COVINGTON
GROUP OF FUNDS

2014 | Semi-Annual Report

Covington Fund II Inc.

For The Period Ended February 28, 2014

TABLE OF CONTENTS

**The enclosed unaudited semi-annual financial statements have not been reviewed by the Auditors of Covington Fund II Inc.*

STATEMENTS OF FINANCIAL POSITION [UNAUDITED]

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

As at		February 28, 2014 $		August 31, 2013 $
ASSETS AND LIABILITIES				
Assets				
Cash		**17,733**		3,804
Marketable securities, at market value		**47,457**		703
Venture investments, at fair value		**220,006**		279,636
Accounts receivable and prepaid expenses		**10,428**		10,772
Interest and dividend receivable		**47**		1
		295,671		294,916
Liabilities				
Accounts payable and accrued liabilities		**8,305**		4,668
Contingent incentive participation amount payable [Note 6]		**7,209**		13,545
Redemptions payable		**2**		2
		15,516		18,215
Net assets, at fair value		**280,155**		276,701
Net assets, at fair value per Series				
Series I	**$**	**158,669**		$152,237
Series II	**$**	**121,486**		$124,464
Class A Shares outstanding [Note 4]				
Series I		**17,426,821**		17,673,307
Series II		**13,893,489**		14,966,676
Net assets, per Class A Share [Note 3]				
Series I	**$**	**9.10**	$	8.61
Series II	**$**	**8.74**	$	8.32

On behalf of the Board of Directors:

Henry J. Pankratz
Director

Terrence B. Kulka
Director

See accompanying notes.

STATEMENTS OF OPERATIONS [UNAUDITED]

[in $ thousands except per share amounts]

For the six-month period ended	February 28, 2014 $	February 28, 2013 $
INCOME		
Income from venture investments	176	1,223
Dividend income	61	18
Interest on marketable securities	48	65
Other income	6	-
Escrow recovery	-	416
Redemption fee income [Note 4]	-	4
	291	1,726
EXPENSES		
Contingent incentive participation amount [Note 6]	2,216	8,799
VenGrowth contract termination arrangement [Note 6]	1,912	1,838
Investment advisor fees [Note 6]	1,844	1,773
Net escrow loss	973	-
Service fees [Note 6]	675	635
Capital maintenance fee [Note 6]	638	1,068
Fund administrator fees [Note 6]	615	590
Other [Note 6]	445	11
Co-Sponsor fees [Note 6]	218	210
Directors fees	188	217
Shareholder communications	175	494
Audit fees	172	154
Legal fees	135	13
Custody fees	33	29
Independent Review Committee	18	11
Harmonized sales taxes	(192)	1,577
	10,065	17,419
Loss for the period	(9,774)	(15,693)
Realized and unrealized gain/(loss) on investments		
Realized gain/(loss) on sale of investments	33,579	(14,556)
Realized gain on foreign exchange	1,667	563
Change in unrealized appreciation of foreign currency	180	402
Change in unrealized appreciation/(depreciation) of marketable securities	(246)	24
Change in unrealized appreciation/(depreciation) of venture investments	(10,907)	53,776
Realized and unrealized gain on investments	24,273	40,209
Results of operations for the period	14,499	24,516
Results of operations for the period per Series:		
Series I	$ 8,212	$ 13,285
Series II	$ 6,287	$ 11,231
Results of operations for the period per Class A Share (based on weighted average number of shares outstanding)		
Series I	$ 0.47	$ 0.71
Series II	$ 0.44	$ 0.68

See accompanying notes.

STATEMENTS OF CHANGES IN NET ASSETS [UNAUDITED]

[in $ thousands]

For the six-month period ended	February 28, 2014 $	February 28, 2013 $
Net assets, beginning of period	**276,701**	268,753
INVESTMENT ACTIVITIES		
Results of operations for the period	**14,499**	24,516
CAPITAL TRANSACTIONS [Note 4]		
Class A Shares, Series I		
Proceeds from issuance of Class A Shares	**20**	13
Proceeds from issuance of Class A shares due to merger	**6,559**	-
Amounts paid for Class A Shares redeemed	**(8,637)**	(8,538)
Class A Shares, Series II		
Amounts paid for Class A Shares redeemed	**(8,987)**	(6,574)
Net assets, end of period	**280,155**	278,170
Realized gain/(loss) on sale of investments		
Marketable securities		
Bonds, at cost, beginning of period	**-**	7,504
Bonds purchased during the period	**-**	-
	-	7,504
Amortization of bond premium	**-**	(125)
Bonds, at cost, end of period	**-**	7,379
Cost of bonds sold	**-**	-
Proceeds from sale of bonds	**-**	-
Realized gain on sale of bonds	**-**	-
Equities, at cost, beginning of period	**689**	689
Equities purchased during the period	**21,964**	-
	22,653	689
Equities, at cost, end of period	**12,691**	689
Cost of equities sold	**9,962**	-
Proceeds from sale of equities	**11,012**	-
Realized gain on sale of equities	**1,050**	-
Venture investments		
Venture investments, at cost, beginning of period	**263,783**	250,589
Venture investments purchased during the period	**17,377**	21,461
Venture investments repaid during the period	**(553)**	(4,557)
	280,607	267,493
Venture investments, at cost, end of period	**215,060**	241,118
Cost of venture investments sold	**65,547**	26,375
Proceeds from sale of venture investments	**98,076**	11,819
Realized gain/(loss) on sale of venture investments	**32,529**	(14,556)
Realized gain/(loss) on sale of investments	**33,579**	(14,556)

See accompanying notes.

