COVINGTON
CAPITAL CORPORATION

2015 | Semi-Annual Report

COVINGTON FUND II INC.

For The Period Ended February 28, 2015

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NOTICE PURSUANT TO NATIONAL INSTRUMENT 81-106

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

FINANCIAL STATEMENTS

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STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

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

As at	February 28, 2015 $	August 31, 2014 $	September 1, 2013 $
ASSETS AND LIABILITIES			
Assets			
Cash	**17,997**	9,483	3,804
Marketable securities	**7,184**	13,259	703
Venture investments	**214,622**	242,516	278,540
Receivable for investments sold	**6,746**	5,380	10,772
Interest and dividend receivable	**51**	52	1
	246,600	270,690	293,820
Liabilities			
Accrued expenses	**2,607**	3,269	4,668
Conditional incentive participation amount payable [Note 7]	**5,414**	6,831	13,545
Redemptions payable	**-**	-	2
	8,021	10,100	18,215
Net assets attributable to holders of redeemable shares	**238,579**	260,590	275,605
Net assets attributable to holders of redeemable shares per Series			
Series I	**$ 140,124**	$ 151,028	$ 151,633
Series II	**$ 98,455**	$ 109,562	$ 123,972
Redeemable Class A Shares outstanding [Note 5]			
Series I	**16,066,098**	16,824,904	17,673,307
Series II	**11,827,490**	12,747,483	14,966,676
Net assets attributable to holders of redeemable shares per share [Note 3]			
Series I	**$ 8.72**	$ 8.98	$ 8.58
Series II	**$ 8.32**	$ 8.59	$ 8.28

On behalf of the Board of Directors:

Henry J. Pankratz
Director

Terrence B. Kulka
Director

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

STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

[in $ thousands except per share amounts]

For the six month periods ended February 28,		2015 $		2014 $
INCOME				
Interest on venture securities		**912**		176
Dividend income		**581**		61
Interest on marketable securities		**12**		48
Accretion of discount on zero-coupon bond		**5**		-
Other income		**-**		6
Realized gain on sale of investments		**15,278**		33,579
Realized gain on foreign exchange		**1,290**		1,667
Change in unrealized appreciation/(depreciation) of foreign currency		**(21)**		180
Change in unrealized depreciation of marketable securities		**(28)**		(240)
Change in unrealized depreciation of venture investments		**(18,315)**		(9,377)
		(286)		26,100
EXPENSES				
VenGrowth contract amount [Note 7]		**1,712**		1,912
Management fees [Note 7]		**1,670**		1,844
Conditional incentive participation amount [Note 7]		**975**		2,216
Service fees [Note 7]		**607**		675
Fund administrator fees [Note 7]		**557**		615
Harmonized Sales Taxes		**425**		(192)
Capital maintenance payment [Note 7]		**337**		638
Co-Sponsor fees [Note 7]		**198**		218
Audit fees		**184**		172
Directors' fees		**180**		188
Trade commissions and other		**172**		445
Shareholder communications		**103**		175
Legal fees		**36**		135
Custody fees		**31**		33
Independent Review Committee		**14**		18
Write-down of escrow receivable		**-**		973
		7,201		10,065
Increase (decrease) in net assets attributable to holders of redeemable shares		**(7,487)**		16,035
Increase (decrease) in net assets attributable to holders of redeemable shares per Series				
Series I		**(4,398)**		9,082
Series II		**(3,089)**		6,953
Increase (decrease) in net assets attributable to holders of redeemable shares per share (based on weighted average number of shares outstanding)				
Series I	**$**	**(0.27)**	$	0.52
Series II	**$**	**(0.25)**	$	0.48

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

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES (UNAUDITED)

[in $ thousands]

