RAVENSOURCE
FUND

Management Report on Financial Performance

December 31, 2011

MANAGEMENT REPORT OF FUND PERFORMANCE

This document is the Management Report on Financial Performance ("MRFP") of the financial condition and results of operations for the fiscal year ending December 31, 2011. This MRFP should be read in conjunction with the Ravensource Fund's December 31, 2011 audited financial statements. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and unless otherwise noted, both the financial statements and this MRFP are expressed in Canadian Dollars.

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

The Ravensource Fund

The Ravensource Fund ("Ravensource" or "the Fund") is a closed-end mutual fund trust, the units of which trade on the TSX under the symbol **RAV.UN**. The principal objective of Ravensource is to achieve absolute long-term returns, with an emphasis on capital gains, through investments in selected North American securities. The investment objectives of the Fund are stated in detail in the notes to the financial statements and in greater detail on the company website.

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 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 have been identified as not only attractively valued but also with the catalysts to unlock value.

Investment Manager - Stornoway Portfolio Management Inc.

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

In addition to myself, Steve Schaus joined Stornoway's investment team in January 2011. I met Steve 12 years ago when he joined the proprietary trading desk at Scotia Capital to focus on debt and equity investments in distressed companies and other special situations. Most recently, Steve was a senior restructuring professional at Ernst & Young, considered the leading restructuring practice in Canada, where he was involved in a number of large and complex CCAA and Chapter 11 restructurings. In short, Steve is a true pro who is a great addition to the Ravensource team and will provide us further horsepower to uncover and profitably invest in more opportunities.

Ravensource Investment Committee

To oversee the investment management of the Fund, Pat Hodgson together with Steve and myself serve on the Ravensource Investment Committee (the "RIC"). Pat is the President of Cinnamon Investments Limited ("Cinnamon") and managed Ravensource up until July 1, 2008. What you may not know is that Ravensource is merely the formalization of a partnership that has been many years in the making. Pat and I have been sharing ideas and capitalizing on investment opportunities together for more than a decade. Through the RIC, Pat remains actively involved in Ravensource by contributing investment ideas, providing a sounding board and imparting his years of investment experience, which adds depth, horsepower and balance to the management of the Fund. Further, Pat's strength and track record in the value side of equity investing provides a key counter-balance to Steve's and my fixed income and distressed securities background. Speaking personally, I am truly honoured to be partners with Pat and Steve.

Steve, Pat and I firmly believe that an investment manager should have "skin in the game". Putting this concept to work, as of March 23rd, 2012, I owned 168,000 units of Ravensource representing 9.8% of the total units outstanding. Pat – directly and through related parties – owned 726,690 units of Ravensource representing 42.7% of the units of the Fund. Lastly, Steve – directly and through related parties – owned 25,853 units of Ravensource representing 1.5% of the units of the Fund. All three of us fully participated in the May 2011 Rights Offering and currently hold more units then we did at the start of 2011. In short, not only do we eat our own cooking, we have gone back for seconds.

Unfortunately, the Canadian Government does not completely agree with us. In its 2011 budget, the Tories created a new tax rule that effectively prohibits owning any shares/units of an entity in an RRSP account if you own in excess of 10% of the entity's total shares/units outstanding. As reported semi-annually through the MRFP, I have owned in excess of 10% of the total Ravensource units outstanding for quite some time. Further, the units are held in my RRSP account. As a result of the change in tax policy and to avoid a tax payment that would have effectively amounted to an expropriation of my units, in December 2011 I sold 45,700 units to reduce my holdings below the 10% threshold. Trust me, this was the last thing I wanted to do and prior to making the sale I employed tax professionals to unearth a solution, but unfortunately there was no viable alternative. My sale does not reflect any concern of the investment merits of Ravensource units. Rather, it was a forced response to what I believe is a misguided tax policy. It is my belief that the Government should encourage managers to invest in the entity that they work with, not put up obstacles. It is just good business practice and common sense for managers to have a sizeable amount of their net worth invested in the entity that they manage. In fact, investing alongside management is an important factor when we consider an investment for the Fund. Not only does it increase management's efforts to put their shoulder to the wheel but it also aligns their interests with those of the Fund. This is particularly important in the investment management business where conflicts of interest can have serious negative consequences for investors. However, even after the December 2011 sale, Ravensource Fund units still represent my largest single investment and thus I remain a strong believer and a large investor in the Fund - despite the intrusion of the Canadian Government - ensuring that my interests continue to be aligned with the unitholders.

