RAVENSOURCE FUND

ANNUAL REPORT - DECEMBER 31, 2008

MANAGEMENT REPORT OF FUND PERFORMANCE

This document has been prepared to provide Management Report on Financial Performance ("MRFP") of the financial condition and results of operations for the period ending December 31, 2008. This MRFP should be read in conjunction with the Fund's December 31, 2008 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 transitioned away from its roots as an income fund specializing in debt securities of issuers in Australia, New Zealand and other Asian countries 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.

My partner on the SPM Investment Team is Navin Murthy whose expertise in financial modeling, analyzing capital structures and business valuation plays an important role in all investment decisions. Prior to joining SPM, Navin was a member of the Mergers & Acquisitions department at RBC Capital Markets.

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 both Pat and Navin.

Both Pat and I firmly believe that an investment manager should have "skin in the game". As such, I personally own 116,700 units of Ravensource representing approximately 8.2% of the total units outstanding while Pat – directly and through related parties – owns 547,994 units of Ravensource representing approximately 38.5% of the units of the Fund.

While there is a new team managing Ravensource's investment portfolio, the game remains the same. Make prudent investments which generate returns in line with the risks assumed. Although allocations will vary as opportunities and risks present themselves, Ravensource's investment portfolio will continue to be a balance between distressed debt, income and equity securities.

Results of Operations

2008 Investment Performance

Turning towards the results for 2008, the Fund had a net loss of 39.5% after all fees and expenses. Clearly, the results were very disappointing as we under-performed both in absolute terms and relative to the 33.0% loss in the TSX Total Return Index. These results caused a decrease in net assets from operations of $5,327,581 or $3.74 per unit after factoring in the $0.09 per unit June distribution to unitholders.

	2008	2007	2006
Investment Income	580,271	409,336	224,271
Net Investment Income (Loss)	359,115	(12,436)	(278,975)
Net Realized and Unrealized Gain (Loss) on Investments	(5,686,696)	1,056,793	1,844,190
Total Increase (Decrease) from Operations	(5,327,581)	1,044,357	1,565,215
Total Increase (Decrease) from Operations per unit	(3.72)	0.68	0.97
Total Assets	8,070,479	13,747,298	14,491,923
Net Asset Value per unit	5.63	9.46	8.99
Cash Distribution per unit	0.09	0.17	0.15

2008's Net Investment Income was enhanced by the decision by the former Manager, Cinnamon Investments Ltd, to waive payment of the incentive fees contractually accrued for 2007. As much of the mark-to-market gains of 2007 were subsequently erased in 2008, Cinnamon felt that that they did not wish to benefit at the expense of other unitholders from fees based on fortunate timing rather than through the creation of lasting value.

Expenses of the Fund were lower versus 2007 primarily as a result of the absence of incentive fees paid. Clearly, this is one set of fees that Ravensource unitholders should be happy to pay as it is only incurred if the units increase in value. Other operating expenses were down year-over-year both on an absolute and percentage of net assets basis. Over the course of the year, SPM & Cinnamon were paid a total of $120,508 in Management and Administrative Fees.

2008 was truly a very humbling year for us and as significant investors in the Fund, we share both the disappointment and losses that you have suffered. The fact that most other investment funds lost money during 2008 is of little consolation. We have not met your expectations and for that we apologize.

However, this is not the time to feel sorry for ourselves. Rather it is a time to dust ourselves off and re-focus our efforts on making money for our investors. The first step we took in this process was to turn our attention to one of our core values – safety of principal – by performing a thorough review of our existing investments. During this process, some of our existing investments didn't receive a passing grade when examined under the lens of today's troubling economic backdrop and we liquidated the positions. Additionally, we made further asset sales due to our determination that they didn't offer sufficient value relative to other opportunities in the market. However, the bulk of our investment positions while battered, bruised and confused, stood up to our increased scrutiny. There is no question that the market volatility has been tough to endure. And while there are no certainties in a world where the capitalistic business model is being challenged, after completing our analysis and subsequent asset sales, we believe the Fund's portfolio offers a compelling investment proposition.

Liquidity and Investment Activity

Over the year, much of our investment activity was focused on managing risk and increasing the liquidity of the portfolio. We ended the year with cash balances, net of liabilities, representing 18.9% of Net Assets, up from approximately 5% at the start of 2008. Since the portfolio is weighted towards special situations that are generally less liquid than the market as a whole, it took a high level of diligence to sell certain of our holdings. Over the course of the year, we said good-bye to our holdings in Canadian Pacific Railway, Western Financial Group, Viterra (formerly known as Saskatchewan Wheat Pool), Nemi Northern Energy and Mining and Creststreet Power & Income Fund while reducing the size of several other investments. In addition to raising cash, these sales crystallized prior period gains. However, on the other side of the fence, we established new positions in Cinram International Income Fund, Noranda Income Fund and HSE Integrated, all of which have fallen in value relative to our cost base.

