RAVENSOURCE FUND

MANAGEMENT REPORT ON FINANCIAL PERFORMANCE – DECEMBER 31ST, 2010

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, 2010. This MRFP should be read in conjunction with the Ravensource Fund's December 31, 2010 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 investment objectives of the Fund are stated in detail in the notes to the financial statements and in greater detail in the Declaration of Trust. In 2003, the Fund’s investment strategy was transitioned away from its roots as an income fund specializing in debt securities of issuers in Australia, New Zealand and other Asian countries and into a fund that specializes in North American high yield, distressed debt and equity securities. To reflect the change in the investment mandate, the name was changed from the First Asia Income Fund to the Ravensource Fund.

Investment Manager - Stornoway Portfolio Management Inc.

By way of a special meeting of unitholders, Stornoway Portfolio Management Inc. (“SPM”) was appointed as 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 companies that are experiencing financial distress. Whether serving on a creditor committee, Board of Directors or in a more informal capacity, I do not shy away from rolling up my sleeves and getting actively involved in investee companies to ensure the successful completion of a corporate turnaround with the goal of ultimately realizing higher value on our investment. Currently, I sit on the Board of Directors of SFG Inc., a private U.S. meat processing company which represents Ravensource’s single largest investment.

Ravensource Investment Committee

To oversee the investment management of the Fund, Pat Hodgson and I established the Ravensource Investment Committee (the "RIC"). As many will know, Pat is the President of Cinnamon Investments Limited ("Cinnamon") and managed the Ravensource Fund 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 examining and capitalizing on investment opportunities together for almost 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 my fixed income and distressed securities background. Speaking personally and professionally, I am truly honoured to be partners with Pat.

On a post year-end development, I am very pleased to announce that Steve Schaus has joined Stornoway Portfolio Management Inc. as a Partner effective January 1st – yes I made him work New Year's Day. I met Steve 10 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. Since then, Steve and I have frequently traded investment ideas and teamed up to tackle a couple of particularly challenging investment opportunities and in doing so, we gained a great understanding of each other's skill sets, temperament, and values. Steve's 8 year stint at Scotia Capital was bar-belled by 6 years as a senior restructuring professional at Ernst & Young, considered the leading restructuring practice in Canada, where he was involved in number of large and complex CCAA and Chapter 11 restructurings. Most recently, Steve worked on E&Y's mandate to execute the orderly wind-down of Nortel. In short, Steve is a true pro who is a great addition to the Ravensource Fund team and will provide us further horsepower to enable us to uncover and profitably invest in more opportunities.

Steve, Pat and I firmly believe that an investment manager should have "skin in the game". Putting this concept to work, as of December 31, 2010, I owned 158,428 units of Ravensource representing approximately 11.1% of the total units outstanding which is up from the 132,878 units that I held as of December 31st, 2009. Pat – directly and through related parties – owns 566,794 units of Ravensource representing approximately 39.8% of the units of the Fund which is also an increase from his December 31, 2009 holdings. Although he started after 2010 year-end, Steve has already established a toe-hold position of 3,500 units of Ravensource.

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, for example:

- Debt of companies who require a financial/operational turnaround
- Income trusts who ceased / 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. To realize value from these opportunities, we believe we 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 time of investment;
- businessman's ability to assess viability of an operational turnaround;
- recognition of catalysts to unlock value; and
- willingness to become actively involved to protect / increase the value of our investments.

The underlying margin of safety is always considered before 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 don't like the catastrophic percentage losses which happened on several positions during the recent turmoil and are looking for wider margins of safety – a free umbrella for a rainy day with the wind blowing. Many of our investment positions had temporary large losses during 2008 and have since recovered because they indeed had wide margins of safety and the underlying investment thesis was sound. That is not to say that Ravensource is immune to the ravages of another financial melt-down – no, 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.

Annual Results of Operations

Investment Performance

We are pleased to report that the net asset value of the Ravensource Fund increased by 32.8% before distributions but after all fees and expenses over fiscal 2010. In total, net assets increased by $3.7 million, or $2.62 per unit, prior to factoring in the $0.18 per unit distribution that was paid to unitholders over the course of 2010. Our performance in 2010 achieved two important milestones: i) earned back all of the remaining losses experienced in 2008, and ii) grew Ravensource's net asset value per unit to $10.45 – an all-time year-end high net asset value.

