
COVINGTON FUND II INC.

ANNUAL INFORMATION FORM

Class A Shares, in the Following Series:

Series I

Series II

November 17, 2017

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

DATE OF ANNUAL INFORMATION FORM

This Annual Information Form is dated as at November 17, 2017. This document is an annual information form in respect of the fiscal year ended August 31, 2017. Unless otherwise stated herein, all information was current as of August 31, 2017. Information relevant to the period from September 1, 2017 to the date hereof is to assist the reader to understand changes to the information provided which have occurred since August 31, 2017. Where such additional information is provided, the date of the information is disclosed herein. No securities regulatory authority has expressed an opinion about the Class A Shares of the Fund and it is an offence to claim otherwise.

FORWARD-LOOKING STATEMENTS

This Annual Information Form contains forward-looking statements about matters that involve risks and uncertainties, such as statements of the Fund's plans, objectives, expectations and intentions, as well as financial trends. The discussion also includes cautionary statements about these matters. A reader of this Annual Information Form should consider the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this Annual Information Form. In particular, please note that: (a) there is no assurance that any forward-looking statement will materialize and the results or events contemplated herein may differ from actual results or events; (b) unless otherwise indicated, forward-looking statements describe expectations as of December 1, 2017; and (c) the Fund disclaims any intention or obligation to update or revise any forward-looking statements made herein.

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

CURRENCY

All currency is expressed in Canadian dollars unless otherwise indicated.

SELECTED DEFINITIONS

ö**Administrator**ö means CI Investments Inc., or any successor to it, in its capacity as registrar, transfer agent and administrator of the Fund;

ö**arm's length**ö has the meaning ascribed thereto in Section 251(1) of the Federal Tax Act;

ö**Articles**ö means the articles of amalgamation of the Fund certified effective by Industry Canada on September 10, 2010 as amended by articles of amendment dated November 29, 2010 and September 1, 2011;

ö**board of directors**ö means the board of directors of the Fund;

ö**business day**ö means a day other than a Saturday, a Sunday, a day observed as a holiday under the laws of the Province of Ontario or a day on which either The Toronto Stock Exchange or either of the Administrators' principal office in Toronto is closed for business;

“**Capital Maintenance Fee**” means an annual fee of 1.15% or 1.65% of the original issue price of the Class A Shares to which that fee attaches;

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

“**Class A Shareholders**” means the holders of Class A Shares, Series I or Class A Shares, Series II of the Fund;

“**Class A Shares**” means, collectively, the Class A Shares, Series I (“**Class A Shares, Series I**”) and Class A Shares, Series II (“**Class A Shares, Series II**”) in the capital of the Fund, and “**Class A Share**” means; unless the context provides otherwise, both Class A, Series I Shares and Class A Shares, Series II of the Fund;

“**Co-Sponsor**” means the Canadian Police Association and the Association of Canadian Financial Officers and “**Sponsor**” means either of them;

“**Covington**” means Covington Capital Corporation, in its capacity as the fund manager and investment advisor of the Fund;

“**Covington Fund II**” or “**Fund**” means Covington Fund II Inc.;

“**CRA**” means Canada Revenue Agency;

“**CSBIF**” means a community small business investment fund registered under the Ontario Act;

“**Custodian**” means RBC Investor Services Trust, in its capacity as custodian of portfolio securities of the Fund;

“**Director**” means the Director appointed under section 260 of the CBCA;

“**Effective Date**” means September 2, 2011, the closing date of the Transaction;

“**eligible business**” means an eligible business for purposes of Part III of the Ontario Act (including a deemed eligible business) which is also an eligible business entity as defined in the Federal Tax Act;

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

“**eligible investor**” means an individual who is an eligible investor as defined in Part III of the Ontario Act;

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

“**Independent Review Committee**” or “**IRC**” means the independent review committee of the Fund;

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

“**Investment Portfolio**” means at any point in time, the investments of the Fund made with the capital raised from the sale of Class A Shares;

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

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

“listed company” or **“listed companies”** in relation to a labour sponsored investment fund corporation, means a business the shares of which are listed on a designated stock exchange prescribed by regulations under the Federal Tax Act at the time of the initial investment;

“net asset value per Class A Share” is determined for each Series of Class A Shares, by subtracting the aggregate amount of liabilities allocated to the applicable Series of Class A Shares of the Fund from the value of the assets attributable to the relevant Series of Class A Shares of the Fund and dividing the resulting amount by the number of Class A Shares of the applicable Series of Class A Shares of the Fund outstanding at the date such value is determined. See **“Calculation of Net Asset Value”**;

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

“NGBE” means New Generation Biotech (Equity) Fund Inc.;

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

“Ontario Tax Act” means the *Taxation Act, 2007* (Ontario), as amended;

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

“Predecessor Funds” means Covington Fund II Inc., NGBE, The VenGrowth Investment Fund Inc., The VenGrowth II Investment Fund Inc. The VenGrowth III Investment Fund Inc.. The VenGrowth Traditional Industries Fund Inc. and The VenGrowth Advanced Life Science Fund Inc. and **“Predecessor Fund”** means any one of them;

“Published Valuation” means the valuing of a Fund investment based on the quoted price in any market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of a general and regular paid circulation or are regularly published electronically;

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

“reporting issuer” has the meaning given to that term in the Securities Act;

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

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

“**Reserve Portfolio**” means investments by the Fund in the form of assets which qualify as reserves under the Federal Tax Act;

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

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

“**SCF**” means Covington Strategic Capital Fund Inc.;

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

“**Series**” means any or both of the Class A Shares, Series I and Class A Shares, Series II in the capital of the Fund;

“**Service Fee**” means, an annual fee of up to 0.50% of the net asset value of Class A Shares, which fee shall be calculated and paid monthly in arrears;

“**spousal plan**” means spousal or common-law partner plans as defined in subsection 146(1) of the Federal Tax Act that is an RRSP;

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

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

“**Transaction**” means a transaction which closed on the Effective Date pursuant to which Covington Fund II purchased all of the assets of NGBE and the VenGrowth Funds on the terms of an asset purchase agreement dated July 6, 2011;

“**Transaction Shares**” refers to the Class A shares, in series, of the Fund issued to NGBE and to the VenGrowth Funds to pay for their respective assets pursuant to the Transaction and distributed to the shareholders of NGBE and the VenGrowth Funds in the course of the Transaction on the redemption of the shareholders’ Class A shares of the VenGrowth Funds or NGBE;

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

“**TSX**” means the Toronto Stock Exchange;

“**Venture Portfolio**” means at any point in time, investments of the Fund other than reserves, made with the capital raised from the sale of Class A Shares of the Fund; and

“**VenGrowth Funds**” means collectively The VenGrowth Investment Fund Inc. (“**VGI**”), The VenGrowth II Investment Fund Inc. (“**VGII**”), The VenGrowth III Investment Fund Inc. (“**VGIII**”), The

VenGrowth Advanced Life Sciences Fund Inc. (öVGALSö) and The VenGrowth Traditional Industries Fund Inc. (öVGTIFö).

NAME, FORMATION AND HISTORY OF THE FUND

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

The Fund was incorporated under the *Business Corporations Act* (Ontario) on September 20, 1999 and was continued under the *Canada Business Corporations Act* by Articles of Continuance dated November 25, 2010.

The articles of the Fund were amended by articles of amendment dated November 29, 2010 to conform the articles to the requirements under the Federal Tax Act for a registered labour-sponsored venture capital corporation. These conforming changes were required because the Fund had previously been prescribed labour-sponsored venture capital corporation under the Federal Tax Act but would become registered under the Federal Tax Act upon completion of the Transaction.

The articles of the Fund were further amended by articles of amendment dated September 1, 2011 to permit the Fund to issue Class A Shares in series, to designate the existing Class A Shares as Class A Shares, Series I and to create a second series of Class A Shares designated as Class A Shares, Series II. These changes were required to create Class A Shares, Series II in order to issue those shares to certain former shareholders of the VenGrowth Funds upon completion of the Transaction. The principal difference between the two series of Class A Shares that capital maintenance fee is higher on the Class A Shares, Series II in order to account for the sales commissions paid on the original acquisition of the Class A Shares which were converted into Class A Shares, Series I or Class A Shares, Series II.

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

The Fund purchased all of the assets of NGBE and the VenGrowth Funds pursuant to the Transaction, which closed on September 2, 2011. The terms of the Transaction were contained in an asset purchase agreement dated July 6, 2011 (the “**Asset Purchase Agreement**”). Under the Asset Purchase Agreement, Covington Fund II acquired all of the assets and assumed the liabilities of NGBE and the VenGrowth Funds (other than liquid assets to satisfy payments to shareholders who exercise their dissent rights and other than any outstanding liabilities to make payments to dissenting shareholders). In consideration for the purchase price of the acquired assets, Covington Fund II issued to each of NGBE and the VenGrowth Funds the appropriate number and series of Transaction Shares. At that point, the only assets of NGBE or a VenGrowth Fund (other than liquid assets to satisfy payments to shareholders who exercise their dissent rights) was the Transaction Shares, which were distributed to the shareholders of NGBE and the VenGrowth Funds in satisfaction of the redemption of their Class A Shares of the respective funds. Each of NGBE and the VenGrowth Funds were subsequently wound up.

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

The history of the funds purchased on the Transaction is as follows:

New Generation Biotech (Equity) Fund Inc.

NGBE was incorporated under the OBCA by articles of incorporation dated October 31, 2000. The articles were amended by articles of amendment dated December 27, 2000 and again on December 19, 2003 to divide the Class A Shares into series. NGBE was sponsored by the Canadian Federal Pilots Association (øCFPAø). NGBE was registered as a labour sponsored investment fund corporation under the Ontario Act and was a prescribed labour-sponsored venture capital corporation under the Federal Tax Act. NGBE ceased distributing its Class A Shares to the public on December 19, 2008. The primary objective of NGBE was to achieve long-term capital appreciation for the Fundø Class A shareholders by investing in a diversified portfolio of securities of biotechnology and health care related ventures and by investing the remainder in reserves including, in particular, debt instruments which generated a return linked to the performance of the NASDAQ 100 Index. At the time of the Transaction, NGBE had assets under management of \$18.8 million. The Fund was previously managed by NGB Management Inc. Covington amalgamated with NGB Management Inc. and three other affiliates of Covington on January 1, 2008 to continue and carry on business as Covington. Effective as of the date of amalgamation, Covington became the Manager of the Fund and assumed all of the rights and obligations of NGB Management Inc. under the management agreement with NGBE by operation of law.