Investment Philosophy

We are deep value investors that often find attractive investment opportunities from situations that are overlooked by traditional investors. Many of these opportunities arise from companies with warts on them. Examples include:

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

Steve, Pat and I spend a lot of time combing through company filings and analyst reports, having discussions with our various networks, and other less trodden avenues to uncover these opportunities. However, investment analysis and identification of opportunities is not sufficient to generate investment returns. Nor is simply being stingy at the time of purchase. To realize value from these opportunities, we believe we need to bring the following attributes to Ravensource's investors:

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

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

Lastly, we place a large weighting on the underlying margin of safety of an opportunity prior to making an investment. This is an ephemeral concept that can include hidden asset values in companies losing money, excess cash, strong market positions combined with excess debt, or some other combination of ugliness and attraction. We know we will not always get it right and thus seek the protection that a large margin of safety can provide. Our experience in 2008 and the catastrophic percentage losses that followed have led us to demand wider margins of safety. And the proof is in the pudding; many of our investment positions that had temporary large losses during 2008 have since recovered and only did so because we believe that they had wide enough margins of safety to see them through the storm. Of course, there would have been no harbour unless the underlying investment thesis was sound. Despite our efforts and diligence, Ravensource is not immune to the ravages of another financial melt-down. It is likely that our net asset value will fall in value if we experience another freezing of credit as in 2008. However, we do believe we have a larger and more protective air-bag in case of another crash.

2011 Rights Offering

With less than $20 million of assets, Ravensource is a very small fund in an industry dominated by giants. While there are compelling benefits to investing in a small fund, the ability to capitalize on profitable investments discarded as too small by larger funds being chief amongst them, there are also some unique challenges. High fixed expenses, lack of attention from trading desks (though that may be a blessing), and most importantly, the difficulty in participating in some of the most lucrative investment opportunities such as rescue financing of troubled companies and private placements. As such, after consulting with the Fund's investment committee, IRC and Trustee, it was determined that increasing the size of Ravensource would benefit unitholders.

After considering the alternatives, we determined that a rights offering was the most efficient and fairest way to raise additional capital. On receiving regulatory approval, the Fund issued one right for each unit outstanding to unitholders of record as of April 29, 2011. If fully subscribed, the rights offering would increase the number of units outstanding by 25% - the maximum allowed by the TSX without receiving prior shareholder approval.

The rights allowed investors to purchase units at a price of $10.33 which equated to a 3.4% discount from Fund's net asset value immediately prior to the expiry of the rights. While we did not believe such a discount was required, it was a condition placed upon us by the Toronto Stock Exchange. The rationale behind the discount is that the TSX believes it is necessary to encourage a broad range of participation. The costs associated with the rights offering were fully absorbed in fiscal 2011, thus lowering the net asset value of the Fund and reducing 2011 performance. We took steps to provide the ability to offset the majority of these costs for unitholders who elected not to participate in the issuance by enabling them to sell their rights on the exchange.

The rights offering was a success as investors placed orders well in excess of the amount of units available for subscription. As a result, Ravensource issued the maximum 356,004 units thereby raising net proceeds of $3.6 million and increasing the Fund by 25%. We really appreciated the confidence and support of the subscribing investors.

Annual Results of Operations

Investment Performance

Over the course of fiscal 2011, Ravensource Fund's net asset value per unit ("NAV") decreased by 3.3% before distributions but after all fees and expenses. Unfortunately, the 2.7% net investment return that we generated in the first half of 2011 was erased by a 5.9% decline during the second half of the year. December was particularly rough on our investment performance as the window-dressing that normally goes on at year-end punished the market value of our less liquid securities more than usual. While this did hurt our 2011 performance, we were not overly concerned as we were confident that the underlying values of our investments were intact. Thus, we simply seized the opportunity to buy more of our favorite investments at clear-out prices during this Boxing Day sale.

To some degree, this year's results were hurt by the costs associated with the rights offering. In aggregate, the rights offering reduced Ravensource's NAV by approximately $0.14 cents per unit – half stemming from issuance costs (legal, trustee, mailings, etc) and half from the discount the units were issued at. Excluding the costs of the rights offering, the total return was negative 2.0%. While it is tempting to ignore the costs of the rights offering as an isolated event, we believe in reporting to our investors our all-in performance and as such we will focus on the net return without any adjustments for the remainder of the report.

Ravensource net assets increased by $1.7 million or 11.3% year-over-year as the decline in the NAV due to the fall in the value of the Fund's investments and the semi-annual distributions was more than offset by the increase in assets due to the rights offering.

	2011	2010	2009
Investment Income	806,099	517,752	517,961
Net Investment Income (Loss)	464,790	104,004	297,228
Net Realized and Unrealized Gain (Loss) on Investments	(932,399)	3,633,824	3,340,673
Total Increase (Decrease) from Operations	(467,609)	3,737,827	3,637,901
Total Increase (Decrease) from Operations per unit	(0.29)	2.62	2.55
Total Net Assets	16,580,706	14,883,954	11,451,375
Net Asset Value per unit	9.74	10.45	8.01
Cash Distribution per unit	0.36	0.18	0.18
Return on Investment [1]	-3.3%	32.8%	45.4%
S&P/TSX Total Return Index	-8.7%	17.6%	35.1%

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

While our objective is to produce significant long-term rates of returns regardless of market conditions, we do appreciate that some of our investors will look-back and compare our performance against the crowd. For 2011, we can report that our results stack up favorably against the overall market as Ravensource's investment results for 2011 outperformed the 8.7% decrease in S&P TSX Composite Total Return Index. Despite outperforming the market and many of our peers, I can assure you that we find no solace in this result. In our view, we simply failed less than others. However, as stated earlier, we are focused on creating long-term value for Ravensource unitholders and I do believe that the majority of our investments did accomplish this goal. However, there is no question, that in 2011, the market did not agree with this assessment.