	2010	**2009**	**2008**
Investment Income	517,752	517,961	580,271
Net Investment Income (Loss)	104,004	297,228	359,115
Net Realized and Unrealized Gain (Loss) on Investments	3,633,824	3,340,673	(5,686,696)
Total Increase (Decrease) from Operations	3,737,828	3,637,901	(5,327,581)
Total Increase (Decrease) from Operations per unit	2.62	2.55	(3.72)
Net Assets	14,883,954	11,402,449	8,020,671
Net Asset Value per unit	10.45	8.01	5.63
Cash Distribution per unit	0.18	0.18	0.09
Return on Investment [1]	32.8%	45.4%	-39.5%
S&P/TSX Total Return Index	17.6%	35.1%	-33.0%

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

While we are not overly influenced by the comings and goings of the overall market at the time we decide to make an investment, we do appreciate that some of our investors will look-back and compare our performance against the crowd. For 2010, we can report that our results stack up favorably against the overall market as Ravensource's investment returns for 2010 significantly outperformed the 17.6% gain in S&P TSX Composite Total Return Index.

What has driven Ravensource's results? I think it is fair to say that much of our returns have stemmed from long-held positions that typify our investment style: patient investing in opportunities that other investors neglect for one reason or another. We tend to hold positions until there is a catalyst event that allows us to realize what we identify as full value. However, this takes time and we have to accept the ups and down along the way that happen in real businesses. This requires conviction to hold and perhaps even increase our investment when the markets do not agree with us but also the humility to realize that we are sometimes wrong and dispose of the positions that did not live up to our expectations. And over the course of 2010, we were right more than we were wrong, and our, or rather your patience and fortitude were rewarded.

The specific investments that have significantly contributed – both positively and negatively - to Ravensource's 2010 performance are found in the table below:

Investment	% of Total Investment Income [1]	Per RAV Unit[2]
Crystallex International Bonds	12.97%	$0.37
Specialty Foods Group Bonds	9.63%	$0.28
Westaim Corp.	8.36%	$0.24
UTS Energy	7.81%	$0.22
PlazaCorp Retail Prop. LTD.	7.76%	$0.22
Seaco LTD	6.52%	$0.19
The Brick Group Warrants	6.07%	$0.17
Ace Aviation Shares	5.04%	$0.14
Newport Partners Bonds	5.00%	$0.14
Solutia Inc. Shares	4.87%	$0.14
Quad Graphics	-1.90%	-$0.05
Aecon Group Inc.	-1.97%	-$0.06
Cinram Intl. Income Fund	-3.49%	-$0.10
Subtotal	**66.66%**	**$1.92**

[1] Total Investment Income = realized gains/losses + unrealized gains/losses + dividends + interest

[2] Total Investment Income / # RAV Units Outstanding

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

UTS Energy

While we have good track record of investing in Oil & Gas companies - Trilogy and West Energy are recent examples - our investment in UTS Energy was of a quite different breed. We are usually attracted to smaller-scale producing Oil & Gas properties that are not on most investors' radar screens. In contrast, UTS Energy had a basket of undeveloped properties the most material of which was the large-scale Fort Hills oil sands development project that was many years and many billions of capital expenditures away from becoming a producing asset. Not exactly our sweet spot. However, we did some digging and talked to some of the key players to determine whether it was a Ravensource-worthy investment. Soon after our initial investigation commenced in early January 2009, UTS received a hostile take-over bid from Total Petroleum at a price of $1.30 per share that was quickly rejected by the Board and later upped to $1.75 which was also rejected. The spurned bids served only to quicken our analysis that on completion lead us to the conclusion that the market and Total was significantly under-pricing UTS's assets. In particular, it became clear to us that they were attributing zero value of the non-Fort Hills assets. Further, it was also clear to us that Total wanted the asset and while they may not increase their bid we believed our downside risk would ultimately be protected as Total's last bid would effectively act as a backstop to our purchase price.

Comfortable with our conclusion, we purchased UTS shares in March 2009 at a price of $1.76. As more investors began to see value in UTS, the shares appreciated to $2.25 as of December 31, 2009, resulting in a 28% gain for the Fund for 2009. After many months and much gamesmanship by both parties, UTS and Total finally reached a deal in July 2010 for $3.08 per share in cash plus shares in a new entity, SilverBirch Energy Corp, whose assets would include UTS's interest in the undeveloped lands. Soon after the announcement, we sold all of our UTS shares at a price of $3.68 for a total gain of 109% and a gain for 2010 of 63.5% making it the best performing non-oil & gas opportunity of all the Oil & Gas opportunities that we have invested in.