For the six-month periods ended February 28,	2015 $	2014 $
Net assets attributable to holders of redeemable shares, beginning of period	**260,590**	275,605
Increase (decrease) in net assets attributable to holders of redeemable shares	**(7,487)**	16,035
REDEEMABLE SHARE TRANSACTIONS		
Class A Shares, Series I		
Proceeds from issuance of Class A Shares	**-**	20
Proceeds from issuance of Class A Shares due to merger	**-**	6,559
Amounts paid for Class A Shares, Series I redeemed	**(6,734)**	(8,637)
Class A Shares, Series II		
Amounts paid for Class A Shares, Series II redeemed	**(7,790)**	(8,987)
Net assets attributable to holders of redeemable shares, end of period	**238,579**	280,595
Realized gain/(loss) on sale of investments		
Marketable securities		
Bonds, at cost, beginning of period	**498**	-
Accretion of discount	**5**	-
Bonds purchased during the period	**-**	-
	503	-
Bonds, at cost, end of period	**-**	-
Cost of bonds sold	**503**	-
Proceeds from sale of bonds	**507**	-
Realized gain on sale of bonds	**4**	-
Equities, at cost, beginning of period	**11,552**	689
Equities purchased during the period	**-**	21,964
	11,552	22,653
Equities, at cost, end of period	**7,002**	12,691
Cost of equities sold	**4,550**	9,962
Proceeds from sale of equities	**4,432**	11,012
Realized gain on sale of equities	**(118)**	1,050
Venture investments		
Venture investments, at cost, beginning of period	**233,855**	263,783
Venture investments purchased during the period	**21,460**	17,377
Venture investments repaid during the period	**(1,384)**	(553)
	253,931	280,607
Venture investments, at cost, end of period	**224,276**	215,060
Cost of venture investments sold	**29,655**	65,547
Proceeds from sale of venture investments	**45,047**	98,076
Realized gain on sale of venture investments	**15,392**	32,529
Realized gain on sale of investments	**15,278**	33,579

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

STATEMENTS OF CASH FLOWS (UNAUDITED)

[in $ thousands]

For the periods ended February 28,	2015 $	2014 $
Operating activities		
Increase (decrease) in net assets attributable to holders of redeemable shares	**(7,487)**	16,035
Items not affecting cash:		
Realized gain on sale of investments	**(15,278)**	(33,579)
Accretion of bond interest	**(6)**	-
Change in unrealized depreciation of investments	**18,343**	9,617
Fee income from venture investments [Note 6]	**(749)**	-
Purchase of equities	**-**	(21,964)
Purchase of venture investments	**(6,751)**	(8,912)
Net proceeds/(purchase) of short term investments	**999**	(34,998)
Repayment of venture debt	**1,384**	553
Proceeds from sale of equities	**4,432**	11,012
Proceeds from sale of venture investments	**31,087**	96,426
Change in non-cash working capital:		
Change in other assets and liabilities	**(3,443)**	(2,833)
	23,038	31,357
Financing activities		
Net proceeds from issuance of Class A Shares, Series I and II	**-**	20
Net proceeds from issuance of Class A Shares due to merger, Series I and II	**-**	176
Amounts paid for Class A Shares redeemed, Series I and II	**(14,524)**	(17,624)
	(14,524)	(17,428)
Increase/(decrease) in cash during the period	**8,514**	13,929
Cash, beginning of period	**9,483**	3,804
Cash, end of period	**17,997**	17,733
Non-monetary transactions [Note 6]		
Securities received from debt financing and share exchange	**14,709**	1,650
Proceeds from share exchange	**13,960**	1,650
Net assets acquired from merger	**-**	6,815

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

SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED)

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

As at February 28, 2015

Marketable securities

Par Value $	Issuer	Average Cost $	Fair Value $
Equities			
330,000	Manulife Financial Corporation†	7,002	7,184
		7,002	7,184
Total marketable securities		**7,002**	**7,184**

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, Demand Promissory Note, 10%	$100,000	100	-	100
1293551 Ontario Limited, Series II, Class B Convertible Preferred	779,117	-	1,697	1,697
1293551 Ontario Limited, Common	40,177	-	-	-
2203077 Ontario Limited, Promissory Note, 5%, due May 31, 2017	$72,317	72	-	72
2210961 Ontario Limited, Loan, 6%, due April 19, 2018	$5,633,057	3,185	-	3,185
2210961 Ontario Limited, Loan, 6%, due October 17, 2015	$125,000	125	-	125
2210961 Ontario Limited, Common	50,000	-	-	-
Active Exhaust Corporation, Subordinated 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	846,724	-	-	-
Adventus Remediation Tech. Inc., Class A Preferred	8,277,523	-	848	848
Aegera Oncology Inc., Rights	12,605,118	-	12,605	12,605
Affinium Pharmaceuticals Inc., Series A Preferred	1,645,000	-	-	-
Affinium Pharmaceuticals Inc., Common	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
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	$3,300,000	3,300	-	3,300
Axela Inc., Convertible Debenture, 12%, due March 16, 2016	$6,600,000	6,600	-	6,600