The specific investments that have significantly contributed – both positively and negatively – to Ravensource's 2011 performance are found in the table below:

Investment	Per RAV Unit [1]	Return on Investment [2]
SFG 8% due Dec 2011 Bonds	$0.31	35.9%
Trilogy Energy Corp.	$0.23	86.9%
SeaCo Ltd.	$0.19	52.2%
Jovian Capital Corp.	$0.11	15.8%
Crystallex 9.375% due Dec 30, 2011 Bonds	$0.10	19.9%
PlazaCorp Retail Prop. LTD.	$0.08	12.0%
Supremex Inc.	-$0.11	-25.7%
Indigo Books & Music Inc.	-$0.12	-45.5%
Canwel Holdings Corp.	-$0.12	-49.7%
Holloway 6.5% due Jun 30, 2012 Bonds	-$0.14	-20.3%
Quad Graphics Inc.	-$0.22	-65.0%

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

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

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

Specialty Foods Group Inc ("SFG")

Our holdings of Specialty Foods Group ("SFG") Convertible Secured Debentures ("CSDs") is the Fund's largest single position, and in 2011 was the best performing asset in the portfolio. As outlined in previous commentaries, SFG's Chicago operation makes, markets and distributes the best tasting hot dog in America aka Nathans' Famous or as Pat likes to call them, the Coney Island wienie. In addition, SFG's Owensboro, Kentucky facility makes Kentucky Legend hams and in the hamper that sent to us over the holidays was the new Bahama Mama cheddar jalapeno sausages that Steve and I had to arm-wrestle over. Yes, we fully endorse the product line and strongly encourage Ravensource unitholders to perform their own tubular due diligence.

Turning our focus to the bottom-line, SFG's hot dog division had another very profitable 2011. Despite cost pressures caused by increases in beef prices, this Chicago-based operation posted healthy profit margins, increasing volumes, and registering another year of strong cash flow generation in 2011. This could not be said for the Owensboro operations however as hiccups caused operating efficiencies to fall well short of expectations. Now that the company is financially viable, having been rescued from the brink in 2006, the next stage will be to turn the Kentucky operation into a strong cash flow generator like its Chicago cousin.

With the CSDs maturing in December 2011, we spent the latter part of the year developing a refinancing plan for the CSDs. This plan was designed to increase SFG's financial flexibility while providing us with an attractive ongoing investment. Under the plan, in February 2012 we exchanged our CSDs for a 3-year secured bond plus a warrant to purchase a substantial amount of shares at effectively a zero cost. This allows us to maintain the upside participation in SFG via the warrants while materially increasing the liquidity profile of our investment. The terms of the new secured bond enable us to take 1/3 of our capital off the table within the next 6 months. The net impact is a substantial increase in the capital efficiency of our investment as we will have largely the same total dollar return potential with 1/3rd less capital. And like a gift that keeps giving, we will be able to reduce our capital by a further third in each of the subsequent 2 years, while retaining our upside potential via the warrants. In contrast, if we wanted liquidity on the old CSD investment, we would likely have to redeem them for par thereby sacrificing the equity participation. In the new package, liquidity does not come at the cost of our equity and thus we get our cake and can eat it too. As a result, the risk associated with the investment will be substantially reduced while freeing up capital for new investments.

As there is not a transparent market for the CSDs, the Fund employs a 3rd party valuator to value this position. Based on SFG's continued strong financial position and significant free cash flow generation, the 3rd party valuator increased the value of the CSDs to $125 per $100 face value bond as the CSDs have become worth more if converted into equity than held as a straight bond. Even at the $125 valuation level, Ravensource is able to earn in excess of 25% per annum based on the cash currently in the bank plus a conservative estimate of the earnings stream until the Nathan's contract expires in 2014. Using an earnings stream that is more reflective of SFG's operating performance over the past 5 years, the CSDs would generate a return of approximately 40% per annum for the Fund. In short, despite the recent increase in the value of the CSDs, they remain an excellent investment for Ravensource.

Trilogy Energy (TSX: TET)
We are not by inclination big natural resource investors. Forecasting commodity prices for us is akin to voodoo and we don't like exploration risk. However, with the plethora of resource equities in the Canadian market, certain resource names are bound to hit our radar screen from time to time. In addition, we do like the diversification that investing in hydrocarbon securities brings to the portfolio and over the years, we have developed a set of criteria to invest in this sector that is consistent with our investment philosophy. Trilogy Energy is one such investment.

