COVINGTON
CAPITAL CORPORATION

2019 | Annual Report

COVINGTON FUND II INC.

For The Year Ended August 31, 2019

TABLE OF CONTENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Covington Fund II Inc. (the "Fund" / "Fund II") are the responsibility of management. They have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 to the financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The Board of Directors discharges its duties to the financial statements primarily through the activities of its Valuation and Audit Committees (the "Committees"), which are composed of members of the Board of Directors. The Valuation Committee has responsibility for approving the Fund's Net Asset Values as calculated by management in accordance with the Fund's valuation policies. The Audit Committee meets with management and the external auditors to review both the financial statements and the results of the audit examination. The external auditors have unrestricted access to the Committees. The Committees also consider, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

These financial statements have been approved by the Board of Directors and have been audited by Ernst & Young LLP, Chartered Professional Accountants and Licensed Public Accountants on behalf of the shareholders. The independent auditor's report outlines the scope of their audit and their opinion on the financial statements.

Scott D. Clark
President & CEO,
Covington Capital Corporation

Stephen Campbell
Chief Financial Officer,
Covington Capital Corporation

Toronto, Canada
October 30, 2019

INDEPENDENT AUDITOR'S REPORT

To the Class A Shareholders of Covington Fund II Inc. (the "Fund")

Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at August 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable shares and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 30, 2019

STATEMENTS OF FINANCIAL POSITION

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

As at		**August 31, 2019** **$**		August 31, 2018 $
ASSETS AND LIABILITIES				
Assets				
Cash		**16,822**		969
Venture investments, at fair value		**39,450**		70,874
Receivable for investments sold		**-**		1,207
Interest and dividend receivable		**73**		68
		56,345		73,118
Liabilities				
Accounts payable and accrued liabilities [Note 7]		**721**		6,569
Conditional incentive participation amount payable [Note 7]		**-**		592
		721		7,161
Net assets attributable to holders of redeemable shares		**55,624**		65,957
Net assets attributable to holders of redeemable shares per Series				
Class A, Series I	**$**	**34,467**	$	40,847
Class A, Series II	**$**	**21,157**	$	25,110
Redeemable Class A Shares outstanding [Note 6]				
Class A, Series I		**8,881,037**		8,914,877
Class A, Series II		**5,729,460**		5,760,376
Net assets attributable to holders of redeemable shares per share [Note 6]				
Class A, Series I	**$**	**3.88**	$	4.58
Class A, Series II	**$**	**3.69**	$	4.36

On behalf of the Board of Directors:

Henry J. Pankratz
Director

Terrence B. Kulka
Director

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

For the years ended August 31,	2019 $	2018 $
INCOME		
Net gain/(loss) on financial instruments:		
Interest for distribution purposes	**4,651**	214
Dividends	**14,185**	-
Realized loss on sale of investments[1]	**(43,819)**	(993)
Realized gain on foreign exchange	**34**	42
Change in unrealized appreciation/(depreciation) of venture investments	**18,027**	(10,725)
	(6,922)	(11,462)
EXPENSES		
VenGrowth contract amount [Note 7]	**876**	1,161
Management fees [Note 7]	**844**	1,120
Service fees [Note 7]	**309**	415
Fund administrator fees [Note 7]	**281**	373
Directors fees	**251**	252
Shareholder communications	**237**	268
Harmonized Sales Taxes	**226**	299
Audit fees	**163**	180
Sponsor fees [Note 7]	**100**	133
Custody fees	**27**	33
Other	**27**	27
Independent Review Committee	**23**	23
Legal fees	**-**	5
Contingent incentive participation amount/(recovery) [Note 7]	**(26)**	(78)
Write-down/(recovery) of escrow receivable	**(203)**	272
	3,135	4,483
Decrease in net assets attributable to holders of redeemable shares	**(10,057)**	(15,945)
Decrease in net assets attributable to holders of redeemable shares per Series		
Class A, Series I	**(6,228)**	(9,822)
Class A, Series II	**(3,829)**	(6,123)
Decrease in net assets attributable to holders of redeemable shares per share (based on weighted average number of shares outstanding)		
Class A, Series I	**$ (0.70)**	$ (1.00)
Class A, Series II	**$ (0.67)**	$ (0.95)
Weighted average number of shares outstanding		
Class A, Series I	**8,899,086**	9,779,241
Class A, Series II	**5,747,835**	6,415,125

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME [Cont'd]

[in $ thousands of Canadian dollars]

For the years ended August 31,	2019 $	2018 $
[1] **Breakdown of realized gain/(loss) on sale of investments:**		
Venture investments		
Venture investments, at cost, beginning of year	**146,533**	156,376
Venture investments purchased during the year	**3,032**	6,123
Venture investments repaid during the year	**(5,410)**	(5,617)
	144,155	156,882
Venture investments, at cost, end of year	**97,082**	146,533
Cost of venture investments sold	**47,073**	10,349
Proceeds from sale of venture investments	**3,254**	9,356
Realized loss on sale of venture investments	**(43,819)**	(993)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

[in $ thousands of Canadian dollars]

For the years ended August 31,	2019 $	2018 $
Net assets attributable to holders of redeemable shares, beginning of year		
Series I	**40,847**	56,758
Series II	**25,110**	35,552
Decrease in net assets attributable to holders of redeemable shares		
Series I	**(6,228)**	(9,822)
Series II	**(3,829)**	(6,123)
Amounts paid for Class A shares redeemed		
Series I	**(152)**	(6,089)
Series II	**(124)**	(4,319)
Net assets attributable to holders of redeemable shares, end of year	**55,624**	65,957

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

[in $ thousands of Canadian dollars]

