

Management Report of Fund Performance



COVINGTON VENTURE FUND INC.

Series VI

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Covington Venture Fund Inc., Series VI (the “Fund”). You can obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-244-4714, by writing to us at Covington Capital Corporation, 87 Front St. East, Suite 400, Toronto, Ontario M5E 1B8 or by visiting our website at www.covingtonfunds.com or on SEDAR at www.sedar.com.

Shareholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures or proxy voting disclosure record.

FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund actions. The words “anticipate”, “could”, “should”, “may”, “expect”, “believe”, “plan”, “intends”, “estimate”, “forecast”, “objective”, “would”; and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors. It is not possible to guarantee that future performance, predictions, forecasts, projections or other forward-looking statements will be achieved. Factors such as economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings or catastrophic events could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund. Please consider these and other pertinent factors before making any investment decisions and do not place undue reliance on forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice.

INVESTMENT OBJECTIVES AND STRATEGIES

The Fund combines the tax benefits of a Labour Sponsored Investment Fund (“LSIF”) while giving investors access to the venture capital market. The Fund was founded November 1, 2002 with the investment objective to realize long-term capital appreciation by investing in securities of community small business investment fund corporations (“CSBIFs”) which in turn will make eligible investments in a diversified portfolio of private companies. In addition the Fund’s objective is to return to investors an amount equal to the subscription price paid by the capital repayment date on or about December 31, 2015 (“Capital Repayment Date”). Covington Capital (“Covington” or the “Manager”) assumed management of the Fund in January 2006 and has since been actively managing the Fund to meet its objectives.

As the Fund’s underlying bond continues to accrete towards par value we expect the performance of the marketable security portfolio to reflect the increased value of the bond. This coupled with a number of steps undertaken by Covington will help the Fund to be better positioned to return the majority, if not all, of the Fund’s investors’ original investment capital. However, there is no guarantee that on December 31, 2015 the Fund will be able to meet its investment objectives.

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[in \$000's except for per share amounts, number of shares and percentages]

RISK FACTORS

The Fund is suitable for investors with a longer-term investment focus and higher risk tolerance as discussed in the Fund's Annual Information Form dated October 17, 2013.

The Fund has invested in CSBIFs which were investment vehicles contemplated by the Ontario government to stimulate investment in early stage ventures with assets of less than \$1 million, and due to size, inherently higher risk investments. While the Manager works with each CSBIF to source, screen and make investments in a diversified portfolio of companies, there is potential for having illiquid investments within the portfolio on or about the capital repayment date of the Fund.

The Fund's venture portfolio consists entirely of privately held companies within the CSBIFs for which there is no readily available exit market. The impact to the portfolio is tighter liquidity and a requirement for estimation in the valuation process. 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 ascribed had a ready market existed for those investments. This is valuation risk as described in the Fund's financial statements.

The Fund holds a zero-coupon bond comprising over 71% of the Fund's total assets at July 31, 2014. Bond valuations are subject to liquidity, credit and interest rate risks relating to both the issuer and overall market conditions. In uncertain credit markets, valuation of these bonds may become more volatile.

Investors who purchase LSIFs are required to hold their investment for eight years in order to retain the tax credit offered by the provincial and federal governments. The Fund was launched in 2002 and therefore, the eight year hold period for the initial investors has expired. If all shareholders were to redeem their shares at the same time, the Fund may need to liquidate investments at lower values than currently ascribed and shareholders may not receive the posted Net Asset Value ("NAV"). In any financial year, the fund is not obligated to redeem greater than 20% of the NAV of the Fund.

The Fund was closed to new subscriptions after the 2003 RSP season; as such the Fund is dependent upon internal growth of its portfolio in order to meet its investment objectives. In order to help meet the investment objective of the Fund, certain of the original proceeds of sale of Class A Shares were set aside into a long-term bond which will mature in 2015. Even at maturity, there is no guarantee that the investment objective of returning the original subscription price can be met.

RESULTS OF OPERATIONS

The Fund was launched in the 2002 RSP season with the expected capital repayment date to be on or about December 15, 2015.

Net assets as at July 31, 2014 were \$3,650 representing a \$1,695 decrease from 2013 closing net assets of \$5,345. The fund realized \$1,260 in redemptions during the year ended July 2014 which represents a slow-down in the pace of redemptions as compared to \$2,077 in fiscal 2013. As at July 31, 2014, the Fund held cash and marketable securities totaling \$5,607 to provide the Fund with on-going liquidity. Additionally, management fees in excess of \$3,183 remain accrued but uncollected in an effort to maintain liquidity within the Fund.