Like most investment funds that focus on special situations, the credit crunch evaporated our ability to sell many of our holdings, if need be, in a relatively short period of time. To some extent, that is the cost of doing business in the space that Pat and I focus on. While we have no desire to change our knitting, we have increased the weight placed on an investment's underlying liquidity in the investment decision making process and regularly examine the liquidity of the portfolio as a whole.

Which brings me to private securities. Although, Ravensource has tended to focus on investing in publicly listed companies, our single largest position is SFG bonds whose underlying debtor is a private company. In addition, we have investments in private companies, Wave Energy and Livingstone Energy. While private investments often look attractively priced when compared to public securities, they also come with liquidity challenges when we look for the exit door. Liquidity is like insurance, you don't need it until you need it. And during the last quarter, if you needed it, you were likely left high and dry when all but Treasury bonds faced a liquidity squeeze. All of the private holdings were purchased with an expectation of a liquidity event within 12-24 months. None of them have delivered. As such, we have decided that privates will play an even lesser role in Ravensource's portfolio going forward.

Looking forward, we do not envision that we will cling to our existing cash balance for an extended period. Not only do the rates we earn on cash provide an insufficient return on capital, we believe that over time, purchasing power will be further eroded as inflation and a more sane investment climate returns. I think it is also safe to assume that Ravensource investors do not want to pay us fees for managing their cash. Thus, we view our existing cash as a war-chest to capitalize on the current distress in the capital markets. In the event that we cannot find suitable investments, we will not hesitate to return the capital to investors. With that said, we are of the belief that bulk of our investment returns are earned at the time of investment and as such, investors should expect us to continue to act in a diligent and patient manner.

Investment Strategy and Risks

As seen in the table below, we have continued to decrease Ravensource's exposure to the equities market over the second half of 2008. While some of the decrease resulted from a decline in the value of the shares we hold, we raised a significant amount of cash by selling some of the investments that we identified as too risky for today's economic climate. While it may seem that we have increased our investment exposure to income related securities, the primary reason for the increase is that the value of our high yield bonds and income trusts did not fall as much as our equity positions. Given that we believe that fixed income securities offer superior investment characteristics relative to equities, we are likely to use our cash position to increase our exposure to corporate bonds over the coming quarters.

Investment Strategy	12/31/08	6/30/08	12/31/07
High Yield Bonds/Trusts	25.7%	16.5%	11.5%
Distressed Securities	7.3%	18.5%	14.6%
Equities	48.1%	60.4%	67.9%
Net Cash & Other Assets	18.9%	4.6%	6.0%

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 School, the portfolio has no exposure to Technology, Pharmaceutical and other companies whose primary assets are a function of "clicks" or offer a promise of a kiss in the event that a better mousetrap is discovered. We like to invest in companies in which we understand the product/service and more importantly have a strong grasp of the business model. Further, over the past year, we have consciously tried to lower 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	1,529,220	19.1%
Media & Publishing	900,406	11.2%
Industrial	800,345	10.0%
Real Estate	728,933	9.1%
Telecom	501,000	6.2%
Manufacturing	486,710	6.1%
Metals & Mining	455,355	5.7%
Energy	398,656	5.0%
Retail	328,104	4.1%
Construction	219,389	2.7%
Chemicals	136,465	1.7%
Automotive	21,431	0.3%
Total	**6,506,014**	**81.1%**

Diversification

As we generally 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, currently all but 3 of our top 25 positions are less than 5% of Net Assets. This somewhat reflects our increasing emphasis to raise the liquidity of the portfolio and the degree to which many of our investments have overlapping investment risks. These considerations argue for smaller individual investments. As a general guideline, when we make a new investment, we limit our exposure to between 2.5% to 5% of Net Assets depending on relative attractiveness, liquidity and the degree of risk/margin of safety. Given the large number of investment opportunities on our radar screen and the riskiness of the current investment climate, we are likely to continue to have a larger number of investments than we may have in more normal times.