For the years ended August 31,	2019 $	2018 $
Operating activities		
Decrease in net assets attributable to holders of redeemable shares	**(10,057)**	(15,945)
Items not affecting cash:		
Realized loss on sale of investments	**43,819**	993
Change in unrealized (appreciation)/depreciation of investments	**(18,027)**	10,725
Purchase of venture investments	**(3,032)**	(6,123)
Repayment of venture debt	**5,410**	5,617
Proceeds from sale of venture investments	**3,254**	9,356
Change in non-cash working capital:		
Change in other assets and liabilities	**(5,238)**	3,152
	16,129	7,775
Financing activities		
Amounts paid for Class A Shares redeemed, Series I and II	**(276)**	(10,408)
	(276)	(10,408)
Net increase/(decrease) in cash during the year	**15,853**	(2,633)
Cash, beginning of year	**969**	3,602
Cash, end of year	**16,822**	969
Supplementary information:		
Dividend received*	**14,185**	-
Interest received*	**4,651**	214

* *included in operating activities*

The accompanying notes are an integral part of these financial statements.

SCHEDULE OF INVESTMENT PORTFOLIO

[in $ thousands of Canadian dollars, except number of shares or par value $]

As at August 31, 2019

Venture investments

Investee companies	Number of shares (or par value $)	Debt at cost $	Equity at cost $	Total $
4225813 Canada Inc. (formerly Axela Inc.), Demand Convertible Debenture, 12%	$58,242,248	24,149	-	24,149
4225813 Canada Inc. (formerly Axela Inc.), Common	1,313,244	-	-	-
4225813 Canada Inc. (formerly Axela Inc.), Class A Series 1 Preferred	13,442,856	-	-	-
4225813 Canada Inc. (formerly Axela Inc.), Class A Series 2 Preferred	606,647	-	-	-
4225813 Canada Inc. (formerly Axela Inc.), Class A Series 3 Preferred	2,065,936	-	-	-
4225813 Canada Inc. (formerly Axela Inc.), Class A Preferred	7,858,299	-	-	-
bitHeads Inc., Demand Promissory Note, 9%	$135,000	98	-	98
Black Bull Resources Inc., Common†	51,666	-	6	6
Clek Inc., Class B Common*	2,681,674	-	5,458	5,458
Clek Inc., Demand Promissory Note, 12%*	$500,000	674	-	674
Embotics Corporation, Class A Preferred	395,958	-	3,579	3,579
Embotics Corporation, Class B-2 Preferred	698,509	-	2,500	2,500
Fidelity PAC Metals Ltd., Vendor Take Back Note, 5% due April 4, 2022	$891,805	892	-	892
Fusebill Inc., Seed Preference	3,025,705	-	1,315	1,315
Fusebill Inc., Common	694,580	-	300	300
Interface Biologics Inc., Class A Preferred	10,882,956	-	17,473	17,473
Ivey CSBIF I Inc. Class A	250,000	-	1,814	1,814
Ivey CSBIF II Inc. Class A	250,000	-	1,814	1,814
Mist Mobility Integrated Systems Technology Inc., Demand Promissory Note, 12%	$14,825,000	13,775	-	13,775
Mist Mobility Integrated Systems Technology Inc., Demand Debenture, 15%	$750,000	750	-	750
Mist Mobility Integrated Systems Technology Inc., Demand Subordinated Debenture, 5%	$2,250,000	2,250	-	2,250
Mist Mobility Integrated Systems Technology Inc., Common	6,969,216	-	2,250	2,250
OTYC Holdings Inc., Class D Preferred	43,192,955	-	6,820	6,820
OTYC Holdings Inc., Milestones	17,301,627	-	-	-

SCHEDULE OF INVESTMENT PORTFOLIO [Cont'd]

[in $ thousands of Canadian dollars, except number of shares or par value $]

Venture investments (cont.'d.)

Investee companies	Number of shares (or par value $)	Debt at cost $	Equity at cost $	Total $
PowerBand Global Inc., Common	169,982	-	8,446	8,446
PowerBand Global Inc., Demand Promissory Note, 7%	$974,358	975	-	975
PowerBand Global Inc., Promissory Vendor Take Back Note, 7%	$1,512,997	1,513	-	1,513
Simex Inc., Series A Preferred	58,871	-	-	-
Spartan Bioscience Inc., Common	2,010,000	-	231	231
WireIE Holdings International Inc., Milestones	-	-	-	-
Total venture investments, at cost		45,076	52,006	**97,082**
Unrealized depreciation of venture investments				(57,632)
Venture investments, at fair value				**39,450**
Total investments, at fair value				**39,450**
Other assets, net of liabilities				16,174
Net assets attributable to holders of redeemable shares				**55,624**

* *Investment made and tracked in US dollars.*
† *Indicates a publicly traded security.*

The accompanying notes are an integral part of these financial statements.

SCHEDULE OF INVESTMENT PORTFOLIO [Cont'd]

[in $ thousands of Canadian dollars, except percentages and number of companies]

As at August 31, 2019	Number of companies	Cost of investments $	% Total venture investments at cost %	Fair value of investments $	% Total venture investments at fair value %
Stage of Development					
Start-Up/Early	5	25,398	26.2	16,856	42.7
Expansion	9	60,750	62.5	22,484	57.0
Later	2	10,934	11.3	110	0.3
	16	**97,082**	**100.0**	**39,450**	**100.0**
Industry Class					
Biotechnology/Health Sciences	4	48,673	50.1	14,462	36.6
Financial Services	2	3,628	3.7	2,306	5.9
Technology	6	18,726	19.3	2,725	6.9
Manufacturing/Distribution	4	26,055	26.9	19,957	50.6
	16	**97,082**	**100.0**	**39,450**	**100.0**
As at August 31, 2018					
Stage of Development					
Start-Up/Early	6	79,096	54.0	45,239	63.8
Expansion	9	60,010	41.0	24,054	33.9
Later	2	7,427	5.0	1,581	2.3
	17	**146,533**	**100.0**	**70,874**	**100.0**
Industry Class					
Biotechnology/Health Sciences	4	48,673	33.2	20,207	28.5
Financial Services	2	3,628	2.5	2,240	3.2
Technology	7	68,917	47.0	27,066	38.2
Manufacturing/Distribution	4	25,315	17.3	21,361	30.1
	17	**146,533**	**100.0**	**70,874**	**100.0**

