Management's Letter to Unitholders

For the Six Months Ended June 30, 2019

Notice to Reader

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to Ravensource's unitholders to allow a thorough understanding of their investment. This letter is a supplemental report to the financial statements, Management Report on Fund Performance ("MRFP"), Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report. You can get a copy of the aforementioned documents and the Fund's proxy voting policies and proxy voting record by calling (416) 250-2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at www.ravensource.ca, or the SEDAR website at www.sedar.com.

A Note on Forward-Looking Statements

This document may contain forward-looking statements relating to anticipated future events, results, decisions, opportunities, risks or other matters. Forward-looking statements are predictive in nature requiring us to make assumptions and subject to inherent risks and uncertainties. Our forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, etc. to differ materially from expectations, estimates or intentions. These risk factors include market and general economic conditions, regulatory developments, the effects of competition in the geographic and business areas the fund may invest and others as detailed in Ravensource's Annual Information Form. Forward-looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements and should be aware that Ravensource may not update any forward-looking statements.

About the Ravensource Fund

The Ravensource Fund is a closed-end investment trust whose units trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns through investing in out-of-favor and deep-value North American securities. Ravensource's investments fall primarily in three strategies:

1. *Distressed Securities:* Investing in corporate debt, creditor claims and/or equity securities of companies, which are in, or perceived to be in financial distress or insolvency.
2. *Alternative Credit:* Investing in corporate debt, on either a primary or secondary basis to earn a yield that we believe is attractive given the underlying credit risk.
3. *Special Situations Equities:* Investing primarily in Canadian and U.S. small- and mid-cap equities that have catalysts to bridge the gap between market price and intrinsic value.

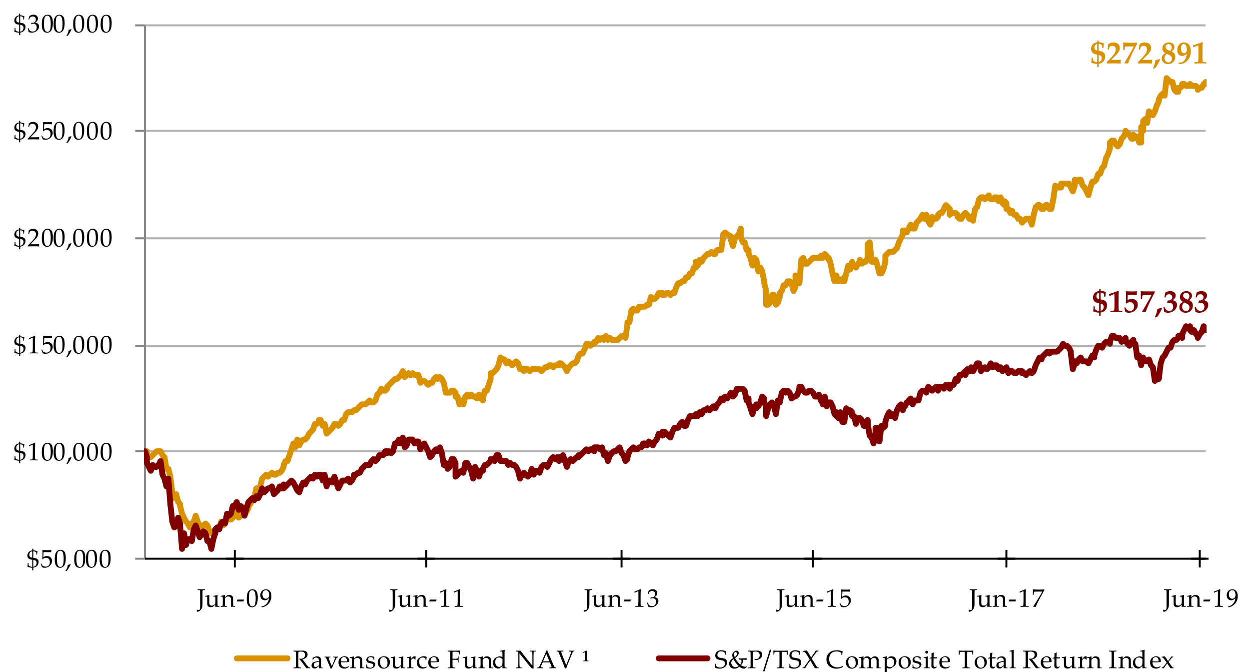
About Stornoway Portfolio Management ("Stornoway")

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

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

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

MANAGEMENT'S LETTER TO UNITHOLDERS



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

Dear Fellow Unitholders,

Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 3.4% over the six months ended June 30, 2019 including the distribution Ravensource investors received during the first half of 2019.