The VenGrowth Investment Fund Inc.

VGI was incorporated under the laws of Canada by articles of incorporation dated November 9, 1994. The articles of incorporation were amended on March 4, 2002 to comply with changes to the Ontario Act, September 6, 2006 to amend the voting rights attached to the Class A Shares, and November 30, 2006 to divide the Class A Shares into series. On December 17, 2009, VGI was continued into British Columbia by Notice of Articles dated December 17, 2009 and was thereafter governed by the laws of British Columbia. VGI was sponsored by the Association of Canadian Financial Officers (øACFOø). VGI was registered as an LSIF Corporation under the Ontario Act and as an LSVCC under the Federal Act. VGI ceased distributing its Class A Shares to the public on December 31, 1999. Subsequently, Class A Shares of VGI were in distribution from December 4, 2006 to November 28, 2008. VGIø investment objective was to achieve long-term capital appreciation by investing in small and medium-sized eligible Canadian businesses. At the time of the Transaction, VGI had assets under management of \$39.5 million. Prior to the Transaction, the manager of VGI was VenGrowth Capital Management Inc.

The VenGrowth II Investment Fund Inc.

VGII was incorporated under the laws of Canada by articles of incorporation dated October 18, 1999. The articles were amended on December 22, 1999, March 4, 2002 and March 25, 2003 to comply with changes to the Ontario Act and to permit registration under the Federal Act, September 6, 2006 to amend the voting rights attached to the Class A Shares, and November 30, 2006 to divide the Class A Shares into series. On December 17, 2009, VGII was continued into British Columbia by Notice of Articles dated December 17, 2009 and was thereafter governed by the laws of British Columbia. VGII was registered as an LSIF Corporation under the Ontario Act and as an LSVCC under the Federal Act. VGII ceased distributing its Class A Shares to the public on November 19, 2004. VGII was sponsored by the ACFO. VGIIø investment objective was to achieve long-term capital appreciation by investing in small and medium-sized eligible Canadian businesses. At the time of the Transaction, VGII had assets under management of \$99.5 million. Prior to the Transaction, VenGrowth II Capital Management Inc. was the manager of VGII and VenGrowth Capital Management Inc. was the portfolio advisor.

The VenGrowth III Investment Fund Inc.

VGIII was incorporated under the laws of Canada by articles of incorporation dated April 26, 2004 and operated under the name of VenGrowth III Diversified Fund. The articles of incorporation were amended on November 30, 2006 to divide the Class A Shares into series. VGIII was registered as a labour sponsored investment fund corporation under the Ontario Act and as a labour-sponsored venture capital corporation under the Federal Act. VGIII ceased distributing its Class A Shares to the public on October 30, 2009. VGIII was sponsored by the ACFO. VGIII's investment objective was to achieve long-term capital appreciation by investing in small and medium-sized eligible Canadian businesses. At the time of the Transaction, VGIII had assets under management of \$10.8 million. Prior to the Transaction VenGrowth III Capital Management Inc. was the manager of VGIII and VenGrowth Capital Management Inc. was the portfolio advisor.

The VenGrowth Advanced Life Sciences Fund Inc.

VGALS was incorporated under the laws of Canada by articles of incorporation dated October 31, 2001. The articles of incorporation were amended on December 28, 2001 and March 25, 2003 to comply with changes to the Ontario Act and on November 30, 2006 to divide the Class A Shares into series. VGALS was registered as a labour sponsored investment fund corporation under the Ontario Act and as a labour-sponsored venture capital corporation under the Federal Act. VGALS was sponsored by the ACFO. VGALS's investment objective was to achieve long-term capital appreciation by investing in small and medium-sized businesses in the life sciences sector primarily in the early/clinical and expansion stages of development. At the time of the Transaction, VGALS had assets under management of \$82.6 million. Prior to the Transaction VenGrowth Advanced Life Sciences Management Inc. was the manager of VGALS and VenGrowth Capital Management Inc. was the portfolio advisor.

The VenGrowth Traditional Industries Fund Inc.

VGTI was incorporated under the laws of Canada by articles of incorporation dated August 8, 2003. The articles of incorporation were amended on November 30, 2006 to divide the Class A Shares into series. VGTI was registered as a labour sponsored investment fund corporation under the Ontario Act and as a labour sponsored venture capital corporation under the Federal Act. VGTI ceased distributing its Class A Shares to the public on October 30, 2009. VGII was sponsored by the ACFO. VGTI's investment objective was to invest in small and medium-sized businesses with the objective of generating interest and dividend income as well as long-term capital appreciation. At the time of the Transaction, VGTI had assets under management of \$53.8 million. Prior to the Transaction the Transaction VenGrowth Traditional Industries Management Inc. was the manager of VGTI and VenGrowth Capital Management Inc. was the portfolio advisor.

On November 16, 2013, the Fund purchased all of the assets of SCF pursuant an asset purchase agreement dated November 15, 2013 (the "Agreement"). Under the Agreement, Covington Fund II acquired all of the assets and assumed the liabilities of SCF (other than liquid assets to satisfy payments to shareholders who exercised their dissent rights and other than any outstanding liabilities to make payments to dissenting shareholders). In consideration for the purchase price of the acquired assets, Covington Fund II issued to SCF, the appropriate number transactional shares as described in the Agreement but equivalent to Series I shares of the Fund at the exchange ratio established on closing. At that point, the only assets of SCF (other than liquid assets to satisfy payments to shareholders who exercise their dissent rights) was the transactional shares, which were distributed to the shareholders of SCF in satisfaction of the redemption of their Class A Shares of the respective funds. SCF was subsequently wound up.

Covington Strategic Capital Fund Inc.

SCF was incorporated under the OBCA by articles of incorporation dated November 18, 2003. SCF was sponsored by the Canadian Police Association. SCF was registered as a labour sponsored investment fund corporation under the Ontario Act and was a prescribed labour-sponsored venture capital corporation under the Federal Tax Act. SCF ceased distributing its Class A Shares to the public on December 19, 2011. The primary objective of SCF was to realize 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. SCF invested primarily in Canadian independent software vendors that developed software applications to run on one or more software operating system platforms, and intended to develop and grow investee businesses in cooperation with strategic partners. On August 24, 2007, SCF acquired substantially all of the assets of Financial Industry Opportunities Fund Inc., a labour sponsored investment fund also managed by Covington. At the time of the November 2013 acquisition, SCF had assets under management of approximately \$6.6 million.

As of November 17, 2017, there were 10,156,134 Class A Shares, Series I and 6,691,540 Class A Shares, Series II issued and outstanding. The Co-Sponsors own 199 Class B Shares, being all of the issued and outstanding Class B Shares. As of November 17, 2017, no person or company of record and management knows of no person or company who will own beneficially, directly or indirectly, more than 10% of the issued and outstanding Class A Shares. Covington was both the manager and investment advisor to the Fund during the period to November 17, 2017.

INVESTMENT RESTRICTIONS

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

In general terms, an investment of the Fund is an eligible investment for both the Federal Tax Act and the Ontario Act if it is shares or a qualifying debt obligation of an eligible business. Eligible businesses are generally taxable Canadian public or private corporations or partnerships which are primarily engaged in eligible business activities and which (together with all related entities) have fewer than 500 employees and have less than \$50 million of total gross assets and which employ 50% or more of their full-time employees, earning at least 50% of the salaries and wages payable by them, in Ontario at the time of investment. Generally, the Federal Tax Act requires that the Fund invest in eligible investments and reserves. Under the Federal Tax Act, the Fund must invest and hold investments in eligible businesses in Canada having an aggregate investment cost equal to 60% of the lesser of the Fund's shareholders' equity for the current year and the shareholders' equity in the immediately preceding year. Shareholders' equity is an accounting term that reflects the current value of assets less liabilities that are attributable to the shareholders. For the purposes of the investment requirements under the Federal Tax Act, unrealized gains and losses in respect of the Fund's eligible investments are excluded from shareholders' equity. Also, shareholders' equity relating to Class A Shares that have been outstanding for more than eight years is excluded from the calculation. This adjustment to shareholders' equity and other adjustments permitted under the Federal Tax Act operate to reduce the Fund's investment requirements. In addition, the Fund would be able to reduce its federal investment requirements if it invests in eligible businesses with less than \$10 million in assets. For these investments, the Fund's investment cost is increased to 150% to 200% of the actual cost.

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

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

Other Statutory Investment Restrictions Applicable to the Fund

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

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

Compliance with Statutory Investment Restrictions

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

Voluntary Investment Restrictions and Policies

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

Investment Objective and Policies

The investment objective of Covington Fund II 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 through investment in common shares, convertible preference shares or other instruments which create a right to acquire common shares, debt (with or without conversion features), warrants and other securities of both early stage, high growth companies as well as established businesses. This investment objective may not be changed without shareholder approval.

The investment strategy of Covington Fund II is to invest in two different types of situations. The first is in companies with significant growth potential in early stage or expanding markets which includes investments in sectors including technology, life sciences and traditional industries. The second is in more established, steady growth companies, which will often provide current yield and early return of capital to Covington Fund II. In order to enhance liquidity, the Fund has more recently primarily sought to invest in more established companies.

Unlike ordinary mutual funds, the Fund may:

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

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

DESCRIPTION OF SHARES OFFERED BY THE FUND

The authorized capital of Covington Fund II consists of an unlimited number of Class A Shares, 25,000 Class B Shares, an unlimited number of Class C Shares issuable in series and 100 Class D Shares. The Class B Shares of Covington Fund II may be issued only to the sponsors of Covington Fund II. A total of 199 Class B Shares are issued and outstanding as of the date hereof, of which 100 are held by the CPA and 99 are held by ACFO/ACAF Sponsor Corp., a wholly-owned subsidiary of ACFO. The Class C Shares are non voting and do not entitle purchasers to receive tax credits. Covington Fund II has not issued, and has no present intention to issue, any Class C Shares. 100 Class D Shares were issued to facilitate the incorporation of Covington Fund II. All of the Class D Shares were redeemed and cancelled on the issue of the original 100 Class B Shares to the CPA as Sponsor.

The Class A Shares of the Fund are issuable to individuals (other than trusts) who will be eligible for tax credits in connection with their purchases. In addition, the Class A Shares are also issuable to certain RRSPs and TFSAs. See "Canadian Federal Income Tax Considerations".

