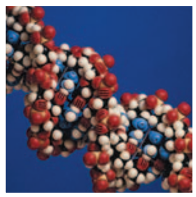
2005 Annual Report



FINANCIAL STATEMENTS OF

COVINGTON FUND II INC.

COVINGTON CAPITAL CORPORATION

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Message
from the Managers

We have been pleased with the performance of Covington Fund II in fiscal 2005. The Net Asset Value per Class A Share rose from $7.75 as at August 31, 2004 to $8.49 as at August 31, 2005. This is a 9.55% increase in NAV over the fiscal year. The portfolio is well diversified across a number of industry sectors, and with the average investment time period being approximately three years, the Fund II portfolio has been mature enough to be able to pursue divestiture opportunities as they presented themselves in several investments. By way of example, Golf Town Canada Inc. became an income trust providing both liquidity and a very healthy return to the Fund in 2005 and the assets of Coast Software were sold to Watchfire Corporation. Watchfire, which like Coast is an online risk management software company, has a promising future and the Fund, through its investment in Coast, has retained an equity interest in Watchfire.

Covington Fund II made two new investments in fiscal 2005. MIST Mobility Integrated Systems Technology Inc. ("MMIST") is an Ottawa based manufacturer of unmanned aerial vehicles that are utilized as a safe and efficient delivery system into hostile environments. In the short time since our $3 million investment in November 2004, MMIST has progressed from a prototype manufacturer to a full-scale production plant with enviable revenue growth as well. Our second investment was in Business Propulsion Systems Inc. ("BPS") of Mississauga, Ontario. BPS is an enterprise software developer with a focus on compliance and risk audit process execution. Covington Fund II invested $1.52 million alongside some strong co-investors to assist BPS as it rolls out into a growing customer base of Fortune 500 clients.

From an economic viewpoint, we remain comfortable with the diversified positioning of the Fund II portfolio. The North American economy has remained surprisingly buoyant over the last year despite rising interest rates and record oil prices. Merger and Acquisition activity continues to be very strong with an obvious link to deal volume in the oil and gas industry. Corporate balance sheets are generally under leveraged and we are still optimistic, that even with a tightening monetary policy, the North American economy will have a stable performance into 2006.

In July 2005, Covington Capital Inc., the Manager of Covington Fund II, welcomed new ownership at its parent company level with First Asset Management Inc. being acquired by Affiliated Managers Group, Inc. (NYSE: AMG). AMG is a Boston-based asset management company with equity investments in a diverse group of mid-sized investment management firms. AMG is committed to generating growth not only through new acquisitions but also through the internal growth of existing affiliates like Covington Capital Inc. AMG has been very supportive of the established investment team for Covington Fund II and we are clearly pleased to have a parent that can contribute an impressive array of relationships and resources to our investment activities. Grant Brown, co-founder of Covington Capital, has become a Special Advisor to Covington. The management team is grateful for his contribution over the years.

Finally, on September 30, 2005, the Ontario Government announced that it intends to phase out the Ontario provincial tax credits offered to labour sponsored investment fund ("LSIF") investors following the 2011 RSP season. Covington is disappointed in this announcement and believes that the loss of the tax credit will impact asset raising in the Province of Ontario. In an economic environment where M&A and IPO activity are getting stronger, the need for venture capital activity in Ontario is critical at this time. LSIFs have injected $2.7 billion into more than 600 Ontario companies and helped to create 27,000 jobs in the Province. We are working with the Ontario government and remain hopeful that a suitable transition plan can be implemented.

In the meantime, our message to our shareholders is that Covington Fund II is open for business as usual. The Ontario Tax Credit will continue to be available to investors for another six years, and the Federal Tax Credits remain unchanged. We look forward to continuing to work on your behalf as we build upon the achievements attained in our strong performance of 2005. We thank you for your continued support.

Best regards,

Covington Capital Inc.

K. Chipman Vallis President & CEO	Scott Clark Senior Vice President	Jeff Park Senior Vice President	Phil Reddon Senior Vice President

Annual Management Report
of Fund Performance

This annual management report of fund performance contains financial highlights as well as the complete annual financial statements of Covington Fund II Inc.

The Canadian Securities Administrators (CSA) recently released a nationally harmonized set of continuous disclosure requirements for investment funds, including Labour Sponsored Investment Funds ("LSIFs"). Set out in *National Instrument 81-106 Investment Fund Disclosure ("NI 81-106")* are the requirements for a number of reporting matters including: financial statements, management reports of fund performance, delivery obligations and proxy voting disclosure.