The accompanying notes are an integral part of these financial statements.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

1. CORPORATE STATUS AND ACTIVITIES

Covington Fund II Inc. (the "Fund"), originally incorporated under the laws of Ontario on September 20, 1999, was continued under the *Canada Business Corporations Act* effective November 29, 2010. The Fund is registered as a Labour-Sponsored Investment Fund Corporation ("LSIF") under the *Community Small Business Investment Funds Act* (Ontario) (the "Ontario Act") and as a Labour-Sponsored Venture Capital Corporation ("LSVCC") under the *Income Tax Act* (Canada) (the "Act"). The address of the Fund's registered office is 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4. These financial statements were authorized for issue by the Fund's Board of Directors on October 24, 2019.

The investment objective of the Fund is to earn long-term capital appreciation on part of its investment portfolio and current yield and early return of capital on the remainder of its investment portfolio.

The Manager of the Fund is Covington Capital Corporation ("Covington" or the "Manager"). The administrator of the Fund is CI Investments Inc. (the "Fund Administrator"). The Fund has two Co-Sponsors, the Canadian Police Association ("CPA") and the Association of Canadian Financial Officers ("ACFO") (together, the "Co-Sponsors").

The Fund is currently closed to new subscriptions. Redemptions of the Fund have been temporarily halted. See Note 6.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board.

The financial statements have been prepared on a going concern basis using the historical-cost convention. However, the Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Fund's accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the Net Asset Value for transactions with unitholders. In applying IFRS, these financial statements include estimates and assumptions made by management that affect the reported amounts of assets, liabilities, income, and expenses during the reporting periods. However, existing circumstances and assumptions may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of IFRS 9 *Financial Instruments*

Effective September 1, 2018, the Fund retrospectively adopted IFRS 9, *Financial Instruments* ("IFRS 9") (without restatement). The new standard requires financial assets to be either carried at amortized cost, or at fair value through profit or loss ("FVTPL") or other comprehensive income ("FVOCI") based on the Fund's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. The Fund manages its investments in financial assets with the objective of realizing cash flows through both the sale of the assets and income generated from those assets. The Manager makes decisions based on the assets' fair values and manages the assets to realize those fair values.

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Upon transition to IFRS 9, the Fund's financial assets and financial liabilities previously designated as FVTPL or classified as held for trading under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") continue to be classified as FVTPL under IFRS 9. There were no changes in the measurement attributes for any of the Fund's financial assets and financial liabilities upon transition to IFRS 9. The Fund classifies and measures its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's financial assets are managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's only debt security is solely principal and interest, however, the security is neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the investment is measured at FVTPL. The Fund's obligations for net assets attributable to holders of redeemable shares are presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost, which approximates their fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid and discounted, when appropriate, at the contract's effective interest rate.

Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, inclusive of transaction costs in the case of financial instruments measured at amortized cost. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and liabilities are measured at FVTPL. The Fund's obligations for net assets attributable to holders of redeemable shares are presented at the redemption amount. All other financial assets and liabilities, such as accounts receivable, receivables for venture investments sold, income receivables, accounts payable, accrued expenses, conditional incentive participation amounts payable and redemptions payable, are measured at amortized cost, which approximates fair value due to their short term nature. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's stated rates of interest.

Valuation of investments

At the financial reporting date, all investments having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted, are valued based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the existing market conditions. The changes in fair value are recorded as unrealized appreciation (depreciation) of marketable securities.

Non-private fixed income securities, debentures or other debt instruments, including short-term investments, are valued at the quotation price from recognized investment dealers.

Venture investments in securities not having quoted market values or in restricted securities are recorded at estimated fair value. The fair values of the venture investments are determined by the Manager using recognized valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other pertinent considerations.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

For warrants that are not traded on a recognized securities exchange, where no market value is readily available, a valuation technique is used by maximizing the use of observable market inputs.

The process of valuing venture investments for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

Investment entity

Under Investment Entities – Amendments to IFRS 10, the Fund has determined that it meets the definition of an investment entity under IFRS 10, *Consolidated Financial Statements*, in that it obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. Consequently, the Fund measures investments in other entities over which it has control, at FVTPL, and consolidates only those subsidiaries that provide services related to the Fund's investment activities, if any.

Subsidiaries, associates, joint ventures and structured entities

Subsidiaries are entities, including investments in other investment entities, over which a fund has control. A fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Associates and joint ventures are investments over which a fund has significant influence or joint control. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factors in deciding who controls the entity, or when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

IFRS 10, *Consolidated Financial Statements*, establishes principles for consolidation when one entity controls another but allows an exemption for the consolidation of subsidiaries of investment entities and requires such entities to recognize all subsidiaries at FVTPL. IAS 28, *Investment in Associates*, also allows investments in associates that are held by investment entities to be recognized and measured at FVTPL and to be accounted for in accordance with IFRS 9 *Financial Instruments*, with changes in fair value recognized in the Statements of Comprehensive Income in the period of change. As such, investments that are held as part of the Fund's investment portfolio are carried on the Statements of Financial Position at fair value even though the Fund may have control or significant influence over those companies. Investments in unconsolidated structured entities, if any, have been designated at FVTPL.

