



COVINGTON VENTURE FUND INC.

ANNUAL INFORMATION FORM

Class A Shares, in the Following Series:

Series	VII
Series	VIII
Series	VIII-B
Series	IX
Series	IX-B

October 20, 2017

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No securities regulatory authority has expressed an opinion about these shares and it is an offence to claim otherwise.

DATE OF ANNUAL INFORMATION FORM

This Annual Information Form is dated as at October 20, 2017. This document is an annual information form in respect of the fiscal year ended July 31, 2017. Unless otherwise stated herein, all information is current as of July 31, 2017. Information relevant to the period from August 1, 2016 to July 31, 2017 is to assist the reader to understand changes to the information provided since July 31, 2016. Where such additional information is provided, the date of the information is disclosed herein.

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements about matters that involve risks and uncertainties, such as statements of the Fund's plans, objectives, expectations and intentions, as well as financial trends. The discussion also includes cautionary statements about these matters. A reader of this Annual Information Form should consider the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this Annual Information Form. In particular, please note that: (a) there is no assurance that any forward-looking statement will materialize and the results or events contemplated herein may differ from actual results or events; (b) unless otherwise indicated, forward-looking statements describe expectations as of October 20, 2017; and (c) the Fund disclaims any intention or obligation to update or revise any forward-looking statements made herein.

Factors that could cause the Fund's actual results to differ materially from forward-looking statements contained herein include, but are not limited to: numerous external and internal business and operating risks having an adverse effect on the results of operations of portfolio companies, adverse tax or regulatory decisions being made against the Fund, including decisions with respect to eligible businesses.

CURRENCY

All currency is expressed in Canadian dollars unless otherwise indicated.

SELECTED DEFINITIONS

"Amalgamation of the Fund" means the amalgamation of CFVF, NGBB, E2, VPB, TGF and NMVF pursuant to articles of amalgamation dated January 6, 2006 which created the Fund;

"CBCA" means the *Canada Business Corporations Act*, as amended;

"CFPA" means the Canadian Federal Pilots Association, the sponsor of the Fund;

"CFVF" means Capital First Venture Fund Inc.;

"Class A Share" means individually the Class A Share of any one or more Series of the Fund;

"Class A Share Investment Portfolio" means, at any point in time, the eligible investments of the Fund made with capital raised from the sale of Class A Shares of the Fund;

"Covington" means Covington Capital Corporation in its capacity as the manager and investment advisor of the Fund;

“Custodian” means RBC Investor Services Trust, in its capacity as custodian of portfolio securities and as fund accounting service provider;

“Distribution Services Fee” means with respect of Class A Shares, Series VIII-B issued between January 30, 2008 and March 31, 2008 and Class A Shares, Series VIII issued between October 16, 2008 and March 31, 2009, in respect of any particular month, an amount equal to 0.096% of the original issue price of the Class A Share, Series VIII or Series VIII-B issued; and respect of Class A Shares, Series IX-B issued between January 30, 2008 and March 31, 2008 and Class A Shares, Series IX issued between October 16, 2008 and March 31, 2009, in respect of any particular month, an amount equal to 0.16% of the original issue price of the Class A Shares, Series IX and Series IX-B issued and outstanding for such month.

“E2” means E2 Venture Fund Inc.;

“eligible business” means an eligible business entity as defined in the Federal Tax Act, which is also an eligible business as defined in Part III of the Ontario Act;

“eligible investment” means an investment that is an eligible investment as defined in the Federal Tax Act that is also an eligible investment under Part III of the Ontario Act;

“eligible investor” means an individual (other than a trust that is not a qualifying trust) who is an eligible investor as defined in Part III of the Ontario Act;

“Effective Date” means the date which appears upon the certificate of amalgamation respecting the Amalgamation of the Fund;

“Federal Tax Act” means the *Income Tax Act* (Canada), as amended;

“Fund” means the Covington Venture Fund Inc.;

“GAAP” means Canadian generally accepted accounting principles applicable to publicly accountable enterprises that are investment companies prior to January 1, 2014.

“IFRS” means International Financial Reporting Standards.

“Independent Review Committee” or “IRC” means the independent review committee of the Fund established pursuant to National Instrument 81-107 *Independent Review Committee for Investment Funds*;

“Information Return” means a tax information return referred to in paragraph 204.81(6)(c) of the Federal Tax Act issued to an eligible investor who has purchased a Class A Share in the capital of a registered labour-sponsored venture capital corporation;

“labour sponsored investment fund corporation” means a labour sponsored investment fund corporation registered under Part III of the Ontario Act;

“labour-sponsored venture capital corporation” means a labour-sponsored venture capital corporation registered under the Federal Tax Act;

“Manager” means Covington Capital Corporation in its capacity as the manager of the Fund;

“net asset value per Class A Share, per Series” is determined where applicable for the Fund by subtracting the aggregate amount of liabilities allocated to the Class A Shares for a particular Series of the Fund from the value of assets attributable to the same Series of Class A Shares of the Fund and dividing the resulting amount by the number of Class A Shares for that Series, outstanding at the date such value is determined;

“net proceeds” means the gross proceeds of the continuous offering of Class A Shares less the sales commissions and the expenses of the Fund;

“NGBB” means New Generation Biotech (Balanced) Fund Inc.;

“NMVF” means New Millennium Venture Fund Inc.;

“Ontario Act” means the *Community Small Business Investment Funds Act* (Ontario), as amended;

“Ontario Tax Act” means the *Income Tax Act* (Ontario) with respect to taxation years prior to 2009 and the *Taxation Act, 2007* (Ontario) with respect to the 2009 and subsequent taxation years as amended;

“Portfolio Company” or **“Portfolio Companies”** means one or more businesses in which the Fund has made an eligible investment;

“Predecessor Funds” means, collectively, CFVF, NGBB, VPB, TGF, E2 and NMVF which collectively are the predecessor funds to the Fund and **“Predecessor Fund”** means one of the foregoing, as the case may be which would be one of the predecessor funds to the Fund;

“Qualifying Trust” for an individual (a natural person) means a trust that is governed by (a) an RRSP where: (i) the plan is not a spousal plan and the individual is the annuitant; or (ii) the plan is a spousal plan in relation to the individual or the spouse or common-law partner of the individual and the individual or the spouse or common-law partner of the individual is the annuitant and the individual and no other person claims a deduction of the tax credit under the Federal Tax Act; and (b) a TFSA in respect of which the individual is the holder;

“RC Capital” means RC Capital Management Inc.;

“Registered Plan” means a trust governed by an RRSP or an RRIF;

“RBC” means RBC Investor Services Trust, in its capacity as custodian of portfolio securities and as Fund accounting service provider;

“RRIF” means a registered retirement income fund as defined in subsection 146.3(1) of the Federal Tax Act;

“RRSP” means a registered retirement savings plan as defined in subsection 146(1) of the Federal Tax Act;

“Registrar and Transfer Agent” means the registrar and transfer agent for the Class A Shares of the Fund, currently CI Investments Inc.;

“reserves” has the meaning ascribed thereto in the Federal Tax Act and includes Canadian dollars in cash or on deposit with qualified Canadian financial institutions; debt obligations of or guaranteed by the Canadian federal government; debt obligations of provincial and municipal governments or Crown

corporations; debt obligations issued by corporations, mutual fund trusts or limited partnerships, the shares or units of which are listed on designated Canadian stock exchanges; debt obligations of corporations, the shares of which are listed on designated foreign stock exchanges; guaranteed investment certificates issued by Canadian trust companies; and qualified investment contracts;

“**Securities Act**” means the *Securities Act* (Ontario), as amended, together with all regulations and rules thereunder;

“**Series**” means one or more series of Class A Shares and öSeries Iö, öSeries IIö, öSeries IIIö, öSeries IVö, öSeries Vö, öSeries VIö, öSeries VIIö, öSeries VIIIö, öSeries VIII-Bö, öSeries IXö and öSeries IX-Bö each refer to that particular series of Class A shares, as the case may be;

“**Sponsor**” means the Canadian Federal Pilots Association;

“**TFSA**” means a ötax free savings accountö, as defined in subsection 248(1) of the Federal Tax Act;

“**TGF**” means Triax Growth Fund Inc.;

“**Tax Credit**” means the federal labour-sponsored venture capital corporation tax credit in respect of an original acquisition of a Class A Share;

ö**Tax Credit Certificate**ö means the certificate issued by the Fund pursuant to subsection 25(5) of the Ontario Act to an eligible investor who has purchased Class A Shares;

“**Trustee**” means The Canada Trust Company in its capacity as trustee for an RRSP established to hold Class A Shares; and

“**VPB**” means Venture Partners Balanced Fund Inc.

NAME, FORMATION AND HISTORY OF THE FUND

This annual information form relates to Covington Venture Fund Inc. (the “**Fund**”) for the fiscal year ended July 31, 2017.

On January 6, 2006, the Predecessor Funds amalgamated to form the Fund pursuant to Articles of Amalgamation filed under the CBCA. Pursuant to the Articles of Amalgamation, shares of each of the Predecessor Funds were exchanged for shares of the Fund which resulted in the Fund having seven series of Class A Shares. In January 2006, the initial Amalgamation of the Fund was completed whereby the Series I, II, III pool of assets was formed by combining the assets attributable to TGF, E2, and Series II of NMVF. Each of Series IV, Series V, Series VI and Series VII refers to shares which entitle their respective holders to an individual portfolio which is held as a separate pool of assets. The pool of assets held for Series IV was formerly the pool of assets which were attached to the Class A Shares, Series I of NMVF. The pool of assets held for Series V was formerly the pool of assets which were attached to the Class A Shares of NGBB. The pool of assets held for Series VI was formerly the pool of assets which were attached to the Class A Shares of VPB. The pool of assets held for Series VII were formerly the assets which were attached to the Class A Shares of CFVF. Articles of Amendment were filed on November 13, 2007 in order to create and designate the share provisions for the Class A Shares, Series VIII (öSeries VIIIö) and Class A Shares, Series IX (Series IXö) of the Fund. Series VIII and Series IX are the only shares of the Fund that have been created subsequent to the January 2006 amalgamation date. Effective December 1, 2009 the Fund no longer offered Class A Shares for sale to either new or existing investors.

On February 18, 2009, the articles of the Fund were amended to effect the consolidation of the individual pools of assets comprising Series VII, Series VIII and Series IX into one larger pool of assets. The entitlement of each shareholder of Class A Shares, Series VII, Class A Shares, Series VIII and Class A Shares, Series IX was their proportionate interest to the assets of the consolidated pool.

On December 31, 2011, the articles of the Fund were amended to effect the consolidation of the individual pools of assets comprising Series I, II, III, Series IV and Series V into one larger pool of assets. The entitlement of each shareholder of Class A Shares, Series I, II, III, Class A Shares, Series IV and Class A Shares, Series V was their proportionate interest to the assets of the consolidated pool.

On May 23, 2014, all of the issued and outstanding Class A Shares, Series I, II, III, IV, V were redeemed for cash. On June 27, 2016, all of the issued and outstanding Class A shares, Series VI were redeemed for cash.

During February 2017, in order to facilitate the original investment objective of returning the original subscription amount to Series VIII and Series IX shareholders who had purchased shares before May 1, 2008, the Series VIII and Series IX shares were subdivided into Series VIII, Series VIII-B, Series IX and Series IX-B wherein the subcategory B shares represented shares issued before May 1, 2008 while the remainder were issued after such date. Consequently, the Fund now exists of one pool of assets represented by Class A Shares, Series VII, VIII, VIII-B, IX and IX-B.

The Fund is registered as a labour sponsored investment fund corporation under the Ontario Act and is registered as a labour-sponsored venture capital corporation under the Federal Tax Act.

The registered address of the Fund is 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4.

The only remaining Predecessor Fund is CFVF. The history of this Predecessor Fund is as follows:

Capital First Venture Fund Inc.

Capital First Venture Fund Inc. (öCFVFö) was incorporated under the OBCA by articles of incorporation dated December 2, 2003. CFVF was sponsored by the CFPA and was registered as a labour sponsored investment fund corporation under the Ontario Act and as a prescribed labour sponsored venture capital corporation under the Federal Act. CFVF's investment objectives were: (i) to preserve and return an investors' capital by paying to them an amount equal to the subscription price paid (\$10 per Class A Share) on or about June 1, 2016; and (ii) to achieve reasonable appreciation of the value of the investments made by the CFVF in CSBIFs and reserves. At the time of the Amalgamation of the Fund, CFVF had assets under management of \$12.8 million.

As of October 20, 2017, there were 155,291 Class A Shares, Series VII, 102,868 Class A Shares, Series VIII, 48,860 Class A Shares, Series VIII-B, 394,301 Class A Shares, Series IX and 120,308 Class A Shares, Series IX-B issued and outstanding. The Sponsor owns all of the issued and outstanding Class B Shares. As of October 20, 2017, no person or company of record and management knows of no person or company who will own beneficially, directly or indirectly, more than 10% of the issued and outstanding Class A Shares. Covington was both the manager and investment advisor to the Fund during the period to October 20, 2017.