The following is a summary of the material provisions attaching to each class of shares of the Fund. These provisions derive principally from the requirements of the Ontario Act and may be required to be changed if that Act is amended. Investors may wish to refer to the Ontario Act regarding certain details of these provisions.

The articles of the Fund were amended on September 1, 2011 to include two series of Class A shares, Series I and Series II, to account for the sales commissions paid on the original acquisition of the Class A shares of the VenGrowth Funds or NGBE and to comply with the requirements of the Federal Tax Act. Only Class A Shares, Series I are offered for sale to the public under its current prospectus. Class A Shares, Series II were issued to holders of certain series of Class A shares of the VenGrowth Funds pursuant to the Transaction, but have not otherwise been issued by the Fund.

Class A Shares

Issue

The Class A Shares, Series I of the Fund may be issued to individuals ordinarily resident in Canada and to qualifying trusts governed by RRSPs or TFSAs or such other eligible investors as may be permitted by the Ontario Act and the Federal Tax Act. The Class A Shares, Series I of the Fund are not currently qualified by prospectus for distribution in any jurisdiction.

The Class A Shares, Series II of the Fund may be issued to individuals ordinarily resident in Canada and to qualifying trusts governed by RRSPs or TFSAs or such other eligible investors as may be permitted by the Ontario Act and the Federal Tax Act. The Class A Shares, Series II of the Fund are not currently qualified by prospectus for distribution in any jurisdiction.

Transfer

The articles of the Fund currently restrict the transfer of Class A Shares in respect of which an Information Return has been issued under the Federal Tax Act, or a tax credit has been issued under the Ontario Act, except in accordance with certain prescribed conditions under the Federal Tax Act and the Ontario Act, as set out in the Articles of the Fund.

Redemption

If an Information Return has been issued under the Federal Tax Act or a tax credit certificate has been issued under the Ontario Act with respect to the purchase of a Class A Share, the Fund may not redeem the Class A Share except in the following circumstances:

- (a) the redemption occurs more than eight years after the date on which the Class A Share was issued (or deemed to be issued);
- (b) the Fund is notified in writing that the individual who received the original labour-sponsored funds tax credit (the "specified individual") in respect of the Class A Share has become disabled and permanently unfit for work after acquiring the Class A Share or is terminally ill;
- (c) the Class A Share is held by an individual who gives notice in writing to the Fund that the Class A Share has devolved upon the individual as a consequence of the death of the specified individual or the death of the annuitant under an RRSP, RRIF or TFSA that was the holder of the Class A Share;
- (d) there is no "specified individual" in respect of the Class A Share;
- (e) where the redemption occurs within eight years after the date on which the Class A Share was issued in circumstances other than those described above, the Fund withholds all amounts as are required to be withheld under the Federal Tax Act and the Ontario Act and the Fund pays these amounts to the Receiver General for Canada and the Minister of Revenue (Ontario), respectively as required;
- (f) the holder of the Class A Share has requested the Fund to redeem the Class A Share and any Information Return and Tax Credit Certificate issued in respect of the Class A Share have been returned to the Fund; or
- (g) the shareholder has satisfied such other conditions as are prescribed by the Federal Tax Act and the Ontario Act.

Dividends

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

Voting Rights

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

Fractional Shares

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

Election of Directors

Holders of Class A Shares of the Fund voting as a class are entitled to elect two of the seven directors of the Fund.

Dissolution

On the liquidation, dissolution or winding-up of the Fund or other distribution of the assets of the Fund for the purpose of winding up its affairs (**ōdissolutionö**), the holders of Class A Shares and Class C Shares (if any) will be entitled to share on a pro rata basis all the assets of the Fund remaining after payment of all liabilities of the Fund and after payment of the purchase price paid for the Sponsorø Shares (less any amount previously distributed in respect of such shares).

Sponsor’s Shares (Class B Shares)

Issue

The Sponsorø Shares may be issued only to the sponsors of the Fund.

Dividends

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

Voting Rights

The holder of the Sponsorø Shares of the Fund is entitled to receive notice of and attend at all meetings of shareholders of the Fund and, except for meetings at which only holders of a different class or series are entitled to vote separately as a class or series, is entitled to vote at any such meeting. The Sponsorø Shares entitle the holder thereof to one vote per share.

Election of Directors

Holders of Class B Shares of the Fund voting as a class are entitled to elect the directors not elected by the holders of the Class A Shares, currently being five of the seven directors of the Fund.

Redemption

The Sponsorø Shares of the Fund are redeemable by the Fund at a redemption price equal to the purchase price paid for such share (less any amount previously distributed in respect of such share).

Dissolution

On dissolution, the holder of the Sponsor's Shares will be entitled to receive the purchase price paid for such share (less any amount previously distributed in respect of such share) before any assets are distributed to holders of Class A Shares and Class C Shares (if any) but after payment of all liabilities of the Fund.

Class C Shares

Issuable in Series

The Class C Shares of the Fund are issuable in series, each series consisting of such number of shares as may be determined by the board.

Dividends

Holders of Class C Shares are entitled to receive dividends at the discretion of the board, provided that no dividends will be declared and paid unless the same dividend per share is declared and paid on Class A Shares.

Dissolution

On dissolution, the holders of Class C Shares and Class A Shares will be entitled to share on a pro rata basis all the assets of the Fund remaining after payment of all liabilities of the Fund and after payment of the purchase price paid for the Sponsor's Shares (less any amount previously distributed in respect of such shares).

Non-Voting

The holders of Class C Shares will be entitled to receive notice of and attend at all meetings of shareholders of the Fund but, except as provided by law, will not be entitled to vote thereat.

Other Rights

Except as otherwise provided, the rights, privilege, restrictions and conditions attaching to each series of Class C Shares shall be determined by the board of the Fund, subject to the prior approval of the Minister of Finance (Canada) and the Minister of Revenue (Ontario).

Approval of Shareholders for Certain Changes

Certain changes affecting the Fund may only be implemented with the approval of the shareholders of the Fund. A meeting of the shareholders or where required by law a meeting of each class of shareholders of the Fund will be convened to consider and approve any of the following matters which the Fund may propose to change in the future:

- (a) subject to certain exemptions available under rules applicable to mutual funds, a change in any contract or the entering into of any new contract as a result of which the basis of the calculation of the fees or of other expenses that are charged to the Fund could result in an increase in charges to the Fund;
- (b) a change of the manager of the Fund (other than to an affiliate of Covington);
- (c) any change in the investment objectives of the Fund;
- (d) any decrease in the frequency of calculating the net asset value of the Class A Shares of the Fund;
- (e) any reorganization with, or transfer of assets to another mutual fund, pursuant to which the Fund ceases to exist and shareholders become securityholders of the other mutual fund;
- (f) any reorganization with, or acquisition of assets from another mutual fund if the transaction would be a material change for the Fund; or
- (g) any other matter which is required by the constating documents of the Fund or by the laws applicable to the Fund or by any agreement to be submitted to a vote of the shareholders of the Fund.

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

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

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

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

VALUATION OF PORTFOLIO SECURITIES

Valuation Committee

The Fund's board of directors has established a valuation committee (the "Valuation Committee") comprised of three directors, all of whom are independent of Covington. The current members of the Valuation Committee for the Fund are R. Scott Colbran (Chair of the Valuation Committee), Henry J.

Pankratz and Terrence B. Kulka. A quorum at any meeting of a Valuation Committee is at least two members of the Valuation Committee.

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

RBC Investor Services Trust (RBC) has been retained by the Fund to calculate the value (the **Published Valuation**) of its assets at the end of the last business day of each week. The Valuation Committees are required to review and, if acceptable, approve the Fund's net asset value as set out in quarterly valuation reports prepared by Covington. The Valuation Committees are required to review and, if acceptable, approve the Published Valuation for any day where the net asset value per Class A Share of the Fund is expected to change by more than 5%.

Valuation of Assets for which a Published Market Exists

At the end of the last business day of each week, RBC calculates the value of the Fund's assets for which there exists a published market and which can be readily disposed of in such market, on the basis of the quoted prices in such market, subject to an adjustment for restrictions on trading as required. For this purpose, a published market means any major market on which such securities are traded if the prices are regularly published in a newspaper or business or financial publication of general and regular paid circulation. Securities for which market quotations are, in Covington's opinion, inaccurate, unreliable, not reflective of all available material information or not readily available are valued at their fair value as estimated by Covington. Fair value is determined on the basis of expected realizable value of the venture investments if they were disposed in an orderly fashion over a reasonable period of time. Covington notifies RBC of any adjustments in the holdings of the Fund. The Valuation Committee reviews and, if acceptable, approves the Published Valuation for the Fund, on a quarterly basis.

Valuation of Assets for which No Published Market Exists

The value of venture investments for which no quoted market value exists, or investments in restricted securities, is recorded at estimated fair value. The definition of fair value and the factors reviewed when determining fair value are set out under "Quarterly Valuations" below.

General Valuation Policies

Quarterly Valuations

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

- (a) The valuation standard is "fair value". Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act; and

- (b) The fair value of the investments are determined using the appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; and other pertinent considerations.

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

Weekly Valuations

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

Reporting of Net Asset Value

The Fund will make available to the financial press for publication the net asset value per Class A Share on the last business day of each week.

Audit of Financial Statements

The Fund's auditors are responsible for auditing the Fund's financial statements in accordance with Canadian generally accepted auditing standards. The Fund has implemented internal control mechanisms so that appropriate audit evidence will be available to the auditors. The auditors are responsible for reporting on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles.

For the purpose of auditing the financial statements, the auditors will be provided with copies of all investment valuation reports for the Fund prepared by Covington to permit the auditors to check whether the reports are in agreement with the valuation procedures described above and whether the conclusions reached in the reports are supported by the analysis in the reports.

Independent Valuation of Class A Shares

The Fund is required, by legislation, to obtain on an annual basis, a valuation by an independent qualified person of the net asset value of the Fund and the net asset value per Share. The Fund satisfies this requirement by engaging Ernst & Young LLP, the Fund's independent auditors, to perform certain procedures on the value of the Fund's investments for which no public markets exist as at August 31 of each year as part of Ernst & Young LLP's audit of the Fund's annual financial statements.

Neither the Valuation Committee nor the Manager has deviated from these valuation policies.

CALCULATION OF NET ASSET VALUE

The net asset value of the Fund is determined as at the end of the last business day of each week by subtracting the Fund's liabilities from its assets. The net asset value of the Class A shares is determined by the net asset value of the Fund minus the stated capital of the issued and outstanding Class B shares and Class C shares, if any. These values are required to calculate the Fund's net asset value per Class A Share of each series, which is used as the purchase price and redemption price for each series of the Class A Shares of the Fund.

