately reward.

Old PSG Wind-Down Ltd. ("Old PSG")
Old PSG's plan to wind up the company (the "Plan") was overwhelmingly approved in late December by its creditors and shareholders. With the Plan approved, the process now turns to maximizing and distributing the estate's remaining assets which comprise of a substantial amount of cash as well as potential recovery from legal claims against former directors, officers and others.

Mark Palmer was appointed as liquidation trustee to lead these initiatives. His track record as a distressed investor and corporate lawyer bodes well. Most importantly, his compensation structure at Old PSG incentivizes him to maximize shareholder value and to do so in a timely manner.

The Fund paid approximately $1 per share for its holdings in Old PSG believing that the path was paved for shareholders to receive a substantial recovery. To date, we are wrong as bankruptcy costs and the deductions on the Old PSG's asset sale were much greater than expected. Accordingly, our investment has declined to $0.41 per share as of year-end. The company currently estimates a recovery of $0.52-$0.60 per share not including any contribution from the aforementioned legal claims. This is 28%-48% higher than the year end valuation on our Old PSG's shares. As such, while it remains unlikely we will recoup the full amount of our original investment, we believe it is likely that our ultimate recovery will exceed December 31, 2017's value.

Crystallex International Corp. ("Crystallex")
War and peace — or perhaps more accurately, war and stand-down — sums up 2017 for our investment in Crystallex's Senior Notes. The year commenced with the escalation of the legal battle between Venezuela and Crystallex over the payment of its USD $1.4 billion ICSID Award and ended with a détente in the form of a settlement agreement ("Settlement Agreement"). The Settlement Agreement was reached weeks after Venezuela stopped making interest payment on its bonds and stated its intent to restructure its debt. Ignoring the Settlement Agreement, the market price of Crystallex's Senior Notes fell 13% on the news of Venezuela's default resulting in a mark-to-market loss on our investment for 2017.

The Settlement Agreement announced on November 15, 2017 is potentially very positive from our perspective as it requires Venezuela to make a series of upfront, monthly and semi-annual payments. If Venezuela adheres to the payment schedule, the principal and accrued interest due on Crystallex's Senior Notes, currently amounting to more than $200 per $100 face value, will be fully repaid over three years. The Senior Notes — valued at $65 per $100 at year end — would generate a 230% total return / 110% annualized return on our investment.

Despite the recent fall in the market price of Crystallex's Senior Notes, our investment thesis remains sound. Venezuelan Government bonds — the closest proxy to the value of Crystallex's ICSID Award as both represent sovereign claims — traded at $23 per $100 face value at year's end. If Crystallex collects at least 11 cents on the dollar on its ICSID Award / less than 50% of the price of Venezuelan bonds, we will break-even on our investment. If it collects 17 cents on the dollar / less than 75% of the price of Venezuelan bonds, our investment will generate a return in excess of 230%. With such attractive risk / return characteristics, we remain optimistic – and patient – on the outcome of this investment.

We realize that like our other distressed opportunities, our Crystallex investment ***on the surface*** may seem counter-intuitive, "risky", and may leave you scratching your head as to its merit. However, it is our contrarian approach that allows us to invest at low prices and capitalize on the dynamics necessary to affect change that lowers the risk of our investment and earn outsized returns.

Relative Performance
Our objective is to produce significant long-term rates of return regardless of market conditions. This is called absolute performance and, in 2017, we achieved moderate success in that goal.

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 indices that correspond to the investments strategies that Ravensource employs:

1) *High Yielding Securities:* the BAML 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 indices 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 indices. Please note that all returns are calculated on a total return basis and only reflect the Fund's performance since Stornoway became Ravensource's Investment Manager in July 2008.

As at December 31, 2017	**1 Year**	**3 Years**	**5 Years**	**Since [(2)] July 1, 2008**	**Total [(3)] Return**
Ravensource Fund NAV [(1)]	**6.8%**	**9.2%**	**9.2%**	**8.9%**	**125.4%**
S&P/TSX Composite Total Return Index	9.1%	6.6%	8.6%	4.3%	48.6%
S&P/TSX Small Cap Total Return Index	2.8%	7.2%	5.3%	2.6%	27.1%
BofA Merrill Lynch High Yield Master II Index	7.5%	6.4%	5.8%	8.5%	116.4%
Credit Suisse Distressed Hedge Fund Index	7.3%	2.6%	5.2%	4.2%	47.9%

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

(2) Stornoway Portfolio Management was appointed as Manager of the Ravensource Fund effective July 1, 2008.

(3) Total returns are since July 1, 2008.

(4) Returns are annualized, except total returns.

(5) Past performance is no guarantee of future results.