Admittedly, Ravensource's first half 2019 return was pedestrian, underperforming most segments of the capital markets as they recovered much of what they lost in 2018. In contrast, Ravensource continued to build on top of the 17.0% return generated in 2018. However, we rarely corelate with the broader markets and do not fixate on short term results. That is not what we do nor our value proposition to you as investors. Our focus is to generate superior long-term growth by investing in idiosyncratic opportunities that are off the radar screen of and often counterintuitive to most investors.

Our three investment strategies – distressed securities, alternative credit, and special situations equities – are built upon one philosophy: superior performance is achieved by thinking differently than the crowd. This guides us when determining what to invest in but also in the actions we take after the investment is made as we employ our grit and expertise to protect and capture the value identified at the time of purchase.

In addition to effort, it takes time for our approach to produce results. Generally, our returns are linked to the accomplishment of milestones by our investee companies. Think of the completion of a

corporate turnaround, the repayment of a loan, or the consummation of a merger that other investors doubted would be achieved as examples. Over the first half of 2019, we were very pleased with progress made to revitalize our investments. However, unlike 2018, few of our investments reached the point where our hard work was rewarded, their value was fully recognized by the market, and became ripe to be sold. Hence the rather small returns generated so far in 2019.

Throughout this report, we will share the investment philosophy and approach that guides our decisions. In addition, we will provide a closer look at our investment results and developments in the portfolio during the first half of 2019 in a candid and open manner with the objective of helping you better understand your investment. In other words, we will walk you through the value creation opportunities that exist in our portfolio and what actions we are taking to capture them.

Investment Performance

Ravensource's portfolio generated a return of 4.80% before fund expenses and management / incentive fees. The investments that have made the most significant contributions — positively and negatively — to Ravensource's performance in the first six months of 2019 are as follows:

Investment	**Impact on Fund** [1]
Crystallex International Corp.	2.90%
Dundee Corp.	1.57%
Firm Capital American Realty Partners Corp.	1.15%
Plaza Retail REIT	0.40%
Supremex Inc.	0.27%
Genworth Financial Inc.	(2.31%)
Other [2]	0.81%
Pre-expense / Incentive Fee Investment Return	**4.80%**

[1] Increase in NAV due to investment's total return for the period

[2] Includes other asset investment returns

We would like to review some of these investments:

Crystallex International Corp. ("Crystallex")

Our investment in Crystallex's 9.375% senior notes (the "Senior Notes") was the largest contributor to the Fund's performance over the first half of 2019, increasing Ravensource NAV by 2.9%.

For almost a decade, Crystallex and the Bolivarian Republic of Venezuela ("Venezuela") have been engaged in a game of legal cat and mouse: Crystallex sues Venezuela for not living up to its obligations; Crystallex wins; the two parties agree to a settlement; Venezuela pays only a portion and reneges. Rinse and repeat.

The cheese, if you will, is an approximate USD $1.5 billion judgment Crystallex won against Venezuela (the "ICSID Award"). However, capturing the cheese is often more than half the battle as Crystallex needs to seize property located in jurisdictions that recognize such judgments. In late 2018, Crystallex won a momentous legal battle in the United States that paved the way for

Crystallex to sell Venezuela's shares of PDV Holding Inc., a Delaware corporation that indirectly owns Venezuela's largest international asset, CITGO Petroleum ("CITGO"), in order to collect on the ICSID Award. No question, it was a game changer that significantly increased the value of our investment: kudos to Crystallex's legal and management team for achieving this result. To avoid losing CITGO, Venezuela agreed to a settlement, making an initial payment of USD $425 million in cash and securities to Crystallex. As per the script, Venezuela reneged once again on its remaining payments and elected to appeal the 2018 ruling. As of June 30th, 2019, the Third Circuit had not rendered its decision.