INVESTMENT RESTRICTIONS

As a labour sponsored investment fund corporation, the Fund is unique in that many of the rules designed to protect investors who purchase securities of mutual funds, including the investment restrictions on mutual funds contained in National Instrument 81-102 *Mutual Funds* (öNI 81-102ö), do not apply to a labour sponsored investment fund corporation. The Fund is subject to investment restrictions contained in the Federal Tax Act and the Ontario Act. These restrictions apply to the investment of the proceeds raised from the sale of Class A Shares of the Fund in eligible businesses and reserves.

In general terms, an investment of the Fund is an eligible investment for both the Federal Tax Act and the Ontario Act if it is shares or a qualifying debt obligation of an eligible business. Eligible businesses are generally taxable Canadian public or private corporations or partnerships which are primarily engaged in eligible business activities and which (together with all related entities) have fewer than 500 employees and have less than \$50 million of total gross assets and which employ 50% or more of their full-time employees, earning at least 50% of the salaries and wages payable by them, in Ontario at the time of investment. Generally, the Federal Tax Act requires that the Fund invest in eligible investments and reserves.

Under the Federal Tax Act, the Fund must invest and hold investments in eligible businesses in Canada having an aggregate investment cost equal to at least 60% of the lesser of the Fund's shareholders' equity for the current year and the shareholders' equity in the immediately preceding year. Shareholders' equity is an accounting term that reflects the current value of assets less liabilities that are attributable to the shareholders. For the purposes of the investment requirements under the Federal Tax Act, unrealized gains and losses in respect of the Fund's eligible investments are excluded from shareholders' equity. Also, shareholders' equity relating to Class A Shares that have been outstanding for more than eight years is excluded from the calculation. This adjustment to shareholders' equity and other adjustments permitted under the Federal Tax Act operate to reduce the Fund's investment requirements. In addition, the Fund would be able to reduce its federal investment requirements if it invests in eligible businesses with less than \$10 million in assets. For these investments, the Fund's investment cost is increased from 150% to 200% of the actual cost.

The Ontario Act permits the Fund to hold only the following investments: (i) specified securities of eligible businesses; (ii) assets that were specified securities of eligible businesses when acquired by the Fund; and (iii) specified reserves. Under the Ontario Act, on December 31 of each year after 2012, the Fund is required to hold eligible investments that have an aggregate cost of not less than 60% of the capital raised on the issue of the Fund's Class A Shares that remain outstanding at the end of the year and were issued before March 1, 2012 (excluding Class A Shares that were outstanding for at least 94 months). The amounts are further adjusted to reflect the amount of net realized losses, if any, and certain taxes and penalty amounts incurred for the year.

The Ontario Act permits the Fund to hold qualifying debt obligations of eligible businesses. If a debt obligation is secured, it can only be secured by: (i) a security interest in one or more assets of the entity and the terms of the debt obligation or any agreement relating to the debt obligation do not prevent the entity from dealing with the assets in the ordinary course of business before any default on the debt obligation; (ii) a guarantee; or (iii) both a security interest described in (i) and a guarantee, and except in few instances, does not entitle the holder of the debt obligation to rank ahead of any other secured creditor of the issuer in realizing on the same security.

Other Statutory Investment Restrictions Applicable to the Fund

Under the Federal Tax Act, an eligible investment is, generally speaking, an investment in a Canadian partnership or taxable Canadian corporation where substantially all of the fair market value of that entity's assets is directly or indirectly attributable to assets used in an active business carried on in Canada where at least 50% of the full-time employees of the business are employed in Canada and at least 50% of the wages and salaries paid to employees of the business are reasonably attributable to services rendered in Canada. Under the Ontario Act, an eligible investment is generally an investment in a taxable Canadian corporation or partnership engaged in eligible business activities in Ontario and at least 50% of the full-time employees of the business are employed in Ontario and 50% of the wages paid by the business in Ontario at the time of the investment. Under the Federal Tax Act and the Ontario Act, the total number of employees of the eligible business (and all related businesses) must not exceed 500 and the total assets of that business (and all related businesses) must not exceed \$50 million at the time the investment is made. Under the Ontario Act, where there is a material change in a Portfolio Company following the investment by the Fund, such that it ceases to be an eligible investment, the investment in the Portfolio Company remains eligible for twenty-four months thereafter, following which time the Portfolio Company will cease to be an eligible investment. Generally, under the Ontario Act, investments made by the Fund may not be used by a Portfolio Company to (among other things) carry on business or re-invest outside Canada or re-lend to another business. However, the Minister of Revenue (Ontario) may upon application issue an order to allow some investment outside Canada that would ensure the viability of the Ontario business. The purpose of such restrictions is to ensure that monies raised from investors are available to assist the growth of eligible businesses and thereby create employment in Canada and specifically in the provinces offering tax credits to investors resident in those provinces.

The Fund is prohibited under the Federal Tax Act from investing more than the lesser of \$15 million and 10% of its shareholders' equity in any single entity (and related entities). Subject to the foregoing, the Fund may participate with other investors in larger investments. Under the Federal Tax Act, the Fund may not invest or maintain an investment in an eligible business if the eligible business does not deal at arm's length (within the meaning of the Federal Tax Act) with the Fund or any of the directors of the Fund unless (i) the non-arm's length relationship arises solely as a result of the Fund's investments in the eligible business, or (ii) the investment is approved by a special resolution of the shareholders of the Fund before the investment is made.

Compliance with Statutory Investment Restrictions

The Fund will be subject to penalties and may have its registration revoked if it does not comply with the investment requirements set out in the Federal Tax Act and Ontario Act. To date, the Fund has materially complied with all of the foregoing investment requirements and expects to remain in compliance with these requirements.

Voluntary Investment Restrictions and Policies

In addition to the investment restrictions described above, the board of directors of the Fund, in consultation with Covington may from time to time establish certain other investment policies which apply to the Class A Shares of the Fund.

Investment Objectives and Policies

The investment objective of the Fund is: (i) with respect to all Series, to realize long-term capital appreciation on all or part of the investment portfolio; and (ii) on the remainder of its investment

portfolio, with respect to Series VII, to preserve and return an investor's initial subscription price paid for their shares on or about the date indicated in the Predecessor Fund's original prospectus. With respect to the Series VIII and Series IX, to preserve and return an investor's initial subscription price paid for such Class A Shares on or about December 31, 2016 for shares purchased on or before March 31, 2008 or December 31, 2017 for shares purchased after May 1, 2008 but before March 31, 2009. These investment objectives may not be changed without shareholder approval.

Unlike ordinary mutual funds, the Fund may:

- (a) Invest in securities which may require the Fund to make an additional contribution provided such investments are made only if the amount and the timing of the investment and the specific performance targets triggering the investment are established and fixed at the date of the original investment.
- (b) Lend money to eligible businesses by investing in a qualifying debt obligation, as contemplated by the Federal Tax Act and the Ontario Act.
- (c) Invest in more than 10% of the securities of any one issuer.
- (d) Invest more than 10% of the net assets of the Fund in illiquid assets, as defined in NI 81-102.

For a description of the eligibility of an investment in Class A Shares for plans registered under the Federal Tax Act, see "Canadian Federal Income Tax Considerations".

DESCRIPTION OF SHARES OF THE FUND

For the year ended July 31, 2017, the authorized capital of the Fund consisted of an unlimited number of Class A Shares, issuable in series of which Series VII, Series VIII and Series IX had been created and of an unlimited number of Class B Shares which have also been created. All issued and outstanding Series I, Series II, Series III, Series IV, and Series V Class A shares were redeemed on May 23, 2014. All issued and outstanding Series VI Class A shares were redeemed on June 27, 2016.

Class A Shares

The following attributes apply equally to all of the series of Class A Shares of the Fund:

Issue

The Class A Shares may be issued to individuals resident in Canada, to Qualifying Trusts and to such other eligible investors as may be permitted by the Federal Tax Act, the Ontario Act and any similar legislation having application to the Fund from time to time.

Transfer

The Fund is prohibited from registering or otherwise recognizing a transfer of Class A Shares by the original purchaser, a spouse of the original purchaser or by a trust governed by an RRSP or RRIF under which the original purchaser or his or her spouse is the annuitant, once the required Information Return has been issued by the Fund under the Federal Tax Act or a Tax Credit Certificate has been issued by the Fund under the Ontario Act in connection with the purchase of such Class A Shares issued after March 5, 1996 except where the Fund is notified in writing that the Class A Shares are being transferred:

- (a) as a consequence of the death of the original purchaser;
- (b) by an original purchaser who, after acquiring the Class A Shares became disabled and permanently unfit for work or terminally ill;
- (c) to an RRSP or an RRIF under which the original purchaser or his or her spouse is the annuitant;
- (d) to the original purchaser or the spouse of the original purchaser; or
- (e) in accordance with such other conditions as may be prescribed for the purposes of the Federal Tax Act and the Ontario Act and is approved by the board of directors.

Redemption

A holder of Class A Shares in respect of which an Information Return has been issued under the Federal Tax Act or a Tax Credit Certificate has been issued under the Ontario Act may request the Fund to redeem the Class A Shares if the holder of the Class A Shares requests the Fund, in writing, to redeem them and the holder has satisfied all other conditions, if any, of the Federal Tax Act and the Ontario Act and any other similar provincial legislation having application to the holder or the Fund.

Such conditions include the following:

- (a) the Class A Shares are held by the original purchaser and the Fund is notified in writing that the original purchaser:
 - (i) has, after acquiring the Class A Shares, become disabled and permanently unfit for work or terminally ill, or
 - (ii) has requested the Fund to redeem the Class A Shares within 60 days after the day on which the Class A Shares were issued to the original purchaser and any Information Return and Tax Credit Certificate issued to the holder in respect of such Class A Shares has been returned to the Fund;
- (b) the Class A Shares are held by an individual who notifies the Fund in writing that the Class A Shares have devolved on the individual as a consequence of the death of a shareholder of the Fund or the death of the annuitant under a trust governing an RRSP or RRIF that was a holder of such Class A Shares;
- (c) the Class A Shares are held as an investment by an RRSP or an RRIF under which the original purchaser or his or her spouse is the annuitant and:
 - (i) where the original purchaser has died, the Fund is so notified in writing, or
 - (ii) where the original purchaser is living, the Fund is notified in writing that the original purchaser has, after acquiring the Class A Shares, become disabled and permanently unfit for work or terminally ill;
- (d) the redemption occurs more than eight years after the date on which the Class A Shares were issued;

- (e) where the redemption occurs within eight years after the date on which the Class A Shares were issued in circumstances other than those described in subsection (a), (b) or (c) above:
 - (i) an amount equal to the lesser of:
 - (A) the amount of the federal tax credit on the Class A Shares; and
 - (B) the amount, if any, by which the amount that would otherwise have been payable on the redemption of the Class A Shares exceeds the amount of the repayment of the provincial tax credit described in subparagraph (ii) below,

is withheld from the redemption price and paid to the Receiver General for Canada, and
 - (ii) an amount equal to the prescribed percentage pursuant to the Ontario Act of the lesser of:
 - (A) the amount of equity capital for which the Class A Shares were originally issued; and
 - (B) the amount payable on the redemption of the Class A Shares,

is withheld from the redemption proceeds and paid to the Minister of Revenue (Ontario) as may be required by the Ontario Act; or
- (f) in any other circumstances where the redemption is permitted for the purposes of the Federal Tax Act, the Ontario Act and any other similar provincial legislation having application to the holder or the Fund and is not prohibited by any federal or provincial legislation having application to the holder or the Fund and is approved by the directors.

A holder of Class A Shares in respect of which an Information Return and a Tax Credit Certificate have not been issued may request the Fund to redeem the Class A Shares at any time.

Dividends

Holders of Class A Shares are entitled to receive dividends at the discretion of the board of directors.

Voting Rights

Holders of Class A Shares of the Fund are entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only holders of shares of a different class or series are entitled to vote separately as a class or series, the holders of Class A Shares of the Fund are entitled to vote at any such meeting. Each Class A Share entitles the holder thereof to one vote per share.

Unless otherwise required by law, the holders of Class A Shares will not be entitled to vote by series unless the holder of the series of Class A Shares is directly affected by the proposed action in a manner different to another series of Class A Shares.

Fractional Shares

A holder of a fractional Class A Share is entitled to exercise voting rights and to receive dividends and proceeds from redemption in respect of such fractional Class A Share to the extent of such fraction.

Election of Directors

Holders of Class A Shares are entitled to elect one of the directors of the Fund (currently one of seven).

Dissolution

On the liquidation, dissolution or winding-up of the Fund or other distribution of the assets of the Fund for the purpose of winding up its affairs (ōdissolutionö), the holders of Class A Shares will be entitled to all of the assets of the Fund remaining after payment of all liabilities of the Fund and after payment of all amounts payable to the holder of the Class B Shares.

Class B Shares

Issue

The Class B Shares may be issued only to the Sponsor.

Dividends

The holder of the Class B Shares is not entitled to receive dividends.