As seen in the table above our absolute returns in 2017 slightly underperformed most of the indices we use to measure the Fund's relative performance, only outperforming the TSX Small Cap index.

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

For periods exceeding one year, Ravensource's performance is at top of the table. Since Stornoway began managing Ravensource in July 2008, the Fund's NAV per unit has increased by 125.4% in total and 8.9% on an annualized basis, including re-invested distributions. By comparison, the S&P TSX Composite Total Return Index has increased by 48.6% in total / 4.3% annualized over the same time period.

Fund Liquidity and Investment Activity

Liquidity

The Fund's net cash position decreased from 12.5% of the Fund's net assets at the beginning of fiscal 2017 to 6.6% at December 31, 2017. The decline was due to putting your capital to work as investment purchases exceeded divestitures, along with distributions and operating expenses.

	Amount	per Unit	% of NAV [1]
Sources			
Investment Divestitures	5,934,439	3.55	23.7%
Foreign Exchange on Cash	160,071	0.10	0.6%
Dividends and Interest	299,581	0.18	1.2%
Total	6,394,091	3.82	25.5%
Uses			
Investment Purchases	6,638,896	3.97	26.5%
Expenses	491,046	0.29	2.0%
Net change in working capital	58,705	0.04	0.2%
Distributions to Unitholders	618,962	0.37	2.5%
Total	7,807,609	4.67	31.2%
Change in Cash	(1,413,518)	(0.84)	-5.6%

(1) % of December 31, 2017 NAV

Investment Purchases

Approximately two-thirds of Ravensource's purchases were directed to establishing new positions, primarily in the preferred shares of Spanish Broadcasting System, Inc., shares of Old PSG Wind Down Ltd. and new senior secured debentures of Dealnet Capital Inc. The rest of the purchases were additions to our existing holdings of Grenville Strategic Royalty Corp. bonds and common shares, Genworth Financial Inc. shares and in the shares of Equity Financial Holdings Inc.

We would like to share with you two large investments we made in 2017 as we believe them both to exemplify our unique investment strategy:

Spanish Broadcasting System, Inc. ("Spanish Broadcasting")

Spanish Broadcasting is a US-based national broadcaster of Hispanic-centered entertainment, primarily operating through radio stations in major cities in the US with some TV assets. While Spanish Broadcasting's operations have performed well, its capital structure is riddled with issues: their secured bonds remain outstanding beyond its April 2017 maturity date, and as a result of unpaid dividends on their preferred shares, Spanish Broadcasting cannot refinance it without preferred shareholder approval. Despite missing the principal payment due on maturity, the secured bondholders have not yet forced the company into bankruptcy. But sooner or later, the secured bondholders will demand their principal back, something that cannot be accomplished without the approval of the preferred shareholders.

We purchased Spanish Broadcasting's preferred shares based on our analysis that the value of the company exceeds the secured bonds leaving substantial value for the preferred shareholders. However, the ship is being sailed by the current CEO through his control of a majority of the

voting share of the out-of-the-money common equity and it is unlikely that it's in the direction of maximizing the value of the preferred shares. As a result of this morass of issues, the preferred shares have traded at prices materially below their true economic value.

This is exactly the type of complex scenario under which Stornoway excels. While significant hurdles exist in front of us in order to unwind this capital structure knot, we have strong conviction in the underlying fundamental value of the business that can be unlocked through a comprehensive financial restructuring. We believe by taking an active role in the restructuring process, working closely with other investors, we can create a solution that realizes the significant intrinsic value lying dormant in our preferred shares.

Dealnet Capital Inc. ("Dealnet")
Dealnet is a publicly listed Canadian company (DLS: TSX-V) with three distinct operating businesses: Live Engagement (call centres); Impact Mobile (mobile marketing / text messaging); and Consumer Finance (leases / loans on residential HVAC equipment). While the company considers its Consumer Finance division as its core operation, it has failed to grow its business to scale and cover its relatively high fixed operating costs. With a slug of debt due in January and February 2018, Dealnet needed a capital injection by year's end to meet its obligations. As a result, Dealnet reached out to us in early December to determine whether we would provide financing.

Ravensource, alongside Stornoway Recovery Fund, acted as the Lead Investor and led the structuring and negotiation of a $12 million offering of 6% senior secured debentures. By applying our creativity and expertise to solve Dealnet's needs, we negotiated an attractive investment for the Fund. Depending on the repayment date, the debentures will generate an annualized return for the Fund between 14.5% to 30%. In addition, we negotiated for the offering to include warrants to purchase company's common shares providing significant upside potential in the event Dealnet is able to turn itself around.

Divestitures
Approximately 52% of our divestitures during the period resulted from the sale of our common shares of Winpak Ltd., Fiera Capital Corp. and Indigo Books & Music Inc. and the preferred shares of Dundee Corp. The rest of our divestitures were returns of capital associated with our investment in SFG, GuestLogix Inc., and Delphi Corp.