Security holders can request a copy of the Fund's proxy voting policies and procedures or proxy voting disclosure at no cost, by calling 1-866-244-4714, by writing to us at Covington Capital Corporation, 200 Front St. West, Suite 3003, Toronto, ON M5V 3K2 or by visiting our website at www.covingtonfunds.com or SEDAR at www.sedar.com.

INVESTMENT OBJECTIVE AND STRATEGIES

Covington Fund II Inc. combines the tax benefits of a Labour Sponsored Investment Fund while giving investors access to the Ontario private equity market. The Fund's objective is to realize long-term capital appreciation on its diversified venture investment portfolio by investing in two different types of situations. The first is in companies with significant growth potential in early stage or expanding markets. The second is in more established steady growth companies which will often provide current yield and early return of capital to the Fund.

RISKS AND UNCERTAINTIES

An investment in Covington Fund II would be classified as highly speculative. The LSIF program was launched to kick-start the venture capital market in Ontario and across Canada by providing investors with a tax credit for directing money toward promoting venture capital. The LSIF program has evolved beyond the tax credit into an opportunity for investors to access private equity investments that they would typically not otherwise have access to. There are no guarantees that the Fund will earn returns in the near or long term and as such is suitable only for investors able to make a long- term investment with the capacity to absorb a loss of all or some of their investment.

Some other risks with owning Covington Fund II are as follows:

Hold Period and Redemption Eligibility

Investors in the Covington Funds are required to hold for eight years or repay the tax credit they received upon purchase of the units as well as incur an early redemption penalty payment. The Fund was launched in 2000 and therefore, the 8 year hold period for the Fund's initial investors expires in 2008. However, under the legislation, in any financial year the Fund is not obligated to redeem greater than 20% of the Net Asset Value of the Fund as at the last day of the preceding financial year.

Legislative Uncertainty

On September 30, 2005 the Ontario Ministry of Finance ("MOF") confirmed its plans to end its involvement with the LSIF tax credit program and harmonize certain requirements to help LSIFs move to the federal government's Labour Sponsored Venture Capital Corporation ("LSVCC") program. The Province proposes to phase out the tax credit over a six year-period ending with the 2011 RSP season. The MOF, in consultation with the LSIF industry is in the process of developing transitional rules governing investment obligations, investment eligibility and reporting requirements. Until the transitional rules have been formulated and announced, management of the Fund will be unable to definitively determine the impact such changes will have on the assets of the Fund over the long run. Should the transitional rules be received by the market as unfavourable, there could be a material adverse effect on the Fund.

Annual Management Report
of Fund Performance

Nature of Business

The Fund is regulated by the Federal and Provincial Tax Acts and restricted to making investments in eligible small and medium sized Canadian businesses. The investments of the Fund must follow restrictions that include the size, nature and timing of investments. Companies generally of this size are private and are characterized as having less than $50 million in assets and less than 500 employees. There is no assurance that suitable investments meeting the restrictions will be found and if not met, the Fund could be levied with penalty taxes and ultimately have its LSIF status revoked. As of August 31, 2005, the Fund was in compliance with all of these restrictions.

The investment horizon for an investment of this nature typically ranges from seven to ten years, in order for the investment to mature and to realize potential returns. Often these investments are privately held companies whose shares are illiquid and not easily sold for cash, as are shares that are traded on a public stock exchange. To ensure that attractive investment opportunities are identified for the Fund, the Principals of the Investment Advisory team have an extensive network with members of the venture capital industry and Canadian business community. Lastly, as the portfolio matures and a number of investments are harvested, the existing investments will be across a fewer number of companies thereby increasing the concentration risk of the portfolio.

The liquidation of venture investments in the Fund are primarily transacted through the following methods, by helping a company to go public, selling the venture to another firm or by selling it back to management.

Valuation of Investments

The principal investments of the Fund are private companies for which no quoted market value exists. Since no formal market exists the market value is determined by hypothetical scenarios of liquidation values of net assets and/or the capitalization of cash flows. Economic factors and specific industry information is an important consideration in formulating a market value. The challenge is to receive, evaluate and analyze relevant data pertaining to an investment and then have this information reflected in the market value of the investment in a timely manner. As a result, management is required to make estimates and assumptions that affect the valuation of investments. Actual results could differ from those estimates and those differences could be material. All other assets are valued at their respective market values, extracted through public exchanges and fully reflect accurate liquidation values.

Liquidity of Class A Shares

There is no market organized to trade Class A shares of the Fund. The only method of liquidity is through written notification to the fund or through a registered broker. The Fund does not guarantee a redemption value for its Class A Shares, however, the Fund processes orders based on the previous day's closing net asset value. When shares are initially issued investors are assumed to have accepted the commitment to own the shares for an eight-year time period. There are no restrictions to redeeming the shares after the eighth-anniversary year from the date of issuance however, shares redeemed prior to that date may be subject to tax credit clawbacks and redemption fees.