SCHEDULE 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., 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 3 Warrants, $2.01, expiry July 17, 2015	19,782	-	-	-
bitHeads Inc., Demand Promissory Note, Prime +1/2%	$150,000	113	-	113
bitHeads Inc., Class A Preferred	9,300,000	-	1,500	1,500
bitHeads Inc., Class B Preferred	7,489,528	-	842	842
Black Bull Resources Inc., Common†	1,550,000	-	6	6
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., 12% Demand promissory note*	$500,000	1,078	-	1,078
Clek Inc., Class B Common*	1,949,765	-	3,559	3,559
CounterPath Corporation, Common†	6,274,709	-	9,376	9,376
Embotics Corporation, Convertible Debenture, 12%, due August 29, 2016	$500,000	500	-	500
Embotics Corporation, Convertible Debenture, 12%, due July 26, 2016	$500,000	500	-	500
Embotics Corporation, 12% Demand promissory note	$100,000	100	-	100
Embotics Corporation, Class A Preferred	395,776	-	3,579	3,579
Embotics Corporation, Class B Preferred	582,031	-	2,500	2,500
Embotics Corporation, Class B-2 Preferred	582,031	-	-	-
Embotics, Class B purchase warrants	58,203	-	-	-
Epocal Inc., Rights*	2,827,341	-	-	-
Fidelity PAC Metals Ltd., Demand Promissory Note, 6%	$285,623	286	-	286
Fidelity PAC Metals Ltd, Common	2,060,000	-	2,060	2,060
Fusebill Inc., Convertible Debenture, 12%, due June 30, 2016	$250,000	250	-	250
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	10,882,956	-	17,473	17,473

SCHEDULE 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 $
Ironbridge Equity Partners I, LP units	855,927	-	64	64
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%	$13,050,000	12,000	-	12,000
Mist Mobility Integrated Systems Technology Inc., Demand Debenture, 15%	$750,000	750	-	750
Mist Mobility Integrated Systems Technology Inc., Demand Subordinated Debenture, 5%	$2,250,000	2,250	-	2,250
Mist Mobility Integrated Systems Technology Inc., Common	6,969,216	-	2,250	2,250
Nakina Systems Inc., Demand Convertible Debenture, 15%*	$3,249,765	3,407	-	3,407
Nakina Systems Inc., Convertible Promissory Note, 18%, due March 31, 2015*	$3,614,794	3,836	-	3,836
Nakina Systems Inc., Demand Convertible Debenture, 15%*	$1,050,000	1,051	-	1,051
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
Nakina Systems Inc., Class C Warrants, expiry June 20, 2017*	225,000	-	-	-
Nakina Systems Inc., Class C Warrants, expiry October 17, 2019*	77,737,500	-	-	-
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	43,298,618	-	6,820	6,820
OTYC Holdings Inc., Milestones	17,301,627	-	-	-
PowerBand Global Inc., Common	60,077	-	2,968	2,968
PowerBand Global Inc., Demand Promissory Note, 7%	$3,512,997	3,513	-	3,513
PowerBand Global Inc., Demand Promissory Note, 12%	$6,303,763	6,304	-	6,304
PowerBand Global Inc., Demand Debenture, 24%	$2,063,376	2,063	-	2,063
Resolver Inc., Demand Promissory Note, 18%	$8,187,222	7,719	-	7,719
Resolver Inc., Common	4,188,734	-	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%	$227,512	227	-	227
Roll-Tite Corporation, Common	85,000	-	-	-