After completing our analysis, we invested in Trilogy shares in 2010 at an average cost of $9.34. Trilogy was a unique Income Trust as it changed its previous policy of distributing its cash flow to unitholders and elected to re-invest in its development properties to fuel production growth. In turn, investors preoccupied with earning income rather than creating long-term value, bailed out, causing a rapid decline in the market value of the units. Readers who are familiar with our investment philosophy, will likely recognize this theme throughout our investment portfolio.

We also recognized that the Riddell family, who control Trilogy, are like-minded investors focused on long-term total returns, and we took this opportunity to buy Trilogy shares at an attractive valuation. In particular, our analysis determined that share price was reasonable based on their proven and producing properties alone, with no value being placed on the development opportunities and undeveloped land right at a time when they were starting to bear fruit. With fantastic land holdings in developing Alberta zones, and a competent and capable technical staff with the ability to understand the new technologies available to exploit these properties, the company successfully redeployed their large cash flow from the historic dry gas business into increasing their production of oil and liquid-rich gas. The market quickly began to take notice, resulting in a steady climb in the share price. No longer meeting our criteria, we sold our position during the 1st half of 2011 at an average price of $22.75, resulting in an 86.9% gain for the year.

Jovian Capital Corporation (TSX: JOV)
Jovian Capital Corporation is a good example of what we look for in a special situation equity investment - a company with solid but complicated enough assets to require significant due diligence and analysis to recognize their worth, given up for dead by traditional investors due to past disappointments / hiccups and lack of distributed cash flow, cumulating in a share price that significantly discounts the underlying value of these assets. Yes Jovian, fit our bill.

The basis of our thesis was that if you added up the various pieces of Jovian's rather Byzantine asset management empire, it was worth far more than the market was giving credit. However to realize this value, we determined that the company would have to abandon their holding company model and sell off its individual brands. For most of Jovian's brands, we believed that larger asset management companies would likely be very attracted to these assets and would pay accordingly. This is much easier said then done as management generally has little incentive to make their company smaller and like good parents, love their children deeply and are reluctant to let them leave the house even after they have grown up. To be clear, that is not a bad thing. We want the managers of the companies we invest in to be passionate and protective of their assets. But when asset sales are key to our investment thesis, our interests will often diverge and after numerous conversations, it was far from certain that this path was shared by Jovian's management. However, in talking to other investors, it was also clear that their patience had run its course and that we were aligned in the view that it was time for Jovian to harvest its assets. This alignment was instrumental to our decision to purchase Jovian shares.

In May 2011 we began purchasing shares at approximately $8.30. In July 2011, we received evidence that management had at least came to the same conclusion on certain of its assets as it sold two of its major assets. Even better, the sale prices exceeded our internal valuation. However, the market yawned and placed an even deeper discount on the remaining assets. Our response was to add significantly to the Fund's position in the $10 - $11 range, as not only did profit potential remain but also the company's actions increased our expectations that we would be able to crystallize the difference between the share price and the ultimate value of the company's assets. With shares closing the year at $11.80, Jovian made a positive contribution to our performance for 2011 with a return on investment of 15.8%.

While we believe that management should continue down the path of divesting of its assets, management has not yet fully embraced this strategy. Instead of distributing the lion's share of the $119 million in cash proceeds received from the asset sales, Jovian elected to make a special dividend of only $4 per share (approximately $35 million in total) and made inferences that they might re-invest in their existing businesses. Together with other shareholders, we have communicated our views to management and Jovian's Board of Directors. But at this time, we still have some wood to chop to convince them to complete the wind-down process and return the capital to investors. It is also clear that the market does not believe that we will be successful in this attempt as it values Jovian's shares at a market price essentially equal to the value of its cash with very little value ascribed to its remaining the assets. We shall see. In the meantime, with its attractive valuation and large margin of safety, we are pleased to continue to hold Jovian shares.

Holloway Lodging REIT (TSX: HLR)
Holloway's 6.50% bonds is a classic bad bond / good bond story. We commenced investing in Holloway's bonds in December 2010 at prices in around $60 per $100 face value on the basis that, after reviewing its financials – in particular its capital structure – and its hotel / motel portfolio, the company was committed to an operational turnaround and its properties were well-positioned to take advantage of continued activity in the oil patch. Further, we believed that if Holloway was unable to re-pay us in cash on its June 2012 maturity date, it would invoke its rights to re-pay us in units. That was the bargain reached at time the bond was issued and the scenario we explicitly factored in when we purchased the bonds. Thus, we believed the bonds were in the sweet spot in the capital structure to capitalize on the improvement of its operations.