Newport Partners Bonds

Newport Partners Income Fund ("NPF") is a prime example of our ability to generate attractive returns from securities that other investors have left for dead. NPF is an old-school conglomerate whose holdings were amassed in an acquisition binge and primarily paid for by debt. A post-binge hangover began in 2008 as earnings deteriorated and NPF became crippled by its high debt load. NPF defaulted on the June 2009 interest payments due on its convertible bonds and the rapid decline in the market prices of its securities soon followed suit. It was at this time of corporate despair and investor panic that we started to analyze the defaulted bonds to determine whether they met our twin criterion in evaluating investments i) significant investment returns together with ii) high margin of safety. We believed that an investment in the bonds was well protected by the underlying value of the Company's portfolio with significant upside potential, likely through a restructuring that would cause our convertible bonds to be exchanged for equity of a much de-levered company. Based on this analysis, we patiently purchased convertible bonds over the past year at an average cost of $54 per $100 of face value. On November 30, 2010, the Company announced that it had entered into a support agreement with its two largest bondholders whereby the outstanding convertible bonds would be exchanged for combination of new second lien bonds and new subordinated bonds. While this was not the debt-for-equity conversion that we originally envisioned, it was not a bad second prize as reflected in the increase of the bonds to $74 as of December 31, 2010 and a gain of 36% on our investment.

SeaCo Ltd.

SeaCo (OTC: SEAOF) is a clear-cut example of our persistence and long-term approach to investing. This position originated as bonds of Sea Containers Ltd which defaulted early in the credit meltdown under the weight of bad management decisions and diversification financed with debt. What remained of the company after bankruptcy was their original ocean container business and half of a joint-venture with GE in the same business line. What remains of our original bond position are shares in the restructured company. We were familiar with the business and believed it was worth more than the trading price and thus we tripled the size of our share position at a cost of $0.26. Our decision to add to our initial investment was done in spite of limited financial information as the company never really embraced its public company status post its bankruptcy. We suspected that SeaCo would eventually get monetized and given the recent increase in its share price, it appears to be happening. While we do not know what the final result will be, our belief, supported by current market prices, is that it will result in a nice profit on our persistence and a recovery of $75 per $100 face value or more on our original bond position.

Quad Graphics

Like many of our investments, our Quad Graphics share position (NYSE: QUAD) started out in another part of the capital structure. In fact, it was in a different company altogether. We had invested in the preferred shares of Quebecor World after it emerged from its CCAA restructuring as World Color Press and after the take-over of the company by Quad Graphics was announced. On the completion of the merger, we received common shares of Quad Graphics in exchange for our World Color Press preferreds. Quad Graphics has excellent management with a track record of running a lean and profitable operation. It was the potential of Quad Graphics management to turn around the old Quebecor World's operations into a much leaner operation that we invested. All told, we believe that the Quad team could milk out over $225 million of annual cost savings. If the company is able to achieve this, we believe our investment will be handsomely rewarded. To date, the synergies are coming about all too slowly for Mr. Market and the price of the shares have fallen from our cost base of $46.11 a share to $41.26 as of December 31st, 2010. For some reason, the investment community just doesn't understand why extracting millions of annual savings isn't as simple as dragging the cost figures from the spreadsheet and into the trashcan icon that sits on their desktop computer. In the past, we have profited from our persistence and patience as outlined above in our review of our SeaCo, UTS and Newport Partners investments. While to date, it has been a disappointing investment, time will tell if we can add Quad Graphics to the list.

Expenses

Total expenses of the Fund for the year amounted to approximately 3.15% of average NAV - aka the Management Expense Ratio or "MER". As some of the expenses are fixed in nature, the growth in the size of the Fund over the past two years has lowered the MER before factoring in the incentive fee. However, as recent investment performance has increased Ravensource's NAV beyond its previous highest year-end value, SPM is entitled to an incentive fee which causes the total MER to be higher than the 2009 level of 2.27%. During 2010, SPM was paid a total of $157,219 in management and administrative fees and is owed a further $137,667 in incentive fees.