SCHEDULE 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 $
Sandvine Corporation, Common†	2,822,597	-	4,601	4,601
Seven Generations Energy Ltd., Common†	34,494	-	-	-
Signal Hill Equity Partners II, LP	2,305,230	-	1,706	1,706
Simex Inc., Series A Preferred	58,871	-	-	-
Spartan Bioscience Inc., Common	2,010,000	-	231	231
Starburst Holdings Limited, Common	20	-	2,160	2,160
Trilliant Inc., Common	2,261,314	-	-	-
Trillium Therapeutics Inc., Common†	31,100	-	373	373
VG Mezzanine I Limited Partnership	13,590	-	3,177	3,177
WireIE Holdings International Inc., Secured Convertible Debenture, 10%, due March 13, 2018	$4,750,000	4,750	-	4,750
WireIE Holdings International Inc., Demand Promissory Note, 12%	$250,000	250	-	250
WireIE Holdings International Inc., Common	28,244,887	-	8,061	8,061
WireIE Holdings International Inc., Preferred	1,000,000	-	-	-
Total venture investments, at cost		81,657	142,619	**224,276**
Unrealized appreciation of venture investments				(9,654)
Venture investments, at fair value				**214,622**
Total investments, at fair value				**221,806**
Other assets, net of liabilities				16,773
Net assets, at fair value				**238,579**

* *Investment made and tracked in US dollars.*

† *Indicates a publicly traded security.*

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

SCHEDULE OF INVESTMENT PORTFOLIO (UNAUDITED) [Cont'd]

[in $ thousands except percentages and number of companies]

As at February 28, 2015	Number of companies	Cost of investments $	% Total venture investments at cost %	Fair value of investments $	% Total venture investments at fair value %
Stage of Development					
Start-Up/Early	5	54,011	24.1	46,834	21.8
Expansion	27	152,113	67.8	160,106	74.6
Later	8	18,152	8.1	7,682	3.6
	40	**224,276**	**100.0**	**214,622**	**100.0**
Industry Class					
Biotechnology/Health Sciences	8	61,784	27.5	53,231	24.8
Retail	2	4,506	2.0	4,246	2.0
Financial Services	6	20,960	9.4	12,808	6.0
Technology	18	96,819	43.2	102,391	47.7
Manufacturing	6	40,207	17.9	41,946	19.5
	40	**224,276**	**100.0**	**214,622**	**100.0**
As at August 31, 2014					
Stage of Development					
Start-Up/Early	6	52,558	22.5	49,236	20.3
Expansion	30	160,430	68.6	184,343	76.2
Later	9	20,867	8.9	8,379	3.5
	45	**233,855**	**100.0**	**241,958**	**100.0**
Industry Class					
Biotechnology/Health Sciences	11	75,125	32.1	72,256	29.9
Retail	2	4,506	1.9	4,707	1.9
Financial Services	7	20,123	8.6	17,292	7.2
Technology	19	95,538	40.9	105,731	43.7
Manufacturing	6	38,563	16.5	41,972	17.3
	45	**233,855**	**100.0**	**241,958**	**100.0**
As at September 1, 2013					
Stage of Development					
Start-Up/Early	5	33,537	12.7	34,053	12.2
Expansion	27	208,463	79.0	230,856	82.5
Later	7	21,783	8.3	14,727	5.3
	39	**263,783**	**100.0**	**279,636**	**100.0**
Industry Class					
Biotechnology/Health Sciences	10	131,234	49.8	157,620	56.4
Retail	2	4,506	1.7	3,851	1.4
Financial Services	6	16,929	6.4	14,934	5.3
Technology	16	74,060	28.1	73,776	26.4
Manufacturing	5	37,054	14.0	29,455	10.5
	39	**263,783**	**100.0**	**279,636**	**100.0**

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

February 28, 2015

[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 as a Labour-Sponsored Venture Capital Corporation ("LSVCC") under the Income Tax Act (Canada) (the "Act").

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

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

The Fund is currently closed to new subscriptions.

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of International Financial Reporting Standards. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles as defined in Part V of the Chartered Professional Accountants ("CPA") of Canada Handbook – Accounting ("Canadian GAAP"). The comparative information has been restated from Canadian GAAP to comply with IFRS. The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at September 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 12 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended August 31, 2014 prepared under Canadian GAAP.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of April 24, 2015, which is the date on which the financial statements were authorized for issue by the Board of Directors of the Fund. Any subsequent changes to IFRS that are given effect in the Fund's annual financial statement for the year-ending August 31, 2015 could result in restatement of these interim financial statements, including the transition adjustments, if any, recognized on transition to IFRS.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Fund's financial instruments consist of cash, marketable securities, venture investments, receivables for investments sold, interest and dividends receivable, accrued expenses, incentive participation amounts payable and redemptions payable.