Distributions

During 2008, the Fund distributed $0.09 per unit on its regular June distribution date. However, given the Fund did not generate positive investment returns in the second half of the year, any distribution would have simply been a return of capital and an acknowledgement that we couldn't find sufficient opportunities that merited investment. We believe, that for the patient investor, there are a number of situations that we are currently examining that have a high probability of outperforming in the long-run. As such, we decided not to make a distribution in December. The decision not to make the December distribution is reflective of the times we live in and should not be extrapolated to the future. You have my commitment that we will continue to review the distribution policy on a semi-annual basis and will resume making distributions when we believe we have earned it or when the number our investment ideas fall behind our cash positions.

First Metals

In a post year-end event, the Fund did not receive interest income accrued and receivable on December 31, 2008 from its holdings of the First Metals bond. As at December 31, 2008, the Fund had assessed the nonpayment of interest and had reason to expect payment. Upon First Metals Inc. citing an intention to file for bankruptcy on January 8, 2009, the Trust wrote off the associated $21,000 of interest receivable and reduced the fair value of its bond holdings from $180,000 to $90,000.

Looking Beyond the Great Credit Crunch of 2008

Without delivering a lengthy discourse on the state of the credit markets, Q3/Q4 2008 was dominated by the great investor de-leveraging tsunami. At a very fundamental level, you can't deleverage a bank without deleveraging its clients and with no one to step into credit investors' shoes, the cost of borrowing - regardless of fundamentals - has soared. The crux of the issue can be best understood when considering the gap that exists between the average high-yield coupon of approximately 8% and the average high-yield bond yield that is in excess of 18%. Materially higher interest costs will be realized when bonds mature and are re-financed with debt. Well in advance of maturities, CFOs are wrestling with how they will be able to meet increased debt service costs from profit margins that are already being squeezed by the challenging economic environment. In addition, covenant-lite bonds are a thing of the past thereby further reducing corporate financial flexibility. Clearly, many companies will be forced to reduce their borrowings in consequence.

Barring an earth-shattering credit rally, we believe that 2009 will be dominated by corporate and consumer de-leveraging whether accomplished by asset sales, equity issuance or debt-for-equity restructurings. As we are in an economy that makes it difficult to extend the investment horizon past the next coupon payment, it is hard for us to get excited about the market in general. However, we are attracted to the valuations offered in the corporate bond market. But one simply cannot close their eyes and play "spin-the-wheel" to decide on which bond to invest in. Rather, to win in this tightening credit environment, it is critical to determine opportunities where creditors will be the beneficiaries of this next stage in the deleveraging trade. Currently, many of the best opportunities are found in otherwise good companies whose bonds have fallen to distressed levels as a result of a liquidity event affecting their creditors. Of course we will not be limiting our investment activities to just corporate debt. The manic "run to the other side of the boat" has driven share prices of certain companies to levels that seem to be indicating a collapse of their business model. This may be reality for many companies but it is our job to figure out when the market is offering extraordinary value for companies that will survive and ultimately prosper. Thus, our focus for 2009 is to capitalize on distressed securities, not on distressed companies.

Concluding Remarks

I realize that you are likely disappointed with our recent performance. As a fellow investor, I certainly feel your pain. Investors should keep in mind that Ravensource is a fund that specializes in investing in companies that are underfollowed by traditional investors and often have financial troubles or other scratches and dents. As a result, many of our best investments will materialize when the landscape looks most hazardous. Ultimately, how we capitalize on the current market upheaval will be the true test of our investment strategy.

I look forward to hearing via phone or e-mail from unitholders, both large and small. 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.

March 31, 2009

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

Financial Highlights

The following tables show selected key financial information for the Fund 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 annual management report of fund performance contains financial highlights but does not contain 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.

The Fund's Net Assets per Unit ($) (1)					
	2008	2007	2006	2005	2004
Net Assets, beginning of year	9.46	8.99	8.24	6.92	6.40
Increase (decrease) from operations:					
Total revenue	0.41	0.27	0.14	0.14	0.16
Total expenses	0.15	0.28	0.31	0.44	0.22
Realized gains (losses) for the period	0.08	1.38	0.67	0.72	0.18
Unrealized gains (losses) for the period	(4.06)	(0.69)	0.48	1.00	0.48
Total increase (decrease) from operations (2)	(3.72)	0.68	0.97	1.42	0.61
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	0.09	0.17	0.15	0.11	0.10
Total Annual Distributions (3)	0.09	0.17	0.15	0.11	0.10
Net assets at December 31	5.63	9.46	8.99	8.24	6.92

(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 over the financial period.

(3) Distributions were paid in cash.