Voting Rights

The holder of the Class B Shares is entitled to receive notice of and attend all meetings of shareholders of the Fund and, except for meetings at which only holders of Class A Shares are entitled to vote separately as a class, is entitled to one vote per Class B Share held at any such meeting.

Election of Directors

The holder of the Class B Shares is entitled to elect a majority of the directors of the Fund (currently six of seven). The Sponsor has, pursuant to a Sponsorship Agreement, agreed to elect two persons to represent the Sponsor and four persons to be nominated by Covington from time to time. To the extent that additional directors are elected by the Sponsor, they will be nominated jointly by the Sponsor and Covington.

Dissolution

On dissolution, the holder of the Class B Shares is entitled to receive the then stated capital of those shares before any assets are distributed to holders of Class A Shares but after payment of all liabilities of the Fund.

Approval of Shareholders for Certain Changes

Certain changes affecting the Fund may only be implemented with the approval of the shareholders of the Fund. A meeting of the shareholders or where required by law a meeting of each class of shareholders of

the Fund will be convened to consider and approve any of the following matters which the Fund may propose to change in the future:

- (a) subject to certain exemptions available under rules applicable to mutual funds, a change in any contract or the entering into of any new contract as a result of which the basis of the calculation of the fees or of other expenses that are charged to the Fund could result in an increase in charges to the Fund;
- (b) a change of the manager of the Fund (other than to an affiliate of Covington);
- (c) any change in the investment objectives of the Fund;
- (d) any decrease in the frequency of calculating the net asset value of the Class A Shares of the Fund;
- (e) subject to certain exemptions available under rules applicable to mutual funds, the commencement of the use by the Fund of permitted derivatives; or
- (f) any other matter which is required by the constating documents of the Fund or by the laws applicable to the Fund or by any agreement to be submitted to a vote of the shareholders of the Fund.

Unless a greater majority is required by the laws applicable to the Fund, the approval of the shareholders of the Fund will be deemed to be given if expressed by a resolution passed by at least a majority of the votes cast at the meeting of shareholders or each class of shareholders, as the case may be, called to consider such resolution.

Two or more holders of Class A Shares of the Fund present in person or by proxy will constitute a quorum at a meeting of the shareholders. If a quorum is not present for a meeting of shareholders within 30 minutes after the time fixed for holding the meeting, the meeting will be adjourned for a period of not more than 30 days at which point the shareholders present in person or represented by proxy will constitute a quorum.

Shareholder approval will not be obtained before making changes of the type contemplated in paragraph (a) above where the Fund contracts at arm's length with parties other than Covington for all or part of the services it requires to carry on its operations. However, shareholders will be given at least 60 days notice before the effective date of any such change.

In addition, shareholder approval is not required for a change in the Fund's auditor, provided that (i) the Fund's Independent Review Committee approves the change, and (ii) the Fund's shareholders are sent written notice of the change at least 60 days before the effective date of the change.

VALUATION OF PORTFOLIO SECURITIES

Audit and Valuation Committee

The Audit and Valuation Committee of the Fund is comprised of three directors, a majority of whom are outside directors, independent of Covington and the Sponsor. The board of directors of the Fund delegates responsibility for considering the appropriateness of the valuation policies adopted by the Fund to the Audit and Valuation Committee as set out below. The net asset value per Class A Share, with respect to each series as calculated by the Custodian on instruction from Covington, is reviewed by the Audit and

Valuation Committee on or about the last day of each financial quarter of the Fund. In addition, the Audit and Valuation Committee of the Fund receives and reviews a quarterly report from Covington providing details of the valuations of the investments made with their respective portion of the investments held by the Fund, including a discussion of significant events affecting the valuation of such investments.

The board of directors has delegated responsibility for considering the appropriateness of the valuation policies adopted by the Fund to the Audit and Valuation Committee and to the senior officers of Covington as set out below. The Audit and Valuation Committee is required to review and, if acceptable, approve the net asset value of the Fund as set out in quarterly valuation reports prepared by Covington. The senior officers of Covington determine the value of the Fund's assets for each week according to the valuation policies and procedures established and recommended by the Audit and Valuation Committee and approved by the board.

Valuation of Assets for which a Published Market Exists

At the end of each business week, the senior officers of Covington are required to determine the value (the "Published Valuation") of the Fund's assets for which there exists a published market and which can be readily disposed of in such market, on the basis of the quoted prices in such market, subject to an adjustment for restrictions on trading as required. For this purpose, a published market means any major market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. The Audit and Valuation Committee reviews and, if acceptable, approves the Published Valuation on a quarterly basis. The Audit and Valuation Committee is also required to review and, if acceptable, approve the Published Valuation for any day where the net asset value per Class A Share is expected to change by more than 5%.

Valuation of Assets for which No Published Market Exists

General Valuation Policies

Quarterly Valuations

As of the last days of July, October, January and April, the Audit and Valuation Committee is required to determine the value (the "Quarterly Valuation") of the Fund's assets for which no published market exists, on the basis of policies and procedures established by the board of directors for determining the fair value of such assets. In determining the value of such assets, the Audit and Valuation Committee is guided, where appropriate, but not bound, by the following methodology:

- ó The valuation standard is "fair value". Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- ó The fair value of the investments are determined using the appropriate 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; and other pertinent considerations.

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.

Weekly Valuations

The Senior Officers of Covington are required to notify RBC of any updates to the Quarterly Valuations as of the end of each week ("Weekly Valuations"). The Weekly Valuations will be based on the most recent Quarterly Valuation and will take into account any material change in the assets of the Fund for which no published market exists. The Audit and Valuation Committee reviews and, if acceptable, approves the Quarterly Valuations at the end of each quarter. In addition, the Audit and Valuation Committee is required to review and, if acceptable, approve the Weekly Valuations for any day where the net asset value per Class A Share is expected to change by more than 5%.

Independent Valuation of Class A Shares

The Fund is required to undertake to the Minister of Revenue (Ontario) that the value of its Class A Shares will be determined on an annual basis by means of a valuation carried out by an independent qualified person. The Fund satisfies this requirement by obtaining, on an annual basis, an independent confirmation of the net asset amounts of the fund and the net asset amounts per Class A Shares from the Fund's external auditors.

The confirmation is based on a review of the net asset amounts per Class A Share in connection with the Fund's financial statement audit. The scope of the review consists of: (i) obtaining the Fund's private venture investment memoranda and related information as prepared by the Fund's Manager for purposes of the Fund's Audit and Valuation Committee's determination of investment carrying values and discussions with Covington's investment personnel; (ii) reviewing the individual private venture investment value analyses, conducting independent procedures to assess the reasonability of Covington's values and conducting follow-up enquiries and discussion with management when appropriate. The scope of the review does not include directly contacting the investee companies in which the Fund holds an investment; (iii) reviewing the individual public venture investment values considering the reasonability of Covington's values in the context of market trading prices; and (iv) attending the year-end Audit and Valuation Committee meeting at which the Audit and Valuation Committee reviews the carrying value for the venture investments held by the Fund and attending the year-end Audit and Valuation Committee meeting at which the members of the Audit and Valuation Committee review the annual financial statements of the Fund.

NET ASSET VALUE OF THE FUND OR SERIES

The issue and redemption price of a Class A Share is based on the calculation of the net asset value of such Class A Share or applicable series. The net asset value of a Class A Share or applicable series are calculated by RBC on the last business day of each week by subtracting the redemption value of the Class B Shares of the Fund and the aggregate amount of the liabilities allocated to each series of the Class A Shares being valued from the aggregate of:

- (a) the value of the assets of the Fund attributable to the Class A Shares or applicable series being valued for which a published market exists as determined in accordance with the general valuation policies described above; and

- (b) the value of the assets of the Fund attributable to the Class A Shares or applicable series being valued for which no published market exists as determined in accordance with the general valuation policies described above; and
- (c) the value of any other assets of the Fund attributable to the Class A Shares or applicable series being valued, as determined by the Audit and Valuation Committee,

and dividing such amount by the total number of Class A Shares or applicable series, as the case may be, outstanding on that date. The Fund makes available to the financial press for publication the net asset value per Class A Share or applicable series, as the case may be, on the last business day of each week for publication at no cost to the public.

Expenses of the Fund not specifically attributable to a particular series are, for the purpose of calculating the net asset value per series, apportioned based on the net asset value per series, as at the most recent valuation date.

The Audit and Valuation Committee is required to review and, if acceptable, approve the net asset value of the Fund as submitted by the senior officers of Covington at least four times each year (on or about January 31, April 30, July 31 and October 31) and the senior officers of Covington are required to determine the net asset value of the Fund on the last business day of each week.

The net asset value per Class A Share as determined in the foregoing manner from time to time may differ from the prices at which shareholders would be able to sell (subject to the restrictions on transfer) Class A Shares to third party purchasers.

International Financial Reporting Standards (IFRS) replaced Canadian GAAP for publicly accountable enterprises effective January 1, 2011. The adoption of IFRS by investment companies was extended to fiscal years beginning on or after January 1, 2014. The Fund's first annual financial statements prepared under IFRS as published by the International Accounting Standards Board (IASB) were for the year ended July 31, 2015. The Fund adopted this basis of accounting in 2015 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian GAAP as defined in Part V of the Chartered Professional Accountants (CPA) of Canada Handbook of Accounting.

Under IFRS, the fair value of financial instruments that are quoted in active markets 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 existing market conditions. Prior to IFRS, fair value for financial reporting purposes was based on the last bid price, or, if no bid price was available, the last traded price.

PURCHASES/SUBSCRIPTIONS

Effective December 1, 2009 the Fund no longer offered Class A shares for sale to either new or existing investors. Given the changes in Canada's retail venture capital industry and the stage of the Fund's portfolios the Fund believed that it was the right time to close the Fund to new investments allowing the portfolios to further mature and seek out appropriate exit opportunities. The Fund remains open to redemptions. See **Redemption by Holders**. The closure of the Fund to purchases is reflective of the finite life of venture funds whereby mature funds shift their focus from making new investments and

building their venture portfolios to seeking exit opportunities and facilitating a return of capital to investors.

Distribution Fees

The Class A Shares, Series VII, Class A Shares, Series VIII, Class A Shares, Series VIII-B, Class A Shares, Series IX and Class A Shares, Series IX-B were offered for sale only through registered dealers. Investors who purchased such Class A Shares, Series VII, Class A Shares, Series VIII, Class A Shares, Series VIII-B, Class A shares, Series IX and Class A Shares, Series IX-B did not pay any sales commissions directly. Covington, pursuant to the terms of the Management Agreement, manages the relationship with such registered dealers. The Fund paid the applicable sales commissions to registered dealers selling Class A Shares, Series VII, Class A Shares, Series VIII, Class A Shares, Series VIII-B, Class A Shares, Series IX and Class A Shares, Series IX-B. The sales commissions are not amortized by the Fund.

For Class A Shares, Series IX and Class A Shares, Series IX-B a total commission of 10% of the original issue price for each Class A Share, Series IX and Class A Shares, Series IX-B subscribed for pursuant to subscriptions procured by registered dealers and accepted by the Fund was paid to registered dealers selling Class A Shares, Series IX and Class A Shares, Series IX-B of the Fund. The commission consists of a 6% sales commission paid by the Fund plus an additional 4% commission paid by the Fund. The 4% commission is in lieu of any service fees payable before the eighth anniversary of the date of issue of the shares of the Fund. Covington reimbursed the Fund for the commission paid by the Fund pursuant to subscriptions for Class A Shares, Series IX-B accepted until this series ceased offering on March 31, 2008. Covington reimbursed the Fund for the commission paid by the Fund pursuant to subscriptions for Class A Shares, Series IX accepted when the series reopened from October 16, 2008 to March 31, 2009.

For Class A Shares, Series VII, Class A Shares, Series VIII and Class A Shares, Series VIII-B sold, a total commission of 6% of the original issue price for each Class A Shares, Series VII, Class A Shares, Series VIII and Class A Share, Series VIII-B subscribed for pursuant to subscriptions procured by registered dealers and accepted by the Fund is paid by the Fund. Covington reimbursed the Fund for the commission paid by the Fund pursuant to subscriptions for Class A Shares, Series VIII-B accepted until this series ceased offering on March 31, 2008. Covington reimbursed the Fund for the commission paid by the Fund pursuant to subscriptions from Class A Shares, Series VIII accepted when the series reopened from October 16, 2008 to March 31, 2009.

For Class A Shares, Series VII, Covington's predecessor paid certain sales commissions to registered dealers with respect to the sale of such Class A Shares, Series VII, and the Fund remunerated Covington's predecessor for the payment of such commissions and the maintenance of those relationships. Each of the sales commissions shall apply to all sales procured by brokers or dealers pursuant to payroll deduction or other periodic purchase plan sales initiated by them.

An investor in any series of Class A Shares, including Class A Shares, Series VIII and Class A Shares, Series IX, are only entitled to receive the net asset value per Class A Share redeemed at the time of redemption, which amount is affected by the investment performance of investments attributable to that series of Class A Shares and the expenses attributable to that series of Class A Shares. There can be no assurance that this amount will be sufficient to cause any series of Class A Shares, including Class A Shares, Series VIII or Class A Shares, Series IX, to have a net asset value per share equal to or greater than an investor's subscription price. See "Risk Factors" Speculative Nature of Investment and Non Guaranteed Rate of Return or Return of Investment.