The Fund recognizes financial instruments at fair value upon initial recognition, inclusive of transaction costs in the case of financial instruments measured at amortized cost. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments are measured at fair value through profit or loss ("FVTPL"). This has two sub-categories: (1) financial assets or financial liabilities held for trading; and (2) those designated at FVTPL at inception.

(1) Financial assets and financial liabilities held for trading: a financial asset or financial liability is classified as held for trading ("HFT") if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition, it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. The Fund's marketable securities are classified as HFT.

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

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

(2) Financial assets and financial liabilities designated at FVTPL: a financial asset or financial liability that is designated as FVTPL at inception are financial instruments that are not classified as HFT but are managed and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's venture investment portfolio is designated as FVTPL.

The Funds' obligations for net assets attributable to holders of redeemable shares are presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, and discounted, when appropriate, at the contract's stated rates of interest.

Valuation of investments

(a) Marketable securities

Short-term investments maturing less than 365 days from acquisition are classified as held for trading and are valued at the quotation price from recognized investment dealers.

Bonds are also classified as held for trading and are valued at the quotation price from recognized investment dealers. The difference between the fair value and the average cost of the bonds is recorded as unrealized appreciation (depreciation) of marketable securities.

(b) Venture investments

Venture investments having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted, are valued based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the existing market conditions.

Venture investments in securities not having quoted market values or in restricted securities are recorded at estimated fair value ("FV"). FV is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either in the principal market (or foregoing that, most advantageous market) for the particular asset or liability. FV is measured using the assumptions that market participants act in their economic best interest and takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The fair values of the venture 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 last traded 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 that would have been used had a ready market existed for the investments.

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

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

Investment entity

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

Other financial assets and financial liabilities

Other assets, such as receivables for investments sold and interest and dividend receivables, are classified as receivables and are recorded at amortized cost, net of impairment provisions, if any. Other liabilities such as accrued expenses, incentive participation amounts payable and redemptions payable are classified as other financial liabilities and recorded at amortized cost. The financial assets and financial liabilities reflect the amount required to be received or paid, discounted when appropriate at the contract's effective interest rate. The effective interest rate is the rate that discounts the estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the new carrying amount on initial recognition.

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 gains (losses) on investments include the related foreign exchange gains and losses in the Statements of Comprehensive Income.

Commissions and other portfolio transaction costs

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

Allocation of income and expenses

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

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

Foreign currency translation

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The most significant accounting judgements and estimates that the Fund has made preparing the financial statements are:

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

(2) Classification and measurement of investments and application of the fair value option – In classifying and measuring the financial instruments held by the Fund, the Manager is required to make significant judgements about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments – Recognition and Measurement. The most significant judgement includes the determination that the fair valuation option can be applied to the Fund's investments.

5. REDEEMABLE SHARES

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

The Fund is registered as an LSIF under the Ontario Act, is an LSVCC under the Act and is required to invest a portion of capital raised in eligible small and medium sized Canadian businesses. Eligible businesses are generally privately owned and are characterized as having less than $50 million in assets and less than 500 employees. In order to be classified as eligible investments, there are restrictions under the Act on the size, nature, and timing of the investments as outlined in the Fund's annual information form. These restrictions, if not met, could have negative impacts as the Fund could be levied with penalty taxes and ultimately have its LSIF status revoked. As at December 31, 2014, 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.

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

5. REDEEMABLE SHARES *(Cont'd)*

Issued and Outstanding of Class A Shares

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

For the period ended February 28, 2015	Class A, Series I	Class A, Series II
Balance, beginning of period	16,824,904	12,747,483
Issued during the period	-	-
Redeemed during the period	(758,806)	(919,993)
Balance, end of period	16,066,098	11,827,490

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	750,460	-
Redeemed during the period	(996,946)	(1,073,187)
Balance, end of period	17,426,821	13,893,489

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 this transaction, the Fund acquired all of the assets and assumed the liabilities of the Merged Funds at fair value in exchange for units of the Fund based on the exchange ratio established on closing. At the time of the Merger, shareholders of the Merging Funds receiving Class A Shares, Series I or Series II had an option to redeem shares received pursuant to the merger. These redemptions were subject to a 15% redemption fee payable as income to the Fund.