The road ahead will likely be dominated by Crystallex's actions to clear the remaining legal and political hurdles to collect the remaining USD $1 billion it is owed and our actions to be repaid on the amounts owed on our Senior Notes. We are confident that the value of Crystallex is sufficient to pay our Senior Note claim in full and generate a significant return on our investment. However, the challenge is in the "when" as some of Crystallex's – and Venezuela's – assets are subject to restrictions by the US Government and the company is currently more focused on collecting the remaining amounts it is owed than paying us off. Until these challenges are removed, we expect the Senior Notes to trade at a substantial discount to what we are owed.

Dundee Corp. ("Dundee")

Dundee (TSX: DC.A) is a publicly listed holding company headquartered in Toronto, with investments in a number of sectors including mining, oil & gas, real estate, hotels / gaming and agriculture. After a thorough due diligence process, Ravensource began investing in Dundee's Series 2 & 3 preferred shares – the most senior securities in its capital structure – in August 2018.

In March 2019, Dundee announced it would convert its $82 million of Series 5 preferred shares, which had ranked equally with our preferreds, into equity which ranks behind us (the "Series 5 Equitization"). For us, this was a watershed event as it significantly expanded the intrinsic value of our preferred shares while materially reducing their risk. In effect, we jumped the queue to Dundee's assets. To illustrate, Dundee's most valuable asset is likely its $175 million stake in publicly traded Dundee Precious Metals Inc ("DPM"). Prior to the Series 5 Equitization, there were $212 million of Series 2, 3 and 5 preferred shares outstanding, meaning that the DPM stake covered 83% of the total preferred share face value. Post the Series 5 Equitization, only $130 million of preferred shares remained outstanding. With first dibs on Dundee assets, the preferreds' $25 face value is now 135% covered by the DPM stake alone. Factoring in the other Dundee assets, we conservatively believe that the face value of Dundee's preferred shares is more than 230% covered. As we only paid 48 cents on the dollar for our preferred shares, our purchase price is almost 5x covered by Dundee's assets. It is very rare to find an asset with as high a margin of safety as Dundee's preferred shares that also has a path to a very high potential return of 100%.

While the value of our investment increased substantially as a result of the Series 5 Equitization, the market price of the preferreds did not. We capitalized on the disconnect by buying more. Our objective is now to capture the difference between price and their value. To put a finer point on this, the preferred shares ended the period trading at just under $13.00 per share. Contractually, we are owed $25.00 per share and must receive this before any economic distribution flows to the

common equity. As we believe the $25.00 per share to be well covered by the assets, this $12.00 difference is our opportunity.

Capturing this gap is easier said than done, as unlike bonds, preferred shares have no maturity date or mechanism to force repayment meaning that price and value can remain disconnected for a long period of time. While this difference persists, we will earn an attractive 12.1% dividend yield on our preferred shares, equivalent to 14.5% bond interest factoring in the tax advantage of dividends. Ultimately, the company / common shareholders will have to address the discount as they cannot monetize their economic stake while it persists. As active investors, we are engaged with various stakeholders to surface a solution that would both enhance Dundee's shareholder value and drive returns for Ravensource.

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

In December 2016, Stornoway Funds – SRFLP and Ravensource – helped sponsor FCA's turnaround plan engineered by Eli Dadouch and his team at Firm Capital and became the company's largest single shareholder. Around that time, Scott joined FCA's board of directors to help effect FCA's turnaround.

We invested our capital and energy in FCA because our conservative valuation of its net asset value ("NAV") was more than 40% greater than the market price of FCA's shares and we believed that the turnaround plan would remove the obstacles — dodgy properties, too much leverage and the former management team that few trusted — that depressed FCA's share price. If properly executed, we would capture the gap between our purchase price and FCA's NAV earning a handsome return on our investment.