The board of directors of the Fund has delegated the responsibility of approving the valuation of the net assets to the Valuation Committee as submitted by the Senior Officers of Covington at least four times each year (on or about February 28, May 31, August 31 and November 30) and the Senior Officers of Covington are responsible for determining the net asset value of the Fund for each week.

The net asset value per Class A share of each series is determined by dividing the net asset value of the series by the number of shares of such series outstanding immediately preceding the determination of the net asset value of the series. The net asset value for a series of Class A shares is determined by the proportion of the net asset value of the Class A shares allocated in accordance with the asset allocation policy of the Corporation to a series of Class A shares, minus the liabilities or costs directly attributable to the acquisition, management and administration of such series, all as determined by the board of directors of the Fund.

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

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

The Canadian Accounting Standards Board (the AcSB) confirmed that effective January 1, 2011, International Financial Reporting Standards (IFRS) replace Canadian GAAP for publicly accountable enterprises. IFRS will apply to fiscal years beginning on or after January 1, 2011. On February 29, 2012, the AcSB issued amendments to the CICA Handbook extending the timeline for adoption of IFRS by investment companies to fiscal years beginning on or after January 1, 2014.

The Fund's first annual financial statements prepared under IFRS as published by the International Accounting Standards Board (IASB) were for the year ended August 31, 2015. The Fund adopted this basis of accounting in 2015 as required by Canadian securities legislation and the AcSB. Previously, the Fund prepared its financial statements in accordance with Canadian GAAP as defined in Part V of the Chartered Professional Accountants (CPA) of Canada Handbook on Accounting.

Under IFRS, the fair value of financial instruments that are quoted in active markets and which are publicly traded on a recognized stock exchange, and are not otherwise restricted, are valued based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on existing market conditions. Prior to IFRS, fair value for financial reporting purposes was based on the last bid price, or, if no bid price was available, the last traded price.

PURCHASES / SUBSCRIPTIONS

General

Class A Shares, Series I of the Fund were offered, recommencing August 20, 2013 in Ontario only on a continuous basis at the net asset value per Class A Share, Series I of the Fund at the close of business on the last day of the week in which the subscription for Class A Shares, Series I of the Fund is received. The Fund ceased offering in August 2014, upon lapse of the prospectus. Unless Class A Shares, Series I of the Fund were being purchased pursuant to a pre-authorized chequing plan, the minimum initial investment in the Fund is \$500. All subsequent investments in the Fund must be in increments of at least \$25.

Covington Fund II paid to the selling registered dealer a commission of 6% of the offering price in respect of the sale of Class A Shares, Series I. Covington Fund II also pays to registered dealers a service fee equal to 0.5% annually of the average total net asset value of the Class A Shares, Series I held by the clients of the sales representatives of the dealers, calculated and paid monthly (the "Service Fee").

Class A Shares, Series II are not offered for sale. Covington Fund II continues to pay to a selling registered dealer who previously sold Class A Shares, Series II a Service Fee equal to 0.5% annually of the average total net asset value of the Class A Shares, Series II held by the clients of the sales representatives of the dealers, calculated and paid monthly.

Certain Class A Shares issued upon the Transaction to former VenGrowth Fund shareholders carry a capital maintenance fee payable by the Fund. The capital maintenance fee is payable to the former managers of the VenGrowth Funds to reimburse them for the financial and administration costs associated with them having paid the upfront sales commissions to brokers when the Class A shares of the VenGrowth Funds were purchased. This fee varies by the series of Class A Share of the VenGrowth Funds purchased and exchanged on the Transaction. The fee is 1.15% per annum of the original issue price for all Series A and Series B Class A Shares and 1.65% per annum of the original issue price for all Series C Class A Shares of the VenGrowth Funds issued after December 31, 2003. All holders of Class A Shares of the VenGrowth Funds to which a capital maintenance fee continues to apply received Class A Shares, Series II of the Fund on the Transaction except holders of The VenGrowth II Investment Fund Inc. Class A Shares issued after December 31, 2003 who received Class A Shares, Series I of the Fund on the Transaction.

The Capital Maintenance Fee is paid to the former managers of the VenGrowth Funds for eight years following the sale of each Class A Share or each Class A Share of a VenGrowth Fund which was exchanged for a Class A Share upon the Transaction.

Each of the sales commissions shall apply to all sales procured by brokers or dealers pursuant to payroll deduction or other periodic purchase plan sales initiated by them.

To be eligible for a federal tax credit as a result of the purchase after February 28, 2013 of Class A Shares, Series I, the Class A shareholder, or the individual contributing to an RRSP that is a Class A shareholder, must file with his or her income tax return the Information Return prepared and issued pursuant to the Ontario Act by CI for the Fund. See "Canadian Federal Income Tax Considerations" and "Ontario Income Tax Considerations".

RRSPs, RRIFs and TFSAs

Subject to the qualifications discussed below, under the heading "Eligibility for Investments" a Class A Share will generally be a qualified investment for an RRSP, a RRIF or a TFSA. Individual investors may generally arrange to transfer Class A Shares to their own or their spouses or common law partner's self directed RRSP. In addition, Class A Shares may be acquired directly by an investor's RRSP or TFSA. The holder of a TFSA and the annuitant of a RRSP or a RRIF would be subject to a penalty tax if the Class A Shares are "prohibited investments" for the TFSA, RRSP or RRIF, as the case may be, within the meaning of the Federal Tax Act. Investors who wish to hold Class A Shares through an RRSP, RRIF or TFSA should consult their own tax advisors regarding their particular circumstances.

Investors who wish to establish an RRSP to purchase Class A Shares of the Fund may do so with TD Canada Trust, as trustee (the "Trustee"). Certain investors may also establish a RRIF with the Trustee. CI acts on behalf of the Trustee in processing and accepting application forms in connection with such plans.

Investors may take advantage of these arrangements by completing a declaration of trust, which is available from Covington in addition to the application form.

REDEMPTION OF SECURITIES

On September 8, 2015, the Fund announced that it had temporarily suspended redemptions as a result of significant and increasing requests for redemptions since the Fund opened its restricted share series on September 2, 2015. The decision was taken given a significant increase in redemption requests that had the potential to eliminate the liquidity required to operate the Fund in an efficient manner. The board of directors concluded that the temporary suspension was required to maximize the returns for all shareholders and was in the best interests of the Fund. On January 18, 2016, the Fund was re-opened to redemptions and was halted again after cumulative redemptions for fiscal 2016 reached approximately 20% of the NAV as at the last day of fiscal 2015.

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

On August 25, 2017, the Fund announced that it expects to re-open to redemptions prior to December 31, 2017 at which time the Fund anticipates redeeming up to 20% of the NAV as at the last day of fiscal 2017. It is expected that, if and when, the Fund reaches the 20% redemption limit, that the Fund will again be closed to redemptions in order to enable the Manager to continue to seek exits in the venture portfolio in order to optimize value to the shareholders. The decision follows careful consideration by the board of directors of the various alternatives available to the Fund. Redemptions will continue to be honoured in the order in which they are received.

Under the Ontario Securities Act, the Fund may suspend the redemption of Class A Shares or may postpone the date of payment upon redemption (i) during any period when normal trading is suspended on any stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed and traded, or on which permitted derivatives are traded, which represent more than 50% by value of the total assets of the Fund without allowance for liabilities, or (ii) with the prior permission of the Ontario Securities Commission. In addition, to the redemption restrictions applicable to the Restricted Shareholders pursuant to the Transaction, in any financial year the Fund is not required to redeem its Class A Shares having an aggregate redemption price exceeding 20% of the net asset value of

the Fund as at the last day of the preceding financial year. The application of this redemption restriction is in the discretion of the Fund.

Following the Ontario government's 2005 announcement that it would wind down the province's LSIF program, the Fund as well as all other LSIF market participants, have experienced an elimination of cash subscriptions, forcing liquidity to be derived substantially from the sale of the Fund's portfolio investments. Since 2011, the Fund has acquired or merged with eight LSIF funds in order to consolidate assets, achieve economies of scale to manage MERs, and manage liquidity in the absence of new subscriptions and in the face of consistent redemptions in order to manage the return of capital to shareholders while undertaking to optimize returns for shareholders.

The Manager monitors the liquidity of the Fund on a continuous basis and reports to the board of directors the status of planned exits in the portfolio. The Fund continues to operate with the objective of obtaining sufficient liquidity from exits in order to re-open the Fund to redemptions in the near term with the clear recognition that the restrictions and risks described below could result in a suspension of redemptions in the future.

Upon acceptance of redemption orders, redemptions of Class A Shares are subject to the restrictions in the Federal Tax Act, the Ontario Act and the provisions attaching to those shares. See "Description of Shares Offered by the Fund - Class A Shares - Redemption". Requests for redemption of Class A Shares of the Fund may be made by completing the appropriate request for redemption form. All requests for redemption must be signed by the shareholder and, if the Fund requests, with the signature guaranteed by a Canadian chartered bank or trust company or by a member of a recognized stock exchange in Canada. No redemption will be effected until the written request for the same has been duly completed and delivered to the Fund or a dealer distributing the Class A Shares of the Fund, together with a duly endorsed share certificate (if any). Requests for redemption will be accepted in the order in which they are received by the Fund.

A holder of Class A Shares of the Fund may request the Fund to redeem his or her Class A Shares on or after the eighth anniversary of the date of issue of the Class A Shares. Class A Shares may also be redeemed at any time prior to the expiry of the eight year period if a special tax determined by formula for recovery of an amount in respect of the tax credits on such shares is withheld from the redemption proceeds and paid to the Receiver General for Canada and to the Minister of Revenue (Ontario). See "Canadian Federal Income Tax Considerations - Redemption of Class A Shares" and "Ontario Income Tax Considerations - Ontario Tax on Redemptions of Class A Shares".