Class A Shares, Series I and Series II issued pursuant to the merger to shareholders of the Merging Funds that did not redeem at the time of the transaction, 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.

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

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5. REDEEMABLE SHARES *(Cont'd)*

Class B Shares

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

For the period ended February 28, 2015	Canadian Police Association	Association of Canadian Financial Officers
Balance, beginning of period	100	99
Issued during the period	-	-
Balance, end of year	100	99

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

6. NON-MONETARY TRANSACTIONS

During the period ended February 28, 2015, the Fund exchanged securities with a cost base of $13,960 (Period ended February 28, 2014 - $1,650) for new equity instruments with a fair value of $14,709 consisting of debt with a cost base of $13,960 plus accrued interest of $749 (Period ended February 28, 2014-$1,650). 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.

7. FEES AND EXPENSES

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

The Fund has entered into agreements for the following annual fee rates, which, unless otherwise stated, are paid 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

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).

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

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

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

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

Expensed Period ended February 28, 2015 $	Expensed Period ended February 28, 2014 $	**Accrued As at February 28, 2015 $**	Accrued As at August 31, 2014 $	Accrued As at September 1, 2013 $	**Paid Period ended February 28, 2015 $**	Paid Period ended February 28, 2014 $
975	2,216	**5,414**	6,831	13,545	**2,392**	8,552

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

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 $157 (Period ended February 28, 2014 - $445).

VenGrowth contract amount

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

The structure results in the following payments by the Fund to the VenGrowth Managers: (i) 1.4% per annum of the net asset value of the Fund paid on a monthly basis; (2) capital maintenance payments of 1.15% per annum paid monthly of the issue cost on all Class A transaction shares issued for the Merged Funds (excluding NGBE) Series A,B,E and F issued after December 31, 2003 and 1.65% per annum paid monthly of the issue cost on Class A transaction shares issued for Merging Funds (excluding NGBE) Series C shares. These are for finance and administration costs related to sales commission financing and terminate after the eigth anniversary of that date of original share issuance and (3) 35% of any IPA paid up to July 2013 and 50% of any IPA paid thereafter.

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

8. RELATED PARTY TRANSACTIONS

Included in accrued expenses for Fund II as at February 28, 2015 is $242 (August 31, 2014 - $346 and September 1, 2013 - $347) due to Covington for investment/fund advisory fees.

9. INCOME TAXES

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

Both the Act and the Ontario Act set minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met as at the calendar year end, the Fund will be subject to defined taxes and penalties. As at December 31, 2014, the Fund is in compliance with both requirements set out in the Tax Act and the Ontario Act.

Capital losses can be carried forward indefinitely. Non-capital losses arising in taxation years 2004 and 2005 may be carried forward 10 years. Non-capital losses arising after 2005 may be carried forward for twenty years.

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

10. GUARANTEES

The Fund has provided guarantees in favour of four investee companies of the Fund for amounts of up to $25,515 for operating credit facilities. Should the guarantees be drawn, the amounts would be recorded as follow-on investments in the investee companies.

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

Level 1 – Quoted Prices in an Active Market

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

Level 2 – Valuation Techniques with Observable Parameters

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

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11. FINANCIAL INSTRUMENTS *(Cont'd)*

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, 2015 with comparatives as at August 31, 2014 and September 1, 2013:

	Financial instruments at fair value			
February 28, 2015	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Marketable securities	7,184	-	-	7,184
Venture investments	14,760	-	199,862	214,622
Total financial assets	**21,944**	**-**	**199,862**	**221,806**
August 31, 2014				
Marketable securities	12,761	498	-	13,259
Venture investments	34,533	-	207,983	242,516
Total financial assets	47,294	498	207,983	255,775
September 1, 2013				
Marketable securities	703	-	-	703
Venture investments	112,259	-	166,281	278,540
Total financial assets	112,962	-	166,281	279,243

During the periods ended February 28, 2015 and 2014, there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy in any of the Funds' assets.