Ratios and Supplemental Data

	2008	2007	2006	2005	2004
Total net asset value (000's) (1)	$8,021	$13,556	$14,207	$11,320	$9,934
Number of units outstanding (1)	1,424,016	1,433,343	1,579,904	1,374,350	1,435,272
Management expense ratio (2)	2.05%	3.04%	3.94%	5.92%	3.24%
Management expense ratio before waivers or absorptions	2.05%	3.04%	3.94%	5.92%	3.24%
Trading expense ratio (3)	0.20%	0.19%	0.17%	0.33%	N.A.
Portfolio turnover rate (4)	28.45%	65.43%	59.32%	47.72%	80.14%
Net asset value per unit	$5.63	$9.46	$8.99	$8.24	$6.92
Closing market price	$5.00	$9.20	$8.45	$7.77	$6.60

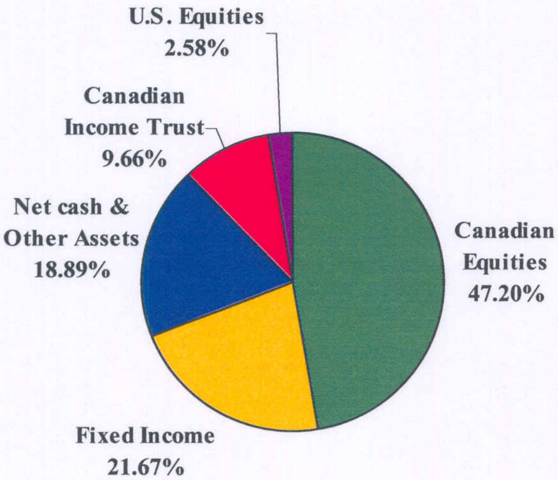
(1) This information is provided as at December 31 of the year shown.

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

(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. The information for 2004 is not available.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its 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.

SUMMARY OF INVESTMENT PORTFOLIO



Top 25 Holdings

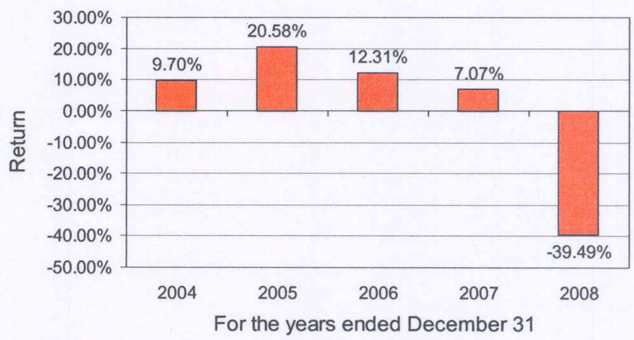
Holding	% of Net Assets
Specialty Food Group 8% 14 Dec 2011	16.03%
Plazacorp Retail Properties Ltd.	7.77%
BCE Inc.	6.25%
Westaim Corporation	4.95%
Glacier Media Inc.	4.56%
Winpak Ltd.	4.19%
Indigo Books & Music Inc.	4.09%
Data Group Income Fund	3.36%
Marsulex Inc.	3.32%
Village Farms Income Fund	3.03%
McGraw-Hill Ryerson Ltd.	2.86%
Aecon Group Inc.	2.74%
Crystallex International Corp. 9.375% 23 Dec 2011	2.67%
First Metals Inc. 14% 5 May 2012	2.24%
Wave Energy Ltd.	2.21%
Cinram International Income Fund	1.84%
West Energy Ltd.	1.73%
Solutia Inc.	1.67%
NEO Material Technologies Inc	1.24%
Noranda Income Fund	0.76%
Retrocom Mid-Market REIT	0.67%
Capital Senior Living Corporation	0.65%
Livingston Energy Ltd.	0.47%
Sea Containers Ltd. 10.5% 15 May 2012	0.46%
HSE Integrated Ltd.	0.34%
Total % of Net Assets	**80.09%**

This summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. The top 25 holdings are made available quarterly, 60 days after quarter-end.

Past Performance

The charts and tables that follow show the past performance of the Fund and 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 31, 2008. The chart shows in percentage terms how an investment made on January 1 would have increased by December 31 of the same fiscal year.



	One Year	Three Year	Five Year
RAV.UN	-39.49%	-15.09%	-14.70%
S&P/TSX Total Return Index	-33.00%	-17.89%	-18.14%

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 on a semi-annual basis 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

Currently the IRC is comprised of Michael Siskind (Chairman), David Magahey, and Richard Hamm.

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. 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