On December 23rd, 2011, Holloway announced that it was prematurely redeeming the 6.50% convertible bonds for units, effective January 23rd, 2012. It is our belief that the decision was the right one: the company was too highly levered and a debt-to-equity exchange is an efficient method to put it on financial terra firma. To that end, we actually made a debt-to-equity recapitalization proposal to Holloway's Board of Trustees last summer which they rejected. While we expected this event to eventually occur, we thought the company would wait until the June 2012 maturity date to do so. However, from a market perspective, the timing couldn't be worse as most investors had already closed their books for the year-end. The sudden loss of income and the increased uncertainty as to what lay ahead caused panic within Holloway's mostly retail investor base. Their immediate reaction was to sell – at any price – thereby causing the market price of the bonds to fall from $60 to a low of $40 in one fell swoop. By the end of December, the fall in the market value of our existing Holloway bond investment lopped off $0.14 per unit off the Fund's NAV thus making it the second worse performing investment in 2011.

Capitalizing on the lack of competing bidders, we significantly increased our Holloway bond position in December's crash. We acted quickly as we believed that once the market had digested the information and analyzed its impact, the bonds would be purchased by more sophisticated investors as a way to buy the underlying shares on the cheap. While hurting our December performance, we were actually pleased by the announcement as it provided the opportunity to purchase further bonds at attractive prices. You see, while the market price of the bonds fell, our fundamental valuation of the bonds was unaffected by the news.

Now here is the good bond part. Knowing that the debt-to-equity redemption would make Ravensource one of Holloway's largest shareholders, we prepared ourselves to play an active role in its financial turnaround and met with management to that end. Our analysis fueled our belief that with its attractive hotel portfolio and revamped balance sheet, Holloway would be a target for some of the other strategic players in the industry. Little did we know that the wheels were already set in motion. On January 25th, two days after receiving our units, one of these strategic players, Temple REIT, announced that they had acquired over 20% of the outstanding units of Holloway at a price equating to $84 on the bonds. While we were clearly pleased by this turn of events, our view was that this improved price still undervalued the company and that our units, being the single largest available block, would be of strategic value to anyone who wanted a seat at the table. Knowing of another interested – and hungry – investor, we entered into negotiations that concluded with the sale of our units at the equivalent price of $100. All told, the return on our investment was 66.4% for the term that we held the investment or 125.3% on an annualized basis.

As one can see from the Holloway experience, our investments are not immune to the short-term volatility of the market. The question is not so much whether the market price will change, but rather what will we do in the face of it. One thing for sure is we do not ignore these large swings in market value; rather they serve to test the thesis – and convictions – of our investment and if our convictions hold, we purchase more or alternatively sell if warranted. One thing you can expect us to do is to take action.

When we initiate an investment, we are not concerned with what the market price will be next month or next year but rather we focus on the underlying value and the catalysts which could ultimately unlock this value. While we can never be certain of the eventuality of these catalysts, when they do occur, they tend to unfold quickly. As a result, our returns on a given asset will tend to be quite lumpy, with mark-to-market losses being experienced in periods of uncertainty, and hopefully large gains when catalysts are realized. Holloway is a great example of our investment style where plain hard work, diligence and conviction allow us to opportunistically initiate and add to investments as panicky investors sell in times of uncertainty, and reap the rewards as value- surfacing catalysts ensue.

Expenses

Expenses for the year amounted to 2.17% of average NAV - aka the Management Expense Ratio or "MER". Given that the incentive fee is incurred only when unitholders benefit from the increase in the value of the Fund, I believe it is useful to focus on the pre-incentive fee expenses. Comparing the pre-incentive fee expenses to the same period in 2010, the Fund's MER has increased by 7 basis points.

The increase in MER is attributable to the application of HST to expenses that previously were exempt from provincial sales tax. While originally kicking in on July 1st, 2010, our 2011 expenses felt the full brunt of the implementation of the HST at a rate of 13%. In prior years, financial advisory and other professional services were only subject to GST of 5%. Pre HST, the Fund's 2011 MER was slightly lower than in 2010.

During 2011, SPM was paid a total of $201,600 in management and administrative fees, but as we failed to deliver investment performance to the unitholders, SPM did not earn any incentive fees.

Management Expense Ratio Composition

	2011	**2010**
Management, administrative and IR fees	1.28%	1.20%
Trust, transfer agency, and listing fees	0.30%	0.35%
Audit fees	0.17%	0.19%
Other professional fees	0.38%	0.34%
Other expenses	0.03%	0.02%
Expenses before incentive fee	**2.17%**	**2.10%**
Incentive fee	0.00%	0.88%
Total expenses	**2.17%**	**2.63%**

Investment Activity and Liquidity

Ravensource's investment activities over the course of 2011 were heavily skewed towards purchases versus divestitures with a material increase in activity over the second half of 2011. The Fund was actually a net seller of investments during the first half of 2011 only to take a 180 degree turn in direction by making substantial purchases during October right through to year-end. In December, when others were seeking sun or snow, we were busy filling our stockings with purchases of the bonds of Holloway REIT, Tuckamore Capital and First Uranium. Time will tell if these opportunistic purchases reap sizeable returns or lumps of coal.