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

	February 28, 2015 $	**August 31, 2014 $**
Level 3 balance, beginning of period	207,983	166,281
New investments	21,460	30,291
Assets acquired on merger	-	6,815
Disposals or sales	(15,562)	(9,398)
Net transfers into and/or out of Level 3	(9,606)	-
Change in unrealized gains/(losses)	(10,764)	13,189
Net unrealized gains/(losses)	6,251	805
Level 3 balance, end of period	**199,862**	207,983
Total change in unrealized gains and losses during the period included in the statement of operations for assets held at end of period	**(18,315)**	(7,750)

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

11. FINANCIAL INSTRUMENTS *(Cont'd)*

Risk management

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

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

(a) Valuation and other market risk

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

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

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

Included in the Statements of Comprehensive Income for the Fund are changes in unrealized gains or losses on venture investments for which the fair values have been estimated based on assumptions that may not be supported by observable market prices. The potential effect of changing the assumptions to reasonably possible alternative assumptions on the fair value of the venture investments could result in a decrease or increase in net assets as at February 28, 2015, August 31, 2014 and September 1, 2013 as follows:

February 28, 2015		August 31, 2014		September 1, 2013	
Fair value of privately held investments $	**Decrease/Increase in net assets**	Fair value of privately held investments $	Decrease/Increase in net assets	Fair value of privately held investments $	Decrease/Increase in net assets
199,862	**-3.34% to +3.41%**	207,983	-2.49% to +10.34%	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 Fund's 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 and dollar values involved. Increases and decreases in the exchange rate between the Canadian currency and the foreign currency may increase or decrease the value of the foreign currency denominated investments within the Fund.

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11. FINANCIAL INSTRUMENTS *(Cont'd)*

The Fund had exposure to US dollars ("USD") as at February 28, 2015, August 31, 2014 and September 1, 2013 as follows:

February 28, 2015		August 31, 2014		September 1, 2013	
USD Financial instruments denominated in CAD	**Impact of a +/-2% change in Canadian dollar relative to USD on the Net Assets of the Fund**	USD Financial instruments denominated in CAD	Impact of a +/-2% change in Canadian dollar relative to USD on the Net Assets of the Fund	USD Financial instruments denominated in CAD	Impact of a +/-2% change in Canadian dollar relative to USD on the Net Assets of the Fund
47,094	**-942 to +942**	55,844	-1,137 to +1,137	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.

(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:

Debt instruments by maturity date	**Less than 1 year $**	**1-3 years $**	**3-5 years $**	**Greater than 5 years $**
As at February 28, 2015	**50,886**	**7,940**	**7,358**	**-**
As at August 31, 2014	59,891	9,416	5,867	-
As at September 1, 2013	34,905	10,524	5,332	-

(d) Other price risk

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

There is market price risk associated with the Fund since as at February 28, 2105 - $21,944 or 9.2% (August 31, 2104 - $46,295 or 17.8% and September 1, 2013 - $112,962 or 41.0%) of net assets attributable to holders of redeemable shares 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, 2015, if the S&P/TSX Index had increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable shares would have increased or decreased by approximately $2,819 (August 31, 2014 - $4,318 and September 1, 2013 - $10,003). In practice, actual trading results may differ from this analysis and the difference may be material.

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11. FINANCIAL INSTRUMENTS *(Cont'd)*

(e) Liquidity risk

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

The Fund is exposed to weekly redemptions and therefore management attempts to maintain a portion of the NAV in the form of marketable securities which can be disposed of readily. 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.

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

The Fund's investment in debt instruments (not including the venture portfolio listed in (a) above or cash equivalents and short-term marketable securities) were:

Debt instruments by credit rating*:	AAA $	AA $	A $	BBB $	Total $
As at February 28, 2015	**-**	**-**	**-**	**-**	**-**
As at August 31, 2014	-	-	498	-	498
As at September 1, 2013	-	-	-	-	-

The Fund holds a portion of is investment portfolio in private debt instruments which can be considered high risk debt instruments. As at February 28, 2015, the Fund had $81,657 (August 31, 2014 - $75,168 and September 1, 2013 - $64,960) invested in these assets. These instruments are not rated by any of the market bond rating services and are also subject to valuation risk as described in part (a) above.