Income recognition and security holder transactions

Interest and income for distribution purposes and other income are recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Investment transactions are accounted for on a trade date basis and gains and losses from such transactions are calculated based on average cost excluding transaction costs. Net realized and unrealized gains (losses) on investments include the related foreign exchange gains and losses in the Statements of Comprehensive Income.

Commissions and other portfolio transaction costs

Transaction costs, such as brokerage commissions, if any, incurred in the purchase and sale of securities are included in "Other" in the Statements of Comprehensive Income.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Allocation of income and expenses

The Fund allocates income, expenses, realized and unrealized gains (losses) on the following bases: Income, realized and unrealized gains (losses) are apportioned on a weekly basis based on the net asset value ("NAV") of the respective Series to the total net asset value of the Fund as at the most recent valuation date.

Expenses are categorized and tracked as expenses directly attributable to a specific Series ("direct expenses") and those that are common expenses of the Fund. Direct expenses of a particular Series are recorded as a direct expense to that Series. Common expenses are allocated to each Series in a consistent manner as the income allocation described above.

Foreign currency translation

The Fund holds certain venture investments where the original purchase price was stated in US dollars. The cost is converted to Canadian dollars at the exchange rate in effect at the time of purchase and this amount becomes the historical cost of the investment. When a venture investment was purchased in US dollars, the fair value of these investments are adjusted weekly for the change in the exchange rate.

Increase (decrease) in net assets attributable to holders of redeemable shares

Increase (decrease) in net assets attributable to holders of redeemable shares per series of Class A Shares in the Statements of Comprehensive Income is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable shares per series by the weighted average number of shares outstanding for the relevant series of Class A Shares during the year.

Receivable for investments sold

Receivable for investments sold are carried at fair value. Receivable for investments sold are considered impaired when there is objective evidence that the full carrying value of the receivable is not collectible. When an impairment is identified, the carrying amount of the receivable is reduced to its estimated realizable amount. The excess of carrying value over the estimated net realizable value of the receivable represents an impairment loss which is recognized in the Statements of Comprehensive Income. If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, any reversal of impairment is recognized in the current period Statements of Comprehensive Income. For the 2019 fiscal year, the Company recognized a recovery of escrow receivable of $203 (2018 - writedown of escrow receivable at $272).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material. The most significant accounting judgments and estimates that the Fund has made preparing the financial statements relate to: determining the fair value of venture investments in securities not having quoted market values.

The Fund holds some investments that are not quoted on a recognized stock exchange. Such unlisted securities may be valued based on price quotations from recognized investment dealers, or if not available, determined by the Manager using valuation methodologies and considerations as described in Note 3. The process of valuing venture investments for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

5. UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND STRUCTURED ENTITIES

The Fund meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but rather, recognizes them as investments at FVTPL. The following represent the Fund's interest in unconsolidated subsidiaries, associates and structured entities and related ownership percentages:

	August 31, 2019		August 31, 2018	
Name	**Relationship**	**Proportion of ownership and voting rights**	**Relationship**	**Proportion of ownership and voting rights**
Axela Inc.	Subsidiary	79%	Subsidiary	79%
Clek Inc.	Associate	25%	Associate	25%
Interface Biologics Inc.	Associate	42%	Associate	42%
Ivey CSBIF I Inc.	Subsidiary	53%	Subsidiary	53%
Ivey CSBIF II Inc.	Subsidiary	53%	Subsidiary	53%
Mist Mobility Integrated Systems Technology Inc.	Associate	30%	Associate	30%
Nakina Systems Inc.	-	-	Associate	40%
OTYC Holdings Inc.	Associate	21%	Associate	21%
Powerband Global Inc.	Subsidiary	51%	Subsidiary	51%
WireIE Holdings International Inc.	-	-	Subsidiary	70%

The entities listed above are incorporated in Canada and have their principal place of business in Canada.

Restrictions

The Fund may receive income in the form of dividends or interest from its investments in unconsolidated subsidiaries. While there are no significant restrictions on the transfer of funds from these entities to the Fund, they may be subject to Board of Directors approvals at the subsidiary level as required in any of the subsidiaries' shareholder agreements or other documents.

Commitments and Restricted Cash

The Fund has provided a guarantee of $444 (2018 - $978) to Clek Inc. in support of a credit facility. Should the guarantee be drawn, the amount would be recorded as a follow-on investment.

Support

During the year, the Fund completed follow-on financings to support its unconsolidated subsidiaries as follows:

Company	Financings completed
Powerband Global Inc.	$14 (2018 - $74) in 7% demand promissory notes
WireIE International Inc.	$455 in 12% demand promissory notes (2018 - $300 in 12% demand promissory notes and $1,315 in preferred shares)

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

6. REDEEMABLE SHARES

The Fund has specific investment requirements and restrictions as outlined in the Fund's annual information form. The Fund's Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares identify changes in the Fund's capital during the period. The Manager manages the capital of the Fund in accordance with the Fund's investment objective; including managing its liquidity in order to meet redemptions. The Fund is authorized to issue an unlimited number of Class A Shares in an unlimited number of series.

The Fund is registered as an LSIF under the Ontario Act, is an LSVCC under the Act and is required to invest a portion of capital raised in eligible small and medium sized Canadian businesses. Eligible businesses are generally privately owned and are characterized as having less than $50 million in assets and less than 500 employees. In order to be classified as eligible investments, there are restrictions under the Act on the size, nature, and timing of the investments as outlined in the Fund's annual information form. These restrictions, if not met, could have negative impacts as the Fund could be levied with penalty taxes and, ultimately, have its LSIF status revoked. As at December 31, 2018, the Fund was in compliance with these restrictions related to both the Act and Ontario Act.