	Amount	per Unit	% of NAV
Sources			
Net Investment Income	464,790	0.2731	2.80%
Investment Divestitures	2,902,768	1.7056	17.51%
Issuance of Units	3,587,018	2.1077	21.63%
Other	27,264	0.0160	0.16%
Total	6,981,839	4.1025	42.11%
Uses			
Distributions to Unitholders	802,950	0.4718	4.84%
Redemption of Units	619,707	0.3641	3.74%
Investment Purchases	5,448,916	3.2017	32.86%
Total	6,871,572	4.0377	41.44%
Change in Cash	110,267	0.0648	0.67%

Investments

Where did we invest our capital? We did increase our existing positions in the bonds of Tuckamore Capital (TSX: TX) and Holloway Lodging REIT (TSX: HLR.UN) and the shares of Chinook Energy Inc. (TSX: CKE), Melior Resources Inc. (TSX: MLR) and Ten Peaks (TSX: TPK). However, the bulk of our capital - by a ratio of nearly 3:1 - was invested in new opportunities. Specifically, over the course of 2011 we established positions in the shares of Canaccord Financial (TSX: CF), Compass Petroleum (TSX: CPO), Jovian Capital Corporation (TSX: JOV) and in the bonds of Clearwater Seafoods Inc. (TSX: CLR) and First Uranium Corporation (TSX: FIU).

In total, we made investments representing approximately 35% of average net assets in 2011. While new positions are established in the range of 2.5% - 5% of net assets at cost, in the case of Jovian shares and the bonds of Holloway Lodging REIT and Tuckamore Capital, our conviction in the attractiveness of these opportunities lead us to increase the size of the positions closer to 7% of net assets. Despite the bump up in our investing activities, our investment style and philosophy remains intact: investing in under-followed securities that require time and patience to be rewarded.

Divestitures

Over the course of 2011, the Fund exited its positions in shares / units of ACE Aviation (TSX: ACE.A), Cequence Energy (TSX: CQE), Cinram International (TSX: CRW.UN), Data Group (TSX: DGI.UN), Manulife Financial (TSX: MFC), Trilogy Energy Corp (TSX: TET), and in the bonds of Mega Brands (TSX: MB). Lastly, our shares of Ember Resources (TSX: EBR) and Marsulex (TSX:

MLX) were acquired in takeover transactions and our shares of Jannock Properties (TSX: JPL) were exchanged for cash in the liquidation of the company.

In September, we elected to reduce our holdings in Indigo Books & Music Inc. (TSX: IDG) shares. Generally, once we have made the decision to sell, we elect to sell our entire position. In the case of Indigo however, we debated the investment merits internally with one team member arguing to sell and another member believing there was still more upside in the value of the shares. In our dithering about, we watched the value of our shares drop from $13 to approximately $8 during this debate where we finally decided to sell a portion of our holdings. Since our original investment, Indigo has been a tremendous performer, and even at today's depressed price, still represents 78% increase versus our $5 cost base before factoring in the dividends. However, that was due to the spoils of yesteryear. In 2011, we certainly got it all wrong with Indigo.

Liquidity

As of December 31st, 2011, we held approximately 4.9% of Ravensource's net assets in cash, net of accruals and current liabilities, slightly higher than the 3.1% figure registered at the start of the year. Liquidity of the fund was bolstered during the year by $3.6 million due to the rights offering. However, with our investments exceeding our divestitures by a ratio of almost 2:1, we put to work the vast majority of the capital raised from the rights offering by the end of the year.

Investment Portfolio by Strategy

Ravensource employs three investment strategies to generate investment returns. In 2011, we saw a small shift away from equities and into high yielding securities such as Clearwater Seafoods' bonds. The main implications to this change is that the portfolio is marginally less sensitive to changes in the equity markets / more exposed to credit risk than last year, and the composition of the Fund's investment income was more biased towards interest income than capital gains. However, this is simply a reflection of where we found the best opportunities; we do not target specific strategy weightings. Rather we hunt wherever we believe the most attractive investment opportunities are to be found. For quantification of the portfolio's exposure to interest rates, credit, and equities, please review the risk section of Ravensource's financial statements.

Investment Strategy	**% of Investment Portfolio**	
	2011	**2010**
Special Situation Equities	61.5%	70.8%
Distressed Securities	24.0%	25.2%
High Yielding Securities	14.6%	4.0%

Industry Concentration

While Ravensource does not specialize in specific industries, as a result of our experience and investment philosophy, we tend to focus on investing in companies with hard assets. At the risk of being called old fashioned, the portfolio has little exposure to Technology, Pharmaceutical and other companies whose primary assets are work-in-progress and thus like buying a car with no steering or brakes. When investing in natural resource companies, we shy away from exploration and other situations that we dismiss as akin to a promise of a kiss. We like to invest in companies in which we understand the products/services they offer and more 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. For example, our largest single investment, SFG, produces hot dogs!