The success of that turnaround plan has been exceptional. The Firm Capital team has reduced debt, raised equity, introduced a dividend on its shares, and transformed its investments from an unfocused portfolio of single-family homes in challenging areas to disciplined investing in multi-family buildings with significant value creation opportunities. As icing on the cake, FCA's NAV has increased from US$7.85 to US$8.80, representing a compounded annual growth rate of 17% including dividends paid over this period.

FCA still has some wood to chop to complete the turnaround plan and increase its appeal to traditional real estate investors. Namely, proving that the new investment strategy will grow its NAV at an above market rate of return and potentially converting FCA into the more investor friendly REIT structure. The benefit of converting to a REIT is tangible: distributions become very tax efficient which should help expand its investor base and ultimately increase its share price. We believe that these initiatives will help us capture a portion of the remaining 20% gap between price and value thereby increasing our liquidity and return on investment.

Genworth Financial Inc. ("Genworth")

Genworth was the largest detractor from the Fund's performance in the first half of 2019. In October 2016, Genworth agreed to be acquired by China Oceanwide Holdings Group ("Oceanwide"), a

Chinese real estate and financial services firm, for $5.43 per share in cash. Since that time, however, the stock has persistently traded at a large discount to the buyout price. Merger arbitrage investors stayed away due to Trump's hard line against China while value investors have been burned one too many times by Genworth over the years to step up. Despite Genworth's relatively large size, it was essentially orphaned, causing its shares to trade at a more than 40% discount to Oceanwide's bid, with no buyers in sight.

Instead of throwing Genworth in the "too hard" pile, as other investors did, we spent considerable time understanding the various regulatory approval processes that would be necessary for the deal to close while assessing Genworth's standalone value in the event the Oceanwide deal fell through. In early 2017, we purchased the majority of our position below $3.75/share. Our analysis concluded that the Oceanwide deal would go through — in which case we would earn a healthy 45% unannualized return — and that our purchase price was low enough to earn a profit if the deal failed. We like win-win opportunities.

Contrarian investing, however, rarely offers a smooth ride from purchase to sale. By the end of 2018, the Oceanwide deal appeared on track to close until political tension between China and Canada flared up over the Huawei affair. This caused what should have been a routine approval of the sale of Genworth Canada to Oceanwide to be halted in its tracks. Subsequently, Genworth's shares fell from $4.66 to $3.70 in response, making it the largest detractor to the Fund's performance over the first half of 2019.

While Genworth has been a "passive" investment from the perspective of our involvement in the company, it has been highly active from a trading perspective. Though our thesis remains unchanged, we sold approximately half our position in March to reduce our exposure to the political nebulae. Over the past two years, we have altered our investment in Genworth as our conviction and its risk/return profile vacillates. Our process is far from static. We are constantly evolving our analysis and understanding of an investment. Genworth is a prime example that when new information presents itself that challenge our prior conviction, we embrace that change and act accordingly by buying or selling opportunistically.

Long Term and Relative Performance

The Fund's objective is to produce significant long-term returns for its investors regardless of market conditions. This is called "absolute" performance and the first part of this letter outlined the Fund's investments that have contributed to — or detracted from — attaining this objective.

While you likely share our mission for your Ravensource investment, we realize you may also want to measure how we do against the broader investment universe. To facilitate, we have identified several indices — see Appendix 1 — appropriate in assessing Ravensource's "relative" performance due to their relationship to one of our three investment strategies. However, given the idiosyncratic nature of the Fund's investments, we have not uncovered one index that sufficiently resembles Ravensource to the degree it should be considered / used as a benchmark.

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.