STATEMENTS OF CASH FLOWS [UNAUDITED]

[in $ thousands]

For the six-month period ended	February 28, 2014 $	February 28, 2013 $
Operating activities		
Results of operations for the period	**14,499**	24,516
Items not affecting cash		
Realized (gain)/loss on sale of investments	**(33,579)**	14,556
Amortization of premium on bonds	**-**	125
Change in unrealized (appreciation)/depreciation of investments	**11,153**	(53,800)
Fee income from venture investments	**-**	(63)
Change in non-cash working capital		
Change in other assets and liabilities	**(2,833)**	8,862
	(10,760)	(5,804)
Financing activities		
Net proceeds from issuance of Class A Shares, Series I and II	**20**	13
Net proceeds from issuance of Class A Shares due to merger	**176**	-
Amounts paid for Class A Shares redeemed, Series I and II	**(17,624)**	(15,112)
	(17,428)	(15,099)
Investing activities		
Purchase of equities	**(21,964)**	-
Purchase of venture investments	**(8,912)**	(19,851)
Net proceeds/(purchase) of short term investments	**(34,998)**	36,605
Repayment of venture debt	**553**	4,557
Proceeds from sale of equities	**11,012**	-
Proceeds from sale of venture investments	**96,426**	10,272
	42,117	31,583
Increase in cash during the period	**13,929**	10,680
Cash, beginning of period	**3,804**	1,162
Cash, end of period	**17,733**	11,842
Non-monetary transactions [Note 5]		
Securities received from debt financing and share exchange	**1,650**	1,610
Proceeds from share exchange	**1,650**	1,547
Net assets acquired on merger	**6,559**	-

See accompanying notes.

STATEMENT OF INVESTMENT PORTFOLIO [UNAUDITED]

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

As at February 28, 2014

Marketable securities

Par Value $	Issuer	Coupon rate %	Maturity date	Average cost $	Fair value $
Short-term investment					
25,039,000	Royal Bank of Canada	1.05	April 8, 2014	24,999	25,008
10,009,000	TransCanada Pipeline Ltd.	1.06	March 24, 2014	9,999	10,001
				34,998	35,009
Equities					
97,900	Catamaran Corporation+			5,000	4,880
20,875	Manitoba Telecom Services Inc.+			689	635
330,000	Manulife Financial Corporation+.			7,002	6,933
				12,691	12,448
Total marketable securities				**47,689**	**47,457**

Venture investments

Investee companies	Number of shares or (par value $)	Debt at cost $	Equity at cost $	Total $
1293551 Ontario Limited, Demand Promissory Note, Prime + 1/2%	$250,000	250	-	250
1293551 Ontario Limited, Series II, Class B Convertible Preferred	116,866	-	323	323
2203077 Ontario Limited, Promissory Note, 5%, due May 31, 2017	$94,013	97	-	97
2210961 Ontario Limited, Loan, 6%, due April 19, 2018	$5,508,056	3,061	-	3,061
2210961 Ontario Limited, Loan, 6%, due October 17, 2015	$125,000	125	-	125
2210961 Ontario Limited, Common	50,000	-	-	-
Active Exhaust Corporation, Sub Debenture, 14%, due April 30, 2015	$2,000,000	2,000	-	2,000
Active Exhaust Corporation, Class B Common	502,766	-	822	822
Adventus Remediation Tech. Inc., Common	709,942	-	-	-
Adventus Remediation Tech. Inc., Class A Preferred	6,990,523	-	848	848
Aegera Oncology Inc., Rights	12,605,118	-	12,605	12,605
Affinium Pharmaceuticals Inc., Class A Exchangeable	1,645,000	-	-	-
Affinium Pharmaceuticals Inc., Common Exchangeable	305,525	-	-	-
Aimetis Corporation, Class A Preferred	1,666,667	-	2,500	2,500
AppZero Software Corporation, Common	1,096,138	-	874	874
AppZero Software Corporation, Class A Preferred	1,988,252	-	2,217	2,217

STATEMENT OF INVESTMENT PORTFOLIO [UNAUDITED] [Cont'd]

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

Venture investments (cont`d.)