By Industrial Group

	Fair Value	% of Net Assets
Food Products	2,939,825	17.7%
Financial	2,303,699	13.9%
Metals & Mining	2,140,408	12.9%
Real Estate	1,909,667	11.5%
Conglomerate	1,429,204	8.6%
Paper & Packaging	1,008,497	6.1%
Energy	970,779	5.9%
Transportation	901,653	5.4%
Information Technology	829,394	5.0%
Media & Publishing	809,764	4.9%
Construction	338,856	2.0%
Retail	129,954	0.8%
Other	48,844	0.3%
Total	**15,760,543**	**95.1%**

Diversification

As we believe that the most effective method to reduce/manage risk is to know your investments inside and out, Ravensource may be a more concentrated portfolio than other investment funds. However, the Fund currently has only one investment that exceeds 10% of net assets – Specialty Foods Group Convertible secured debentures – due to an increase in its value, and only six of our investments exceed 5% of Net Assets. Our top 10 investments – ranked by the market value of the investment – represented 59.4% of Net Assets as of December 31st, 2011, up versus 48.9% from the start of the year. While the Fund has become more concentrated over the past year, we continue to limit our exposure to between 2.5% to 5% of Net Assets when making a new investment depending on its relative attractiveness, liquidity and the degree of risk/margin of safety. However, as mentioned earlier, we have increased the size of our holdings in existing positions that we know the best and hold the strongest convictions. Going forward, I expect that trend to continue.

Distributions

The Ravensource Fund made semi-annual distributions of $0.09 per unit on June 30, 2011 and $0.27 per unit on December 31st, 2011 aggregating to a total distribution of $0.36 per unit in fiscal 2011. Distributions have increased 100% versus the 2010 level primarily as a result of the substantial increase in interest earned on bond positions.

Why the increase? Ravensource Fund's dividend policy is to make semi-annual distributions to unitholders of an amount to ensure that it does not incur any tax liability for the fiscal year and to provide a reasonable yield for investors. Despite the increase in distributions in 2011, there was no change in our policy as the increase in distributions was to maintain the Fund's non-taxable status. With approximately $20 million in capital losses carry forwards, there is substantial room to absorb capital gains, but the Fund does not have a corresponding tax shelter for interest income. This is consistent with our investment style as Ravensource's portfolio is skewed towards producing capital gains rather than interest income. However, 2011 was an exception.

Using the closing market price of $10.00 on December 31st, 2011, the units have an annualized current yield of approximately 3.6% assuming distributions remain constant going forward. However, for the reasons stated above, Ravensource investors should not expect the 2011 distribution level to be maintained.

Concluding Remarks

Ravensource's investment portfolio has gained significantly in market value since year-end. Using closing prices as of March 15th, 2012, Ravensource's net asset value has increased to $11.07 per unit, up 13.6% from its December 31st, 2011 level. Our investments in the bonds of Holloway Lodging REIT, First Uranium, and Tuckamore Capital drove the rise in the Fund's NAV along with solid contributions from our positions in Fiera Sceptre, Peer 1 Networks, and Ten Peaks Coffee shares.

With the rise in price of some of our securities, we have taken some profits and our cash position has increased to 11.8% of net assets versus 4.9% as of December 31st, 2011. As value investors, we are almost sad when we sell good companies. But as value investors, we also realize our role in the food chain and that once the market sees what we see or the uncertainty of the company's viability is lifted, the crowd will swoop in causing the securities to rise to a price beyond where we see value. Then the process begins anew; we become hunters for new opportunities that are more favourably valued with a large margin of safety thrown in for good measure.

Despite the recent run-up in some of our investments, we believe that our existing portfolio continues to offer compelling value. While it is always difficult for Steve, Pat and I to find investments that meet our criteria, we also believe we will continue to see attractive investment opportunities in both good times and in bad. Yes, the landscape may look troubling, but I can assure you, the lessons learned during the financial collapse of 2008 have not left us and we will continue to emphasize an investment's margin of safety before we commit your capital.

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

We are appreciative of your partnership, trust and patience.

Scott Reid

March 29, 2012

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

Financial Highlights

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

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

(1) This information is provided as at December 31 of the year.

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

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

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in the portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the fund.

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

The Fund's Net Assets per Unit ($) (1)	**2011**	**2010**	**2009**	**2008**	**2007**
Net Assets, beginning of year	10.45	8.01	5.63	9.46	8.99
Increase (decrease) from operations:					
Total revenue	0.50	0.36	0.36	0.41	0.27
Total expenses	0.21	0.29	0.16	0.15	0.28
Realized gains (losses) for the period	0.36	1.19	0.20	0.08	1.38
Unrealized gains (losses) for the period	(0.94)	1.36	2.14	(4.06)	(0.69)
Total increase (decrease) from operations (2)	(0.29)	2.62	2.55	(3.72)	0.68
Distributions:					
From income (excluding dividends)	0.16	-	-	-	-
From dividends	0.14	0.04	0.03	-	-
From capital gains	-	-	-	-	-
Return of capital	0.06	0.14	0.15	0.09	0.17
Total Distributions (3)	0.36	0.18	0.18	0.09	0.17
Issuance of units (4)	0.15				
Net assets, End of Period	9.74	10.45	8.01	5.63	9.46