Additional Dealer Compensation

Class A Shares, Series IX and Class A Shares, Series IX-B: No service fees will be paid to sales representatives for a period of eight years from the date of issue of Class A Shares, Series IX and Class A Shares, Series IX-B, since an additional commission will be paid in lieu of service fees. Thereafter, Covington will pay to dealers, out of the fee it receives from the Fund, a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the net asset value of the Class A Shares, Series IX and Class A Shares, Series IX-B held by the clients of the sales representatives of the dealers.

Class A Shares, Series VIII and Class A Shares, Series VIII-B: Covington pays to dealers, out of the fee it receives from the Fund, a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the net asset value of the Class A Shares, Series VIII and Class A Shares, Series VIII-B held by the clients of the sales representatives of the dealers.

Class A Shares, Series VII: Covington pays to dealers, out of the fee it receives from the Fund, a service fee (calculated and paid at the end of each calendar quarter) equal to 0.50% annually of the net asset value of the Class A Shares, Series VII of the Fund held by clients of the sales representatives of the dealers.

The service fees are intended to compensate dealers for the expenses incurred by them in communicating on an ongoing basis with their clients who are also shareholders of the Fund as to investments made by the Fund and the investment strategies and investment performance of the Fund. As and when deemed appropriate the Fund may reimburse dealers for a portion of the dealer's cost of producing and distributing sales communications and hosting seminars designed to provide investors with investment information, subject to compliance with applicable law.

No registered dealers through which shares of the Fund may be purchased are related to Covington.

REDEMPTION BY HOLDERS

Subject to the redemption restrictions in the terms of the Class A Shares and the withholding of any amount required to be withheld from the redemption proceeds, a holder of Class A Shares in respect of which an Information Return has been issued under the Federal Tax Act or a Tax Credit Certificate has been issued under the Ontario Act may request the Fund to redeem the Class A Shares if such request is made in writing and the holder has satisfied all other conditions, if any, of the Federal Tax Act and the Ontario Act and any other similar provincial legislation having application to the holder or the Fund.

A holder of Class A Shares in respect of which an Information Return and a Tax Credit Certificate have not been issued may request the Fund to redeem the Class A Shares at any time.

In any financial year, the Fund is not required to, but may at its option, redeem Class A Shares having an aggregate redemption price exceeding 20% of the net asset value of the Class A Shares issued by the Fund, as at the last day of the preceding financial year. Requests for redemption will be accepted in the order in which they are received.

If, in any financial year, as a result of the foregoing limitation, the Fund does not redeem Class A Shares that it has been requested to redeem, then, subject to the foregoing limitation, the Fund will redeem such shares in the following financial year before it redeems any other Class A Shares that it has been requested to redeem and, for such purposes, the requests to redeem such shares will be deemed to have been received by the Fund on the first day of the following financial year.

Redemptions of a series of Class A Shares will be made at the net asset value of that series as at the close of business at the end of the week during which the Fund receives (or is deemed to have received) the request for redemption (the "Redemption Amount"). Redemption requests received after that time will be priced at the net asset value per Class A Share of the applicable series at the close of business the following week.

In addition to deductions withheld from the Redemption Amount described above in respect of federal and provincial tax credits, in certain circumstances, a redemption fee may also be deducted from the Redemption Amount as described below.

If the Fund is requested to redeem Class A Shares, Series VII, Class A Shares, Series VIII or Class A Shares, Series VIII-B before the eighth anniversary of their issue, holders of Class A Shares, Series VII, Class A Shares, Series VIII or Class A Shares, Series VIII-B so redeemed will be charged a redemption fee payable to the Fund (and remitted to the Manager). For holders of Class A Shares, VII, Class A Shares, Series VIII or Class A Shares, Series VIII-B the redemption fee will be up to 6% of the original issue price of such shares calculated as 0.75% of the original price times the number of years or part years remaining until the eighth anniversary of the date of issue. If the Fund is requested to redeem Class A Shares, Series IX or Class A Shares, Series IX-B before the eighth anniversary of their issue, holders of Class A Shares, Series IX or Class A Shares, Series IX-B so redeemed will be charged a redemption fee payable to the Fund (and remitted to the Manager). For holders of Class A Shares, Series IX or Class A Shares, Series IX-B the redemption fee will be up to 10% of the original issue price of such shares calculated as 1.25% of the original price times the number of years or part years remaining until the eighth anniversary of the date of issue.

For the purpose of calculating the redemption fee, Class A Shares will be considered to be redeemed in the order acquired. After the eighth anniversary of the date of issue there will be no redemption fee for the Class A Shares. Class A Shares issued to a shareholder on Amalgamation of the Fund will be deemed to have been issued on the same date as the Class A Shares of the Predecessor Fund previously held by such shareholder prior to The Amalgamation of the Fund.

RESPONSIBILITY FOR FUND OPERATIONS

The Fund's board of directors has the ultimate responsibility for overseeing the management and administration of Covington Venture Fund Inc., and exercises this responsibility directly as well as through the committees of the Board and the Manager as described below.

Directors and Officers of the Fund

The name, municipality of residence, office and principal occupation of each of the directors and officers of the Fund are set out below.

<u>Name and Municipality of Residence</u>	<u>Position with the Fund</u>	<u>Principal Occupation</u>
DONALD BUJOLD Nepean, Ontario	Director	Former President, B&D Labour Consultants Inc.
SCOTT D. CLARK Toronto, Ontario	Director	President and Chief Executive Officer of Covington

<u>Name and Municipality of Residence</u>	<u>Position with the Fund</u>	<u>Principal Occupation</u>
DENNIS DUNSTER Ottawa, Ontario	Director	Former Executive Vice-President, B&D Labour Consultants Inc.
STEPHEN G. CAMPBELL Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of Covington
JOHN R. MOTT ⁽¹⁾ Toronto, Ontario	Director	Chartered Accountant in Private Practice
PHILIP R. REDDON ⁽¹⁾ Burlington, Ontario	President, Chief Executive Officer and Director	Managing Director of Covington
IAIN A. ROBB ⁽¹⁾ Toronto, Ontario	Director	Lawyer in Private Practice
GREGORY MCCONNELL Ottawa, Ontario	Director	Chairman of the CFPA. Formerly a Civil Aviation Inspector with Transport Canada.

⁽¹⁾ Member of the Audit and Valuation Committee.

The following is a brief biographical description, including principal occupation for the last five years, of each of the directors and officers of the Fund.

Donald Bujold was the President of B&D Labour Consultants Inc. until July 2005. Up until the end of 2002, Mr. Bujold served as the Department Head of the United Steel Workers of America, which position he held since 1999. Mr. Bujold was elected the National President of the Transportation-Communications Union (TCU), the predecessor of the United Steel Workers of America, in 1995. During the period from 1987 to 1995, Mr. Bujold was the National Secretary-Treasurer of the TCU and from 1995 to 1999 he was the President of the TCU. Mr. Bujold has been a member of the TCU for over thirty-five years and was formerly General Chairman of the TCU Eastern Rail Division, representing members employed in CP Rail, CN Rail and other smaller railroads in Eastern Canada.

Scott D. Clark joined Covington in March 2001 and has over 26 years of experience in the financial services industry, the last nineteen of which have been in the private equity field. Mr. Clark is responsible for assessing new business opportunities, negotiating and structuring transactions and advising investee companies. Prior to joining Covington, Mr. Clark was a Vice President at Harrowston Inc. where he assisted in the formulation of a venture capital investment strategy to expand Harrowston Inc. beyond traditional buyouts. Prior to Harrowston Inc., Mr. Clark was Vice President of Investments at Working Ventures Canadian Fund Inc. and also held various positions at the Business Development Bank of Canada. Mr. Clark holds an HBA from the Ivey School of Business in London, Ontario.

Dennis Dunster was the Executive Vice-President of B&D Labour Consultants Inc. until July 2005. Up until the end of 2002, Mr. Dunster served as a Staff Representative of the United Steelworkers of America, which position he held since 1999. Mr. Dunster was elected the Executive Vice-President of the Transportation Communications Union (TCU), the predecessor of the United Steelworkers of America, in 1993. Mr. Dunster has been a member of the TCU for over twenty-five years representing members in the trucking and airline industries throughout Canada.

Stephen G. Campbell is the Chief Financial Officer of the Manager. Mr. Campbell joined the Manager in 2003 and has held roles in the valuations, finance and operations areas of the business including accounting, administration, treasury and financial reporting. Prior to joining the Manager, Mr. Campbell held positions with Fuller Landau Consulting Ltd. and General Motors Acceptance Corporation Corporate Credit Group. Mr. Campbell is a Chartered Professional Accountant, a Chartered Business Valuator and graduated from Brock University with a Bachelor of Accounting degree.

John R. Mott is a Chartered Professional Accountant and an income tax specialist in private practice. He has an Honours Bachelor of Commerce degree from Lakehead University and a Masters of Business Administration from the University of Toronto. Mr. Mott has tutored for several years at the In-Depth Tax Course, the tax specialist training program sponsored by the Canadian Institute of Chartered Accountants. He is a member of the Canadian Tax Foundation and has contributed to the Canadian Tax Journal and the Financial Post Magazine. Mr. Mott was a senior tax manager with the accounting firm of Ernst & Young LLP prior to starting his own accounting practice in 1994. In addition to being a Director of the Fund, Mr. Mott was a director of several of the Predecessor Funds.

Philip R. Reddon joined Covington in 2002. In his role as Managing Director, his responsibilities include analysis of new investment opportunities for the Fund and assisting in the management and monitoring of the Fund's existing investments. Mr. Reddon has over 20 years experience in the private equity field including seven years at Bank of Montreal Capital Corporation, a \$400 million private equity fund. As Managing Director and head of its Technology Investment team, Mr. Reddon was a member of the investment committee and sat on the boards of eight companies. Prior to BMO Capital, Mr. Reddon spent six years with the Business Development Bank of Canada. Mr. Reddon holds a Bachelor of Arts from the University of Western Ontario and a Bachelor of Commerce (Honours Business Administration) from the University of Windsor.

Iain A. Robb is a lawyer in private practice. Prior to forming his own practice in July 2015, Mr. Robb was a partner of the law firm Gowling Lafleur Henderson LLP, where he was a member of the corporate finance department. Mr. Robb's practice is restricted to corporate and securities matters with a particular emphasis on mutual funds and corporate acquisitions and divestitures of entrepreneurial businesses. Mr. Robb holds a Bachelor of Laws degree from the University of Toronto and a Bachelor of Arts (Industrial Relations) degree from McGill University. In addition to being a Director of the Fund, Mr. Robb was a director of each of the Predecessor Funds.

Gregory McConnell is the National Chairman of the Sponsor. He began representing his fellow pilots in this role on July 1, 2015. Between 1992 and 2015, Mr. McConnell was a Regional and Headquarters Civil Aviation Inspector responsible for Aircrew Licensing, Air Taxi and Commuter Airlines, and National Air Operation Certification with Transport Canada in Ottawa, Ontario. Prior to that Mr. McConnell was a Captain with Domestic and International Airlines.

The Fund has no Executive Committee of its board of directors. The Fund does have an Audit and Valuation Committee in place. The Audit and Valuation Committee members are Messrs. John R. Mott, Philip R. Reddon and Iain A. Robb.

Audit and Valuation Committee

The Audit and Valuation Committee of the Fund is composed of three members of the board of directors of the Fund, a majority of whom are not officers or employees of Covington and the Sponsor or their affiliates. The current members of the Audit and Valuation Committee of the Fund are Messrs. John R. Mott, Philip R. Reddon and Iain A. Robb. A quorum for meetings of the Audit and Valuation Committee

is a majority of its members. The Audit and Valuation Committee is responsible for reviewing financial statements prepared by Covington on behalf of the Fund, liaising with the auditors of the Fund, reviewing the procedures respecting the approval of investments and the compliance of Covington and the board of directors with those procedures and with applicable legislation and suggesting amendments to such procedures to the board of directors. The board of directors of the Fund has also delegated responsibility for considering the appropriateness of the valuation policies adopted by the Fund to its Audit and Valuation Committee. The Audit and Valuation Committee will receive and review a quarterly report from Covington providing details of the valuations of the investments made, including a discussion of significant events affecting the valuation of such investments.

Independent Review Committee

The Fund has established an Independent Review Committee to whom certain conflict of interest matters are referred. See "Fund Governance".

The Manager

Covington was continued under the laws of Ontario in January, 2010. The head office and principal place of business of Covington is 36 Distillery Lane, Suite 440, Toronto, Ontario, M5A 3C4. The phone number, website address and email address of Covington and the Fund are (416) 365-0060, www.covingtonfunds.com and info@covingtonfunds.com. Covington is a wholly-owned subsidiary of RC Capital. RC Capital is owned equally by two trusts of which Scott D. Clark and Philip R. Reddon are the sole trustees.