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

12. TRANSITION TO IFRS

The effect of the Fund's transition to IFRS is summarized below:

(a) Transition elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets designated as FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment companies.

(b) Mandatory exceptions to retrospective application

In accordance with the mandatory exceptions to retrospective restatement under IFRS 1, hindsight was not used to create or revise estimates at the transition date. Accordingly, estimates previously made under Canadian GAAP are consistent with those under IFRS.

(c) Classification of redeemable shares issued by the Fund

Under IFRS, IAS 32 Financial Instruments: Presentation, requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem the shares for cash or another financial asset, be classified as a financial liability. The Fund's Class A Shares have been accordingly reclassified as financial liabilities on transition to IFRS.

(d) Investment entity

Under Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 24 (issued October 31, 2012 and effective for annual periods beginning on or after January 1, 2014), the Fund has determined that it meets the definition of an "investment entity" under IFRS 10, Consolidated Financial Statements. As such, the Fund measures investments in other entities over which it has control, at FVTPL. Subsidiaries are entities, including investments in other investment entities, over which a fund has control. A fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Associates and joint ventures are investments over which a fund has significant influence or joint control.

Investments that are held as part of the Fund's investment portfolio are carried on the Statements of Financial Position at fair value even though the Fund may have control or significant influence over those companies. Investments in subsidiaries are required to be carried at fair value in accordance with IFRS 10, Consolidated Financial Statements. IAS 28, Investment in Associates, allows investments in associates that are held by investment entities to be recognized and measured at FVTPL and to be accounted for in accordance with IFRS 13, Fair Value Measurement, with changes in fair value recognized in the statements of comprehensive income in the period of change.

IFRS 12 – Disclosure of Interests on Other Entities, was amended to introduce new disclosures, including any significant judgements made regarding financial or other support to unconsolidated subsidiaries, whether intended or already provided to the subsidiary. The Fund is considering the implication of this amendment and its impact on the Fund.

(e) Revaluation of investments at FVTPL

Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement, which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. Under Canadian GAAP, the Fund was required to use bid prices for long positions and ask prices for short positions. As a result, upon adoption of IFRS, an adjustment to the carrying value of the Fund's investments as well as the Fund's net assets attributable to holders of redeemable shares has been made.

FEBRUARY 28, 2015

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

12. TRANSITION TO IFRS *(Cont'd)*

(f) Reconciliations of Canadian GAAP to IFRS

The transition from Canadian GAAP to IFRS has not had a significant impact on the financial statements of the Fund. There were changes to the presentation in the Statements of Financial Position and Statements of Comprehensive Income (previously Statements of Operations) as per below:

Series I

Equity	August 31, 2014	February 28, 2014	September 1, 2013
Equity as reported under Canadian GAAP	150,700	158,669	152,237
Revaluation of investments at FVTPL	328	249	(604)
Net assets attributable to holders of redeemable shares under IFRS	151,028	158,918	151,633

Comprehensive income	Year ended August 31, 2014	Period ended February 28, 2014
Comprehensive income as reported under Canadian GAAP	5,677	8,212
Revaluation of investments at FVTPL	327	870
Increase (decrease) in net assets attributable to holders of redeemable shares under IFRS	6,004	9,082

Series II

Equity	August 31, 2014	February 28, 2014	September 1, 2013
Equity as reported under Canadian GAAP	109,325	121,486	124,464
Revaluation of investments at FVTPL	237	191	(492)
Net assets attributable to holders of redeemable shares under IFRS	109,562	121,677	123,972

Comprehensive income	Year ended August 31, 2014	Period ended February 28, 2014
Comprehensive income as reported under Canadian GAAP	4,107	6,287
Revaluation of investments at FVTPL	238	666
Increase (decrease) in net assets attributable to holders of redeemable shares under IFRS	4,345	6,953

13. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

IFRS 9, Financial Instruments ("IFRS")

The final version of IFRS 9, Financial Instruments was issued by IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will required more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the entity's own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

CORPORATE INFORMATION

Fund Symbols

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CIG912 - Closed
CIG 961 - Closed

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SKU CGOF 1071 04/15