The following is a description of the authorized and issued share capital:

Unlimited number of Class A Shares, issuable from treasury, discretionary dividend entitlement, voting, restrictions on transfer and redemption, entitled to elect two directors.

25,000 Class B shares issuable only to the Co-Sponsors of the Fund, no dividend entitlement, voting entitled to elect remainder of directors.

Unlimited number of Class C shares, issuable in series. None issued or outstanding.

100 Class D Shares, voting, no dividend entitlement, redeemed upon issuance of Class B shares. None outstanding.

Issued and Outstanding Class A Shares

The following shares were issued and redeemed during the years indicated:

For the year ended August 31, 2019	Class A, Series I	Class A, Series II
Balance, beginning of year	8,914,877	5,760,376
Redeemed during the year	(33,840)	(30,916)
Balance, end of year	8,881,037	5,729,460

For the year ended August 31, 2018	Class A, Series I	Class A, Series II
Balance, beginning of year	10,165,503	6,699,307
Redeemed during the year	(1,250,626)	(938,931)
Balance, end of year	8,914,877	5,760,376

Redemption of Class A Shares

A shareholder may redeem all or part of the Class A Shares held at the NAV per Class A Share, subject to certain restrictions. One of these restrictions provides that the Fund is not required to redeem Class A Shares, in any financial year having an aggregate redemption price exceeding 20% of the NAV of the Fund as at the last day of the preceding fiscal year. The Fund cannot guarantee that it will be able to honour all redemption requests on the day in which they are made. Some of the Fund's investments are held in non-liquid securities. As such, if all shareholders were to redeem their shares at the same time, the Fund may need to liquidate these investments at lower values than currently ascribed and shareholders may not receive the NAV ascribed. The redemption of Class A Shares may be suspended in certain circumstances as permitted by applicable securities law.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

6. REDEEMABLE SHARES *(Cont'd)*

On September 2, 2011, the Fund merged (the "Merger") with the New Generation Biotech (Equity) Fund Inc. ("NGBE"), The Vengrowth Investment Fund Inc., The Vengrowth II Investment Fund Inc., The Vengrowth III Investment Fund Inc., The Vengrowth Advanced Life Sciences Fund Inc., and The Vengrowth Traditional Industries Fund Inc. (collectively the "Merged Funds"). Pursuant to this transaction, the Fund acquired all of the assets and assumed the liabilities of the Merged Funds at fair value in exchange for units of the Fund based on the exchange ratio established on closing. At the time of the Merger, shareholders of the Merging Funds receiving Class A Shares, Series I or Series II had an option to redeem shares received pursuant to the merger. These redemptions were subject to a 15% redemption fee payable as income to the Fund.

Class A Shares, Series I and Series II issued pursuant to the merger to shareholders of the Merging Funds that did not redeem at the time of the transaction, were subject to additional redemption restrictions. Shareholders were able to redeem 15% per year of the shares they received on the effective date of the merger without redemption fees. This 15% restriction was in effect for four years and was not cumulative from one year to the next.

On September 2, 2015, the fourth anniversary of the Merger, the redemption restriction expired on all Class A Shares that have been issued and outstanding for eight years or more. On September 8, 2015, the Fund announced a temporary halt to redemptions of the Fund given the magnitude of redemption requests had the potential to eliminate the liquidity required to operate the Fund in an efficient manner. On January 18, 2016, the Fund re-opened to redemptions and was halted again after cumulative redemptions for fiscal 2016 reached approximately 20% of the NAV as at the last day of fiscal 2015, as contemplated in the Fund's prospectus disclosure.

On October 24, 2016 the Fund was re-opened and subsequently closed to reflect the objective of the Fund meeting the annual redemption requirement of approximately 20% of the NAV as at the last day of fiscal 2016, as contemplated in the Fund's prospectus disclosure.

On May 7, 2018, the Fund was re-opened for redemptions totalling approximately $10,000. Upon completion of this redemption, the Manager announced that the primary focus is on optimizing the value of the investment holdings as it seeks out opportunities to exit the remaining portfolio investments over the next approximately 24-month period and return capital to unitholders.

For Class A Shares, Series I, a redemption fee is charged in the amount of up to 6% of the redemption price calculated as 0.75% of the redemption amount times the number of years or part years remaining until the eighth anniversary date of issue.

For Class A Shares, Series II, the redemption fee charged is dependent upon the origination of the Shares. For Class A Shares, Series II issued as transaction shares on account of former holders of the Merged Funds Series A or Series B, a redemption fee of up to 6% of the offering price is calculated as 0.75% of the redemption amount times the number of years or part years remaining until the eighth anniversary date of issue. For Class A Shares, Series II issued as transaction shares on account of former holders of the Merging Funds Series C shares, a redemption fee of up to 10% of the offering price calculated as 1.25% of the redemption amount times the number of years or part years remaining until the eighth anniversary date of issue.

Class B Shares

There are 199 Class B shares issued and outstanding to the Co-Sponsors (100 to the CPA and 99 to the ACFO). No Class B shares have been issued or redeemed in the years ended August 31, 2019 or 2018.

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

7. FEES AND EXPENSES

The Fund has entered into various agreements for the provision of management services including: fund management, sponsor, administration (including transfer agency), dealer and custodial services. Under the terms of certain of these agreements, the Fund may be required to pay fees based on the net asset value of the Fund.