Directors and Officers of the Manager

The name, municipality of residence, office and principal occupation of each of the directors and officers of Covington are set out below:

<u>Name and Place of Residence</u>	<u>Office with Covington</u>	<u>Principal Occupation</u>
SCOTT D. CLARK Toronto, Ontario	Director, President, Chief Executive Officer and Chief Compliance Officer	Director, President, Chief Executive Officer and Chief Compliance Officer, Covington
STEPHEN G. CAMPBELL Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Covington
PHILIP R. REDDON Burlington, Ontario	Director and Managing Director	Director and Managing Director, Covington

The following is a brief biographical description, including principal occupation for the last five years, of each of the directors and officers of Covington.

Scott D. Clark see "The Fund" "Directors and Officers of the Fund".

Stephen G. Campbell see "The Fund" "Directors and Officers of the Fund".

Philip R. Reddon see "The Fund" "Directors and Officers of the Fund".

Principals of Covington

Covington is a wholly owned subsidiary of RC Capital Management Inc., a privately held corporation incorporated on April 30, 2009 pursuant to the laws of the Province of Ontario. RC Capital is owned 50% by each of two trusts, the sole trustee of one of which is Scott D. Clark and the sole trustee of the other is Philip R. Reddon. The services of the directors and officers of Covington, and its affiliates and associates, will not be exclusive to the Fund. See "Conflicts of Interest".

The senior management team of Covington consisting of Messrs. Scott D. Clark and Philip R. Reddon are responsible for investment decisions made for the Fund and have significant experience as investors in, or advisors to, companies such as those that are eligible investments of the Fund. They collectively have networks of contacts through which to source potential investments and have the capability and experience to undertake financial and business analysis, investment structuring, credit evaluation, business valuation, investment monitoring and control, financial and corporate restructuring, and exit management. The investment decisions made by Messrs. Scott D. Clark and Philip R. Reddon are not subject to the oversight, approval or ratification of a committee.

Management Agreement

A management agreement governing Covington's relationship with the Fund as its manager was entered into on December 4, 2006 (the "Management Agreement"). The Management Agreement will expire, unless terminated earlier by either party in accordance with its terms, upon the dissolution, winding-up or termination of the Fund. Covington may terminate its appointment pursuant to the Management Agreement upon ten business days notice being given to the Fund in the event that: (i) the Fund is in breach or default of the provisions thereof and such breach has not been cured within twenty business days of written notice of such breach or default being given to the Fund; or (ii) there is a material change in the fundamental investment objectives, strategies or restrictions of or applicable to the Fund. The Fund may terminate the appointment of Covington pursuant to the Management Agreement upon ten business days notice being given to Covington in the event that: (i) Covington is in breach or default of the provisions thereof and such breach or default has not been cured within twenty business days of written notice of such breach or default being given by the Fund to Covington; or (ii) if Covington becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of Covington or a substantial portion of its assets. See "Fund Governance" for details relating to the duties of the Manager. See "Fees and Expenses" for a description of fees payable to the Manager.

Investment Advisor Agreement

An investment advisor agreement governing Covington's relationship with the Fund as its investment advisor was entered into on December 4, 2006 (the "Investment Advisor Agreement"). The Investment Advisor Agreement will expire, unless terminated earlier by a party thereto in accordance with the terms of the agreement, upon the dissolution, winding-up or termination of the Fund. Covington may terminate the Investment Advisor Agreement in the event that: (i) the Fund or Covington, in its capacity as the manager, is in breach or default of any material provision thereof and such breach has not been cured within twenty business days of written notice of such breach or default being given by Covington to the Fund and to Covington, in its capacity as the manager; or (ii) there is a material change in the fundamental investment objectives, strategies or restrictions of or applicable to the Fund. The Fund or Covington, in its capacity as the manager, may terminate the Investment Advisor Agreement in the event that: (i) Covington, in its capacity as the investment advisor, is in breach or default of any material provision thereof and such breach or default has not been cured within twenty business days of written

notice of such breach or default being given by the Fund or Covington, in its capacity as the manager to Covington, in its capacity as the investment advisor; or (ii) if Covington becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors or a receiver is appointed in respect of Covington or a substantial portion of its assets. See "Fees and Expenses" for a description of fees payable to Covington under the Investment Advisor Agreement.

No registered dealers through which shares of the Fund may be purchased are related to Covington. All portfolio management services and investment decisions made on behalf of the Fund are made by Covington. See "Responsibility for Fund Operations - Principals of Covington".

The Sponsor

The Sponsor of the Fund is the Canadian Federal Pilots Association. The Sponsor owns all of the Class B Shares of the Fund and is required under the Federal Tax Act and under the Ontario Act to elect a majority of the Fund's board of directors and all of the directors not elected by the Class A shareholders. The board of directors is currently fixed at seven directors. The Sponsor is entitled to elect six of the seven directors of the Fund. The Sponsor has agreed to elect two persons to represent the Sponsor and four persons to be nominated by Covington to the board of directors.

CFPA Sponsor Inc., a wholly-owned subsidiary of the Sponsor, was incorporated under the laws of Ontario by articles of incorporation dated September 27, 2002. The registered address of CFPA Sponsor Inc. is 18 Deakin Street, Unit 107, Ottawa, Ontario K2E 8B7. Under the Securities Act, CFPA Sponsor Inc. is regarded as a promoter of the Fund. Mr. Gregory McConnell is the sole director and officer of CFPA Sponsor Inc.

Sponsor Agreement

The Sponsor entered into an agreement between the Fund, a predecessor of Covington, the Sponsor and CFPA Sponsor Inc. (the "Sponsor Agreement") effective as of January 6, 2006 setting out the rights and duties of the Sponsor. In addition to the right to elect directors specified above, the Sponsor, as holder of the Class B Shares, is entitled to one vote per share at meetings of the shareholders of the Fund, but does not have any right to receive dividends. See "Share Capital of the Fund - Class B Shares". See "Fees and Expenses" for a description of fees payable to the Sponsor under the Sponsor Agreement.

AUDITORS, REGISTRAR AND TRANSFER AGENT, TRUSTEE AND CUSTODIAN

The auditors of the Fund are Ernst & Young LLP, EY Tower, 100 Adelaide Street West, P.O. Box 1, Toronto, Ontario, M5H 0B3.

The Registrar and Transfer Agent will provide certain registrar, transfer agency, shareholder reporting and shareholder administration services for the Fund in Toronto, Ontario. Covington will continue to make efforts to secure cost savings for the Fund as it relates to the cost of the services provided by all of its service providers, including the Registrar and Transfer Agent. If Covington assumes that a different service provider, or even Covington itself, can provide such services on substantially the same or better terms than those currently found in the Shareholder Recordkeeping and Administration Agreement, Covington may engage a different service provider to perform the services provided by the Registrar and Transfer Agent.

RBC Investor Services Trust has been retained by the Fund as custodian to hold portfolio securities of the Fund and to perform certain fund accounting services for the Fund. The head office of the custodian is Toronto, Ontario.

CONFLICTS OF INTEREST

Principal Holders of Securities of the Fund

As of October 20, 2017, there were 155,291 Class A Shares, Series VII, 102,868 Class A Shares, Series VIII, 48,860 Class A Shares, Series VIII-B, 394,301 Class A Shares, Series IX and 120,308 Class A Shares, Series IX-B issued and outstanding. The Sponsor owns all of the issued and outstanding Class B Shares. As of October 20, 2017, no person or company of record and management knows of no person or company who will own beneficially, directly or indirectly, more than 10% of the issued and outstanding Class A Shares.

As of October 20, 2017, the directors, senior officers and members of the IRC of the Fund, as a group, and the directors and officers of Covington, as a group, beneficially will own directly or indirectly less than 1% of the issued and outstanding Class A Shares.

Principal Holders of Securities of the Manager

Covington

As of the date of this Annual Information Form, to the knowledge of the Fund and Covington, the following persons own of record or beneficially, directly or indirectly, more than 10% of the common shares of Covington:

Name and Address of Covington	Name of Person or Company that owns Securities	Relationship to Covington	Type of Ownership	Number and Class of Securities Owned	Percentage of Class Owned
Covington Capital Corporation 36 Distillery Lane, Suite 440, Toronto, Ontario, M5A 3C4	RC Capital	Shareholder	Direct	20 Common Shares	100%

Covington is a privately owned corporation incorporated for the purpose of organizing, managing and administering investment funds and specialty investment products. RC Capital owns all of the outstanding shares of Covington. RC Capital is owned by two trusts, of which Philip R. Reddon is the sole trustee of one and Scott D. Clark is the sole trustee of the other.

The services of the directors and officers of Covington and their respective affiliates and associates, are not exclusive to the Fund. The directors and officers of Covington provide similar services and devote a portion of their time to other investments, directorships and offices. The other activities of Covington, and their respective officers, directors, shareholders, associates and parties and persons retained by Covington and their affiliates, (collectively, the "Conflict Parties") may result in certain conflicts of interest. Covington will present to the Fund, all appropriate investment opportunities other than those listed in the immediately following paragraph which are available to Covington, provided that the Fund is able to make the proposed investment and the investment meets the Fund's investment guidelines. Notwithstanding the foregoing, the Fund has acknowledged that there may be situations in which

Covington may require the Fund to co-invest with others in an investment opportunity which otherwise meets the Fund's investment guidelines and for which the Fund has the necessary resources.

The terms of the agreements with Covington do not preclude the Conflict Parties from: (i) making an investment which is developed or originated by a third party which is made available by such third party only to one or more of the Conflict Parties and not the Fund; (ii) making an investment which relates to a pre-existing investment of such party, including a follow-on investment in any entity; (iii) making an investment in connection with or incidental to any business or other activity carried on by the Conflict Parties, if such business or activity does not principally consist of investing in the same types of investments that the Fund invests in; (iv) making a minimum investment of \$150,000 in the aggregate in any entity; (v) making an investment in any entity as long as the Fund is an "accredited investor" as defined in National Instrument 45-106; or (vi) providing services to Portfolio Companies on commercially reasonable terms.

The Fund will not invest or maintain an investment in an eligible business if the eligible business does not deal at arm's length with the Fund or any of the directors of the Fund unless (i) such eligible business would deal at arm's length with the Fund but for the Fund's interest as a holder of investments in the eligible business, or (ii) such investment was approved by special resolution of the shareholders of the Fund before the investment was made. Subject to the foregoing, (i) the Conflict Parties will have the right to co-invest with the Fund in any investments provided the Fund believes, acting reasonably, that such investment will not impair the ability of the Fund to satisfy the investment pacing requirements of the Ontario Act, and (ii) the Fund and its officers, directors and shareholders may, directly or indirectly, invest in, eligible businesses in which the Conflict Parties have an interest provided that a third party invests, directly or indirectly, in such business at the same time and on substantially the same financial terms as the investment made by the Fund. Covington will report to the board of directors of the Fund quarterly on the respective such activities by the Conflict Parties or more frequently if Covington wishes the assistance of the applicable board of directors in resolving any such conflict.

Covington also provides investment advisory services to another labour sponsored investment fund, Covington Fund II Inc. Prior to the Amalgamation of the Fund, Covington also provided investment advisory services to TGF, NMVF and VPB, also all labour sponsored investment funds. Additionally, Covington provides investment advisory services to three private limited partnerships and consulting services under contract with the Ontario government.

As a result of the fact that Covington's services are not exclusive to the Fund, Covington has adopted specific policies and procedures in accordance with applicable securities law to ensure that Covington deals fairly and objectively with all its clients, including the Fund, when allocating investment opportunities and any costs associated with executing any investment decisions.

Portfolio Transactions

Covington intends that the purchase and sale of portfolio securities for the Fund be transacted through registered brokers and investment dealers on the basis of Covington's assessment of:

- (a) The ability of the broker or dealer to execute transactions promptly and on favourable terms;
- (b) The quality and value of services provided to the Fund by the broker or dealer, such as the provision of research, statistical and other services used in assessing potential investments; and

- (c) The efforts made by the broker or dealer in selling shares.

No brokerage business is allocated to any affiliated entities. There is no formula or criteria for allocating brokerage business to any non-affiliated entities. If a stock is recommended by a particular brokerage and Covington acts on it, then the business is ordinarily channelled through that brokerage. If the decision to buy a particular stock is made internally, the business is ordinarily given to whichever brokerage provided the most input in reaching the decision internally.

FUND GOVERNANCE

Both the Manager and the Board of Directors have responsibility for governance of the Fund. The Manager maintains policies, procedures and guidelines concerning governance of the Fund. These policies, procedures and guidelines aim to monitor and manage the business and sales practices, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

The Manager's Chief Compliance Officer is responsible for the overall compliance functions within both the Manager and the Fund. In carrying out the compliance duties, the Chief Compliance Officer maintains, updates and oversees the Manager's internal compliance manual which sets out the governance rules, policies and procedures for both the Manager and the Fund. The compliance manual sets out rules governing the areas of portfolio management (which include policies relating to internal investment, portfolio compliance, investment oversight, trading practices and asset allocation), personal trading and conflicts of interest rules and regulations (including a code of ethics and personal trade reporting and trade preclearance policies), safeguarding of assets (including privacy of client information, custody of asset rules and regulations, levels of approval and oversight of third party service providers), record retention policies, sales and marketing policies (including review and compliance signoffs of all marketing materials and reviews for compliance with regulatory rules and guidelines) and valuation of fund holdings (including policies and procedures for valuation of public and private holdings, quarterly reviews of investment holdings and policies and procedures surrounding error correction). The compliance manual covers both specific procedures but also provides general guidelines for managing the operations of the Manager, the Fund or products under management.