		Annualized Total Return				Since July 1, 2008	
	YTD 2019 [2]	1 Year	3 Year	5 Year	10 Year	Annual	Total [2]
Ravensource Fund [1]	**3.4%**	**12.2%**	**9.6%**	**6.2%**	**14.5%**	**9.6%**	**172.9%**
S&P/TSX Composite Total Return Index	16.2%	3.9%	8.4%	4.7%	7.8%	4.2%	57.4%
S&P/TSX Small Cap Total Return Index	10.4%	(8.1%)	0.2%	(1.6%)	5.9%	1.3%	14.9%
ICE BofAML US High Yield Index	10.2%	7.6%	7.5%	4.7%	9.2%	8.0%	133.0%
Credit Suisse Distressed Hedge Fund Index	3.7%	1.2%	5.2%	1.2%	5.8%	3.8%	51.0%

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

(2) Un-annualized return.

As seen in the table above, in the first half of 2019 Ravensource significantly underperformed all of the indices except for the Credit Suisse Distressed Hedge Fund Index. 2018 was a challenging year as evidenced by the 8.9% decline in the S&P/TSX Composite Total Return Index. Over 2019, the broader markets have recovered much of what they lost in 2018. In contrast, Ravensource built modestly in 2019 on top of its 17.0% return generated in 2018 which is why we have outperformed all of the above indices over the past 12 months.

However, we believe that short term results are noise. 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, that approach 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 remains at the top of the table. Since Stornoway began managing Ravensource in July 2008, the Fund's NAV per unit has increased by 172.9% in total / 9.6% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 57.4% in total / 4.2% annualized over the same time period. As depicted in the graph on page 1, if you had invested $100,000 in July 2008, a Ravensource investment would be worth $115,508 more than a similar investment in the S&P/TSX over this time period.

Fund Liquidity and Investment Activity

Starting 2019 with 26.8% of the Fund's assets in net cash, our net cash was reduced to 23.3% by June 30, 2019, as investment purchases outpaced divestitures and other cash raising activities. In 2019, opportunities to increase our positions in certain of our existing investments were available and ripe so we capitalized on them.

The sources and uses of the Fund's net cash during the period are outlined below:

	Amount	per Unit	% of NAV (1)
Sources			
Investment Divestitures	1,444,226	0.86	4.9%
Other Income	528,311	0.32	1.8%
Dividends and Interest	387,737	0.23	1.3%
Total	2,360,274	1.41	8.0%
Uses			
Investment Purchases	2,534,924	1.52	8.6%
Operating Expenses	402,655	0.24	1.4%
Distributions to Unitholders	250,931	0.15	0.8%
Total	3,188,510	1.91	10.8%
Change in Net Cash	(828,236)	(0.50)	(2.8%)

(1) % of June 30, 2019 NAV

Divestitures

We divested approximately 4.9% of the Fund's net assets over the first six months of 2019. Most notably, we sold our investment in Swiss Water Decaffeinated Coffee Inc after a very successful 10 year holding period.

Swiss Water Decaffeinated Coffee Inc. ("Swiss Water")

Swiss Water, formerly Ten Peaks, is a B.C.-based company which uses a natural process to decaffeinate coffee beans. We initially invested in 2009, when Swiss Water's share price was near historical lows. Swiss Water had the attributes of a typical Ravensource investment: small; underfollowed; and abandoned by investors due to an evolving business model, complex financials and a dividend cut. We capitalized on the noise to buy at an attractive valuation, with our average cost being $2.83.

Over the next few years, Swiss Water turned from a deep-value investment into a growth story, buoyed by the quality of its product and increasing consumer preference for chemical-free decaf. Our patience was rewarded as the market noticed the strong performance and we sold approximately half our position in 2014 at $4.51. This year, we took advantage of a run-up in the stock — spurred in part by a fund manager making it a "Top Pick" on TV — to sell the remainder of our investment at $5.68. We write a lot about how we capitalize on illiquidity to buy at discounts to intrinsic value; in this case we capitalized on liquidity to sell at what we believe is a premium.

Over its ten-year life, Swiss Water was a highly profitable investment for Ravensource. Including dividends received, it generated a total return of 144.16% for the Fund, equating to an annualized internal rate of return ("IRR") of 17.38%. We believe this is an excellent example of how our focus on companies shunned by others, combined with our diligence and patience, generates superior returns for our investors.