The Fund has entered into agreements for the following annual fee rates, which, unless otherwise stated, are paid monthly based on the average net asset value of the Fund:

Fund management	1.35%
Co-Sponsor fees	0.16% (0.11% to the ACFO and 0.05% to the CPA)
Fund administration	0.45%
Dealer service fees	0.50% on Class A Shares, Series I and 0.50% on certain Class A Shares, Series II after the eighth year of issue

Covington is entitled to a conditional incentive participation amount (the "IPA") based on the performance of the Fund. Before any payment, the Fund must satisfy all of the following criteria: (i) The Fund must earn sufficient income to generate a rate of return on the eligible investment portfolio greater than the average of the 5-year GIC rate of the five major banks plus 2% on an annualized basis; (ii) for a particular investment, the Fund must earn a cumulative investment return at an average annual rate in excess of 12% since investment; and (iii) the Fund must fully recoup an amount equal to all principal invested in the particular investment (including for assets from the Merged Funds, the amounts invested by the predecessor Merged Fund).

If these performance criteria as outlined in the Fund's offering documents and/or annual information form have been met, the Fund records Conditional IPA. Conditional IPA represents a provisional estimate of what would be payable to the manager if the entire venture portfolio of the Series were disposed of at fair value as at the reporting date, whereas IPA payable is based on actual realized transactions. Conditional IPA was formerly referred to as "Contingent IPA" prior to the adoption of IFRS by the Fund.

Subject to all of the above, the Fund pays an IPA of 15% of all income earned from the particular investment acquired from the Merged Funds since the date the investment was acquired by the Fund. For the purposes of future IPA payments, the Merged Funds' portfolio assets will be tracked with a hurdle that will have a cost equal to the fair value on September 2, 2011. With respect to the pre-merger Fund assets and any new investments (other than follow-on investments), the Fund will pay a 20% IPA if both the portfolio and specific investments achieve the criteria (i), (ii), and (iii) above.

The movement of Conditional IPA accruals or IPA payable is summarized below:

Expensed/(recovered) year ended August 31, 2019 $	Expensed/(recovered) year ended August 31, 2018 $	**Accrued as at August 31, 2019 $**	Accrued as at August 31, 2018 $	**Paid year ended August 31, 2019 $**	Paid year ended August 31, 2018 $
(26)	(78)	**-**	592	**566**	-

Directors of the Fund are entitled to receive an annual fee of $35 each plus reimbursement of expenses incurred to attend meetings.

Members of the Funds' Independent Review Committee ("IRC") also serve another LSIF managed by Covington. The IRC members each receive total remuneration across all funds of $12 per year, plus a per meeting fee of $2 for the Chairperson and $1.5 per meeting for each of the other two members. The annual fee is allocated across all of the funds served by the IRC whereas per meeting fees are borne by the particular fund for which the meeting is called, if any.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

7. FEES AND EXPENSES *(Cont'd)*

VenGrowth contract amount

Upon completion of the merger transaction on September 2, 2011, the Fund acquired the assets of the VenGrowth Funds including: venture assets, vendor rights, reserves, and all other assets of such funds. Included in the acquisition were commitments to the VenGrowth Managers for the elimination of existing management agreements in connection with the disposal of their business. Payment of these amounts were approved by shareholders of both the Fund and the Merged Funds pursuant to the transaction and were structured such that no incremental costs were borne by the shareholders beyond those that existed prior to the merger.

The structure results in the following payments by the Fund to the VenGrowth Managers: (i) 1.4% per annum of the net asset value of the Fund paid on a monthly basis; (2) capital maintenance payments of 1.15% per annum paid monthly of the issue cost on all Class A transaction shares issued for the Merged Funds (excluding NGBE) Series A,B,E and F issued after December 31, 2003 and 1.65% per annum paid monthly of the issue cost on Class A transaction shares issued for Merging Funds (excluding NGBE) Series C shares. These are for finance and administration costs related to sales commission financing and terminate after the eighth anniversary of that date of original share issuance and (3) 50% of any IPA paid during the year.

8. RELATED PARTY TRANSACTIONS

The Fund receives investment advisory services provided by the Manager. These services are in the normal course of operations and are recorded at the amount of the considerations agreed to by the parties, as described in Note 7. Management fees, incentive participation amount and sponsor's fees are reported in the Statements of Comprehensive Income. Amounts due to/from the Manager and contingent incentive participation amount payable to the Manager at period-end, if any, are reported in the Statements of Financial Position. Included in accounts payable and accrued liabilities as at August 31, 2019 is $68 (2018 - $2,964) due to the Manager for accrued management fees. Also see Note 5 for additional related party transactions.

9. INCOME TAXES

Under the Act, no income taxes are payable by the Fund on dividends received from Canadian corporations, and income taxes payable on capital gains will be fully refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid or deemed to be paid by the Fund to its shareholders. A portion of the income taxes payable on dividend income earned by the Fund is also refundable on payment or on a deemed payment of dividends to the shareholders.

Both the Act and the Ontario Act set minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met as at the calendar year end, the Fund will be subject to defined taxes and penalties. As at December 31, 2018, the Fund is in compliance with both requirements set out in the Tax Act and the Ontario Act.

The Fund has capital losses of $71,571 and non-capital losses of $70,793 available to offset future taxable capital gains and income respectively. The benefit, if any, of these losses have not been recognized in these financial statements. If not utilized, the non-capital losses will expire as follows: 2039 - $765; 2038 - $2,001; 2037 - $5,920; 2036 - $593; 2035 - $9,617; 2034 - $21,151; 2033 - $9,065; 2032 - $6,874; 2031 - $1,846; 2028 - $3,768; 2027 - $5,268 and 2026 - $3,925. Capital losses can be carried forward indefinitely.