Management Expense Ratio Composition

	Amount	per Unit	Expense Ratio
Management, administrative and IR fees	157,219	0.1104	1.20%
Trust, transfer agency and listing fees	46,219	0.0325	0.35%
Audit fees	25,164	0.0177	0.19%
Other professional fees	44,616	0.0313	0.34%
Other expenses	2,863	0.0020	0.02%
Expenses before incentive fee	**276,081**	**0.1939**	**2.10%**
Incentive fee	137,667	0.0967	1.05%
Total expenses	**413,748**	**0.2906**	**3.15%**

Liquidity and Investment Activity

The pace of our investment activity in 2010 – in terms of actually buying / selling positions rather than uncovering ideas or actively managing our existing investments – increased versus the previous two years as evidenced by the increase in our Portfolio Turnover Ratio to 37% for 2010. This was a function of making 16 new investments along with a large amount of divestitures: some due to profit taking, others in recognition that we had got it wrong, and more still from the recent frantic pace of mergers and acquisitions in the oil patch. Yes, we were busy. Despite the bump up in our investment activities, our investment style and philosophy remains intact: investing in under-followed securities that require time and patience to be rewarded. As such, it is unlikely that we will ever have a high turnover ratio relative to other investment funds.

	Amount	per Unit	% of NAV
Sources			
Net Investment Income	104,003	0.0730	0.70%
Investment Divestitures	4,865,985	3.4171	32.69%
Other	188,002	0.1320	1.26%
Total	5,157,990	3.6221	
Uses			
Distributions to Unitholders	256,323	0.1800	1.72%
Investment Purchases	5,969,471	4.1920	40.11%
Total	6,225,794	4.3720	41.83%
Change in Cash	-1,067,804	-0.7499	-7.17%

Investments
Since the start of the year, we established positions in the shares of Canaccord Financial (TSX: CF), Clairvest Group (TSX: CVG), Coalcorp Mining (TSX: CCJ), Iteration Energy (TSX: ITR), March Networks (TSX: MN), Peer 1 Network Enterprises (TSX: PIX), Sonde Resources (TSX: SOQ) Supremex Income Fund (TSX: SXP.UN), Trilogy Energy Corp (TSX: TET), Tuscany International Drilling (TSX: TID), in the bonds of Holloway Lodging REIT (TSX: HLR.UN), in the bonds and warrants of Mega Brands (TSX: MB), and in the preferred shares of World Color Press (TSX:WC) which are now shares of Quad Graphics (NYSE: QUAD). Further, we increased our positions in the bonds of Newport Partners Income Fund and the shares of Seaco Ltd (OTC: SEAOF).

In total, we made investments representing approximately 40% of net assets. We have not changed our style and new positions are still made in the range of 2.5% - 5% of net assets at cost: we just made a lot more of them this year.

Divestitures
The Fund exited its positions in The Brick Group warrants (TSX: BRK.W), Canaccord Financial shares (TSX: CF), First Metals shares (TSX: FMA), HSE Integrated shares (TSX: HSL), Noranda Income Fund units (TSX: NIF.UN), Solutia shares (NYSE: SOA), and UTS Energy shares (TSX: UTS).

We sold the First Metals shares that we received in the restructuring of the company in the fall of 2009, but have retained our small position in First Metals secured bonds. Pretty much from the onset, it has been a horrible investment. We had invested in the original secured bonds in mid-2007 based on what we believed was an attractive project. The combination of undisciplined management, the collapse in copper and zinc prices, and a flimsy bond covenant package sealed the fate of our original investment and the company filed for bankruptcy protection in 2009. Despite the restructuring, the company was unable to right itself and is now in the process of liquidation. We are hopeful that we will recover from the liquidation an amount in excess of the carrying value of the bonds but this will not change the fact that this was a failed investment.

Solutia shares had a tremendous rebound from March 2009 and when it hit our price targets and we took profits. Unfortunately, our $16.45 sale price was later dwarfed by an end of year rally which took Solutia shares to $23.08 by year-end – quite a remarkable recovery given we had last paid $1.46 per share in March 2009. So while we certainly left some money on the table, Solutia was a profitable investment.

Further, we elected to take some money off the table by reducing our holdings in Aecon (TSX: ARE), Data Group Income Fund (TSX: DGI.UN), Ember Resources (TSX: EBR), Marsulex (TSX: MLX), PlazaCorp (TSX: PLZ), and Westaim (TSX: WED).