Geographic Scope

The fund is limited to sourcing investments in Canadian companies operating out of Ontario. Due to this, the fund is highly sensitive to political, economic and social conditions within the Canadian environment. However, as many of these companies sell products and services into the US market, the investments are also exposed to foreign exchange fluctuations and US economic conditions.

Annual Management Report
of Fund Performance

RESULTS OF OPERATIONS

The Net Asset Value of the Fund at the end of the 2005 fiscal year was $137.7 million with 16.7 million units outstanding. The Fund ended the year with positive net results from operations of $14.2 million compared to a loss of $12.2 million in 2004. This is due largely in part to the successful investment exit from Golf Town Canada Inc. where the Fund realized a gain of $6.6 million.

Revenue

The most notable event was a recognition of interest income from an investee company relating to a recapitalization of the investment. Interest from marketable securities has also increased due to higher average cash balances held in the year.

Expenses

Overall expenses have decreased by $246,000 from 2004. Generally this is due to an overall decrease in the average net asset value through the year.

Investment Portfolio

The Fund is well diversified with a portfolio of 24 companies representing 5 broad industries and this aids in reducing the volatility of the investment portfolio to economic factors. The Fund also monitors risk by the maturity of the investee companies. The earlier in the maturity cycle a business is, the higher the risk. Approximately 84% of the Fund's investments are at the expansion stage of their cycle which positions them well for growth of revenues.

To highlight a recent accomplishment in the portfolio, in November 2004, the Fund was able to successfully divest the majority of its holding in Golf Town. This large store format golf retailer had a successful Initial Public Offering during the second quarter, to become Golf Town Income Fund trading under the symbol GLF.UN on the Toronto Stock Exchange. The fund liquidated its Class B Limited Partnership units at a realized gain of $6.6 million and still holds a small number of income trust units.

Two new investments in MIST Mobility Integrated Systems Technology Inc. ("MMIST") and Business Propulsion Systems Inc. ("BPS"), are promising additions to the Fund's venture portfolio. Since our initial investment of $3 million in November 2004, Ottawa-based MMIST has progressed to full-scale production mode with strong revenue growth. Mississauga-based BPS continues its roll out to a strong client-base including a growing number of Fortune 500 companies.

In 2005 the venture investment portfolio generated a gain of 20.2% and in 2004 generated a loss of 9.27%. In addition the liquid portfolio contributed an average return of 6.49%.

Subscriptions

The Fund's ability to attract new investors is maintained by the attractiveness of the tax credit benefits, investors looking for diversity in their RRSP portfolio and most importantly by investors who understand the risk reward trade off inherent in owning the Class A shares of the Fund. The Fund collected $3.2 million in subscriptions for the 2005 fiscal year, compared to $6.4 million in 2004.

Redemptions

Shareholders redeemed $1.3 million in shares this year which is consistent with 2004 levels.

The overriding factor affecting the future of Covington Fund II is the ability of the Fund to raise new capital in the face of the recent announcement by the Ontario government to remove the Provincial Tax Credit by the end of the 2011 RSP season. The ability of the management to grow and sustain the existing venture portfolio while funding redemptions will be limited if new capital cannot be raised.

RECENT DEVELOPMENTS

Change of Control of the Manager

On July 28, 2005, Affiliated Managers Group, Inc. (“AMG”), a US-based asset management holding company with investments in a diverse group of investment management firms that collectively manages approximately US$130 billion in assets, acquired First Asset Management Inc. (“FAMI”), and Covington Capital Inc.

As a result of the acquisition, there was a change of control of Covington Capital Inc. This change of control will not affect the operation and administration of the Fund. The change of control will also have no negative consequences on the ability of Covington to comply with all applicable regulatory requirements or their ability to satisfy their obligations to the Funds, investee companies and unitholders.

AMG, Inc. is a Boston, Massachusetts based public company whose securities are listed on the New York Stock Exchange under the symbol “AMG”.

Ontario Tax Benefits

On September 30, 2005, the Ontario government announced that it is planning to remove the provincial tax credit for investors by the end of the 2011 RSP season. Should the government implement legislation to that effect, investors who purchase the Fund after the date the tax credit is officially eliminated will no longer be eligible for a provincial tax credit equal to 15% of the purchase price of Class A Shares of the Fund. The Ontario government announced that transition rules will be developed in consultation with the labour fund industry to address investment obligations, investment eligibility and reporting requirements. If those rules are not favourable, there could be a material adverse effect on investor returns.