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 portfolio. A key risk management tool is that we purchase securities at prices substantially below what we have conservatively determined as its intrinsic value and often become actively involved to ensure that our rights and recoveries 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, 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 in 2017. 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 2017, there was a small shift in the Fund's investment portfolio from Special Situation Equities to Distressed Securities. This was the result of our new Distressed Security positions in Spanish Broadcasting and Dealnet along with the sale of NAPEC's common shares. Consistent with prior years, the Fund had no investments in High Yielding Securities. 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	
	31-Dec-17	31-Dec-16
Special Situation Equities	47.9%	51.3%
Distressed Securities	52.1%	48.7%
High Yielding Securities	0.0%	0.0%
Total	**100.0%**	**100.0%**

Investment Portfolio by Industrial Group

While Ravensource does not specialize in specific industries, our experience and investment philosophy lead us to focus on companies with hard assets. We like to invest in companies in which we understand the products/services they offer and more importantly have a strong grasp of the business model and its tangible asset value. Thus, it should not come as a surprise to see more traditional industries favored in our portfolio, which is more of an outcome of our investment process than a pre-ordained allocation. Further, our emphasis on an investment's margin of safety generally results in avoiding the more sensitive sectors of the economy.

By Industrial Group	% of Portfolio
Food & Beverage	17.9%
Industrial	17.8%
Financial	16.0%
Real Estate	14.8%
Metals & Mining	12.7%
Media & Publishing	10.0%
Technology	4.9%
Energy	3.2%
Retail	2.6%
Total	**100%**

Concentration
We believe that the most effective method to reduce/manage risk is to know your investments inside and out. Thus, one of the Fund's biggest investments is the time it takes the team to uncover, protect and maximize the value of our investments, which means Ravensource may be a more concentrated portfolio than other investment funds. As of December 31, 2017, the Fund had seven investments exceeding 5% of NAV. Excluding cash, the top 10 investments, ranked by market value, represented 75.2% of NAV as of December 31, 2017. Going forward, we expect that the Fund will continue to maintain 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 and not to annualize the incentive fee for interim periods.

Management Expense Ratio Composition	**2017**	**2016**
Management, administrative and IR fees	0.66%	0.66%
Accounting fees	0.12%	0.12%
Legal fees	0.19%	0.11%
Audit fees	0.12%	0.10%
Interest expense	0.24%	0.10%
Trust administration and transfer agency fees	0.05%	0.09%
Listing fees	0.09%	0.07%
Other operating expenses	0.03%	0.11%
Independent review committee fees	0.05%	0.05%
Expenses before incentive fee	**1.55%**	**1.41%**
Incentive fee	0.48%	0.61%
Total expenses	**2.03%**	**2.02%**

For the year ended December 31, 2017, Ravensource's annualized MER, excluding the incentive fee, was 1.55%, slightly higher than versus 2016.

Management, Administrative and IR Fees amounted to 0.66% of average net assets for 2017, flat year over year. The Investment Manager continued to reduce Management and Administrative Fees changed to the Fund as a result of the policy of passing along the economic benefit of fees received from investees to the Fund. In 2016 and 2017 the Investment Manager received fees from

Specialty Foods Group in exchange for providing strategic advice and analysis – for further details see the notes to the financial statements.

The Incentive Fee accrued for 2017 amounted to 0.48% of average net assets, versus 0.61% for 2016. Factoring in the impact of the incentive fee, Ravensource's MER for 2017 was 2.03% versus 2.02% for 2016.

Distributions

Ravensource's distribution policy is to make semi-annual distributions to unitholders in an amount to ensure that it does not incur any tax while providing a reasonable yield. Total distributions for the year ended December 31, 2017 amounted to $0.37 per unit, up from $0.30 in 2016. The annualized yield on Fund units was 2.57% over 2017 assuming one invested at the closing market price of $14.39 on December 31, 2016.

Concluding Remarks

2017 was a building block year. While we were able to achieve a modest return primarily from the success of our investment in NAPEC, we are just as proud of the foundational work in our other significant investments such as SFG and Crystallex, for which the market has not yet rewarded us. We are also optimistic about our new investments, specifically Spanish Broadcasting and Dealnet, which we believe demonstrate our creative and unique approach to produce attractive returns in a controlled risk fashion. It is these incremental successes that we believe will bolster our future performance and allow the Fund to continue to build on its long-term track record of delivering strong results for its investors.

In writing this letter, we wrestled with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest. Please feel free to contact us for more information. We always look forward to hearing from unitholders and enjoy discussing our investments and strategy with you.

We are appreciative of your partnership and trust.

April, 2018

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

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