The Manager will ensure:

- (a) that there is proper supervision of the management of your investments and that the performance of the Shares is reviewed;
- (b) that all issues regarding the Fund's investment policies are addressed as they arise;
- (c) that the Fund is in compliance with both regulatory and internal investment policies; and
- (d) that all operational procedures are followed.

In managing the day to day operations of the Fund, the Manager follows National Instrument 81-105 - *Mutual Fund Sales Practices* of the Canadian Securities Administrators (NI 81-105) with respect to all sales related practices.

In addition to the policies, practices or guidelines applicable to the Fund relating to the business practices, sales practices, risk management contracts or internal conflicts already disclosed in this annual information form, the Manager also has a Code of Ethics and Conduct (the "Code") which applies to all

of its employees. The Code is in place to ensure that all employees of the Manager are working with the sole purpose of doing what is best for the clients with no real or perceived conflicts of interest. The Code provides mandatory policies in respect of the conduct of business including conflicts of interest, privacy and confidentiality.

As a result of the fact that Covington's services are not exclusive to the Fund, Covington has adopted specific policies and procedures in accordance with applicable securities law to ensure that Covington deals fairly and objectively with all its clients, including the Fund, when allocating investment opportunities and any costs associated with executing any investment decisions. See "Conflicts of Interest".

Independent Review Committee

National Instrument 81-107 - *Independent Review Committee for Investment Funds* (NI 81-107), came into force on November 1, 2006. NI 81-107 requires all publicly offered investment funds, such as the Fund, to establish an independent review committee (IRC). It is the mandate of the IRC to review conflict of interest matters referred to the IRC by the Manager, to review the Manager's proposed action in the matter and provide a recommendation as to whether, in its opinion after reasonable inquiry, the proposed action achieves a fair and reasonable result for the Fund. NI 81-107 also imposes obligations upon Covington to establish written policies and procedures for dealing with conflict of interest matters, to maintain records, in respect of these matters and to provide the IRC with guidance and assistance in carrying out its functions and duties. This process is governed by a written charter adopted by the IRC. Under this charter, the Manager refers decisions made on behalf of the Fund that may affect or influence the Manager's ability to make decisions in good faith and in the best interests of the Fund to the IRC for review or approval. The charter also includes standing instructions from the IRC to allow the Manager to follow its policies and procedures without having to return to the IRC for repeated approval (other than pursuant to the annual assessment of policies by both the IRC and the Manager.) According to NI 81-107, the IRC must be comprised of a minimum of three independent members, and is subject to requirements to conduct regular assessments of its members and to provide reports, at least annually, to the Fund and to its shareholders in respect of those functions. The report prepared by the Fund will be available, at the applicable time, on the Fund's website www.covingtonfunds.com, or at a shareholders' request at no cost, by contacting the Fund at 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4 or at info@covingtonfunds.com.

The Fund's IRC commenced operations effective October 11, 2007. The current members of the IRC are Henry J. Pankratz (Chairperson), Terrence B. Kulka and R. Scott Colbran.

Proxy and Procedures Regarding Proxy Voting

Covington has the responsibility for the investment management of the Fund. Covington also has the responsibility of exercising the voting rights attaching to securities held by the Fund.

The objective in voting is to support proposals and director nominees that maximize the value of the Fund's investments - and those of its shareholders - over the long term. While the goal is simple, the proposals received are varied and frequently complex. As such, the proxy voting guidelines instituted by Covington (the "Guidelines") provide a framework to assess each proposal. While each proposal will be assessed on its merits, based on the particular facts and circumstances as presented, the Guidelines provide guidance for voting on routine matters for which the Fund may vote, such as proposals relating to the election of directors, approval of independent auditors, management compensation and incentive plans, changes in corporate structure and shareholders' rights. For example:

- On governance matters, the Guidelines set out certain expected standards such as majority-independent boards of directors and key board committees comprised entirely of independent directors.
- On executive compensation matters, the Guidelines support voting against stock-based compensation plans that substantially dilute the Fund's ownership interest in the company, provide participants with excessive awards or have inherently objectionable structural features.
- On corporate structure and shareholders' rights matters, the Guidelines oppose the creation of separate classes of shares that provide different voting rights to different groups of shareholders with similar economic investments.

For certain routine proxy proposals, such as with respect to stock-based compensation plans and shareholders' rights plans, the Guidelines contain a series of criteria for Covington to consider before making a decision for or against such proposal.

In evaluating proxy proposals, information from many sources is considered, including Covington for the Fund, management or shareholders of a company presenting a proposal and independent proxy research services. Substantial weight will be given to the recommendations of the company's board, absent guidelines or other specific facts that would support a vote against management.

While serving as a framework, the Guidelines cannot contemplate all possible proposals with which the Fund may be presented. In the absence of a specific guideline for a particular proposal (e.g., in the case of a non-routine matter, such as a transactional issue or contested proxy), management of the Fund will evaluate the issue and cast the Fund's vote in a manner that, in the management's view, will maximize the value of the Fund's investment.

Because many factors bear on each decision, the Guidelines incorporate factors that should be considered in each voting decision. The Fund may refrain from voting if that would be in the Fund's and its shareholders' best interests. These circumstances may arise, for example, when the expected cost of voting exceeds the expected benefits of voting, or when exercising the vote results in the imposition of trading or other restrictions.

If a vote presents a conflict between the interests of shareholders of the Fund and the Manager, the Manager will vote in a manner that, in management's view, will maximize the value of the Fund's investment. This policy is included in the standing instructions from the IRC to the Manager which are reviewed at least annually.

The Fund may vote contrary to these Guidelines in circumstances where it is in the best interests of the Fund and its shareholders.

The Fund shall maintain and publish a proxy voting record in accordance with applicable laws. For a copy of the Fund's Proxy Voting Guidelines, please go to www.covingtonfunds.com

FEES AND EXPENSES

Covington's Fees

Management Fees

Covington is, pursuant to the Management Agreement entered into between the Fund and Covington Group of Funds Inc. and assumed by Covington, responsible on an ongoing basis for directing the business, operations and affairs of the Fund. Covington selects and negotiates the terms of the retainer with each of the service providers, where appropriate, to develop and refine the investment strategy and criteria for the Fund.

The Fund pays Covington, in its capacity as the manager, an annual management fee of 1.25% of the net asset value of each of the Class A Shares, Series VII, Series VIII, Series VIII-B, Series IX and Series IX-B, calculated and paid monthly in arrears. Covington is also paid an amount equal to the service fee payable to dealers in respect of each of the series of Class A Shares. For the fiscal year ended July 31, 2017, the Fund incurred management fees of \$142,000 for Class A Shares, Series VII, Series VIII, Series VIII-B, Series IX and Series IX-B.

Investment Advisory Fees

Covington will develop and refine the investment strategy and criteria of the Fund, execute all investment decisions and supervise the activities investment specialists, if any. Covington, in its capacity as the manager, is responsible to pay investment advisory fees, if any, from the annual management fee paid to Covington with respect to the Class A Shares, Series VII, Series VIII, Series VIII-B, Series IX and Series IX-B.

Performance Bonus

Class A Shares, Series VIII, Series VIII-B, Series IX and Series IX-B

Covington is entitled to a performance bonus (the "Series VIII, VIII-B, IX and IX-B Performance Bonus") based on the realized gains and cumulative performance of the Class A Share Investment Portfolio as it relates to the pool underlying the Class A Shares, Series VIII, Series VIII-B, Series IX and Series IX-B of the Fund (the "Series VIII, VIII-B, IX and IX-B Pool") considered independently of one another. Before any Series VIII, VIII-B, IX and IX-B Performance Bonus is paid to Covington on the realization of a particular eligible investment, the Fund must have:

- (a) earned sufficient income to generate a rate of return on eligible investments in the Series VIII, VIII-B, IX and IX-B Pool greater than the average of the 5 year GIC rate of the five major banks plus 2% on an annualized basis. The income on eligible investments includes investment gains and losses (realized and unrealized) earned and incurred since the inception of Series VIII, Series VIII-B, Series IX and Series IX-B;
- (b) earned income from the particular investment which provides a cumulative investment return at an average annual rate in excess of 8% since the inception of Series VIII, Series VIII-B, Series IX and Series IX-B; and
- (c) fully recouped an amount equal to all principal invested in the particular investment.

Subject to all of the above, the Series VIII, VIII-B, IX and IX-B Performance Bonus and the Series VI Performance Bonuses will be an amount equal to 20% of all income earned from the particular eligible investment, provided that the payment of that performance bonus does not reduce returns to shareholders on the Class A Share Investment Portfolio of the applicable Series below the thresholds outlined above. For the purposes of the foregoing, income earned from an eligible investment will mean income earned by the applicable Series of the Fund or the applicable Predecessor Fund or from any CSBIF related to that Predecessor Fund.

None of the performance bonuses described above complies with the rules of the Canadian Securities Administrators relating to performance fees paid by mutual funds. However, incentive arrangements similar to the foregoing performance bonuses are common in both the venture capital and the labour fund industries. The Predecessor Funds obtained exemptive relief to permit the payment Performance Bonuses in the manner described above. In April 2008, the Fund obtained exemptive relief to permit the payment of the Series VIII, VIII-B, IX and IX-B Performance Bonus. See "Exemptions and Approvals".

The Fund considers the performance bonuses to be appropriate given the investment objective and strategy of the Fund because it must compete with other venture capital firms to attract suitable investment professionals to assist with the investments of the Fund.

For the year ended July 31, 2017, the Fund did not accrue or pay any performance bonus in any Series.

Sponsorship Fee

The Sponsor Agreement provides that the Sponsor makes available to the Fund such of its members and employees as are necessary or desirable to fill such positions on the board of directors and the committees thereof as the Fund may require. The Fund pays the Sponsor an annual fee equal to 0.05% of the net asset value of the Class A Shares, Series VII, Series VIII, Series VIII-B, Series IX and Series IX-B.

For the fiscal year ended July 31, 2017, the Fund incurred sponsor fees of approximately \$6,000.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fund counsel, so long as the Fund is registered as a labour sponsored investment fund corporation under the Ontario Act or is registered as a labour sponsored venture capital corporation under the Federal Tax Act, Class A Shares of the Fund will be a qualified investment for a trust governed by a RRSP, RRIF or TFSA (each a "Registered Plan") at a particular time, provided that the Class A Shares are not a "prohibited investment" for the Registered Plan. A Class A Share will generally be a prohibited investment of a Registered Plan, if the "controlling individual" (the holder of the TFSA or annuitant of the RRSP or RRIF, as the case may be): (i) does not deal at arm's length with the Fund for purposes of the Federal Tax Act; or (ii) has a "significant interest" (as defined in the Federal Tax Act) in the Fund. A controlling individual will generally hold a "significant interest" in the Fund for purposes of the prohibited investment rules in the Federal Tax Act, if the controlling individual owns, directly or indirectly, 10% or more of the issued shares of any class or series of the Fund or of any corporation related to the Fund. For these purposes, a person may be deemed to own shares owned by any other persons with whom he or she does not deal at arm's length (for purposes of the Federal Tax Act) plus his or her proportionate share of shares owned by a partnership of which he or she is a member, and all or part of the shares owned by a trust of which he or she is a beneficiary. Class A Shares will generally not be a "prohibited investment" for Registered Plans if the Class A Shares are "excluded property", as defined in the Federal Tax Act for purposes of the prohibited investment rules for Registered Plans. Generally, Class A Shares of the Fund will be excluded property for a Registered Plan if, at the relevant

time, (i) at least 90% of the value of all equity of the Fund is owned by persons dealing at arm's length with the "controlling individual" of that Registered Plan; (ii) the "controlling individual" deals at arm's length with the Fund; and (iii) certain other criteria set out in the definition of "excluded property" are met.

Whether or not the Class A Shares will be a "prohibited investment" or "excluded property" depends upon the controlling individual's particular situation. Potential investors who propose to hold their Class A Shares in a Registered Plan should consult their own tax advisors regarding their particular situation.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Introduction

In general terms, the following summary presents fairly the principal Canadian federal income tax considerations generally applicable to holders of Class A Shares who, for the purposes of the Federal Tax Act, are individuals (other than trusts that are not qualifying trusts) resident in Canada, hold their Class A Shares as capital property and deal at arm's length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade. The Fund is registered as a labour sponsored investment fund corporation under the Ontario Act and is registered as a labour-sponsored venture capital corporation under the Federal Tax Act. This summary assumes that the Fund will, at the time Class A Shares are purchased and at all relevant times thereafter, be registered under the Federal Tax Act and the Ontario Act and that the Fund and its officers, directors and shareholders conduct their business and affairs at all relevant times in a manner that is not contrary to the spirit and intent of the Ontario Act.