Related Party Transactions

The Investment Advisor, Sponsor, Fund Advisor, and Fund Administrator are deemed to be related parties. Please refer to the section titled “Management Fees” which outlines the 2004 and 2005 fees paid to these Related Parties.

Annual Management Report
of Fund Performance

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

THE FUND'S NET ASSET VALUE (NAV) PER [UNIT/SHARE]

	2005	**2004**	**2003**	**2002**	**2001**
Net Asset Value, beginning of year	**$7.75**	$8.60	$8.79	$10.11	$10.00
Increase (decrease) from operations:					
Total revenue	**0.50**	0.22	0.20	0.18	0.42
Total expenses	**(0.37)**	(0.40)	(0.41)	(0.47)	(0.50)
Write off of deferred charges	**(0.33)**	—	—	—	—
Realized gains (losses) for the period	**(0.25)**	(0.57)	(0.33)	—	—
Unrealized gains (losses) for the period	**0.97**	0.00	0.47	(1.08)	0.22
Total increase (decrease) from operations	**0.52**	(0.75)	(0.07)	(1.37)	0.14
Net Asset Value at August 31 [(1)]	**$8.24**	$7.75	$8.60	$8.79	$10.11

(1) The Net Asset Value is based on the actual number of shares outstanding as at August 31 in the year shown. The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the financial period. The stated NAV per share is the GAAP NAV as described in Note 2 to the accompanying financial statements.

RATIOS AND SUPPLEMENTAL DATA [(1)]

	2005	**2004**	**2003**	**2002**	**2001**
Net Assets (000's)	**$ 137,705**	$ 127,424	$ 136,199	$ 127,164	$ 113,404
Number of Units outstanding	**16,715,457**	16,444,695	15,830,468	14,459,576	11,222,073
Management expense ratio [(2)]	**4.99%**	4.94%	4.90%	4.87%	4.77%
Portfolio Turnover rate [(3)]	**13.95%**	0.55%	2.15%	1.24%	16.24%
Trading expense ratio [(4)]	**0.06%**	—	—	—	—
Closing market price or pricing NAV	**$8.49**	$7.75	$8.60	$8.79	$10.11

(1) This information is provided as at August 31 of the year shown.

(2) Management expense ratio includes all the expenses of the Fund, capital taxes, Goods and Services Tax, the manager's Incentive Participation Amount ('IPA"), if any, and the change in the contingent IPA during the year and is expressed as a percentage of average assets administered during the year.

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

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

Annual Management Report
of Fund Performance

Management Fees

The Fund's MER consists of all of its operating expenses, including sales commissions, certain ongoing marketing costs of the Fund, audit and legal expenses, fees paid to any independent valuator, certain consultancy costs and largest components of the MER are fees that are calculated as a percentage of the Net Asset Value of the Fund and these fees are the Advisor, the Fund Advisor, the Fund Administrator and the Sponsor. The Fund's operating expenses for the 2005 fiscal year were $6.23 million. The Fund's MER for the current fiscal year was 4.99% as compared the 2004 fiscal year of 4.94% per Class A Share.

Highlights of the key components of the Fund's MER are listed in the table below:

Description - % of NAV	2005 ('000)s	2004 ('000)s
Investment Advisor - annual rate of 2.1%	**$2,586**	$2,649
Fund Advisor - annual rate of 0.75%	**$970**	$994
Fund Administration - annual rate of 0.6%	**$776**	$794
Sponsor - blended rate of 0.3% and 0.1% (1)	**$359**	$338
Service Fee - annual rate of 0.5%	**$662**	$582
Sales commissions - 6% of new sales	**$229**	$354