The Fund realized a loss during the 2014 year of \$435 comprised of depreciation of market value in the investment portfolio of \$358 and a loss from operations of \$77. The Fund's income and expenses have declined by 25% and 23% respectively. The Fund sold approximately \$1,791 of its zero-coupon bond at a gain of approximately \$107 in order to generate cash to fund operations and redemption activity. As this bond continues to be unwound, the corresponding interest income will decline. Expenses have decreased in proportion to the decrease in assets under management, however, to the extent that the net assets of the remaining Series within Covington Venture Fund may decline at a faster rate, this Fund's proportionate share of fixed costs may increase. To that end, the 2014 management expense ratio is 7.67% representing an increase from the fiscal 2013 management expense ratio of 6.92%.

No new investments were completed during the period.

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RECENT DEVELOPMENTS

Geopolitical and environmental events have recently dominated the global economic landscape. Tensions in the Ukraine have the potential to unsettle European markets; unrest in the Middle East in both Iraq and Gaza has not only drawn the US into a tenuous situation but the ripple effect on oil prices affects consumer spending and China is still working at stabilizing recent economic jitters by balancing growth with financial restraints within its banking sector. In the US, the soft economic growth in the early part of 2014 appears to be picking up momentum in the consumer spending and housing sectors. The US economy continues on slow recovery with improved household balance sheets, lower consumer debt, improving employment figures and improved business finances. This improvement within the US may generate positive momentum for companies within the venture portfolio as the demand for exports strengthen and business spending increases. For a true recovery within Canada as a whole and the Fund's portfolio investments in particular, it is the export market and business growth that will be the driver as opposed to the consumer spending that is currently boosting economic performance.

While venture capital activity improved in 2013 versus 2012, the positive momentum was mainly seen in the emerging markets. In 2014, uncertainty continued in the North American M&A markets with a decline in US activity and flat activity within Canada. The outlook for the Canadian economy remains cautiously optimistic for the remainder of 2014.

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 August 1, 2014 and publish the first financial statements, prepared in accordance with IFRS, for the semi-annual period ending January 31, 2015. The 2015 semi-annual and annual financial statements will include 2014 comparative financial information and an opening Statement of Financial Position as at August 1, 2014, also prepared in accordance with IFRS.

The Manager continues to execute its transition plan to complete the changeover to IFRS for the Fund in 2015 and comply with the required timetable for continuous disclosure. As at July 31, 2014, the impact to the financial statements based on the Manager's assessment of the differences between current 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. The Fund will adopt accounting policies for the valuation of investments to utilize mid-market prices that align more closely with the calculation of NAV used to price unitholder transactions (Transaction NAV). As a result, net assets for financial reporting purposes (GAAP NAV) will be impacted and is expected to align with Transaction NAV, eliminating the need for a NAV per unit reconciliation. The impact to the Statements of Financial Position as at July 31, 2013 and 2014 respectively, is disclosed in the reconciliation of net assets per unit in Note 3 of the 2014 audited financial statements.
- IFRS 10 *Consolidated Financial Statements* provides an exception to the consolidation requirements and requires an investment entity to account for its subsidiaries at fair value through profit or loss. The Manager has concluded that the Fund meet the definition of an investment entity as at August 1, 2013 and throughout the year ended July 31, 2014. Although not impacting current presentation, additional disclosure will 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 Funds are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As at August 1, 2013 and throughout the year ended July 31, 2014, the units of the Fund do not meet the criteria to be classified as equity. As a result, unitholders' equity will be presented as a liability in the Statements of Financial Position.
- Certain financial statements will be renamed as follows:

Canadian GAAP

Statements of Net Assets
 Statements of Operations
 Statements of Changes in Net Assets
 Statement of Investment Portfolio

IFRS

Statements of Financial Position
 Statements of Comprehensive Income
 Statements of Changes in Financial Position
 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.

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RELATED PARTY TRANSACTIONS

The Manager and Sponsor are deemed to be related parties. Please refer to the section entitled "Management Fees" which outlines the fees paid to these related parties or Note 6 in the Fund's 2014 audited financial statements.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance. This information is derived from the Fund's audited financial statements.

All references to "net assets" or "net assets per share" are determined in accordance with Canadian GAAP as presented in the audited financial statements of the Fund. All references to "net asset value" or "net asset value per share" are determined in accordance with the net asset value calculated for pricing purposes.

FUND'S NET ASSETS PER SHARE

	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012	Year ended July 31, 2011	Year ended July 31, 2010
Net assets, beginning of year ⁽¹⁾	\$ 8.14	\$ 8.57	\$ 8.99	\$ 8.82	\$ 8.57
Increase (decrease) from operations:					
Total revenue	0.47	0.45	0.43	0.49	0.46
Total expenses	(0.60)	(0.57)	(0.59)	(0.55)	(0.49)
Realized gain (loss) on investments	0.19	0.27	0.39	0.41	0.02
Unrealized gain (loss) on investments	(0.82)	(0.61)	(0.63)	(0.26)	0.26
Total increase (decrease) from operations ⁽²⁾	(0.76)	(0.46)	(0.40)	0.09	0.25
Net assets, end of year ⁽¹⁾	\$ 7.36	\$ 8.14	\$ 8.57	\$ 8.99	\$ 8.82

(1) This information is derived from the Series' audited annual financial statements. The net assets per security presented in the financial statements may differ from the asset value calculated for fund pricing purposes.