The tax amounts reflected in these financial statements are based on management's best estimate of the amounts that will ultimately be assessed. This determination is based on numerous factors such as the pace at which the Fund makes qualifying venture investments, the amount of share capital raised and redeemed, and the net income and undistributed net realized gains (losses) on sale of investments by the Fund. Should actual events not agree with the estimates made by management of the Fund, material adjustments to the tax amounts may be required.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

10. FINANCIAL INSTRUMENTS

Fair value hierarchy

The following describes the three-level hierarchy for fair value measurements based on transparency of inputs to the valuation of an asset or liability as at the measurement dates. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 – Quoted Prices in an Active Market

Unadjusted quoted prices in active markets for identical assets or liabilities. This level of the hierarchy includes listed equity securities on major exchanges, highly liquid temporary deposits with Canadian Banks, as well as term deposits, bank deposit notes and corporate bonds. The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

Level 2 – Valuation Techniques with Observable Parameters

Inputs other than quoted prices included in Level 1 that are observable for the asset and liability either directly (ie. as prices) or indirectly (ie. derived from prices). Since the inputs may be observable inputs but the application of a valuation model is used, these financial instruments are considered Level 2.

Level 3 – Valuation Techniques with Significant Unobservable Parameters

Inputs that are not based on observable market inputs Level 3 instruments include equities, debentures, term loans and promissory notes issued by privately-held companies. As observable prices are not available for these securities, the Fund may use a variety of valuation techniques to derive the fair value.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. These amendments have been made to address the need for increased consistency and comparability of fair value measurements, and to expand the disclosure surrounding fair value measurements and do not have any impact on the net assets of the Fund.

Financial Instruments Carried at Fair Value

The following table classifies the carrying value of the Fund's financial instruments held at fair value across the fair value hierarchy as at August 31, 2019 with comparatives as at August 31, 2018:

	Financial instruments at fair value			
August 31, 2019	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Venture investments	8	-	39,442	39,450
Total financial assets	**8**	**-**	**39,442**	**39,450**
August 31, 2018				
Venture investments	8	-	70,866	70,874
Total financial assets	8	-	70,866	70,874

During the years ended August 31, 2019 and 2018 there were no transfers between any of the three levels of the valuation hierarchy.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

10. FINANCIAL INSTRUMENTS *(Cont'd)*

The following is a reconciliation of Level 3 fair value measurements:

	August 31, 2019 $	August 31, 2018 $
Level 3 balance, beginning of year	70,866	91,434
Purchase of investments	3,032	6,123
Sale/repayment of investments	(8,664)	(14,973)
Change in unrealized losses	18,027	(10,725)
Net realized gains/(losses)	(43,819)	(993)
Level 3 balance, end of year	**39,442**	70,866
Total change in unrealized depreciation during the year included in the statements of Comprehensive Income for assets held at end of year	**18,027**	(10,725)

Risk management

The Fund's activities expose it to a variety of financial risks: valuation risk, market risk (which includes currency risk, interest rate risk and other price risk), liquidity risk and credit risk, as described below. The Fund's overall risk management programs seek to minimize potential adverse effects on the Fund's financial performance through a regular program of monitoring the Fund's investment positions and updating the valuation of the private company portfolios. The value of investments within a portfolio can fluctuate daily as a result of changing economic and market conditions, prevailing interest rates and company specific news relating to portfolio investments.

The Fund has managed this risk through its Valuation Committee that reviews quarterly reports from the Manager on the investment portfolio as a whole, and on determination of fair value for the venture investments including a discussion of significant events affecting the valuation of such investments. This Committee is independent from the Manager and is responsible for considering the appropriateness of the valuation policies adopted by the Fund and the Manager.

(a) Valuation and other market risk

There is a risk of loss of capital associated with all venture investments of the Fund. Valuation risk is the risk that the estimated fair values of investments for which no quoted market value exists as determined by the Manager may differ from values that would have been used had a ready market existed for these investments. Other market risk is the risk that the value of the venture investments will fluctuate as a result of changes in market prices.

Among the assets held for trading by the Fund are venture investments for which no quoted market values exist.

These investments are in privately held companies whereby fair values are estimated by the Manager using valuation techniques as described in Note 3.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

10. FINANCIAL INSTRUMENTS *(Cont'd)*

(a) Valuation and other market risk *(Cont'd)*

Included in the Statements of Comprehensive Income for the Fund are changes in unrealized gains or losses on venture investments for which the fair values have been estimated based on assumptions that may not be supported by observable market prices. The potential effect of changing the assumptions to reasonably possible alternative assumptions on the fair value of the venture investments could result in a decrease or increase in net assets as at August 31, 2019 and 2018 as follows:

August 31, 2019		August 31, 2018	
Fair value of privately held investments $	**Decrease/Increase in net assets**	Fair value of privately held investments $	Decrease/Increase in net assets
39,442	**-5.17% to +24.88%**	70,866	-6.57% to +0.20%

The tables below summarize the significant unobservable inputs used in the fair value measurement of Level 3 financial instruments.

For the purposes of these tables, venture investments are broken down as debt and equity. With respect to equity investments, those investments that are expected to require further significant investment to reach cash flow break-even are classified as early stage, those which may require strategic follow-on financing to grow are classified as expansion stage, other equity investments are classified as later stage.

As at August 31, 2019

Description	**Fair value $**	**Valuation technique**	**Unobservable inputs**	**Reasonable possible shift in value**	**Change in valuation +/- $**
Debt	12,263	Estimated realizable value	Probability of collection	-16.72% to +24.47%	-2,050 to +3,000
Early stage equity	16,857	Last equity round	Discount rate	-4.89% to +64.32%	-824 to +10,842
Expansion stage equity	8,017	Comparable trading multiples	Revenue multiple	-	-
Later stage equity	-	Comparable trading multiples	EBITDA multiple	-	-
Underlying funds	2,305	Net asset value per share	Net asset value per share	-	-

As at August 31, 2018

Description	**Fair value $**	**Valuation technique**	**Unobservable inputs**	**Reasonable possible shift in value**	**Change in valuation +/- $**
Debt	38,027	Estimated realizable value	Probability of collection	-11.30% to +0.21%	-4,296 to +81
Early stage equity	20,919	Last equity round	Discount rate	-0.19% to +0.00%	-40 to 0
Expansion stage equity	8,099	Comparable trading multiples	Revenue multiple	-	-
Later stage equity	1,581	Comparable trading multiples	EBITDA multiple	-0.00% to +3.38%	0 to +53
Underlying funds	2,240	Net asset value per share	Net asset value per share	-	-

The process of valuing investments for which no published market exists, is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments, and may not reflect the prices at which the Fund's investments may actually be sold.