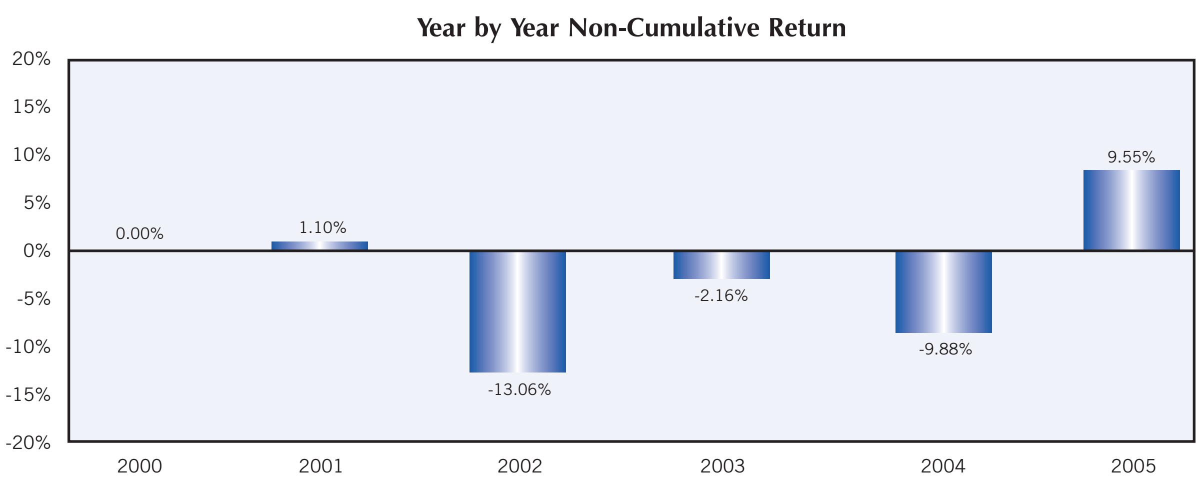
(1) The sponsor is paid an amount fee of 0.3% on the Net Asset Value of the Fund with respect to the Fund's share of the first $200M of combined assets of the Fund, Covington Fund I Inc. and Covington Strategic Capital Fund Inc., also LSIFs sponsored by the sponsor, and a rate of 0.1% of the Net Asset Value of the Fund thereafter.

PAST PERFORMANCE

The performance information shown does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Please note that how the investment fund has performed in the past does not necessarily indicate how it will perform in the future.

Year by Year Non-Cumulative Returns

The chart below indicates Covington Fund II's annual performance for each of the years shown and how Fund's performance has changed from year to year. It also shows, in percentage terms, how much an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.



Annual Management Report
of Fund Performance

Annual Compound Returns

The table below summarizes Covington Fund II's past performance for the five, three and one year periods ended August 31 of the periods indicated. As a basis of comparison, we have provided the LSIF industry average compound returns as posted on www.globefund.com as of August 31, 2005.

The LSIF Industry Average is the most representative broad-based securities market index as it accumulates all the Ontario based LSIF's.

Compound returns	Covington Fund II	LSIF Industry average	S&P/TSX Small Cap Index (1)
1 year	9.55%	-0.07%	16.80%
3 year	-0.43%	-3.29%	12.87%
5 year	-3.43%	-9.67%	5.40%
10 year	—	-0.17%	N/A

(1) The inclusion of the S&P/TSX Small Cap Index is only intended to give perspective to general market activity. On May 1, 2002, the S&P/TSE Small Cap Index was replaced with the S&P/TSX Small Cap Index.

Summary of Investment Portfolio

Below is a summary of the Fund's investment portfolio as at August 31, 2005. This is a summary only and may change due to on-going portfolio activity in the Fund. An update is available quarterly on Covington's website at www.covingtonfunds.com.

Covington Fund II Inc.

Venture Portfolio as at August 31, 2005	Debt at cost $	Equity at cost $	Total $
Adventus Remediation Technologies Inc.	—	7,007,263	**7,007,263**
BTE Technologies Inc.	520,044	2,128,312	**2,648,356**
Business Propulsion Systems Inc.	—	1,520,000	**1,520,000**
CanCable Inc.	3,759,375	2,500,000	**6,259,375**
Cyence International Inc.	7,107,255	7,973,575	**15,080,830**
Coast Software Inc.	4,200,000	2,500,000	**6,700,000**
EGI Financial Holdings Inc. *(formerly Canadian Insurance Marketing Inc.)*	—	3,598,069	**3,598,069**
Excel-Tech Ltd.	1,750,000	5,000,000	**6,750,000**
Exco Technologies Limited	—	1,524,225	**1,524,225**
FRI Corporation	—	4,500,000	**4,500,000**
Golf Town Income Trust	—	645,430	**645,430**
Ivey-Robarts CSBIF I Inc.	—	2,500,000	**2,500,000**
Ivey-Robarts CSBIF II Inc.	—	2,500,000	**2,500,000**
Kaval Wireless Technologies Inc.	—	3,818,518	**3,818,518**
Marketrend Inc.	3,500,000	5,000,000	**8,500,000**
Millennium Media Television Enterprises Ltd.	2,000,000	—	**2,000,000**
Mist Mobility Integrated Systems Technology Inc.	750,000	2,250,000	**3,000,000**
Nanogen Inc.	—	1,059,828	**1,059,828**
Skulogix Inc.	1,225,000	2,942,720	**4,167,720**
Soliton Inc.	—	630,000	**630,000**
Systems Xcellence Inc.	—	6,000,000	**6,000,000**
Thinkfilm Corp.	—	2,500,000	**2,500,000**
Tough n Ready Doors	50,000	250,000	**300,000**
	24,861,674	68,347,940	**93,209,614**

Management's Responsibility
for Financial Reporting

The accompanying financial statements of Covington Fund II Inc. are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to September 23, 2005 and management's best estimates and judgments.

Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The Board of Directors discharges its duties relating to the financial statements primarily through the activities of its Valuation and Audit Committees (the "Committees"), which are composed of members of the Board of Directors. The Committees have responsibility for determining the net asset value of the Fund, including the net asset value of the Class A shares of the Fund. The Committees also meet with management and the external auditors to review both the financial statements and the results of the audit examination. The external auditors have unrestricted access to the Committees. The Committees also consider, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

These financial statements have been approved by the Board of Directors and have been audited by Ernst & Young LLP, Chartered Accountants, on behalf of the shareholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

Chip Vallis
President & CEO,
Covington Capital Inc.

Lisa M. Low
Chief Financial Officer,
Covington Capital Inc.

Covington Fund II Inc.
September 23, 2005

Auditors' Report

To the Shareholders of
Covington Fund II Inc.

We have audited the statements of financial position of **Covington Fund II Inc.** as at August 31, 2005 and 2004, the statement of investment portfolio as at August 31, 2005 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2005 and 2004, the investments held as at August 31, 2005 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
September 24, 2005
except for Note 8 which
is as at September 30, 2005

(signed)
ERNST & YOUNG LLP
Chartered Accountants

Financial
Statements

Covington Fund II Inc.

STATEMENTS OF FINANCIAL POSITION *As at August 31*	2005 $	2004 $
ASSETS AND LIABILITIES		
Assets		
Venture investments, at fair value	**103,962,714**	84,800,183
Marketable securities, at market value	**32,851,480**	29,748,247
Cash	**836,573**	344,106
Accrued interest receivable	**427,522**	162,224
Due from trustee	**65,500**	374,430
Accounts receivable and prepaid expenses	**130,786**	7,283,812
Income taxes recoverable	**220,253**	—
Deferred charges, net of accumulated amortization of NIL [2004 - $4,467,739] *[note 2]*	**—**	5,557,420
Total assets	**138,494,828**	128,270,422
Liabilities		
Accounts payable and accrued liabilities	**790,112**	846,606
Total liabilities	**790,112**	846,606
Net assets *[note 3]*	**137,704,716**	127,423,816
Class A Shares outstanding	**16,715,457**	16,444,695
Net Asset Value per Class A Share *[note 2]*	**$8.24**	$7.75

See accompanying notes

On behalf of the Board:

Leon Paroian
Director

Henry Pankratz
Director

Financial Statements

Covington Fund II Inc.

STATEMENTS OF OPERATIONS

Years ended August 31	2005 $	2004 $
INCOME		
Interest - venture portfolio	**6,294,435**	145,526
Interest - marketable securities	**1,891,509**	1,974,135
Dividends and commitment fees	**101,384**	175,988
	8,287,328	2,295,649
EXPENSES		
Investment Advisor's fees *[note 4]*	**2,585,676**	2,649,440
Fund Advisor's fees *[note 4]*	**969,629**	993,534
Fund Administrator's fees *[note 4]*	**775,705**	794,827
Service fees *[note 4]*	**662,000**	581,700
Goods and Services Tax	**360,027**	362,665
Sponsor's fees *[note 4]*	**358,865**	337,540
Legal fees	**208,147**	305,494
Shareholders' communications	**118,254**	114,142
Audit fees	**115,000**	115,422
Directors' fees and expenses	**54,756**	70,854
Other	**44,796**	12,589
Custodial fees	**27,171**	24,969
Capital tax (recovery)	**(54,895)**	108,441
	6,225,131	6,471,617
Income (loss) before income taxes	**2,062,197**	(4,175,968)
Provision for (recovery of) income taxes *[note 5]*	**(67,384)**	73,139
Net income (loss) for the year	**2,129,581**	(4,249,107)
Net realized gain (loss) on disposition of venture investments	**(4,257,524)**	(9,262,250)
Net realized gain on disposition of marketable securities - bonds	**140,070**	1,236,661
Increase (decrease) in unrealized net appreciation of marketable securities	**(257,515)**	(493,224)
Increase (decrease) in unrealized net appreciation of venture investments	**16,442,559**	519,079
Total net results of operations for the year	**14,197,171**	(12,248,841)

Per Class A Share
[based on average number of shares outstanding]

Net income (loss) for the year	**$ 0.13**	$(0.26)
Net realized and unrealized gains (losses)	**$ 0.72**	(0.50)
Total net results of operations for the year	**$ 0.85**	$(0.76)

See accompanying notes

Financial Statements

Covington Fund II Inc.