Investee companies	Number of shares or (par value $)	Debt at cost $	Equity at cost $	Total $
Axela Inc., Demand Debenture, 8%	$12,865,533	11,567	-	11,567
Axela Inc., Demand Debenture, 12%	$15,637,046	-	-	-
Axela Inc., Demand Debenture, 15%	$11,463,030	-	-	-
Axela Inc., Demand Debenture, 20%	$5,888,024	-	-	-
Axela Inc., Convertible Debenture, 12%, due July 15, 2015	$2,500,000	2,511	-	2,511
Axela Inc., Convertible Debenture, 12%, due January 13, 2016	$1,000,000	1,000	-	1,000
Axela Inc., Convertible Debenture, 12%, due March 16, 2016	$6,250,000	6,250	-	6,250
Axela Inc., Common	1,313,244	-	-	-
Axela Inc., Class A Series 1 Preferred	13,442,856	-	-	-
Axela Inc., Class A Series 2 Preferred	606,647	-	-	-
Axela Inc., Class A Series 3 Preferred	2,065,936	-	-	-
Axela Inc., Class A Preferred	7,858,299	-	-	-
Axela Inc., Class A Series 1 Warrants, $0.00001, expiry June 12, 2016	3,754,874	-	-	-
Axela Inc., Class A Series 2 Warrants, $1.27, expiry February 16, 2015	486,573	-	-	-
Axela Inc., Class A Series 3 Warrants, $2.01, expiry April 20, 2014	23,002	-	-	-
Axela Inc., Class A Series 3 Warrants, $2.01, expiry July 17, 2015	19,782	-	-	-
bitHeads Inc., Class B Preferred	7,464,010	-	821	821
BTE Technologies Inc., Exchangeable*	6,095	-	2,128	2,128
BTE Technologies Inc., Common*	1,736	-	-	-
BTI Systems Inc., Common*	15,424,969	-	1,377	1,377
BTI Systems Inc., Class A Preferred*	2,028,039	-	1,327	1,327
BTI Systems Inc., Class B Preferred*	25,702,108	-	9,578	9,578
BTI Systems Inc., Class C Preferred*	8,325,969	-	1,831	1,831
BTI Systems Inc., Class D Preferred*	3,281,576	-	1,290	1,290
Clek Inc., Class B Common	1,949,765	-	3,539	3,539
CounterPath Corporation, Common+	2,157,691	-	5,207	5,207
CounterPath Corporation, Warrants, USD$3.25, expiry June 19, 2014+	300,000	-	-	-
Embotics Corporation, Convertible Debenture, 12%, due August 29, 2016	$500,000	500	-	500
Embotics Corporation, Class A Preferred	395,776	-	3,579	3,579
Embotics Corporation, Class B Preferred	582,031	-	2,500	2,500
Epocal Inc., Rights*	2,827,341	-	-	-
Espial Group Inc., Common+	1,894,414	-	2,387	2,387
Fidelity PAC Metals Ltd., Demand Promissory Note, 6%	$285,623	286	-	286

STATEMENT OF INVESTMENT PORTFOLIO [UNAUDITED] [Cont'd]

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

Venture investments (cont'd.)

Investee companies	Number of shares or (par value $)	Debt at cost $	Equity at cost $	Total $
Fidelity PAC Metals Ltd, Common	2,060,000	-	2,060	2,060
Fusebill Inc., Class A Preferred	1,874,761	-	900	900
Fusebill Inc., Common	694,580	-	300	300
Greenfield Ethanol Inc., Common	497,682	-	13,687	13,687
Greenfield Ethanol Inc., Special	123,645	-	3,400	3,400
Interface Biologics Inc., Class A Preferred	9,043,776	-	15,241	15,241
Ivey CSBIF I Inc. Class A	250,000	-	2,500	2,500
Ivey CSBIF II Inc. Class A	250,000	-	2,500	2,500
Mist Mobility Integrated Systems Technology Inc., Demand Promissory Note, 12%	$10,950,000	9,900	-	9,900
Mist Mobility Integrated Systems Technology Inc., Demand Debenture, 15%	$750,000	750	-	750
Mist Mobility Integrated Systems Technology Inc., Demand Subordinated Debenture, 5%	$2,250,000	2,250	-	2,250
Mist Mobility Integrated Systems Technology Inc., Common	3,690,136	-	2,250	2,250
Nakina Systems Inc., Demand Convertible Debenture, 15%*	$4,299,765	4,458	-	4,458
Nakina Systems Inc., Demand Promissory Note, 18%*	$2,200,000	2,248	-	2,248
Nakina Systems Inc., Class A Common*	6,168,948	-	-	-
Nakina Systems Inc., Class A Preferred*	10,909,081	-	-	-
Nakina Systems Inc., Class B Preferred*	8,271,130	-	-	-
Nakina Systems Inc., Class C Preferred*	39,167,338	-	4,645	4,645
Nakina Systems Inc., Warrants*	13,705,577	-	444	444
NeurAxon Inc., Convertible Debenture, 10%, due March 23, 2019*	$144,621	143	-	143
NeurAxon Inc., Common*	8,958	-	1	1
NeurAxon Inc., Series I Class A Preferred*	1,013,260	-	758	758
NeurAxon Inc., Series I Class B Preferred*	680,997	-	510	510
Nexgen Financial Corporation, Common	888	-	-	-
OPKO Health Inc., Common*+	1,462,887	-	10,375	10,375
OTYC Holdings Inc., Class B Preferred	14,496,425	-	124	124
OTYC Holdings Inc., Class C Preferred	4,189,769	-	553	553
OTYC Holdings Inc., Class D Preferred	46,047,926	-	6,820	6,820
OTYC Holdings Inc., Milestones	17,301,627	-	-	-

STATEMENT OF INVESTMENT PORTFOLIO [UNAUDITED] [Cont'd]

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

Venture investments (cont'd.)