Investment Purchases
During the first six months of 2019, we increased our investment in Crystallex International Corp. 9.375% Senior Notes, Dundee Corp. preferred shares, and Flow Capital Corp. 8% debentures while establishing a new position in Hudson's Bay Co. common shares.

Flow Capital Corp. ("Flow Capital")
Flow is a publicly listed Canadian company (TSXv: FW) resulting from the June 2018 merger of Grenville Strategic Royalty Corp. ("Grenville") and LOGiQ Asset Management ("LOGiQ"). Together with Ravensource, we own approximately 33% of Flow's $17mm convertible debentures due December 31, 2019, likely making us the largest bondholder by far. Our average cost is $82 per $100 bond, equating to a weighted average yield to maturity of 19.4%.

Flow took a major step to bolster its liquidity in April 2019, when it sold its LOGiQ business for $10.875 million, consisting of $1.375 million cash and a $9.5 million 10% demand note callable for repayment in early December, before our bonds mature. The purchase and sale of LOGiQ created little value for Flow's shareholders but substantial value for our bonds, as Grenville essentially paid in shares — which are junior to us in the food chain — and sold for cash, which accrues first to our benefit. Along with over $8 million of cash on hand, the LOGiQ sale provides Flow with sufficient liquidity to repay our investment at par at the end of the year. Additionally, since the end of June, Flow raised almost $13 million more cash and confirmed on their recent earnings call they were earmarking cash necessary to repay our bonds.

We first started buying the Flow bonds — then Grenville — at $75 per $100 face value in November 2016. While the company's investors were fleeing amid poor performance and a dividend cut, our work indicated there were assets well in excess of the face value of our debt. Now that there is a clear path to a cash repayment, yield-hungry fixed income investors have appeared on the scene causing the market price to increase to $99. In essence, the gap between price and value has been rapidly closing by the increasingly concrete evidence pointing to a par redemption of these bonds. Rather than being a spectator, we opportunistically added to our position over the first half of the year at an average yield of 18.9%. We expect to own these bonds until they mature at the end of the year at which time we expect to be repaid with cash.

Hudson's Bay Corp. ("HBC")
Hudson's Bay Corporation (TSX: HBC) is North America's oldest company with its origins as a fur trading enterprise in the 17th century. Today, HBC owns and operates the iconic Hudson's Bay and Saks Fifth Avenue department store brands, as well as Lord + Taylor and Saks OFF 5th. Despite its longevity, HBC has recently encountered difficulties. As with much of the retail landscape — especially the large department store format — over the last five years HBC's profitability has declined significantly, along with its share price. Since its high of $29.42 in June 2015, HBC's stock reached lows in the mid-$6 range in June 2019. These prices are likely an accurate reflection of the value of the retail operations.

Unlike most of its department store peers, however, HBC also owns a large portion of its real estate which holds significant intrinsic value. That has always been the 'diamond in the rough' story, with

the company itself even boasting as recently as September 2018 its real estate alone is worth $28 per share. Yet we have never found the necessary catalyst to invest until now.

In June, Richard Baker, HBC's chairman and one of the largest shareholders, along with a consortium of other large holders (the "Consortium") totalling 57% of the common stock, announced they were proposing to take the business private at $9.45 per share. While this price reflected a 48% premium to the prior trading price, it is a significant discount to HBC's intrinsic value and most of its investor's cost base. The Consortium includes large and sophisticated institutions who clearly have a plan to turnaround the business and opportunistically monetize the underlying real estate assets well above the buy-in price. However, in order to successfully take HBC private a 'majority of the minority' —i.e. investors not in the Consortium — need to agree to be taken out at this depressed price. Understanding that the minority group includes activist investors who have long argued the real estate valuation story, we believed it highly unlikely the deal would be consummated at $9.45. Either the consortium would have to increase its bid materially or the deal would fail.