This summary is based on the current provisions of the Federal Tax Act and the regulations under the Federal Tax Act specific proposals for amendment to such legislation and regulations that have been publicly announced, and counsel's understanding of the current administrative practices of the Canada Revenue Agency publicly available as of the date hereof. This summary does not otherwise take into account or anticipate any changes in law whether by judicial, governmental or legislative action.

This summary is of a general nature only and is not exhaustive of all possible federal income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Therefore, holders of Class A Shares should consult their own tax advisors with respect to their individual circumstances.

Transfer of Class A Shares to an RRSP

Subject to the qualifications discussed under the heading "Eligibility for Investment", a Class A Share is a qualified investment for an RRSP. An individual who is the original purchaser of a Class A Share may transfer, for no consideration, the Class A Share to an RRSP under which the original purchaser or his or her spouse or common-law partner is the annuitant. The individual who makes such transfer will be entitled to treat an amount equal to the fair market value of the Class A Share at the time of the transfer as a contribution in kind to the RRSP and will be deemed to have disposed of the Class A Shares for proceeds of disposition equal to such fair market value. The contribution will generally be deductible in computing the original purchaser's income subject to the provisions of the Federal Tax Act which place limits on the annual amount of deductible RRSP contributions. The determination of the fair market value of a Class A Share at any particular time is a factual matter.

On the transfer of a Class A Share to an RRSP, the holder of the Class A Share may realize a capital gain if the fair market value of the Class A Share exceeds the holder's adjusted cost base of the Class A Share. A capital loss arising on the transfer of a Class A Share to an RRSP will generally be denied. See "Taxation of Class A Shareholders - Disposition of Class A Shares".

An RRSP is permitted to directly subscribe for Class A Shares.

Transfer of Class A Shares to an RRIF

Subject to the qualifications discussed above under the heading "Eligibility for Investment", a Class A Share is a qualified investment for an RRIF. Class A Shares can be transferred by an individual to an RRIF which purchases the shares for valuable consideration if the individual or his or her spouse or common-law partner is the annuitant of the RRIF. On such a sale of a Class A Share to an RRIF, the holder of the Class A Share may realize a capital gain or capital loss but any capital loss will be denied. See "Taxation of Class A Shareholders - Disposition of Class A Shares". No tax deduction is available in respect of the sale or other transfer of a Class A Share by an individual to an RRIF.

An RRIF is not permitted to directly subscribe for Class A Shares.

Transfer of Class A Shares to a TFSA

Subject to the qualifications discussed above under the heading "Eligibility for Investment", a Class A Share is a qualified investment for a TFSA. A TFSA can subscribe for and acquire Class A Shares. Class A Shares can be transferred to a TFSA under which the original holder or his or her spouse or common law partner is the annuitant up to the contribution limit of the TFSA. The original holder may realize a capital gain on the transfer but any capital loss is denied. No tax deduction is available in respect of the sale or other transfer of a Class A Share by a holder to a TFSA.

Taxation of the Fund

The taxation year of the Fund ends on July 31 of each year. As a registered labour-sponsored venture capital corporation, the Fund is a "mutual fund corporation" for the purposes of the Federal Tax Act. The Fund is required to compute its net income and net realized gains and losses in Canadian dollars for purpose of the Federal Tax Act and may, as a consequence, realize foreign exchange gains or losses that will be taken into account in computing its income for tax purposes.

The Fund intends to elect, as and when appropriate, in accordance with the Federal Tax Act, to have each of its "Canadian securities" (as defined in subsection 39(6) of the Federal Tax Act) treated as capital property. Such an election is intended to ensure that gains realized by the Fund on the disposition of Canadian securities are treated as capital gains.

When the Fund sells, or otherwise disposes of a capital property, the Fund will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Fund of the property and any reasonable costs of disposition. One-half of any capital gain or capital loss will be the Fund's taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the Fund's income. Allowable capital losses may normally be deducted against taxable capital gains of the Fund for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

The tax paid by the Fund on net realized capital gains will be refundable on a formula basis when Class A Shares are redeemed or when the Fund pays, or is deemed to pay, dividends to holders of the Class A Shares which it elects to be treated as capital gains dividends (Capital Gains Dividends).

Taxable dividends received by the Fund from taxable Canadian corporations are generally included in the Fund's income and deducted in computing its taxable income.

Interest and other investment income (other than taxable capital gains and dividends in respect of shares of taxable Canadian corporations) is included, (net of reasonable expenses which have not been reimbursed by Covington), in calculating the Fund's income and is subject to full corporate rates of tax without the benefit of any rate reduction. The Fund is subject to an additional tax equal to 6 2/3% of such investment income. The Fund is eligible for a refund of a portion of the tax paid on its net investment income if the Fund pays or is deemed to pay taxable dividends, other than Capital Gains Dividends, to its shareholders.

Taxation of Class A Shareholders

Tax Implications of the Fund's Distribution Policy

Holders of Class A Shares will be liable to tax on taxable dividends, other than Capital Gains Dividends, received or deemed to be received from the Fund, subject to the gross-up and dividend tax credit rules applicable to dividends from taxable Canadian corporations. Taxable dividends (other than Capital Gains Dividends) may be designated by the Fund as eligible dividends which benefit from an enhanced gross-up and dividend tax credit. Taxable dividends paid by the Fund may be designated as eligible dividends if the Fund is able to satisfy certain conditions. There is no assurance that the Fund will be able to designate dividends as eligible dividends.

As described above, the Fund may pay, or may be deemed to have paid, Capital Gains Dividends to holders of Class A Shares. Capital Gains Dividends received, or deemed to have been received, by a holder of a Class A Share will be treated as realized capital gains in the hands of such holder, and will be subject to the general rules relating to the taxation of capital gains.

If the Fund does not have sufficient non-capital loss carrying forwards to offset any taxable income of the Fund, the Fund may increase the stated capital of its then issued and outstanding Class A Shares, in order to maximize the refunds of tax available to it in respect of taxes payable on net realized capital gains and net investment income. The Fund would file an election such that it would be deemed to have paid a dividend on its then issued and outstanding Class A Shares equal to the amount added to the stated capital of the respective Series of Class A Shares. Each holder of a Class A Share would be deemed to have received a dividend, or if the Fund so elects, a Capital Gains Dividend, equal to the holder's proportionate share thereof even though the holder would not receive a cash distribution from the Fund.

Disposition of Class A Shares

A holder will generally realize a capital gain (or capital loss) on the disposition of a Class A Share, including on a redemption of a Class A Share, to the extent that the proceeds of disposition of the Class A Share exceed (or are exceeded by) the adjusted cost base to the holder of the Class A Share and any reasonable costs of disposition (including any redemption fee payable to the Fund).

The cost of a Class A Share acquired by the holder will generally be equal to the subscription price paid for that share. The cost of each Class A Share acquired will be averaged with the adjusted cost base of all

other Class A Shares of the same Series held by the holder for the purpose of determining the adjusted cost base of each Class A Share at any subsequent time. The adjusted cost base of a Class A Share will not be reduced by any Tax Credit and any Ontario tax credit received by the holder.

A capital loss that would otherwise arise on the disposition of a Class A Share will be reduced by the amount of any Tax Credit and any Ontario tax credit received in respect of the Class A Share by the holder of the Class A Share (or by a person with whom the holder does not deal at arm's length) to the extent that the amount of such tax credits have not previously reduced a capital loss in respect of the Class A Share.

Any capital loss realized by a holder of Class A Shares on the sale or transfer of Class A Shares to a TFSA, an RRSP or to an RRIF will be deemed to be nil.

One-half of any capital gain or capital loss will be the holder's taxable capital gain or allowable capital loss, as the case may be. Taxable capital gains must be included in computing the holder's income. Allowable capital losses may normally be deducted against taxable capital gains for the year. Allowable capital losses in excess of taxable capital gains for the year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years.

Redemption of Class A Shares

There are restrictions on the redemption of Class A Shares. Except for redemptions specifically permitted under the Federal Tax Act and the Ontario Act, a holder who wishes to redeem Class A Shares within eight years after the date on which such shares are issued will generally be subject to certain withholding taxes generally equal to the Tax Credit and any Ontario tax credit (discussed below) received on the purchase of such Class A Shares.

On a redemption of a Class A Share, the redemption proceeds will be treated as proceeds of disposition of the Class A Share and the holder thereof will realize a capital gain (or capital loss) equal to the amount by which the redemption proceeds (including any amounts withheld from the redemption proceeds and paid to the Receiver General for Canada and the Minister of Revenue (Ontario) as a return of the Tax Credit or the Ontario tax credit, as the case may be) exceed the adjusted cost base of the Class A Share to the holder.

Minimum Tax

The Tax Credit may not be applied to reduce a holder's liability for minimum tax.

Class A Shares Owned by Registered Plans and TFSAs

Subject to the qualifications discussed above under the heading "Eligibility for Investment", Class A Shares are qualified investments for a trust governed by an RRSP or an RRIF (individually, a "Registered Plan" collectively, "Registered Plans") or a TFSA.

A Registered Plan or TFSA will not be liable to tax under the Federal Tax Act in respect of taxable dividends or Capital Gains Dividends received, or deemed to be received, by the Registered Plan or TFSA in respect of Class A Shares, or in respect of capital gains realized on the disposition of Class A Shares.

Distributions from a Registered Plan to a holder are included in the income of the holder in the year of the distribution. Where the Registered Plan is a spousal plan, under certain circumstances, the distributions to the annuitant may be included in the income of the spouse who was the contributor to the spousal plan.

Withdrawals from a TFSA are generally not subject to tax.

The Federal Tax Act contains certain punitive rules to address the use of RRSPs, RRIFs and TFSAs in certain tax planning arrangements. Investors who hold their Class A Shares through a TFSA, RRSP or RRIF should consult their own tax advisors regarding their particular situation.

Federal Penalty Taxes Potentially Applicable to the Fund

The Fund will be subject to penalties and taxes if it fails to comply with certain requirements of the Federal Tax Act applicable to registered labour-sponsored venture capital corporations.

If the Fund were to issue an Information Return in respect of a Class A Share (i) when it was a revoked corporation under the Federal Tax Act, or (ii) which Class A Share is not issued within 180 days of the issuance of the Information Return, the Fund is liable to pay a penalty equal to the subscription price of the Class A Share.

The Fund is required to invest at least 60% of the shareholders' equity (computed under rules in the Federal Tax Act) in eligible investments (the "60% Rule").

If the Fund does not satisfy the 60% Rule at any time during a month following the end of the year in which the Class A Shares are issued, the Fund will be required to pay a tax in respect of that month equal to the greatest amount in that month by which 60% of the shareholders' equity of the Fund exceeds the cost of the eligible investments of the Fund, which is referred to as the investment shortfall, multiplied by 1/60th of the prescribed rate of interest for that month. The investment shortfall, subject to some adjustment, is initially determined as the amount by which 60% of the lesser of the shareholders' equity in the Fund at the end of the preceding taxation year or the end of the particular year exceeds the amount that is the greater of:

- (a) the total of the amounts which is the adjusted cost to the Fund of an eligible investment of the Fund at that time; and
- (b) an average amount that is calculated as 50% of the amount of the total of all amounts which is the adjusted cost to the Fund of an eligible investment at the beginning of the particular year and the adjusted cost base to the Fund of an eligible investment at the end of the particular year.

In computing the investment shortfall, unrealized gains and losses in respect of the eligible investments of the Fund are not taken into account in computing the equity of the Fund. Where redemptions of Class A Shares will occur after the end of the particular year, the amount of the shareholders' equity of the Fund that would be reduced by the expected redemptions is taken into account in determining the shareholders' equity in the Fund at the end of the particular year. To the extent that redemptions in the first sixty days of the year following are subject to a tax on the redemption (which equates with the recovery of the tax credit), the amount is ignored for the purposes of computing the investment shortfall.

The Federal Tax Act provides for adjustments to the calculation of the investment shortfall to:

- (a) exclude from the calculation of the shareholders' equity interest and penalties paid before the end of the month that have not been refunded;
- (b) exclude Class A Shares from the calculation after the expiration of the eight year period for those Class A Shares; and

- (c) deem the amount of shareholders' equity raised in the last 60 days of the taxation year of the Fund (net of redemptions in that period) to have been raised at the beginning of the next taxation year of the Fund.

In determining the adjusted cost to the Fund of an eligible investment under the Federal Tax Act, incentives are provided for investment in smaller businesses. The specific incentives are the following:

- (a) 150% of the cost of any investment in small businesses that, at the time of purchase, have \$10,000,000 or less in assets will be deemed to be the cost of such investment for the purposes of the Federal Tax Act investment requirements;
- (b) 150% of the cost of any investment in a CSBIF under the Ontario Act will be deemed to be the cost of such investment for the purposes of the Federal Tax Act investment requirements; and
- (c) 200% of the cost of investments in the early stage of financing, in eligible businesses that, at the time of purchase, have \$2,500,000 or less in assets will be deemed to be the cost of such investment for the purposes of the Federal Tax Act investment requirements.