Investee companies	Number of shares or (par value $)	Debt at cost $	Equity at cost $	Total $
PowerBand Global Inc., Demand Promissory Note, 7%	$2,000,000	2,000	-	2,000
PowerBand Global Inc., Demand Promissory Note, 12%	$5,051,000	5,051	-	5,051
PowerBand Global Inc., Demand Promissory Note, 18%	$500,000	500	-	500
PowerBand Global Inc., Debenture, 24%, due October 2, 2014	$1,563,676	1,563	-	1,563
Resolver Inc., Demand Promissory Note, 18%	$5,275,000	5,214	-	5,214
Resolver Inc., Common	2,782,020	-	1,263	1,263
Resolver Inc., Preferred	2,500,000	-	2,031	2,031
Roll-Tite Corporation, Demand Loan, 10%	$1,000,000	1,000	-	1,000
Roll-Tite Corporation, Demand Loan, 20%	$1,477,512	1,478	-	1,478
Roll-Tite Corporation, Common	85,000	-	-	-
Sandvine Corporation, Common+	2,822,597	-	4,601	4,601
Signal Hill Equity Partners II, LP	2,167,045	-	1,617	1,617
Spartan Bioscience Inc., Common	201,000	-	30	30
Starburst Holdings Limited, Common	20	-	2,160	2,160
Stem Cell Therapeutics Corporation, Common+	3,122,267	-	847	847
Stem Cell Therapeutics Corporation, Warrants, exercise price $0.40, expiry March 15, 2018	1,694,880	-	-	-
VG Mezzanine I Limited Partnership	13,590	-	3,177	3,177
WireIE Holdings International Inc., Secured Convertible Debenture, 10%, due March 13, 2018	$2,500,000	2,500	-	2,500
WireIE Holdings International Inc., Demand Promissory Note, 12%	$1,750,000	1,750	-	1,750
WireIE Holdings International Inc., Common	16,510,275	-	5,258	5,258
Total venture investments, at cost		68,452	146,608	215,060
Unrealized appreciation of venture investments				4,946
Venture investments, at fair value				**220,006**
Total investments, at fair value				**267,463**
Other assets, net of liabilities				12,692
Net assets, at fair value				**280,155**

* *Investment made and tracked in $US dollars.*

\+ *Indicates a publicly traded security.*

See accompanying notes.

STATEMENT OF INVESTMENT PORTFOLIO [UNAUDITED] [Cont'd]

[in $ thousands except percentages and number of companies]

As at February 28, 2014

	Number of companies	Cost of investments $	% Total venture investments at cost %	Fair value of investments $	% Total venture investments at fair value %
Stage of Development					
Start-Up / Early	6	39,187	18.2	37,451	17.0
Expansion	27	154,607	71.9	173,864	79.0
Later	7	21,266	9.9	8,691	4.0
	40	**215,060**	**100.0**	**220,006**	**100.00**

	Number of companies	Cost of investments $	% Total venture investments at cost %	Fair value of investments $	% Total venture investments at fair value %
Industry Class					
Biotechnology/Health Sciences	11	70,616	32.8	66,855	30.4
Retail	2	4,506	2.1	4,144	1.9
Financial Services	6	18,302	8.5	16,281	7.4
Technology	16	83,382	38.8	95,053	43.2
Manufacturing	5	38,254	17.8	37,673	17.1
	40	**215,060**	**100.0**	**220,006**	**100.0**

See accompanying notes.

FEBRUARY 28, 2014

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

1. CORPORATE STATUS AND ACTIVITIES

Covington Fund II Inc. (the "Fund"), originally incorporated under the laws of Ontario on September 20, 1999, was continued under the Canada Business Corporations Act effective November 29, 2010.

The Fund is registered as a labour-sponsored investment fund corporation ("LSIF") under the Community Small Business Investment Funds Act (Ontario) (the "Ontario Act") and is a prescribed Labour-Sponsored Venture Capital Corporation ("LSVCC") under the Income Tax Act (Canada) (the "Act").

The Manager of the Fund is Covington Capital Corporation ("Covington" or the "Manager"). The Administrator of the Fund is CI Investments Inc. (the "Fund Administrator").

The Fund has two Co-Sponsors, the Canadian Police Association ("CPA") and the Association of Canadian Financial Officers ("ACFO") (the "Co-Sponsors").

On November 16, 2013, the Fund merged with Covington Strategic Capital Fund Inc. ("SCF") Pursuant to the transaction, the Fund acquired all of the assets and assumed the liabilities of SCF at fair value in exchange for units of the Fund based on the exchange ratio established on closing as follows:

Merging Fund	Merging Series (Class A Shares)	Exchange Ratio	Fund Share Series Issued	Number of Shares issued	Net Asset Value Acquired $
SCF	Series I	0.910755	Series I	512,852.321	4,482
	Series II	0.948512	Series I	237,608.242	2,077

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Valuation of investments

The net assets of an investment fund for financial reporting purposes ("Net Assets" or "net assets for GAAP purposes") are required to be reported at fair value in accordance with the Canadian Institute of Chartered Accountants Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"). The fair values of investments as at the financial reporting date are determined as follows:

(a) Marketable securities

Short-term investments maturing less than 365 days from acquisition are classified as held for trading and are valued at closing bid prices.

Bonds are also classified as held for trading and are valued on the basis of closing bid prices. The difference between the fair value and the average cost of the bonds is recorded as unrealized appreciation (depreciation) of marketable securities.