AUGUST 31, 2019

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

10. FINANCIAL INSTRUMENTS *(Cont'd)*

(b) Foreign currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. Although the Manager has flexibility to manage the foreign currency risk by hedging its currency exposure, the Manager did not engage in currency hedging during the period due to the low volume of foreign currency transactions involved. Increases and decreases in the exchange rate between the Canadian currency and the foreign currency may increase or decrease the value of the foreign currency denominated investments within the Fund.

The Fund had exposure to US dollars ("USD") as at August 31, 2019 and 2018 as follows:

August 31, 2019		August 31, 2018	
USD Financial instruments denominated in CAD	**Impact of a +/-2% change in Canadian dollar relative to USD on the Net Assets of the Fund**	USD Financial instruments denominated in CAD	Impact of a +/-2% change in Canadian dollar relative to USD on the Net Assets of the Fund
8,826	**-177 to +177**	9,085	-182 to +182

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(c) Interest rate risk

The value of debt securities will be affected by changes in applicable interest rates. If interest rates fall, the fair value of existing debt securities may increase due to the increase in yield. On the other hand, if interest rates rise, the yield of existing debt securities will decrease which will lead to a decrease in fair value. The magnitude of the change will generally be greater for long-term debt securities than short-term debt securities.

Interest rate risk also applies to convertible securities. The fair value of these securities varies inversely with interest rates, similar to other debt securities. However, since they may be converted into common shares, convertible securities are generally minimally affected by interest rate fluctuations than other debt securities. Below is a breakdown of debt instruments by maturity:

Debt instruments by maturity date	**Less than 1 year $**	**1-3 years $**	**3-5 years $**	**Greater than 5 years $**
As at August 31, 2019	**44,184**	**892**	**-**	**-**
As at August 31, 2018	76,409	98	1,216	-

(d) Other price risk

Other price risk is the risk that the fair value or future cash flows of the investments will fluctuate because of changes in market prices. In addition to venture investments for which no quoted market values exist, the Fund also holds investments which are publicly traded on a recognized stock exchange.

There is market price risk associated with the Fund since as at August 31, 2019 - $8 or 0.0% (2018 - $8 or 0.0%) of net assets attributable to holders of redeemable shares is invested in publicly-traded securities.

[In $ thousands of Canadian dollars, except per share amounts and number of shares]

10. FINANCIAL INSTRUMENTS *(Cont'd)*

(e) Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. Fair value of investments with low liquidity may have significant variances or impairments if a fund is required to enter into a forced liquidation scenario.

The Fund is not required to redeem Class A Shares, in any financial year having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding fiscal year. Many of the Fund's investments are held in non-liquid securities. As such, if all shareholders were to redeem their shares at the same time, the Fund would need to liquidate these investments in order to meet the redemption requests.

The Fund was initially launched in 1999. The majority of the Fund's units are currently eligible for redemption such that if all shareholders eligible for redemption were to do so, the Fund would not have sufficient liquid resources to honour all redemptions.

In reality, the Fund cannot immediately liquidate 100% of its securities practically due to the lack of a ready market for private companies and, more notably, without incurring discounts to fair values which would, in turn, negatively impact the NAV of the Fund.

(f) Credit risk

Credit risk is the risk that a debt security issuer or counterparty cannot meet its financial obligations, such as making interest payments or principal repayments. Issuers that have suffered adverse changes in financial conditions may receive a low credit rating reflecting a high credit risk. A change in the credit rating of the debt security can affect its liquidity and may result in an impairment of its fair value. The Manager manages credit risk by investing the bond portfolio of the Fund in high quality investment grade debt obligations with a minimum rating of "A" at the time of investment. Currently, the Fund does not hold such debt instruments in its portfolio.

The Fund holds a portion of is investment portfolio in private debt instruments which can be considered high risk debt instruments. As at August 31, 2019, the Fund had $45,076 (2018 - $77,723) invested in these assets. These instruments are not rated by any of the market bond rating services and are also subject to valuation risk as described in part (a) above.

The Fund has provided guarantees of $444 to investee companies (2018 - $978). Should the guarantees be drawn, the amounts would be recorded as follow-on investments (see Note 5).

Fund Symbols

Covington Fund II Inc.
CIG912 - Closed
CIG 961 - Closed

Investment and Fund Advisor

Covington Capital Corporation
36 Distillery Lane, Suite 440
Toronto, ON M5A 3C4

Co-Sponsors

Canadian Police Association
141 Catherine Street, Suite 100
Ottawa, ON K2P 1C3

Association of Canadian Financial Officers
400-2725 Queensview Drive
Ottawa, ON K2B 0A1

Auditor

Ernst & Young LLP
EY Tower
100 Adelaide St. W.
P.O. Box 1
Toronto, ON M5H 0B3

Administrator, Transfer Agent and Registrar

CI Investments Inc.
15 York Street, 2nd Floor
Toronto, ON M5J 0A3
Customer Service: 1 888 746 4751

36 Distillery Lane
Suite 440
Toronto, ON M5A 3C4
Telephone: 416 365 0060
Facsimile: 416 365 9822
Email: info@covingtonfunds.com
Website: www.covingtonfunds.com

COVINGTON
CAPITAL CORPORATION