The cost of any other eligible investment is the cost to the Fund.

If the Fund is required to pay tax in respect of an investment shortfall in 12 consecutive months (the "12-month period"), the Fund will be required to pay a further tax (the "additional tax") and a penalty in respect of the 12-month period. The additional tax will be equal to 20% of the average of the greatest monthly investment shortfalls in the 12-month period. Any additional tax payable for previous 12-month periods (net of any refund of additional tax paid) and any tax previously payable for having failed to satisfy the respective investment test described above will reduce the additional tax for a particular 12-month period. The amount of the penalty is equal to the additional tax.

If the Fund satisfies the 60% Rule or does not have an investment shortfall throughout any period of 12 consecutive months following the end of a 12-month period in respect of which it was required to pay the additional tax, it will be entitled to a refund of the additional tax and 80% of the penalty if it files the required return under the Federal Tax Act. Pursuant to the Federal Tax Act, the payment of refunds occurs on or before the later of the:

- (a) 30th day after receiving the application; and
- (b) 60th day after the elimination of the monthly investment shortfall for 12 consecutive months.

Revocation of Registration under the Federal Tax Act

The Minister of National Revenue may revoke the Fund's registration as a labour-sponsored venture capital corporation if:

- (a) its Articles do not comply with the requirements of the Federal Tax Act relating to, among other things, business, authorized share capital, reductions in paid-up capital and redemptions and transfers of Class A Shares;
- (b) it does not comply with the restrictions in its Articles;

- (c) it does not file the proper forms and returns and pay any special taxes or penalties required of it under the Federal Tax Act;
- (d) it does not issue the proper Information Returns to purchasers of Class A Shares or issues more than one Information Return in respect of the same acquisition of, or subscription for, a Class A Share;
- (e) its financial statements are not prepared in accordance with generally accepted accounting principles;
- (f) it does not prepare in a timely way proper valuations of its Class A Shares;
- (g) it has provided a guarantee of a debt and has failed to maintain the reserve in respect of the guarantee required of it under the Federal Tax Act;
- (h) it has paid a fee or commission in excess of a reasonable amount in respect of the offering for sale of its shares; or
- (i) it has a monthly investment shortfall in 18 or more months in any 36-month period.

The Minister of National Revenue must give 30 days notice to the Fund of any proposal to revoke its registration. The Fund will have an opportunity to correct any default and to appeal any revocation of its registration. If the registration of the Fund is revoked, the Class A Shares may cease to be a qualified investment for a trust governed by a Registered Plan. An investment in Class A Shares made after the revocation of the registration of the Fund will not entitle the purchaser to receive a Tax Credit.

A revocation of the Fund's registration under the Federal Tax Act could, in certain circumstances, result in the Fund being considered to have discontinued its venture capital business and consequently liable to pay a penalty tax based on the number of years (up to eight) that Class A Shares of the Fund were outstanding.

A labour-sponsored venture capital corporation may voluntarily seek to have its registration revoked under the Federal Tax Act.

ONTARIO INCOME TAX CONSIDERATIONS

Introduction

In general terms, the following summary presents fairly the principal Ontario income tax considerations generally applicable to holders of Class A Shares pursuant to this prospectus who, for the purposes of the relevant income tax legislation, are individuals (other than trusts that are not Qualifying Trusts) resident in Ontario, hold their Class A Shares as capital property and deal at arm's length with the Fund. Generally, Class A Shares will be capital property to the holder thereof unless the holder is a trader or a dealer in securities or has acquired the Class A Shares as part of an adventure in the nature of trade. This summary assumes that at the time the Class A Shares are purchased, and at all relevant times thereafter, the Fund is registered as a labour sponsored investment fund under the Ontario Act and is registered as a labour-sponsored venture capital corporation under the Federal Tax Act and that the Fund and its officers, directors and shareholders conduct their business and affairs at all relevant times in a manner that is not contrary to the spirit and intent of the Ontario Act.

This summary is based on the current provisions of the Ontario Act and the Ontario Tax Act, the regulations under such statutes and counsel's understanding of the current administrative and assessing practices published by the Ontario provincial taxation authorities. This summary does not take into account or anticipate any changes in law, whether by judicial, governmental or legislative act other than as set out herein.

This summary is of a general nature only and is not exhaustive of all possible Ontario income tax considerations. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Therefore, holders of Class A Shares should consult their own tax advisors with respect to their individual circumstances.

Ontario Taxation of the Fund

For the purposes of provincial corporate income tax, the Fund's aggregate income will be attributed to, and taxable in, those provinces in which it is earned. Notwithstanding the foregoing, none of the income of the Fund will be subject to tax in a particular province unless the Fund carries on business in such province through a permanent establishment as defined in the provincial corporate tax statute applicable to the particular province. Counsel has been advised by management of the Fund that the Fund does not intend to carry on business through a permanent establishment in any province other than Ontario. Subject to this assumption, all of the taxable income of the Fund will be attributable to, its permanent establishment in Ontario.

The taxation of the Fund will generally parallel the taxation of the Fund under the Federal Tax Act, except with respect to refundable taxes on investment income.

Ontario Taxation of Class A Shareholders

Under the Ontario Tax Act, an individual who is resident in Ontario on the last day of a taxation year is generally liable for Ontario tax at specified percentages of the individual's taxable income. Taxable income of an individual for the purposes of the Ontario Tax Act is calculated based on the provisions of the Federal Tax Act. For example, one-half of any capital gains or capital losses will be the holder's taxable capital gains or allowable capital losses, as the case may be. An enhanced dividend tax credit is applicable under the Ontario Tax Act for dividends eligible for the federal enhanced tax credit. The ordinary dividend tax credit for individuals resident in Ontario continues to apply to other taxable dividends.

The Ontario minimum tax is calculated as a percentage of the federal minimum tax.

Ontario Tax on Redemption of Class A Shares

The Fund is generally required to withhold and remit tax payable by a holder of Class A Shares of the Fund upon the redemption, acquisition or cancellation of Class A Shares for which an Ontario tax credit was received if such Class A Shares have been outstanding for less than eight years. The amount that must be withheld and remitted depends upon the year the Class A Shares were purchased. For Class A Shares purchased on or before March 1, 2010, the withholding amount is 15% of the lesser of (i) the original purchase price and (ii) the aggregate redemption proceeds. For shares purchased after March 1, 2010, and on or before March 1, 2011, the applicable percentage is 10% of the lesser of (i) and (ii). For Class A Shares purchased after March 1, 2011 and on or before February 29, 2012, the percentage is 5% of the lesser of (i) and (ii). There is no Ontario tax credit available for purchases of Class A Shares after February 29, 2012 and, consequently, no tax is required to be withheld and remitted on the redemption of

Class A Shares purchased after February 29, 2012. If the Fund fails to withhold and remit the tax payable by a holder upon the redemption, as required, the Fund is liable to pay the tax and is entitled to recover this amount from the holder.

Ontario Penalty Taxes Potentially Applicable to the Fund

The Fund will be subject to a penalty tax under the Ontario Act if it fails to maintain, above a minimum level for some and below a maximum level for others of, its investments in eligible Ontario businesses (minimum and maximum eligible investment requirements). For a summary of those investment requirements, see "Statutory and Other Investment Restrictions".

If, at the end of a particular calendar year, the Fund does not satisfy the minimum eligible investment requirements, it is required to pay tax in respect of that calendar year equal to the amount by which the greater of:

- (a) 15% of the amount by which the Fund's equity capital received on the issue of its Class A Shares that is required to be maintained in eligible Ontario businesses as of the end of the calendar year exceeds the cost to the Fund of its investments in eligible Ontario businesses at the end of such calendar year; and
- (b) the aggregate of: (i) 15% of the amount by which the cost of the investments by the Fund during the calendar year in eligible businesses that are listed companies exceeds the limit on investments in listed companies imposed by the Ontario Act, and (ii) 15% of the amount by which the equity capital received on the issue of Class A Shares that is required to be invested at the end of the calendar year in eligible businesses that are small businesses exceeds the total of all amounts each of which is a cost to the Fund of its investment in such eligible small businesses at the end of the calendar year,

exceeds the amount of any such tax, other than an amount described in paragraph (b)(i) above, paid by the Fund in any prior year that has not been rebated to the Fund.

If application is made to the Minister of Revenue (Ontario) within three years after the end of the calendar year in respect of which the Ontario penalty tax was imposed and the Minister of Revenue (Ontario) is satisfied that the Fund is maintaining the minimum and maximum eligible investment requirements, the Fund may be eligible to receive a rebate of the penalty tax without interest.

Revocation of Registration Under the Ontario Act

The Minister of Revenue (Ontario) may revoke the registration of the Fund under the Ontario Act for certain reasons including if the Fund:

- (a) does not comply with the restrictions imposed by its Articles;
- (b) fails to maintain the required level of eligible investments; or
- (c) does not comply with any of the requirements of the Ontario Act or the regulations thereunder, or in the opinion of the Minister of Revenue (Ontario), is conducting its business or affairs in a manner contrary to the spirit and intent of the Ontario Act.

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Revenue (Ontario) an amount equal to 15% of the equity value received by the Fund in respect of all Class A Shares that are

then outstanding less than eight years and were issued on or before March 1, 2010, 10% of the equity value received by the Fund in respect of all Class A Shares then outstanding less than eight years and issued after March 1, 2010, and on or before March 1, 2011, and 5% of the equity value received by the Fund in respect of Class A Shares that are outstanding less than eight years and were issued after March 1, 2011, and before February 29, 2012. If the fair market value of such shares on the date of revocation is less than the actual issue price of the shares, the amount to be paid by the Fund is reduced to the amount that is determined if the amount of tax credit was calculated on the amount that is equal to such fair market value.

REMUNERATION OF EXECUTIVE OFFICERS, DIRECTORS AND INDEPENDENT REVIEW COMMITTEE

The executive officers of the Fund will receive no direct compensation or benefits, in cash or otherwise, from the Fund. The services of the Chief Executive Officer of the Fund are to be provided by Covington under the Management Agreement at the expense of Covington.

Directors of the Fund, other than directors who are members of the Sponsor or directors, officers or shareholders of Covington will be entitled to receive an annual fee of \$7,500 and a fee of \$1,000 for each meeting of the board of directors or any committee thereof attended of the Fund. Directors of the Fund who are members of the Sponsor or are directors, officers or shareholders of Covington will receive no compensation for attendance at meetings. The directors of the Fund will be entitled to be reimbursed for expenses incurred in attending meetings of the board of directors or any committee of the Fund. Total fees paid or payable to directors during the year ended July 31, 2017 are as follows: Donald Bujold (\$9,500), Dennis Dunster (\$9,500), John R. Mott (\$14,500) and Iain A. Robb (\$16,500).

In addition to the Fund, the IRC serves Covington Fund II Inc., a labour sponsored investment fund managed by Covington. The IRC members each receive \$12,000/year plus as per meeting fee of \$2,000 for the Chairperson and \$1,500 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. Total fees paid to IRC members by the Fund during the year ended July 31, 2017 are as follows: Henry Pankratz (\$7,250), Terrence B. Kulka (\$7,910) and R. Scott Colbran (\$6,827).

MATERIAL CONTRACTS

The Fund has entered into the following contracts which are material to investors:

- (a) the articles of the Fund referred to under "Name, Formation and History of the Fund";
- (b) the Sponsor Agreement referred to under "Responsibility for Fund Operations" Sponsor Agreement;
- (c) the Management Agreement referred to under "Responsibility for Fund Operations" Management Agreement; and
- (d) the Investment Advisor Agreement referred to under "Responsibility for Fund Operations" Investment Advisor Agreement.

Copies of the foregoing contracts may be inspected during regular business hours at the principal place of business of the Fund in Toronto and may be found electronically at www.SEDAR.com.

LEGAL MATTERS

There are no legal or administrative matters material to the Fund to which the Fund is a party.

EXEMPTIONS AND APPROVALS

On April 9, 2008, the Fund received exemptive relief from the section 19.1 of NI 81-102 from the applicability of Part 7 of NI 81-102 in relation to incentive fees as it applies to the Class A Shares of Series VIII, and Series IX.

On January 30, 2007, the Fund received exemptive relief to permit it to pay certain specified distribution costs out of fund assets contrary to section 2.1 of National Instrument 81-105. The exemption was granted on the condition that the distribution costs so paid are permitted by, and otherwise paid in accordance with NI 81-105.

COVINGTON VENTURE FUND INC.

Covington Venture Fund Inc.
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M5A 3C4
Telephone Number ó 416-365-0060

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. You can get a copy of these documents at your request and at no cost, by calling 416-365-0060 or 866-244-4714 toll-free, from your dealer or by e-mail at info@covingtonfunds.com.

These documents and other information about the Fund, including material contracts are also available on www.covingtonfunds.com, the Manager's Internet site or at www.sedar.com.