FEBRUARY 28, 2014

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

(b) Venture investments

The Fund's venture portfolio is classified as held for trading.

Venture investments having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted or thinly-traded securities are valued based on closing bid prices. If no bid price is reported, the most recent closing price is used.

Venture investments for which no quoted market value exists, or venture investments in restricted or thinly-traded securities, are recorded at estimated fair value. The fair values of the investments are determined by the Manager using an 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; comparable company trading and transaction multiples, where applicable, and other pertinent considerations.

For warrants that are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants are valued at intrinsic value, which is equal to the higher of the closing bid price of the underlying security less the exercise price of the warrant, or nil.

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

The Canadian Securities Administrators ("CSA") have issued National Instrument 81-106 ("NI 81-106"), which requires the Fund's financial statements to be prepared in accordance with GAAP. While Section 3855 defines specific measurement parameters for fair valuation of financial instruments that are traded in active markets, NI 81-106 allows net asset values of investment funds to be calculated using the fair value of the Fund's assets and liabilities. NI 81-106 has been amended to allow the Net Asset Value ("NAV" or "net assets for pricing purposes") of an investment fund to be calculated in a manner that is not in accordance with GAAP for other than financial statement purposes. The adoption of Section 3855 therefore, results in a different valuation method for determining the Fund's net assets as described in the Fund's valuation methodologies above. Consequently, the Fund has applied Section 3855 for financial statement reporting purposes only.

NI 81-106 Section 14.2 requires investment funds to calculate weekly NAV for the purchase and redemption of units based on the fair value of the investment fund's assets and liabilities. The fair value of investments for the purpose of calculating weekly NAV is determined as follows:

For short-term investments, bonds, and venture investments having quoted market values and that are publicly traded on a recognized stock exchange and are not otherwise restricted or thinly traded, the most recent closing price is used. All other financial instruments are valued as otherwise stated.

A reconciliation between the Net Assets and NAV is provided in Note 3.

FEBRUARY 28, 2014

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Transaction costs

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income. The Funds expensed these transaction costs as disclosed in Note 6.

Accounts receivable, other assets and liabilities

Other assets, such as accounts receivable, receivables for venture investments sold and income receivables, are classified as loans and receivables and are recorded at cost or amortized cost which approximates fair value. Other liabilities such as accounts payable, accrued expenses and incentive participation amount payable are classified as other financial liabilities and recorded at cost or amortized cost which approximates fair value.

Income recognition and security holder transactions

Interest and other income are recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Investment transactions are accounted for on a trade date basis and gains and losses from such transactions are calculated based on average cost. Net realized and unrealized gain (loss) on investments includes the related foreign exchange gains and losses.

Allocation of income and expenses

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

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

Foreign currency translation

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

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

FEBRUARY 28, 2014

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

3. RECONCILIATION OF NET ASSETS

The Net Assets per Class A Share is reconciled between net assets under GAAP and net asset value for pricing purposes arising from the adoption of Section 3855 as described in Note 2.

In $ per unit as at February 28, 2014	**Class A, Series I**	**Class A, Series II**
Net asset value per Class A Share for pricing purposes	**$ 9.12**	**$ 8.76**
Section 3855 Adjustment	**(0.02)**	**(0.02)**
Net assets per Class A Share for GAAP purposes	**$ 9.10**	**$ 8.74**

In $ per unit as at August 31, 2013		
Net asset value per Class A Share for pricing purposes	$ 8.58	$ 8.28
Section 3855 Adjustment	0.03	0.04
Net assets per Class A Share for GAAP purposes	$ 8.61	$ 8.32

4. SHAREHOLDERS' EQUITY

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

The Fund is registered as an LSIF under the Ontario Act, is a prescribed LSVCC under the Act and is required to invest a portion of capital raised in eligible small and medium sized Canadian businesses. Eligible businesses are generally privately owned and are characterized as having less than $50 million in assets and less than 500 employees. In order to be classified as eligible investments, there are restrictions under the Act on the size, nature, and timing of the investments as outlined in the Fund's prospectus. These restrictions, if not met, could have negative impacts as the Fund could be levied with penalty taxes and ultimately have its LSIF status revoked. As at December 31, 2013, the Fund was in compliance with these restrictions related to both the Act and Ontario Act.

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

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

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

Unlimited number of Class C shares, issuable in series.

100 Class D Shares.

FEBRUARY 28, 2014

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

4. SHAREHOLDERS' EQUITY (cont'd.)

Issued and Outstanding Class A Shares

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

For the period ended February 28, 2014	**Class A, Series I**	**Class A, Series II**
Balance, beginning of period	**17,673,307**	**14,966,676**
Issued during the period	**2,240**	**-**
Issued pursant to merger	**750,460**	**-**
Redeemed during the period	**(996,186)**	**(1,073,187)**
Balance, end of period	**17,426,821**	**13,893,489**

For the year ended August 31, 2013	Class A, Series I	Class A, Series II
Balance, beginning of year	19,463,229	16,845,039
Issued during the year	1,704	-
Redeemed during the year	(1,791,626)	(1,878,363)
Balance, end of year	17,673,307	14,966,676

Redemption of Class A Shares

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

On September 2, 2011, the Fund merged (the "Merger") with the New Generation Biotech (Equity) Fund Inc. ("NGBE"), The VenGrowth Investment Fund Inc., The VenGrowth II Investment Fund Inc., The VenGrowth III Investment Fund Inc., The VenGrowth Advanced Life Sciences Fund Inc., and The VenGrowth Traditional Industries Fund Inc. (collectively the "Merged Funds"). Pursuant to the transaction, the Fund acquired all of the assets and assumed the liabilities of the Merged Funds at fair value in exchange for units of the Fund based on the exchange ratio established on closing.