We initiated a position in HBC shares shortly after the go-private bid was announced. Since the announcement, the shares have traded slightly above the $9.45 price reflecting the market's belief that a "go-friendly" bump will need to occur in order to close the deal. Most investors are playing this as a merger arbitrage – buying in the belief that a transaction will occur at a higher price. Our view is different: we believe that regardless of the outcome of the go-private bid, we stand to earn an attractive return. In the event the Consortium increases its bid to seal the deal, we will earn an acceptable return over a short amount of time. If, however, the deal fails, we believe the company will be forced to execute the value maximizing path forward for all shareholders. We have conviction that the underlying assets of the business are worth well in excess of $9.45 per share, and that a path to realize on that has been bushwhacked by the majority consortium even if not yet public. As long-term investors, we are perhaps more optimistic about the latter scenario.

Critically, we believe that Richard Baker's bid is not only rapacious but HBC's board of directors are also disregarding their responsibilities to shareholders by not releasing the value maximizing plan that generated the support of the Consortium's go-private bid. In our belief, this is a significant failure of corporate governance. Baker and his group forged the plan on the shareholders' dime using information available only to insiders. This blueprint was undoubtedly created to underwrite the Consortium's bid with the specific exclusion of existing minority shareholders. Current shareholders must be provided with same opportunity as the Consortium to profit on the revitalization plan. Armed with this disclosure, minority shareholders can then make the same educated decision offered to the Consortium. After years of supporting Mr. Baker and his "vision" while watching the price of their HBC shares be decimated, the shareholders have more than earned the right to make a proper choice.

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 first half of 2019 was $0.15 per unit, unchanged from $0.15 per unit paid in the first half of 2018.

Operating Expenses

Ravensource's operating expenses include investment management fees, trustee fees, TSX listing fees, interest and borrowing costs, accounting and audit expenses, IRC costs, legal and professional expenses, transaction costs and other sundry operating expenses. The table below shows how these expenses reduced the Fund's gross return on investment to arrive at the Fund's net investment return in the first half of 2018 and 2019. Please note, operating expenses as expressed below is not to be confused with the Management Expense Ratio ("MER"). Operating expenses for the purposes of MER are calculated using the Fund's *average* net assets during the period while operating expenses as expressed below are calculated using the Fund's *starting* net assets for the period. The MER also annualizes all expenses for periods less than one year, except for the Incentive Fee and excludes transaction costs. For further details regarding the Fund's MER, please refer to the Management Report on Fund Performance.

	June 30, 2019	June 30, 2018	YoY Change
Pre-expense / Incentive Fee Investment Return	**4.80%**	**10.50%**	
Less:			
Audit and accounting fees	0.11%	0.11%	0.00%
Legal fees	0.27%	0.15%	0.12%
Management, administrative and IR fees	0.60%	0.35%	0.25%
Other operating expenses	0.19%	0.40%	(0.21%)
Total Expenses Before Incentive Fee	**1.17%**	**1.01%**	**0.16%**
Pre-Incentive Fee Investment Return	**3.63%**	**9.49%**	
Less:			
Incentive Fee	0.26%	1.59%	
Ravensource Fund Net Investment Return	**3.37%**	**7.90%**	

For the six months ended June 30, 2019, Ravensource's operating expenses, excluding the incentive fee, was 1.17%, 16 basis points higher than the comparable period in 2018. The increase in operating expenses was primarily the result of a period-over-period increase in management, administrative and IR fees (25 basis points) and legal fees (12 basis points), partially offset by decreases in other operating expenses (21 basis points) primarily due to lower interest costs.

Management, administrative and IR fees came in 25 basis points higher in the first six months of 2019 as the Investment Manager sold its Specialty Foods Group investment during 2018 and therefore was not able to reduce management and administrative fees as we have in the past. We expect management and administrative fees to increase to 1.13% of average net assets in 2019.

Ravensource incurs legal fees to maximize and / or protect the Fund's investments, to comply with

securities regulations, and to deal with general Fund matters. Over the first six months of 2019, as the legal initiatives to protect and maximize the value of certain of our investments – Crystallex and Spanish Broadcasting System Inc. in particular – were increased significantly during the first six months of 2019.

Incentive Fee

As detailed in the Portfolio Management Agreement, the Investment Manager is entitled to an incentive fee 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 over and above the 5% hurdle rate, plus any shortfalls from prior years (the "Incentive Fee").