A holder of Class A Shares of the Fund may also request that the Fund redeem his or her Class A Shares prior to expiry of the eight year period without withholding of the tax credit or other amount referred to above in the event of any of the following: (i) the holder is the "specified individual", as defined in the Federal Tax Act, in respect of the Class A Shares and has requested the Fund to redeem the Class A Shares and the Information Return and any tax credit certificate issued under the Ontario Act has been returned to the Fund; (ii) the Fund is informed in writing that the "specified individual" in respect of the Class A has become disabled and permanently unfit for work or terminally ill; (iii) the Class A Shares or the beneficial interest therein has devolved upon the individual requesting redemption as a consequence of the death of the holder of the Class A Shares or an annuitant under a RRSP, RRIF or TFSA; (iv) there is no "specified individual" in respect of the shares; or (v) the Fund publicly announces that it proposes to dissolve or wind-up and the redemption, acquisition or cancellation of the Class A Shares is part of the dissolution or wind-up of the Fund, and occurs within a reasonable time before the Fund surrenders its registration.

Under the Ontario Act, when determining whether a Class A Share of the Fund that was issued in February or March has been held for eight years, a redemption of such Class A Share that occurs in February or on March 1 is deemed to occur on March 31. Under the Federal Tax Act, a redemption that occurs in February or on March 1 will be deemed to occur 30 days after the actual date of redemption for purposes of the Federal Tax Act. These measures are intended to accommodate holders of Class A Shares wishing to acquire new Class A Shares in the first 60 days of a year with the proceeds from the redemption of Class A Shares.

Subject to the withholding of any amount required to be withheld pursuant to the Federal Tax Act and Ontario Act and the deduction of the applicable redemption fees described below, Class A Shares of the those shareholders who are not Restricted Shareholders will be redeemed at the net asset value per Class A Share as of the close of business on the last business day of the week in which the Fund receives the duly completed request for redemption.

If the Fund is requested to redeem Class A Shares before the eighth anniversary of their issue (or deemed issue), holders of Class A Shares so redeemed may be charged an early redemption fee.

A redemption fee of up to 6% of the offering price of the Class A Shares, Series I of the Fund will be charged to investors and calculated as 0.75% of the offering price of the Class A Shares, Series I multiplied by the number of years or partial years remaining until the eighth anniversary of the date of issue of such Class A Shares.

A redemption fee of up to 6% or up to 10% of the issue price of Class A Shares, Series II of the Fund will be charged to former holders of VenGrowth Funds. Former holders of Class A Shares, Series A and Series B of the VenGrowth Fund will be charged a redemption fee of up to 6% which will be calculated as 0.75% of the offering price of the Class A Shares multiplied by the number of years or partial years remaining until the eighth anniversary of the date of issue of such Class A Shares of the VenGrowth Funds. Former holders of Class A Shares, Series C of the VenGrowth Fund will be charged a redemption fee of up to 10% which will be calculated as 1.25% of the offering price of the Class A Shares multiplied by the number of years or partial years remaining until the eighth anniversary of the date of issue of such Class A Shares of the VenGrowth Funds. After the eighth anniversary of the date of issue of the Class A Shares, there will be no redemption fee. The redemption fee will be deducted from the redemption amount otherwise payable and will be paid to the Fund.

The early redemption fee is subject to change from time to time to a percentage of the redemption amount to be determined by the directors of the Fund, provided that any such change shall be effective only upon 30 days written notice to the holders of Class A Shares. The redemption fee will be deducted from the redemption amount otherwise payable and will be retained by the Fund or Covington, as the case may be. There is no redemption fee where the redemption occurs following the death of the holder (or the annuitant, in the case of an RRSP or RRIF holder) or after the eighth anniversary of the date of issue.

Redemption requests will be processed in the order in which they are received. Any redemption request that the Fund does not process in a fiscal year due to any of the foregoing limitations will need to be resubmitted by a shareholder wishing to redeem following expiration of the event giving rise to the limitation.

For the purpose of calculating the redemption fee, Class A Shares will be considered to be redeemed in the order acquired. After the eighth anniversary of the date of issue there will be no redemption fee for the Class A Shares. Class A Shares issued to a shareholder on the Transaction will be deemed to have been

issued on the same date as the Class A Shares of the Predecessor Fund previously held by such shareholder prior to the Transaction.

RESPONSIBILITY FOR FUND OPERATIONS

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

Directors and Officers of the Fund

The name, place of residence and office of the directors and officers of the Fund and their principal occupations in the last five years are set out below.

Name and Municipality of Residence	Major positions with the Fund	Principal Occupation	Director Since*	Class A Shares Beneficially Owned as at November 17, 2017
R. Scott Colbran Oakville, Ontario	Valuation Committee Chair and Director	Company Director. Past President & CEO Look Communications Inc. (1999). Past President & COO, Rogers Cable TV (1996). Past President, MacLean Hunter Cable TV (1994)	2002	614
Terrence B. Kulka Ottawa, Ontario	Chair, Audit Committee Member, Valuation Committee Member, Governance & Policy Review Committee Chair and Director	Executive-in-Residence, University of Ottawa, Telfer School of Management	2008	200
Mike McCormack, Toronto, Ontario	Governance & Policy Review Committee Member and Director	President and CEO of the Toronto Police Association. Director, Canadian Police Association.	2014	Nil
Tom Stamatakis Vancouver, British Columbia	Audit Committee Member, Governance & Policy Review Committee Member and Director	President, Canadian Police Association (2011 - present). President Vancouver Police Association. Director, Canadian Police Association	2011	Nil
Michael Gendron Ottawa, Ontario	Director	Communications Director, Canadian Police Association	2016	Nil
Milt Isaacs Halifax, Nova Scotia	Director	Chairman of the Association of Canadian Financial Officers	2011	Nil
Henry J. Pankratz Toronto, Ontario	Audit Committee Chair, Valuation	Corporate Director since retiring as Deputy Chairman	2003	200

Name and Municipality of Residence	Major positions with the Fund	Principal Occupation	Director Since*	Class A Shares Beneficially Owned as at November 17, 2017
	Committee Member and Director	of Ernst & Young Canada in 1999.		
Philip R. Reddon Burlington, Ontario	Chief Executive Officer of the Fund	Managing Director and Director of Covington	N/A	2,730.09
Scott D. Clark Toronto, Ontario	Senior Vice-President of the Fund	Chief Executive Officer, President, Chief Compliance Officer and Director of Covington	N/A	10,921.7 (together with shares held by Mr. Clark's spouse)
Stephen G. Campbell Toronto, Ontario	Chief Financial Officer of the Fund	Chief Financial Officer of Covington	N/A	225

Note:

(*) Each director's term of office expires at the next meeting of shareholders.

Audit Committee

The board of the Fund has established an audit committee (the "Audit Committee") comprised of three members of the board, each of whom are independent of Covington. The members of the Audit Committee for the Fund are Henry J. Pankratz (Chair of the Audit Committee), Tom Stamatakis and Terrence B. Kulka. A quorum at any meeting of the Audit Committee is at least a majority of the members. The Audit Committee is responsible for reviewing the adequacy and effectiveness of the Fund's financial reporting processes as managed by Covington and assisting the board of directors in its oversight of the integrity of the Fund's financial statements, external auditors' qualifications and independence, performance of the Fund's external auditors, the adequacy and effectiveness of internal controls, and the Fund's compliance with audit related legal and regulatory requirements.

Investment Committee

The board of directors of the Fund has established an investment committee (the "Investment Committee"). The members of the Investment Committee for the Fund are the full board of directors. A quorum at any meeting of the Investment Committee is at least a majority of the members. The Investment Committee is responsible for reviewing all investment recommendations made by Covington, and approval or rejection of all investments, reviewing the performance of existing investments and recommending investment policies and procedures to the board of directors for approval.

Valuation Committee

The current members of the Valuation Committee for the Fund are R. Scott Colbran (Chair of the Valuation Committee), Henry J. Pankratz and Terrence B. Kulka. A quorum at any meeting of a Valuation Committee is at least two members of the Valuation Committee. The Valuation Committee, together with the senior officers of Covington, is responsible for determining the value of the Fund's assets, and reviewing and approving the Fund's net asset value as set out in quarterly valuation reports prepared by Covington. See "Valuation of Portfolio Securities" and "Calculation of Net Asset Value".

Governance and Policy Review Committee

The board of directors of Covington Fund II has established a governance and policy review committee (the "Governance Committee") comprised of three directors, whose mandate is to review the mandates of each of the subcommittees of the board and to make recommendations as to modifications, if any. The members of the Governance Committee for Covington Fund II are Terrence B. Kulka (Chair of the Governance Committee), Tom Stamatakis and Mike McCormack.

Meetings of the Board and Committees

Meetings of the board of directors of the Fund are held as required, but no less frequently than three times per year. The Investment Committee of the Fund is required to meet whenever an investment has been recommended to the Fund by Covington. The Audit Committee of the Fund meets at least three times per year. The Valuation Committee of the Fund meets quarterly to approve the valuation of the Fund's assets. In addition, the Valuation Committee of the Fund is required to meet in circumstances where the net asset value per Class A Share of the Fund is expected to change by more than 5%. The Governance and Policy Review Committee of the Fund meets at least semi-annually.

Conflicts of Interest

From time to time, a director of the Fund may face a conflict in connection with certain investment decisions. For example, a director or a director's employer may have an interest in eligible businesses in which the Fund is considering investing. Where such conflicts arise, the director with such conflict is required to disclose the conflict and abstain from participating in the investment decision.

Independent Review Committee

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

The Manager

Covington Fund II – Management Agreement

Covington is engaged as the manager and the investment advisor by Covington Fund II pursuant to an agreement renewed as of September 2, 2011, between Covington Fund II and Covington (the "Management Agreement"). Pursuant to the Management Agreement, Covington provides advice and analysis to the Fund in respect of the Fund's investments in eligible businesses, manages the investments of the Fund and provides marketing and investor relations services to the Fund. The head and registered office of Covington is at 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4.

The Management Agreement has an initial term of 8 years and will be renewed automatically for a further term of two years, unless, subject to applicable law, the holders of two thirds of the Class A Shares of Covington Fund II represented at a shareholders' meeting vote to terminate the engagement of Covington not less than six months prior to the expiry of the initial term. In the event of such termination, Covington will receive, at the option of the Fund, either a lump sum payment equal to the base management fee for the last year of the Management Agreement or one year's notice to take effect at the end of the last year of the Management Agreement. Subsequent renewals will be for a one year term on the same basis. The Fund, upon a two thirds vote of the board of the Fund, may terminate the Management Agreement at any time in the event of fraud, gross negligence or wilful misconduct of

Covington. The Fund will have no obligation to make any payments to Covington solely as a result of such termination. In cases of a material breach to the Management Agreement or should Covington commit an act of bankruptcy, the Fund may, upon a two thirds vote of the board of directors of the Fund and a two thirds vote of the Class A Shares represented at a shareholders meeting, in person or by proxy and called for the purpose, resolve to terminate the Management Agreement. The Fund will have no obligation to make any payments to Covington solely as a result of such termination.