(2) Net assets are based on the actual number of shares outstanding as at the stated dates. The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the fiscal period.

RATIOS AND SUPPLEMENTAL DATA

	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012	Year ended July 31, 2011	Year ended July 31, 2010
Net asset value	\$ 3,654	\$ 5,347	\$ 7,783	\$ 12,082	\$ 20,008
Number of shares outstanding	495,861	656,865	908,245	1,344,164	2,257,533
Management expense ratio ⁽¹⁾	7.67%	6.92%	6.62%	6.16%	5.60%
Portfolio turnover rate ⁽²⁾	-	-	-	-	-
Trading expense ratio ⁽³⁾	-	-	-	-	-
Closing net asset value per share	\$ 7.37	\$ 8.14	\$ 8.57	\$ 8.99	\$ 8.86

(1) Management expense ratio includes all fees, expenses, capital taxes, Goods and Services Tax, HST effective July 1, 2010 and is expressed as an annualized percentage of the average net assets administered during the period.

(2) The Fund's portfolio turnover rate indicates how active the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

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MANAGEMENT FEES

The Manager is responsible for directing the business, operations and affairs of the Fund and for implementing the investment strategy, monitoring the Fund's investments and providing management assistance to portfolio companies. Because the portfolio companies of the Fund are generally small in size and at an earlier stage of development relative to conventional mutual funds, the Fund requires a greater level of management involvement in the analysis, monitoring support and development activities.

The Manager/Advisor uses its management fees to finance its operations as follows: 92% for general administration over the affairs of the Fund including implementation of the Fund's investment strategy, portfolio management and monitoring, retaining and supervising service providers and managing the overall business affairs of the Fund and the Manager; and 8% for the implementation of communications, sales, marketing, and distribution strategies of the Fund and the Manager. Over time, the allocation of management resources has increased for Fund investment and portfolio management relative to sales, markets, and distribution given that the Fund closed to new subscriptions in 2003.

The Fund pays annual fees of 1.25% and 2.00% of the net asset value of the Fund for these management and advisory services respectively.

The Fund's MER consists of all of its operating expenses, including sales commissions, certain ongoing marketing costs of the Fund, audit and legal expenses, fees paid to any independent valuator, IPA (if any), and certain consultancy costs. The largest component of the MER are fees that are calculated as a percentage of the NAV of the Fund and these fees are the Management fees, the Dealer Service fees, the Sponsor's fees and the Transfer Agent's fees. For a summary of these fees, please see Note 6 to the Fund's audited financial statements.

PAST PERFORMANCE

Year by Year Non-Cumulative Returns

The following chart shows how the performance of the Fund has varied year to year. It also shows, in percentage terms, how an investment made in the Fund would have increased or decreased over the Fund's reporting period. The Fund's past performance is no guarantee of how it will perform in the future.



Annual Compound Returns

The table below summarizes the Fund's past performance for the five, three and one year periods ended July 31 of the periods indicated. As a basis of comparison, we have provided the Retail Venture Capital Index as posted on www.globefund.com as of July 31, 2014.

The retail Venture Capital Index is the most representative broad-based securities market index as it accumulates all the Ontario based LSIFs.

Compound Returns	Series VI	Retail Venture Capital Peer Index*	BMO Nesbitt Burns Cdn Small Cap Index**
1 Year	-9.46%	-3.93%	27.17%
3 Years	-6.40%	-5.63%	4.24%
5 Years	-3.24%	-1.28%	14.76%
Since Inception	-2.59%	***	***

* Source: globefund.com

** The inclusion of the BMO Nesbitt Burns Cdn Small Cap Index is only intended to give perspective to general market activity.

*** This has not been included because there is no comparable index quotation for the same period.

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SUMMARY OF INVESTMENT PORTFOLIO

Below is a summary of the Fund's portfolio as at July 31, 2014. This is a summary only and may change due to ongoing portfolio activity in the Fund. An update is available quarterly on Covington's website at www.covingtonfunds.com.

Composition of net assets	Fair value of Investments \$	% of net assets %
Marketable securities	5,426	148.7
Venture investments	2,034	55.7
Liabilities, net of other assets	(3,810)	(104.4)
Net assets	3,650	100.0

TOP HOLDINGS ⁽¹⁾

	Debt at cost \$	Equity at cost \$	Total at cost \$
Marketable securities			
Farm Credit Canada	5,153	-	5,153
Venture investments*			
Ivey CSBIF I Inc., Class A	-	1,500	1,500
Ivey CSBIF II Inc., Class A	-	1,500	1,500

⁽¹⁾ Excluding cash and short-term investments

* Series VI has invested solely in CSBIFs. These companies are all in the expansion stage of their development.

Fund Symbols

Series VI CIG461 - Closed

Fund Manager and Advisor

Covington Capital Corporation

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Sponsor

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