STATEMENTS OF CHANGES IN NET ASSETS
Years ended August 31

	2005 $	2004 $
Net assets, beginning of year	**127,423,816**	136,199,155
Investment activities		
Total net results of operations for the year	**14,197,171**	(12,248,841)
Capital transactions		
Amounts paid for Class A Shares issued *[note 3]*	**3,220,379**	6,420,621
Amounts paid for Class A Shares redeemed *[note 3]*	**(1,349,822)**	(1,324,592)
Amortization of deferred charges, net of related income taxes *[note 2]*	**(5,557,420)**	(1,268,922)
Sales commissions paid *[note 3]*	**(229,408)**	(353,605)
Net assets, end of year	**137,704,716**	127,423,816
Net realized gain (loss) on disposition of venture investments		
Venture investments, at cost, beginning of year	**90,489,642**	91,193,587
Venture investments, purchased during the year	**20,494,658**	16,841,992
Venture investments repaid during the year	**(1,281,673)**	(630,000)
	109,702,627	107,405,579
Venture investments, at cost, end of year	**93,209,614**	90,489,642
Carrying cost of venture investment dispositions	**16,493,013**	16,915,937
Net proceeds from disposition of venture investments	**12,235,489**	7,653,687
Net realized gain (loss) on disposition of venture investments	**(4,257,524)**	(9,262,250)
Net realized gain (loss) on disposition of marketable securities		
Bonds, at cost, beginning of year	**23,600,000**	35,800,030
Bonds purchased during the year	**21,500,000**	7,053,159
	45,100,000	42,853,189
Bonds, at cost, end of year	**31,100,000**	23,600,000
Carrying cost of Bond dispositions	**14,000,000**	19,253,189
Net proceeds from disposition of bonds	**14,140,070**	20,489,850
Net realized gain (loss) on disposition of marketable securities	**140,070**	1,236,661
Unrealized net appreciation (depreciation) of investments		
Balance, beginning of year	**(5,046,293)**	(5,072,148)
Net increase (decrease) for the year		
Venture investments	**16,442,559**	519,079
Marketable securities	**(257,515)**	(493,224)
	16,185,044	25,855
Balance, end of year	**11,138,751**	(5,046,293)

See accompanying notes

Financial Statements

Covington Fund II Inc.

STATEMENT OF INVESTMENT PORTFOLIO
As at August 31, 2005

Venture Investments	Security	Debt, at cost $	Shares, at cost $	Total $
Adventus Remediation Technologies Inc.	6,990,523 Class A preferred shares	—	7,007,263	**7,007,263**
Adventus Remediation Technologies Inc.	709,942 common shares	—	—	**—**
BTE Technologies Inc.	6,095 exchangeable common shares	—	2,128,312	**2,128,312**
BTE Technologies Inc.	10% convertible debenture due July 6, 2008	520,044	—	**520,044**
Business Propulsion Systems Inc.	1,520,000 convertible preferred shares	—	1,520,000	**1,520,000**
CanCable Inc.	18% convertible debenture due July 12, 2005	2,500,000	—	**2,500,000**
CanCable Inc.	15% Senior Demand Note due January 31, 2005	1,259,375	—	**1,259,375**
CanCable Inc.	One warrant	—	—	**—**
CanCable Inc.	7,952,246 common shares	—	2,500,000	**2,500,000**
Cyence International Inc.	7% convertible debenture due August 2, 2010	7,107,255	—	**7,107,255**
Cyence International Inc.	7,973,575 convertible preferred shares	—	7,973,575	**7,973,575**
Cyence International Inc.	584,059 common shares	—	—	**—**
Coast Software Inc.	4,115,904 Series B preferred shares	—	2,500,000	**2,500,000**
Coast Software Inc.	150,000 promissory note	150,000	—	**150,000**
Coast Software Inc.	824,900	4,050,000	—	**4,050,000**
EGI Financial Holdings Inc. *(formerly Canadian Insurance Marketing Inc.)*	996,954 common shares	—	3,598,069	**3,598,069**
EGI Financial Holdings Inc. *(formerly Canadian Insurance Marketing Inc.)*	498,482 preferred shares	—	—	**—**
Excel-Tech Ltd.	970,871 Series A preferred shares	—	5,000,000	**5,000,000**
Excel-Tech Ltd.	6% debenture due April 20, 2006	1,750,000	—	**1,750,000**
Exco Technologies Limited	202,528 common shares	—	1,524,225	**1,524,225**
FRI Corporation	272,727 common shares	—	4,500,000	**4,500,000**
Golf Town Income Trust	64,543 income trust units	—	645,430	**645,430**
Ivey-Robarts CSBIF I Inc.	250,000 common shares	—	2,500,000	**2,500,000**
Ivey-Robarts CSBIF II Inc.	250,000 common shares	—	2,500,000	**2,500,000**
Kaval Wireless Technologies Inc.	2,462,380 preferred shares	—	3,818,518	**3,818,518**
Marketrend Inc.	2,775,000 Class A preferred shares	—	5,000,000	**5,000,000**
Marketrend Inc.	4.5% convertible debenture due April 2, 2008	3,500,000	—	**3,500,000**
Millennium Media Television Enterprises Ltd.	8% debenture due April 5, 2005	2,000,000	—	**2,000,000**
Millennium Media Television Enterprises Ltd.	47 common shares	—	—	**—**
Mist Mobility Integrated Systems Technology Inc.	4.5% debenture due November 4, 2009	750,000	—	**750,000**
Mist Mobility Integrated Systems Technology Inc.	3,690,136 common shares	—	2,250,000	**2,250,000**
Nanogen Inc.	102,224 common shares	—	1,059,828	**1,059,828**
Skulogix Inc.	3,288 common shares	—	2,942,720	**2,942,720**
Skulogix Inc.	Convertible debenture due August 24, 2007	1,225,000	—	**1,225,000**
Soliton Inc.	630,000 Class A Series II preferred shares	—	630,000	**630,000**
Systems Xcellence Inc.	8,571,430 common shares	—	6,000,000	**6,000,000**
ThinkFilm Corp.	2,400,000 common shares	—	2,500,000	**2,500,000**
Tough N Ready Doors Inc.	250,000 common shares	—	250,000	**250,000**
Tough N Ready Doors Inc.	15% debenture due October 15, 2006	50,000	—	**50,000**
Total venture investments, at cost		24,861,674	68,347,940	**93,209,614**
Unrealized net appreciation of venture investments				**10,753,100**
Total venture investments, at fair value				**103,962,714**