Covington is responsible for identifying investment opportunities which meet Covington Fund II's investment criteria, analyzing proposed investments and preparing and making recommendations for investments to the Investment Committee of Covington Fund II. Covington is responsible for structuring and negotiating approved investments. In addition, Covington is responsible for the determination and execution of the appropriate timing, terms and methods of liquidating investments in portfolio companies. Covington has covenanted in the Management Agreement that its recommendations will comply with the investment policies and restrictions applicable to Covington Fund II.

Covington monitors Covington Fund II's portfolio of investments in eligible businesses, which normally includes participating on or placing appropriate nominees on investee companies' boards of directors and evaluating the financial performance and other key performance indicators of investee companies. In addition, where appropriate, Covington seeks to add value to the businesses in which Covington Fund II invests by assisting management in developing strategic plans, providing business advice, assessing or recruiting key personnel, evaluating productivity, raising additional funding, enhancing industrial relations and helping to secure new markets. This may involve engaging the services of individuals or professional advisory firms with special expertise. These services will normally be paid for by the investee company, or failing that, by Covington Fund II.

Other than in cases of wilful misfeasance, bad faith or gross negligence or by reason of the breach of Covington's obligations under the Management Agreement, Covington is not be liable for any loss sustained by reason of the adoption or implementation of any investment policy or the purchase, sale or retention of any investment by the Fund, notwithstanding that such purchase, sale or retention shall have been based upon investigations and research by or recommendations of Covington, or upon investigations and research by or recommendations of any other individual, firm or corporation.

Covington shall at all times be indemnified by the Fund from all claims, costs, charges and expense in connection with any act, deed matter or thing whatsoever made, done, acquiesced in or omitted in or about or in relation to the execution of Covington's duties under the Management Agreement and also from and against all other costs, charges and expenses which Covington sustains or incurs in or about or in relation to the affairs of the Fund, except such as may be incurred as a result of the gross negligence, wilful misconduct or bad faith of Covington. Further, Covington covenants and agrees to indemnify the Fund, and each director, officer and employee of the Fund, from and against any and all losses, claims, damages, liabilities (whether arising under the Canadian securities law or otherwise), costs or expenses caused or incurred: (a) by reason of or arising out of any information or statement contained in the Fund's public disclosure record which is or is alleged to be untrue or misleading or by reason of or arising out of the omission or alleged omission to state or provide any information or state any fact in the Fund's public disclosure record, the omission of which makes or is alleged to make any such information or statement in the public disclosure record, untrue or misleading in the light of the circumstances in which it was made, but only insofar as such information, statement or fact relates to Covington, or a director, officer or employee of Covington; or (b) by reason of or arising out of the omission or alleged omission to state in the Fund's public disclosure record, any material fact relating to Covington, or a director, officer or employee of Covington; or (c) by reason of or arising out of any misrepresentation or alleged

misrepresentation contained in the Fund's public disclosure record relating to Covington, or a director, officer or employee of Covington.

Covington also provides investment advisory services to certain other labour sponsored investment funds. See "Responsibility for Fund Operations - Conflicts of Interest".

Officers and Directors of the Manager

The name, place of residence and position held by each of the directors and officers of Covington and their principal occupations in the last five years are as follows:

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

The following is a summary of the qualifications and experience of the directors and officers of Covington.

Scott D. Clark

Scott D. Clark joined Covington in March 2001 and has over 26 years of experience in the financial services industry, the last twenty of which have been in the private equity field. Mr. Clark is responsible for assessing new business opportunities, negotiating and structuring transactions and advising investee companies.

Prior to joining Covington, Mr. Clark was a Vice President at Harrowston Inc., a publicly-listed private equity firm. Prior to Harrowston Inc., Mr. Clark was Vice President of Investments at Working Ventures Canadian Fund Inc. and also held various positions at the Business Development Bank of Canada. Mr. Clark holds a degree in Honours Business Administration from the Ivey School of Business in London, Ontario.

Philip R. Reddon, BA, BComm (HBA)

Philip R. Reddon joined Covington in 2002. In his role as Managing Director, his responsibilities include analysis of new investment opportunities for the Fund and assisting in the management and monitoring of the Fund's existing investments.

Mr. Reddon has over 21 years experience in the private equity field including six years at Bank of Montreal Capital Corporation, a \$400 million private equity fund. As Managing Director and head of its Technology Investment team, Mr. Reddon was a member of the investment committee and sat on the boards of eight companies. Prior to BMO Capital, Mr. Reddon spent six years with the Business Development Bank of Canada. Mr. Reddon holds a Bachelor of Arts from the University of Western

Ontario and a Bachelor of Commerce (Honours Business Administration) from the University of Windsor.

Stephen G. Campbell, CPA, CA , CBV

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

Principals

Covington is manager to Covington Fund II. Covington is a wholly-owned subsidiary of RC Capital. RC Capital is owned equally by two trusts of which Mr. Scott D. Clark and Mr. Philip R. Reddon (the **Principals**) are the sole trustees. Mr. Scott D. Clark is the President, Chief Executive Officer and Chief Compliance Officer of Covington and Mr. Philip R. Reddon is the Managing Director of Covington. The Principals, supported by a senior investment team that have significant experience as investors in, or advisors to, middle market Canadian companies. The Principals respective qualifications and experience are summarized above.

Covington is a wholly owned subsidiary of RC Capital which acquired all of the issued and outstanding shares of Covington from a Canadian subsidiary of Affiliated Managers Group Inc. on July 2, 2009.

Summary

Covington is positioned to access and capitalize on the capabilities of the Principals. The Principals will provide Covington with:

- networks of contacts for sourcing investment opportunities;
- frameworks and methodologies for undertaking financial and business analysis;
- guidance on transaction structuring;
- credit evaluation skills;
- guidance on business valuation techniques and frameworks;
- frameworks and processes for investment monitoring and control;
- extensive experience in financial and corporate restructurings; and
- exit management support to maximize shareholder value.

The Co-Sponsors of the Fund

The CPA and the ACFO are the co-sponsors of the Fund. Prior to the Transaction, the sponsor of the Fund was the CPA. Pursuant to the CFII Sponsor Agreement, the Co-Sponsors are entitled to receive an annual fee for acting as the Co-Sponsors at a combined rate of 0.16% of the net asset value of Covington Fund II. The sponsor fee will be calculated and paid monthly.

The Fund is required to have a sponsor under the Ontario Act.

The Co-Sponsors will be entitled to elect that number of directors representing the total number of directors less the number of directors that the holders of the Class A Shares are entitled to elect. Under the CFII Sponsor Agreement, the CPA is entitled to elect four out of the seven members of the board of directors of Covington Fund II, and the ACFO is entitled to elect one out of the seven members of the board of directors of Covington Fund II and is also entitled to nominate one person as an observer to the board.

The Fund Administrators of the Fund

CI has been engaged as the fund administrator for the Fund. CI's administration office is located at 15 York Street, 2nd Floor, Toronto, Ontario M5J 0A3.

CI offers the industry's broadest selection of investment funds and services under the CI, Cambridge, Harbour, Signature, Synergy, Portfolio Series, Portfolio Select Series, CI Guaranteed Retirement Cash Flow Series and SunWise Essential Series banners. CI also provides a wide choice of leading portfolio management teams, representing investment styles ranging from value to growth.

CI is responsible for providing administration and client services, shareholder reporting and transfer agency services to the Fund. CI acts as transfer agent for the Class A Shares of the Fund and advises the Fund on a regular basis of the net new funds available for investment by the Fund. The Fund Administrator is entitled to an annual fee for its services which is calculated and charged monthly.

CI is engaged pursuant to an agreement dated November 26, 1999, amended January 13, 2012 between Covington Fund II and CI (the "CFII Administrator Agreement"). The CFII Fund Administrator Agreement expires May 11, 2020. The CFII Fund Administrator Agreement shall be automatically renewed for subsequent one year terms unless, subject to applicable law, the holders of two thirds of the Class A Shares of Covington Fund II represented at a shareholders' meeting vote to terminate the engagement of CI not less than six months prior to the expiry of the term. Covington Fund II, upon a two thirds vote of its board of directors together with a vote of the holders of two thirds of its Class A Shares represented at a shareholders' meeting, may terminate the CFII Fund Administrator Agreement in certain other circumstances, including for a material breach of contract or specified non performance. CI may resign as fund administrator in specified circumstances on not less than one year's notice.

The Auditor

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

The Registrar and Transfer Agent

CI currently provides marketing support and administrative services the Fund's shareholders and to Covington Venture Fund Inc., another labour sponsored investment fund which has retained Covington.

CI is the registrar and transfer agent for the Class A Shares the Fund's shareholders. Its head office is at 2 Queen Street East, 20th Floor, Toronto, Ontario, M5C 3G7.

The Custodian

RBC Investor Services Trust acts as the custodian of the Fund's assets pursuant to a custodian agreement with the Fund.

The Trustee

TD Canada Trust acts as trustee for RRSPs and RRIFs established by investors who wish to transfer their Class A Shares to an RRSP or a RRIF, or for RRSPs established to acquire Class A Shares directly from the Fund. Investors may also transfer their Class A Shares to their own or their spouses' self-directed RRSP or RRIF or acquire Class A Shares in such RRSP.

CONFLICTS OF INTEREST

The services of the directors and officers of Covington and its affiliates and associates, are not exclusive to the Fund. As a result, Covington has adopted specific policies and procedures in accordance with applicable securities law to ensure that Covington deals fairly and objectively with all its clients, including the Fund, when allocating investment opportunities and the costs associated with executing any investment decisions. The directors and officers of Covington will provide similar services and devote a portion of their time to other investments, directorships and offices. The other activities of Covington and of the respective officers, directors, shareholders, associates and parties and persons retained by Covington and their affiliates (collectively the "Conflict Parties") may result in certain conflicts of interest. As a result, Covington has put in place certain policies and procedures to prevent any conflicts of interest from occurring or resolve any conflicts that may inadvertently arise. Covington will present to the Fund all investment opportunities other than those listed in the immediately following paragraph which are available to Covington, provided that the Fund is able to make the proposed investment and the investment meets the Fund's investment guidelines. Notwithstanding the foregoing, the Fund has acknowledged that there may be situations in which Covington may require the Fund to co-invest with others in an investment opportunity which otherwise meets the Fund's investment guidelines and for which the Fund has the necessary resources.