In total, our investments exceeded our divestitures resulting in a decline in our net cash / liquidity both by absolute terms and as a percentage of net assets. As of December 31st, 2010, we held approximately 3.1% of Ravensource's net assets in cash, net of accruals and current liabilities which is the lowest amount of liquidity that we have held over the past 5 years.

Industry Concentration

While Ravensource is not an investment fund that specializes 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. 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, we have consciously lowered our exposure to the more sensitive sectors of the economy. For example, our largest single investment, SFG, produces hot dogs! With that said, Ravensource is quite diversified across various industry groups.

	Fair Value	**% of Net Assets**
Food Products	2,146,644	14.4%
Real Estate	1,972,118	13.2%
Media & Publishing	1,743,916	11.7%
Conglomerate	1,344,195	9.0%
Energy	1,242,872	8.4%
Transportation	975,650	6.6%
Metals & Mining	943,269	6.3%
Financial	939,400	6.3%
Manufacturing	560,690	3.8%
Construction	556,181	3.7%
Retail	407,340	2.7%
Industrial	366,080	2.5%
Information Technology	364,146	2.4%
Other	852,634	5.7%
Total	**14,415,135**	**96.9%**

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 does not have one investment that exceeds 10% of net assets and only 4 of our investments exceed 5% of Net Assets. Our top 10 investments – ranked by the market value of the investment – represent 48.9% of Net Assets.

We generally 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.

Distributions

The Ravensource Fund made a semi-annual $0.09 per unit distribution on December 31st, 2010 resulting in a total distribution of $0.18 per unit in fiscal 2010. The Pay-out Ratio – the annual distribution stated as a percentage of the total increase in the value of the fund - was 6.9% for fiscal 2010 which is in-line with the 7.1% pay-out ratio that occurred in 2009. Using the closing market price of $10.25 on December 31st, 2010, the units had an annualized yield of approximately 1.8%. We believe that the current level of distribution is appropriate and we do not envision a change in the policy in the near future.

Concluding Remarks

Ravensource's portfolio has continued to gain since December 31st, 2010. Using closing prices as of March 24th, 2011, Ravensource's net asset value has increased to $10.97 per unit, up 5% from its December 31st level. Our investments in the securities of Compass Petroleum, Newport Partners Income Fund, SeaCo Ltd. and Trilogy Energy have all contributed significantly to the rise in the Fund's NAV post year-end. With the rise in price of some of our securities, we have taken some profits and our cash position has increased to just over 8% of net assets versus 3.1% as of December 31st, 2010.

Despite recent investment gains, we firmly believe that our existing portfolio continues to offer compelling value. While Steve, Pat and I are cautious about capital markets in general, we 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 31, 2011

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	**2010**	**2009**	**2008**	**2007**	**2006**
Total net asset value (000's) (1)	$14,884	$11,402	$8,021	$13,556	$14,207
Number of units outstanding (1)	1,424,016	1,424,016	1,424,016	1,433,343	1,579,904
Management expense ratio (2)	3.15%	2.27%	2.05%	3.04%	7.08%
Management expense ratio before waivers or absorptions	3.15%	2.27%	2.05%	3.04%	7.08%
Trading expense ratio (3)	0.30%	0.17%	0.20%	0.19%	0.30%
Portfolio turnover rate (4)	37.02%	32.57%	28.45%	65.43%	59.32%
Net asset value per unit	$10.45	$8.01	$5.63	$9.46	$8.99
Closing market price (5)	$10.25	$7.05	$5.00	$9.20	$8.45

(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 average net asset value.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of 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.