At the time of merger, shareholders of the Merged Funds receiving Class A Shares, Series I or Series II had an option to redeem shares received pursuant to the merger. These redemptions were subject to a 15% redemption fee payable as income to the Fund.

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

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

FEBRUARY 28, 2014

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

4. SHAREHOLDERS' EQUITY (cont'd.)

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

Class B Shares

The following shares were issued to the Co-Sponsors as follows:

For the period ended February 28, 2014	**Canadian Police Association**	**Association of Canadian Financial Officers**	For the year ended August 31, 2013	Canadian Police Association	Association of Canadian Financial Officers
Balance,beginning of period	**100**	**99**	Balance, beginning of year	100	-
Issued during the period	**-**	**-**	Issued during the year	-	99
Balance, end of period	**100**	**99**	Balance, end of year	100	99

5. NON-MONETARY TRANSACTIONS

During the period ended February 28, 2014, the Fund exchanged securities with a cost base of $1,650 (2012 - $1,547 plus accrued interest of $63) for new equity instruments with a fair value of $1,650 (2013 - $1,610). The Fund did not receive cash but recorded the transactions at fair value in accordance with the provisions of the debt instruments that were converted within the venture portfolio. As a result of these transactions, the Fund did not realize any gains or losses.

On November 16, 2013, as part of the acquisition of the assets of SCF by the Fund, the Fund issued $6,559 in Class A Shares for net non-monetary assets.

6. FEES AND EXPENSES

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

Effective September 2, 2011, the Fund has entered into certain agreements for the following annual fee rates, which, unless otherwise stated, are paid out monthly based on the average net asset value of the Fund:

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

FEBRUARY 28, 2014

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

6. FEES AND EXPENSES (cont'd.)

Covington is entitled to an incentive participation amount (the "IPA") based on the performance of the Fund. Before any payment, the Fund must satisfy the following criteria: (i) The Fund must earn sufficient income to generate a rate of return on the eligible Investment portfolio greater than the average of the 5-year GIC rate of the five major banks plus 2% on an annualized basis; (ii) for a particular investment, the Fund must earn a cumulative investment return at an average annual rate in excess of 12% since investment; and (iii) the Fund must fully recoup an amount equal to all principal invested in the particular investment (including for assets from the Merged Funds, the amounts invested by the predecessor Merged Fund). Subject to all of the above, the Fund pays an IPA of 15% of all income earned from the particular investment acquired from the Merged Funds since the date the investment was acquired by the Fund. For the purposes of future IPA payments, the Merged Funds' portfolio assets will be tracked with a hurdle that will have a cost equal to the fair value on September 2, 2011. With respect to the pre-merger Fund assets and any new investments (other than follow-on investments), the Fund will pay a 20% IPA if both the portfolio and specific investments achieve the criteria (i), (ii), and (iii) above.

The movement of IPA accruals is summarized below:

Expensed Period ended February 28, 2014 $	Expensed Year ended August 31, 2013 $	**Accrued As at February 28, 2014 $**	Accrued As at August 31, 2013 $	**Paid Period ended February 28, 2014 $**	Paid Year ended August 31, 2013 $
2,216	12,649	**7,209**	13,545	**8,552**	409

Directors of the Fund are entitled to receive an annual fee of $50 each plus reimbursement of expenses incurred to attend meetings.

Members of the the Fund's Independent Review Committee ("IRC") also serve other LSIFs managed by Covington. The IRC members each receive total remuneration across all of the Funds of $15/year, plus a per meeting fee of $2 for the Chairperson and $1.5 per meeting for each of the other two members. The annual fee is allocated across all of the Funds served by the IRC whereas per meeting fees are borne by the particular fund for which the meeting is called, if any.

During the course of the Fund's investment activities, the Fund may pay commissions and other transaction costs to dealers in connection with purchases and sales of investments. During the period, the Fund paid commissions of $445 (2013-$nil).

VenGrowth contract amount

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

The structure results in the following payments by the Fund to the VenGrowth Managers: (i) 1.4% per annum of the net asset value of the Fund paid on a monthly basis; (2) capital maintenance payments of 1.15% per annum paid monthly of

FEBRUARY 28, 2014

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

6. FEES AND EXPENSES (cont'd.)

the issue cost on all Class A transaction shares issued for the Merged Funds (excluding NGBE) Series A,B,E and F issued after December 31, 2003 and 1.65% per annum paid monthly of the issue cost on Class A transaction shares issued for Merged Funds (excluding NGBE) Series C shares. These are for finance and administration costs related to sales commission financing and terminate after the eighth anniversary of the date of original share issuance and (3) 35% of any IPA paid up to July 2013 and 50% of any IPA paid thereafter.

7. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities for the Fund as at February 28, 2014 is $323 (2013 – $347) due to Covington for management fees.

On November 16, 2013 the Fund completed the acquisition of the net assets of SCF, a fund under common management with the Fund. The total value of the transaction was $6,559 wherein SCF shareholders received Series I of the Fund. Because the transaction occurred between two funds under common management, it was reviewed by the Board of Directors of each fund and by the Independent Review Committee of the funds. Additionally, the transaction received the required regulatory and shareholder approvals necessary to complete the merger.

8. INCOME TAXES

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

Both the Act and the Ontario Act set minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met as at the calendar year end, the Funds will be subject to defined taxes and penalties. As at December 31, 2013, the Fund was in compliance with both requirements set out in the Tax Act and the Ontario Act.

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

9. COMMITMENTS AND GUARANTEES

The Fund has provided guarantees in favour of four investee companies of the Fund for amounts of up to $18,250 for operating credit facilities. Should the guarantees be drawn, the amounts would be recorded as follow-on investments in the investee companies.

FEBRUARY 28, 2014

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

10. FINANCIAL INSTRUMENTS

Fair value hierarchy

The following describes the three-level hierarchy for fair value measurements based on transparency of inputs to the valuating of an asset or liability as of the measurement dates.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 *Quoted Prices in an Active Market*

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

Level 2 *Valuation Techniques with Observable Parameters*

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

Level 3 *Valuation Techniques with Significant Unobservable Parameters*

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

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

Financial instruments carried at fair value

The following table classifies the carrying value of the Fund's financial instruments held at fair value across the fair value hierarchy as at February 28, 2014 with comparatives as at August 31, 2013:

	Financial Instruments at fair value			
	Level 1	**Level 2**	**Level 3**	**Total**
February 28, 2014	**$**	**$**	**$**	**$**
Marketable securities	47,457	-	-	47,457
Venture investments	31,309	-	188,697	220,006
Total financial assets	78,766	-	188,697	267,463

FEBRUARY 28, 2014

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

10. FINANCIAL INSTRUMENTS (cont'd.)

	Financial Instruments at fair value			
August 31, 2013	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Marketable securities	703	-	-	703
Venture investments	113,355	-	166,281	279,636
Total financial assets	114,058	-	166,281	280,339

During the periods ended February 28, 2014 and 2013, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy in any of the Fund's assets.

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

	September 1, 2013 to February 28, 2014 $	September 1, 2012 to August 31, 2012 $
Level 3 balance, beginning of period	**166,281**	182,932
New investments	**10,562**	44,271
Venture assets acquired on merger	**6,815**	-
Disposals or sales	**(5,091)**	(92,923)
Net transfers into and/or out of Level 3	**-**	-
Change in unrealized gains/(losses)	**9,537**	28,232
Net realized gains/(losses)	**594**	3,769
Level 3 balance, end of period	**188,697**	166,281
Total change in unrealized gains and losses during the year included in the Statement of Operations for assets held at end of the period	**(10,907)**	54,579

Risk management

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

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

FEBRUARY 28, 2014

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

10. FINANCIAL INSTRUMENTS (cont'd.)

(a) Valuation and other market risk

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

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

These investments are in privately held companies whereby fair values are estimated by the Manager using valuation techniques as described in Note 2.

Included in the Statements of Operations for the Fund are changes in unrealized gains or losses on venture investments for which the fair values have been estimated based on assumptions that may not be supported by observable market prices. The potential effect of changing the assumptions to reasonably possible alternative assumptions on the fair value of the venture investments could result in a decrease or increase in net assets as at February 28, 2014 and August 31, 2013 as follows:

	February 28, 2014		August 31, 2013	
	Fair value of privately held investments	**Decrease/Increase in net assets**	Fair value of privately held investments	Decrease/Increase in net assets
	$	**%**	$	%
	188,697	**-0.99% to +7.03%**	166,281	-1.93% to +2.45%

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 Funds' investments may actually be sold.

(b) Foreign currency risk

Foreign currency risk arises from venture investments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. Although the Manager has flexibility to manage the foreign currency risk by hedging its currency exposure, the Manager did not engage in currency hedging during the period due to the low volume of foreign currency transactions. Increases and decreases in the exchange rate between the Canadian currency and the foreign currency may increase or decrease the value of the foreign currency denominated investments within the Fund.

The Fund had exposure to US dollars ("USD") as at February 28, 2014 and August 31, 2013 as follows:

As at	**February 28, 2014**		August 31, 2013	
	USD Financial instruments denominated in CAD:	**Impact of a +/- 2% change in CAD relative to USD on the Net Assets of the Fund:**	USD Financial instruments denominated in CAD:	Impact of a +/- 2% change in CAD relative to USD on the Net Assets of the Fund:
	$	**$**	$	$
	57,046	**-1,141 to +1,141**	115,880	-2,268 to +2,268

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

FEBRUARY 28, 2014

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

10. FINANCIAL INSTRUMENTS (cont'd.)

(c) Interest rate risk

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

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

As at February 28, 2014

Debt instruments by maturity date	Less than 1 year $	1-3 years $	3-5 years $	Greater than 5 years $
	50,265	**12,386**	**5,801**	**-**

As at August 31, 2013:

Debt instruments by maturity date	Less than 1 year $	1-3 years $	3-5 years $	Greater than 5 years $
	34,405	13,541	5.332	451

(d) Other price risk

Other price risk is the risk that the fair value or future cash flows of the investments will fluctuate because of changes in market prices. In addition to venture investments for which no quoted market values exist, the Fund also holds investments that are publicly traded on a recognized stock exchange. There is market price risk associated with the Fund since $39,964 or 14% (August 31, 2013 - $114,058 or 41%) of Net Assets is invested in publicly traded securities. These securities are predominantly North American stocks; as a result, an overall downturn in the North American economy may have a negative impact on the value of the Fund's holdings. As at February 28, 2014, if the S&P/TSX Index had increased or decreased by 10%, with all other variables held constant, Net Assets of the Fund would have increased or decreased by approximately $5,688 (August 31, 2013 - $9859). In practice, actual trading results may differ from this analysis and the difference may be material.

(e) Liquidity risk

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

The Fund is exposed to weekly redemptions and therefore management attempts to maintain a portion of its NAV in the form of marketable securities that can be readily disposed of. The Fund is not required to redeem Class A Shares, in any financial year having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the last day of the preceding fiscal year. Many of the Fund's investments are held in non-liquid securities. As such, if all shareholders were to redeem their shares at the same time, the Fund may need to liquidate these investments at lower values than currently ascribed and shareholders may not receive the NAV ascribed.

FEBRUARY 28, 2014

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

10. FINANCIAL INSTRUMENTS (cont'd.)

The Fund was initially launched in 1999, a large number of the Fund's units are currently eligible for redemption such that if all shareholders eligible for redemption were to do so, the Fund would not have sufficient liquid resources to honour all redemptions. Management, in conjunction with the Fund's Board of Directors has implemented a monitoring program and is currently able to balance shareholder value with the need for liquidity to honour redemptions.

(f) Credit risk

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

As at February 28, 2014 and August 31, 2013, the Fund did not hold any investment in debt instruments (excluding the venture portfolio listed in (a) above or cash equivalents and short-term marketable securities).

The Fund holds a portion of its investment portfolio in private debt instruments which can be considered high risk debt instruments. These instruments are not rated by any of the market bond rating services and are subject to valuation risk as described in part (a) above.

11. FUTURE ACCOUNTING STANDARDS

Conversion to International Financial Reporting Standards

Investment companies that are publicly accountable enterprises or investment funds to which National Instrument 81-106 Investment Fund Continuous Disclosure is applicable, are required to adopt International Financial Reporting Standards (IFRS) for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning September 1, 2014 and publish the first financial statements, prepared in accordance with IFRS, for the semi-annual period ending February 28, 2015. The 2015 semi-annual and annual financial statements will include 2014 comparative financial information and an opening Statement of Net assets as at September 1, 2013, also prepared in accordance with IFRS.

Other than timing, the Manager has developed a transition plan to changeover to IFRS and meet the required timetable. Elements of the plan include:

Accounting Policies and Disclosure – As at February 28, 2014, the expected impact to the financial statements based on the Manager's assessment of the differences between current Canadian GAAP and IFRS are as follows:

- IFRS 13 Fair Value Measurement permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, net assets for financial reporting purposes (GAAP NAV) may be impacted and could align with the value used to price unitholder transactions (Transaction NAV), eliminating the need for a reconciliation.

FEBRUARY 28, 2014

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

11. FUTURE ACCOUNTING STANDARDS (cont'd.)

- IFRS 10 Consolidated Financial Statements provides an exception to the consolidation requirements and requires investment entities to account for subsidiaries at fair value through profit or loss. Although not impacting current presentation, additional disclosure would be required relating to how the investment entity definition was met, information about each unconsolidated subsidiary, and details of financial and contractual arrangements.

- Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, unitholders' equity may be required to be presented as a liability in the Statements of Net Assets with related distributions presented as an expense in the Statements of Operations. Alternatively, equity presentation would require additional disclosure of the components of equity.

- Certain financial statmetns will be renamed as follows:

Canadian GAAP	IFRS
Statements of Operations	Statements of Comprehensive Income
Statements of Changes in Net Assets	Statement of Changes in Financial Position
Statement of Investment Portfolio	Schedule of Investment Portfolio

- Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

Operations – Management is assessing which operations of the Fund will be affected by the adoption of IFRS including current reporting and back office systems.

Impact on Net Asset Value – the Manager has determined that there is no expected impact on Net Asset Value for pricing of purchases and redemptions anticipated as a result of transition to IFRS.

Progress on the changeover plan will be reported in subsequent interim and annual financial statements until the adoption of IFRS is complete.

12. ACQUISITION

On February 14, 2014 the Fund entered into an agreement to acquire the assets attributable to the Class A Shares, Series I, II,III, IV and V (the "Series") of Covington Venture Fund Inc., another LSIF managed by Covington. The value of the assets will be approximately $14,331, subject to normal course adjustments under the Series' accepted valuation processes. The transaction is subject to customary closing conditions, including shareholder approval by the holders of the Series and finalization of definitive documentation. If approved, the acquisition is expected to be completed before June 30, 2014.

NOTES

CORPORATE INFORMATION

Fund Symbols

Covington Fund II Inc.
CIG912
CIG 961 - Closed

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