The terms of the agreements with Covington will not preclude the Conflict Parties from: (i) making an investment which is developed or originated by a third party which is made available by such third party only to one or more of the Conflict Parties and not the Fund; (ii) making an investment which relates to a pre-existing investment of such party, including a follow-on investment in any entity; (iii) making an investment in connection with or incidental to any business or other activity carried on by the Conflict Parties, if such business or activity does not principally consist of investing in the same types of investments that the Fund invests in; (iv) making an investment which is not eligible for the Fund; (v) making an investment in any seed capital stage company in Ontario as long as the Fund is an "accredited investor" as defined in Ontario Securities Commission Rule 45-501 or Ontario Prospectus and Registration Exemptions or in National Instrument 45-106 or Prospectus and Registration Exemptions; or (vi) providing services to investee companies on commercially reasonable terms.

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

Covington also provides investment advisory services to Covington Venture Fund Inc, another labour sponsored investment fund. Additionally, Covington provides investment advisory services to three private limited partnerships and consulting services under contract with the Ontario government.

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

Principal Holders of Securities of the Fund

As at November 17, 2017, no person or company owned of record or beneficially, directly or indirectly, or exercises control or direction over, more than 10% of any class of shares of the Fund except the Co-Sponsors, which owns all of the issued and outstanding Class B Shares of the Fund.

As at November 17, 2017, the directors and senior officers of the Fund, as a group, beneficially owned, directly or indirectly, less than 1% of the issued and outstanding Class A Shares of the Fund.

As at November 17, 2017, there were 20 issued and outstanding common shares in the capital of Covington each of which was owned by RC Capital.

Principal Holders of Securities of the Manager

Covington

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

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

Portfolio Transactions and Brokerage Arrangements

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

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

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

No registered dealers through which shares of the Fund may be purchased are related to Covington. There is no principal distributor of the securities of the Fund.

FUND GOVERNANCE

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

The Manager will ensure:

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

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

In addition to the policies, practices or guidelines applicable to the Fund relating to the business practices, sales practices, risk management contracts or internal conflicts already disclosed in this annual information form, the Manager also has a Code of Ethics and Conduct (the “**Code**”) which applies to all of its employees. The Code is in place to ensure that all employees of the Manager are working with the sole purpose of doing what is best for the clients with no real or perceived conflicts of interest. The Code provides mandatory policies in respect of the conduct of business including conflicts of interest, privacy and confidentiality.

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

The board of directors of the Fund has also established the Governance Committee whose mandate is to review the mandates of each of the subcommittees of the board and to make recommendations as to modifications, if any.

Independent Review Committee

National Instrument 81-107 Independent Review Committee for Investment Funds (öNI 81-107ö), came into force on November 1, 2006. NI 81-107 requires all publicly offered investment funds, such as the Fund, to establish an independent review committee (the öIRCö or the ö**Independent Review Committee**ö). The Manager must refer all conflict of interest matters for review or approval to the IRC. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, to maintain records, in respect of these matters and to provide the IRC with guidance and assistance in carrying out its functions and duties. According to NI 81-107, the IRC must be comprised of a minimum of three independent members, and is subject to requirements to conduct regular assessments of its members and to provide reports, at least annually, to the Fund and to its shareholders in respect of those functions. The report prepared by the Fund will be available, at the applicable time, on the Fund’s website www.covingtonfunds.com, or at a shareholders’ request at no cost, by contacting the Fund at 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4 or at info@covingtonfunds.com.

The Fund’s IRC commenced operations effective October 11, 2007. The current IRC was first appointed on September 15, 2009 and reappointed on October 18, 2012. The members of the IRC are Henry J. Pankratz, R. Scott Colbran and Terrence B. Kulka. The Independent Review Committee for the Fund is also the Independent Review Committee of other funds for which Covington acts as the Manager. The members of the Independent Review Committee were paid an annual fee of \$15,000 per annum (reduced to \$12,000 per annum effective November 1, 2016) per member for sitting on the Independent Review Committee as well as a meeting fee of \$1,500 per meeting and, in the case of the Chair, \$2,000 per meeting. The Independent Review Committee expenses paid by a fund are allocated based on that fund’s percentage of total net assets under management of the total net assets under management by Covington. In addition, there may be incremental insurance and legal costs involved in operating the Independent Review Committee.

For their services as members of the IRC, the IRC members are paid an annual fee (as set out in the table below) and are reimbursed for their expenses. For the most recently completed fiscal year, the IRC members received the following amounts in fees and in reimbursement of expenses, in aggregate for all of the investment funds managed or administered by the Manager or its affiliates:

IRC Member	Annual Fee	Meeting Fee	Fees Paid by the Fund in Fiscal 2017	Expenses Reimbursed
Henry J. Pankratz	\$12,000	\$2,000	\$14,500	Nil
R. Scott Colbran	\$12,000	\$1,500	\$14,000	Nil
Terrence B. Kulka	\$12,000	\$1,500	\$14,000	Nil

Proxy and Procedures Regarding Proxy Voting

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

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

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

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

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

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

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

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

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

FEES AND EXPENSES

Remuneration of Executive Officers

None of the executive officers of the Fund are entitled to remuneration from the Fund.

Remuneration of Directors

Directors of Covington Fund II will be entitled to an annual fee of \$35,000 (\$50,000 per annum prior to June 1, 2017). No additional fees are paid to the members of any Committee or for attending meetings.

The Fund does not have any other compensation plans (including in respect of a termination of employment or a change in responsibilities following a change of control) or any stock option plans for its executive officers or directors.

Co-Sponsor Fees

The Co-Sponsors of the Fund are currently the CPA and the ACFO.

Covington Fund II will pay the Co-Sponsors an aggregate annual fee at the rate of 0.16% of the net asset value of Covington Fund II. The sponsor fee is calculated and paid monthly based on the average net asset value for the month. The Fund will pay the CPA and the ACFO 0.05% and 0.11% respectively.

For the fiscal year ended August 31, 2017, the Fund incurred sponsor fees of approximately \$56,000 to the CPA and \$122,000 to ACFO.

Covington Fees

Pursuant to the Management Agreement, Covington receives an annual fee for its investment advisory services and marketing and investor relations services at the rate of 1.35% of the net asset value of Covington Fund II. The fee is calculated and paid monthly based on the average net asset value for the month.

Covington is also entitled to an additional IPA based on gains realized from the disposition of eligible investments, and the cumulative performance of the Fund. Before any IPA is paid to Covington on the realization of an eligible investment, the Fund must have:

- (a) earned sufficient income to generate a rate of return on eligible investments greater than the 5 year GIC rate plus 2% (based on the average of the five major banks' GIC rate quoted on the day of disbursement for each eligible investment) on an annualized basis. The income on eligible investments includes investment gains and losses (realized and unrealized) earned and incurred since inception of the Covington Fund II;
- (b) earned income from the particular investment which provides a cumulative investment return at an average annual rate in excess of 12% since investment in the case of Covington Fund II;
- (c) for existing Covington Fund II eligible investments and new investments after completion of the Transaction (if any), fully recouped an amount equal to all principal invested in the particular investment; and
- (d) for any assets acquired from the VenGrowth Funds or NGBE the individual investment must return all of the amounts invested in that particular investment including amounts invested by such predecessor fund.

Subject to all of the above, Covington Fund II will pay an IPA of 15% of all income earned from the particular investment acquired from the VenGrowth Funds and NGBE since the date the investment was acquired by the Fund. For the purposes of future IPA payments, the Funds' and NGBE's portfolio assets will be tracked with a hurdle that will have a carrying value at the transfer value (current NAV), but the individual investment hurdle will still require the full return of the original investment cost before any IPA can be achieved. With respect to the current Covington Fund II assets and any new investments (other than follow-on investments), Covington Fund II will continue to pay a 20% IPA if both the portfolio and specific investments achieve certain hurdles. The Covington Manager will receive 65% and the VenGrowth Managers will receive 35% of the IPA until July 2013. The Covington Manager will, from its portion, pay 30% of the IPA to Affiliated Managers Group, Inc., a former manager of Covington Fund II until July 2013. Thereafter, each of the Covington Manager and the VenGrowth Managers will receive 50% of the IPA.

If the thresholds built into the IPA formula, calculated at the time a specific investment is sold completely, are not met, an IPA is not earned and will not be paid. Furthermore, once a specific investment is sold completely, and provided that the thresholds built into the IPA formula are not met, an IPA will not be paid nor will an IPA be payable at a later date for that particular investment.

The Fund believes that the structure of the IPA is appropriate given the Fund's investment objectives and that it is comparable to that used by other investment funds engaged in venture capital investing. The Fund believes that the IPA structure is necessary in order to attract and retain investment managers with experience in venture capital investing.

The Fund intends to record an actual IPA liability for which all of the above criteria have been met and a conditional IPA liability where only criteria (a) and (b) above have been met on the Fund's statement of financial position.

For the year ended August 31, 2017, Covington Fund II expensed \$460,000 and paid approximately \$3,814,000 in fiscal 2017 as IPA. Total fees (exclusive of taxes) paid or payable to Covington pursuant

to the Management Agreement for the year ended August 31, 2017 were \$3,545,000 (includes IPA of \$2,045,000).

VenGrowth Contract Amounts

Covington Fund II will pay to the VenGrowth Managers under five separate General Conveyance and Assumption Agreements with each of the VenGrowth Funds an amount equal to 1.40% of the net asset value of Covington Fund II for 8 years from the closing of the Transaction and then subject to any renewal or termination provisions in accordance with the Management Agreement (as hereinafter defined). This amount is calculated based on the average NAV of the Fund for the period and paid monthly.

The VenGrowth Managers will receive 35% of the IPA until July 2013. Thereafter, the VenGrowth Managers will receive 50% of the IPA.