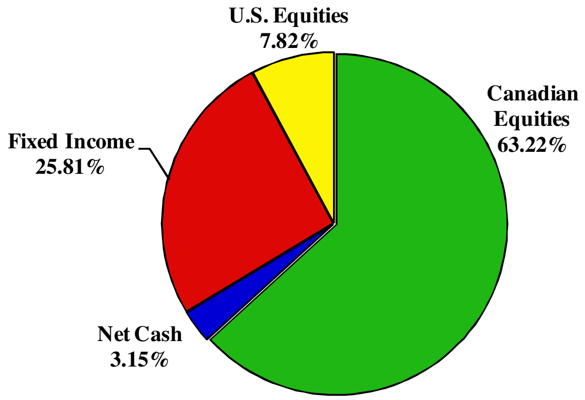
The Fund's Net Assets per Unit ($) (1)	**2010**	**2009**	**2008**	**2007**	**2006**
Net Assets, beginning of year	8.01	5.63	9.46	8.99	8.24
Increase (decrease) from operations:					
Total revenue	0.36	0.36	0.41	0.27	0.14
Total expenses	(0.29)	(0.16)	(0.15)	(0.28)	(0.31)
Realized gains (losses) for the period	1.19	0.20	0.08	1.38	0.67
Unrealized gains (losses) for the period	1.36	2.14	(4.06)	(0.69)	0.48
Total increase (decrease) from operations (2)	2.62	2.55	(3.72)	0.68	0.97
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	0.04	0.03	-	-	-
From capital gains	-	-	-	-	-
Return of capital	0.14	0.15	0.09	0.17	0.14
Total Distributions (3)	0.18	0.18	0.09	0.17	0.14
Net assets, End of Period	10.45	8.01	5.63	9.46	8.99

(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.

SUMMARY OF INVESTMENT PORTFOLIO



Top 25 Holdings as of December 31, 2010

Issuer/Security	Security Type	% Net Asse
Specialty Foods Group **	Convertible Secured Bonds	9.36
PlazaCorp Retail Properties Ltd	Common Shares	6.92
Crystallex International	Senior Bonds	5.43
Newport Partners Income Fund	Convertible Bonds	5.08
Supremex Inc.	Common Shares	4.58
SeaCo Ltd.	Common Shares	3.98
Winpak Ltd.	Common Shares	3.77
Quad Graphics Inc.	Common Shares	3.63
Net Cash *	Cash	3.15
Ten Peaks Coffee Company	Common Shares	3.07
Holloway Lodging REIT	Convertible Bonds	2.94
Trilogy Energy Corporation	Common Shares	2.88
Indigo Books & Music Inc.	Common Shares	2.74
Clairvest Group Inc.	Common Shares	2.70
Peer 1 Network Enterprises Inc	Common Shares	2.62
Ace Aviation Holdings Inc.	Common Shares	2.58
Canwel Holdings Corporation	Common Shares	2.56
Marsulex Inc.	Common Shares	2.46
March Networks Corporation	Common Shares	2.45
McGraw-Hill Ryerson Ltd.	Common Shares	2.36
Manulife Financial Corporation	Common Shares	2.30
Glacier Media Inc	Common Shares	2.22
Fiera Sceptre Inc.	Common Shares	2.17
Village Farms International	Common Shares	1.99
Westaim Corp.	Common Shares	1.85
Total % of Net Assets		**85.77**

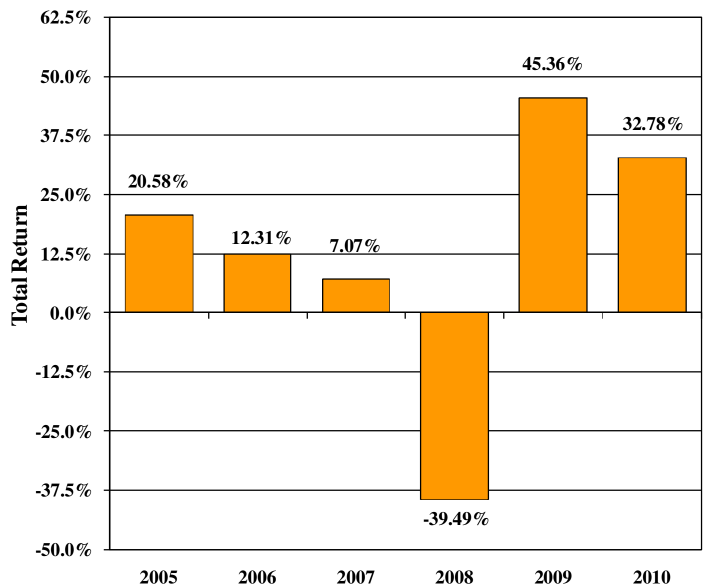
* Includes interest and dividends receivables, and is net of all liabilities

** 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		
	One Year	**Three Year**	**Five Year**
RAV.UN	32.78%	4.85%	6.42%
S&P/TSX Total Return Index	17.61%	2.09%	6.50%

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
Toronto, ON M4V 3A1

Investor Relations
Scott Reid
416-250-2845
sreid@stornowayportfolio.com