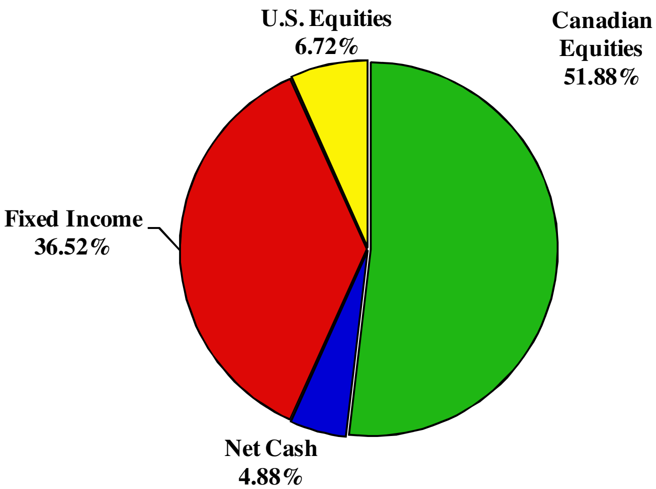
(1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial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

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

(3) Distributions were paid in cash.

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

SUMMARY OF INVESTMENT PORTFOLIO



Top 25 Holdings as of December 31, 2011

Issuer/Security	Security Type	% of Net Assets
Specialty Foods Group - 8% due Feb 2012 **	Convertible Bonds	10.73%
Jovian Capital Corporation	Common Shares	7.48%
First Uranium Corporation - 4.25% due June 2012	Convertible Bonds	6.86%
PlazaCorp Retail Properties Ltd	Common Shares	6.64%
Tuckamore Capital - 8.00% due March 2016	Secured Bonds	5.84%
SeaCo Ltd.	Common Shares	5.44%
Crystallex International - 9.375% due Dec 2011	Senior Bonds	4.97%
Net Cash *	Cash	4.95%
Holloway Lodging REIT - 6.5% due June 2012	Convertible Bonds	4.88%
Canaccord Financial Inc	Common Shares	3.31%
Winpak Ltd.	Common Shares	3.23%
Clearwater Seafoods Inc - 10.5% due Dec 2013	Convertible Bonds	3.11%
Supremex Inc.	Common Shares	2.85%
Clairvest Group Inc.	Common Shares	2.79%
March Networks Corporation	Common Shares	2.56%
Peer 1 Network Enterprises Inc	Common Shares	2.45%
Chinook Energy Inc.	Common Shares	2.19%
Ten Peaks Coffee Company	Common Shares	2.14%
McGraw-Hill Ryerson Ltd.	Common Shares	1.91%
Village Farms International	Common Shares	1.75%
Glacier Media Inc	Common Shares	1.73%
Westaim Corp.	Common Shares	1.60%
Fiera Sceptre Inc.	Common Shares	1.50%
Compass Petroleum Ltd.	Common Shares	1.49%
Quad Graphics Inc.	Common Shares	1.13%
Total % of Net Assets		**93.53%**

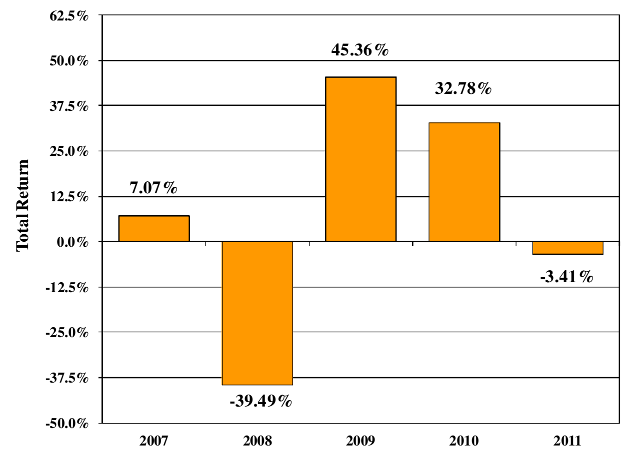
* Includes interest and dividends receivables, and is net of all liabilities

** Not publicly traded company. Valued by independent valuation

Past Performance

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

The bar chart shows the Fund's annual performance in each of the past 5 years to December 31st. The chart shows in percentage terms how the net asset value has increased (decreased) during each period.



Total Returns [1]

	One Year	Three Year	Five Year
RAV.UN	-3.41%	22.90%	3.59%
S&P/TSX Total Return Index	-8.71%	13.18%	1.30%

[1] Annualized returns for the period ending December 31st.

Additional Information

Ravensource Independent Review Committee ("IRC")

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

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

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

Access to Information

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

Fund Information

Trustee, Registrar and Transfer Agent

Computershare Trust Co. of Canada

Auditor

Deloitte & Touche LLP

Investment Manager

Stornoway Portfolio Management Inc.
30 St. Clair Avenue West, Suite 901
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Investor Relations

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