Under a contractual arrangement to be assumed from the VenGrowth Funds, Covington Fund II will also pay to the VenGrowth Managers a capital maintenance payment. The capital maintenance payment is an annual amount per share of 1.15% (calculated on the original cost of the share in question) on all predecessor Class A series A and B shares of the VenGrowth Funds for Series II (in the case of Class A series A shares of VGALS and in the case of all VGII shares for Series I, this only applies to the shares issued after December 31, 2003). The capital maintenance payment for all predecessor Class A series C shares of each VenGrowth Fund for Series II is 1.65% (calculated on the original cost of the share in question). The VenGrowth Managers paid certain sales commissions on behalf of the VenGrowth Funds at the time the shares in question were issued, and such fees are currently applicable to most Class A shares of the VenGrowth Funds. Capital maintenance payments reimburse the VenGrowth Managers for the financial and administration costs associated with having paid such upfront commissions. The capital maintenance payments related to a Class A share are incurred from the date of issuance of such share until the eighth anniversary of such issuance, and for the purposes of calculating such fees, the applicable Transaction Share shall be deemed to have an issue date that is the same as the issue date of the Class A share for which it was exchanged, and shall continue to attract capital maintenance payments for eight years from its deemed date of issuance which shall be paid to the VenGrowth Managers.

For the year ended August 31, 2017, total amounts paid or payable to the VenGrowth Managers pursuant to the VenGrowth Contract Amounts with Covington Fund II were \$1,555,000 in relation to the General Conveyance and Assumption Agreements, \$1,769,000 in relation to IPA and \$25,000 in relation to Capital maintenance payments.

Fund Administrator Fees to CI

Under the Fund Administrator Agreement, CI is entitled to be paid an annual fee for administration and client services, shareholder reporting and transfer agency services at the rate of 0.45% of the net asset value of the Fund per annum. The fee is calculated and paid monthly based on the average net asset value for the month.

For the period from September 2, 2011 until May 12, 2012, the Fund had contracts with both CI and CIBC Mellon, the former provider of similar services to the VenGrowth Funds. During such period, CI was compensated at the rate of 0.60% of the net asset value of the Fund's assets per annum, excluding those formerly owned by the VenGrowth Funds.

Under a contractual arrangement assumed from the VenGrowth Managers, Covington Fund II was being provided administrative services from CIBC Mellon who agreed to be responsible for providing registrar, transfer agency, fund accounting, shareholder reporting and other shareholder administration services

with respect to the former shareholder of the VenGrowth Funds (who became shareholders of Covington Fund II). Under the agreement CIBC Mellon received an annual fee paid monthly comprised of up to \$6.50 per fund account plus a monthly fee for reporting, record keeping and call centre charges.

From inception of the Fund until May 12, 2012, the annual fee (exclusive of taxes) paid or payable to CI pursuant to the Fund Administrator Agreement was 0.60% of the net asset value of the Fund per annum and thereafter was reduced to 0.45% of the net asset value of the Fund per annum. For the year ended August 31, 2017 total fees (exclusive of taxes) paid or payable to CI pursuant to the CII Fund Administrator Agreement were \$500,000.

Operating Expenses

The Fund is responsible for paying 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, certain consultancy costs and the fees payable to Covington, the VenGrowth Managers, the Fund Administrators and the Sponsors. The nature of the investments to be made by the Fund generally require a greater commitment to investment analysis, due diligence investigations and post investment monitoring than investment in most publicly traded securities. In addition, the cost to determine the value of the Fund's assets for which no published market exists is greater than valuation costs for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund are higher than many mutual funds and other pooled investment vehicles.

Dealer Commission

Covington Fund II paid to the selling registered dealer a commission of 6% of the offering price in respect of the sale of Class A Shares, Series I of Covington Fund II. Covington Fund II also pays to registered dealers a service fee equal to 0.5% annually of the average total net asset value of the Class A Shares, Series I and Series II of Covington Fund II held by the clients of the sales representatives of the dealers, calculated and paid monthly. Covington Fund II directly pays sales commissions and marketing expenses, subject to applicable securities regulatory requirements.

Independent Review Committee Expenses

The Fund will pay its proportionate share all of the fees and expenses associated with the Independent Review Committee. See "Fund Governance" Independent Review Committee.

ELIGIBILITY FOR INVESTMENT

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

persons with whom he or she does not deal at arm's length (for purposes of the Federal Tax Act) plus his or her proportionate share of shares owned by a partnership of which he or she is a member, and all or part of the shares owned by a trust of which he or she is a beneficiary. Class A Shares will generally not be a "prohibited investment" for Registered Plans if the Class A Shares are "excluded property", as defined in the Federal Tax Act for purposes of the prohibited investment rules for Registered Plans. Generally, Class A Shares of the Fund will be excluded property for a Registered Plan if, at the relevant time, (i) at least 90% of the value of all equity of the Fund is owned by persons dealing at arm's length with the "controlling individual" of that Registered Plan; (ii) the "controlling individual" deals at arm's length with the Fund; and (iii) certain other criteria set out in the definition of "excluded property" are met.

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

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

Introduction

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

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

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

Transfer of Class A Shares to an RRSP

Subject to the qualifications discussed under the heading "Eligibility for Investment", a Class A Share is a qualified investment for an RRSP. An individual who is the original purchaser of a Class A Share may transfer, for no consideration, the Class A Share to an RRSP under which the original purchaser or his or her spouse or common-law partner is the annuitant. The individual who makes such transfer will be entitled to treat an amount equal to the fair market value of the Class A Share at the time of the transfer as

a contribution in kind to the RRSP and will be deemed to have disposed of the Class A Shares for proceeds of disposition equal to such fair market value. The contribution will generally be deductible in computing the original purchaser's income subject to the provisions of the Federal Tax Act which place limits on the annual amount of deductible RRSP contributions. The determination of the fair market value of a Class A Share at any particular time is a factual matter.

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

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

Transfer of Class A Shares to an RRIF

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

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

Transfer of Class A Shares to a TFSA

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

Taxation of the Fund

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

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

When the Fund sells, or otherwise disposes of a capital property, the Fund will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition exceed (or are exceeded by) the adjusted cost base to the Fund of the property and any reasonable costs of disposition. One-half of any

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

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

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

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

Taxation of Class A Shareholders

Tax Implications of the Fund's Distribution Policy

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

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

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

Disposition of Class A Shares

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

The cost of a Class A Share acquired by the holder will generally be equal to the subscription price paid for that share. The cost of each Class A Share acquired will be averaged with the adjusted cost base of all other Class A Shares of the same Series held by the holder for the purpose of determining the adjusted cost base of each Class A Share at any subsequent time. The adjusted cost base of a Class A Share will not be reduced by any Tax Credit or by any applicable Ontario tax credit received by the holder.

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

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

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

Redemption of Class A Shares

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

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

Minimum Tax

Taxable dividends (without application of the dividend gross-up) and Capital Gains dividends received or deemed to be received, and capital gains realized on a disposition of Class A Shares, may increase the liability of a holder of Class A Shares for alternative minimum tax. The alternative minimum tax does not apply to Registered Plans or TFSAs.

Class A Shares Owned by Registered Plans and TFSAs

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

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

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

Withdrawals from a TFSA are generally not subject to tax.

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

Federal Penalty Taxes Potentially Applicable to the Fund

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

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

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

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

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

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

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

- (a) exclude from the calculation of the shareholders' equity interest and penalties paid before the end of the month that have not been refunded;
- (b) exclude Class A Shares from the calculation after the expiration of the eight year period for those Class A Shares; and
- (c) deem the amount of shareholders' equity raised in the last 60 days of the taxation year of the Fund (net of redemptions in that period) to have been raised at the beginning of the next taxation year of the Fund.

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

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

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

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

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

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

Revocation of Registration under the Federal Tax Act

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

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

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

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

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

ONTARIO INCOME TAX CONSIDERATIONS

Introduction

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

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

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

Ontario Taxation of the Fund

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

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

Ontario Taxation of Class A Shareholders

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

ordinary dividend tax credit for individuals resident in Ontario continues to apply to other taxable dividends.

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

Ontario Tax on Redemption of Class A Shares

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

For purposes of determining whether the redemption, acquisition or cancellation of a Class A Share is prior to eight years from the date of issue under the Ontario Act, any Class A Shares that are redeemed in February or on March 1, the redemption is deemed to occur on March 31 of that year.

Ontario Penalty Taxes Potentially Applicable to the Fund

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

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

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

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

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

Revocation of Registration Under the Ontario Act

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

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

If the Ontario registration of the Fund is revoked, the Fund must pay to the Minister of Revenue (Ontario) an amount equal to 15% of the equity value received by the Fund in respect of all Class A Shares that are then outstanding less than eight years and were issued on or before March 1, 2010; 10% of the equity value received by the Fund in respect of all Class A Shares then outstanding less than eight years and issued after March 1, 2010 and on or before March 1, 2011; and 5% of the equity value received by the Fund in respect of Class A Shares that are outstanding less than eight years and were issued after March 1, 2011 and before February 29, 2012. If the fair market value of such shares on the date of revocation is less than the actual issue price of the shares, the amount to be paid by the Fund is reduced to the amount that is determined if the amount of tax credit was calculated on the amount that is equal to such fair market value.

MATERIAL CONTRACTS

The Fund has entered into the following contracts which are material to investors in the three years immediately before the date of this Annual Information Form:

- (a) the Articles of Continuance of the Fund under the CBCA dated November 25, 2010 and the articles of amendment of the Fund dated September 1, 2011;
- (b) the CFII Sponsor Agreement referred to under "Responsibility for Fund Operations - The Co-Sponsors of the Fund";
- (c) the Management Agreement referred to under "Responsibility for Fund Operations - Covington Fund II - Management Agreement";
- (d) the General Conveyance and Assumption Agreements with each of the VenGrowth Funds, each dated September 2, 2011 referred to under "Fees and Expenses - VenGrowth Contract Termination Arrangement";
- (e) the CFII Fund Administrator Agreement referred to under "Fees and Expenses - Fund Administrator Fees to CI and CIBC Mellon"; and

- (f) the custodian agreement referred to under "Responsibility for Fund Operations" of The Custodian.

Copies of the foregoing contracts may be inspected during regular business hours at the principal place of business of the Fund in Toronto.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

There are no legal proceedings material to the Fund to which the Fund is a party or to which any of its property is subject and no such proceedings are known to be contemplated.

EXEMPTIONS AND APPROVALS

Pursuant to National Instrument 81-102 "Mutual Funds", the Fund has obtained exemptive relief permitting the payment of the IPA as it is outlined. See "Fees and Expenses".

Pursuant to National Instrument 81-105 "Mutual Fund Sales Practices", the Fund has obtained exemptive relief permitting the Fund to enter into co-operative marketing programs with certain dealers and to be able to reimburse those dealers for certain expenses incurred in promoting sales of Class A Shares.

COVINGTON FUND II INC.

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Telephone Number ó 416-365-0060

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

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