As Ravensource's investment portfolio generated a return of 3.63% after expenses but prior to the Incentive Fee over the first half of 2019, the Incentive Fee was 0.26% versus 1.59% in the first half of 2018. The decline in the Incentive Fee was due to the drop off in Ravensource's performance versus the 7.9% return we chalked up over the first half of 2018. This relationship between the Incentive Fee and Fund's performance highlights Stornoway's alignment with you, the Fund's investors. Simply put, we do better when you do.

Risks

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

The most effective risk management tools we employ are: to establish a large "margin-of-safety" upfront by investing at prices substantially below what we believe is the intrinsic value, structure our investment to mitigate the risk of loss; and become actively involved to ensure that our rights and recoveries are protected. Through these mechanisms and processes, we can substantially lower the risk of loss over the time of investment while increasing the potential for returns. Despite our thorough analysis, active involvement and paying a thrifty price, sometimes we are wrong, ineffective in de-risking the company, or the potential of an investment does not materialize exposing our investors to a loss.

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 investing.

There has been no change in the Fund's stated investment strategy or in the execution of the investment mandate that would materially affect the risk of investing in Ravensource during the first half of 2019. We continue to believe the Fund is suitable for those investors seeking long-term capital growth rather than income, have a long-term investment horizon, and possess a medium to high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

Portfolio Composition

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

Investment Portfolio by Strategy

Over the first six months of 2019, the investment portfolio became more weighted towards our Special Situation Equities strategy and away from Distressed Securities. However, this was not a product of a decision at the strategy level as we do not target specific strategy weightings. Rather, we select the most attractive investment opportunities wherever they are found. Over the first half of 2019, our Special Situation Equities strategy was simply a more fertile hunting ground as evidenced by our new investment in Hudson's Bay Co. common shares.

By Investment Strategy	**% of Investment Portfolio**	
	30-Jun-19	**31-Dec-18**
Special Situation Equities	44.7%	38.3%
Distressed Securities	46.8%	54.1%
Alternative Credit	8.5%	7.6%
Total	**100.0%**	**100.0%**

Concentration

We believe that the most effective method to reduce/manage risk is to know your investments inside and out, be actively involved and have sufficient influence on them to help effect change such as a restructuring. This will often lead to Ravensource having a more concentrated portfolio than other investment funds. Ravensource's position limit is 10% on a *cost* basis for a given corporate entity. For investments that we have our highest conviction in, we will invest up to the limit if prudent. Post our investment, market fluctuations may increase an investment in excess of 10% of the Fund's net assets on a *market value* basis.

As of June 30, 2019, the Fund had five investments exceeding 5% of NAV on a market value basis. The top 10 investments ranked by market value, excluding cash, represented 72.2% of NAV as of June 30, 2019. We expect that the Fund will continue to concentrate our capital in positions that we know the best and where we hold the strongest convictions.

"Skin in the Game"

The Stornoway Team is 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. We believe that an investment manager should have significant "skin in the game", sharing in the risk and reward of our decisions alongside other investors. Accordingly, each member of the Stornoway Team has a substantial personal investment in Ravensource and as of June 30, 2019, I owned approximately 9.3% of the total units of Ravensource outstanding. In short, we eat our own cooking. We are your partner.

Concluding Remarks

It is exciting times at Ravensource. Over the past six months, we have made significant progress towards reaching the key milestones that will create and capture value on our investments. As this progress has yet to be recognized by market prices, we believe there remains opportunity for substantial gains in our existing portfolio. We hope this letter has been able to convey to you, our partners, why we are optimistic about the future.

In writing this review, we wrestle with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest. As always, we are available via phone and/or in person to discuss your investment further. Please don't hesitate to contact us. We always look forward to hearing from unitholders and enjoy discussing our investments and strategy with you.

On behalf of Brandon, Daniel, Mahesh and myself, we greatly appreciate the partnership, trust and long-term perspective of our fellow investors, aka you. We are dedicated to protecting and growing your capital for years to come.

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

September 2019

Appendix 1 - Ravensource's Use of Comparable Indices

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

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

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

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

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

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

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