Financial Statements

Covington Fund II Inc.

STATEMENT OF INVESTMENT PORTFOLIO *(cont'd)*
As at August 31, 2005

Stage of Development	Number of companies	Cost $	% of venture investments at cost	Fair value $	% of venture investments at market
Start-up/Early	3	6,520,000	7.0%	6,520,000	6.3%
Expansion	16	71,760,584	77.0%	86,997,792	83.7%
Later	5	14,929,030	16.0%	10,444,922	10.0%
	24	93,209,614	100.0%	103,962,714	100.0%

Industry Class	Number of companies	Cost $	% of venture investments at cost	Fair value $	% of venture investments at market
Entertainment/Retail	4	11,404,805	12.2%	6,649,891	6.4%
Health Sciences	2	3,708,184	4.0%	3,058,520	2.9%
Financial Services	3	8,728,069	9.4%	15,216,032	14.6%
Technology	9	52,537,068	56.4%	62,890,517	60.5%
Manufacturing	6	16,831,488	18.0%	16,147,754	15.5%
	24	93,209,614	100.0%	103,962,714	100.0%

Marketable Securities

Par value $	Issuer	Coupon rate %	Maturity date	Average cost $	Market value $
Short-term Investments					
1,402,000	Franchise Trust	2.66	September 26, 2005	1,399,349	**1,399,349**
				1,399,349	**1,399,349**
Bonds					
5,000,000	Farm Credit Corporation	4.00	December 22, 2005	5,000,000	**4,973,000**
7,000,000	Farm Credit Corporation	4.40	February 10, 2006	7,000,000	**7,145,600**
7,100,000	Bell Canada	6.25	January 18, 2008	7,092,501	**7,567,531**
3,000,000	Royal Bank of Canada	2.87	May 12, 2009	2,973,979	**2,976,000**
5,000,000	Farm Credit Corporation	8.00	December 1, 2011	5,000,000	**4,837,500**
2,500,000	Farm Credit Corporation	12.00	June 1, 2014	2,500,000	**2,471,250**
1,500,000	Farm Credit Corporation	7.00	August 5, 2015	1,500,000	**1,481,250**
31,100,000				31,066,480	**31,452,131**
Total marketable securities				32,465,829	**32,851,480**
Unrealized net appreciation of marketable securities					**385,651**

Notes
to Financial Statements

Covington Fund II Inc.
August 31, 2005

1. CORPORATE STATUS AND ACTIVITIES

Covington Fund II Inc. [the "Fund"] was incorporated under the laws of Ontario by Articles of Incorporation dated September 20, 1999.

The Fund commenced active operations on November 29, 1999 on the initial issue of its Class A Shares. The Fund is registered as a labour-sponsored investment fund ["LSIF"] corporation under the Community Small Business Investment Funds Act, 1997 (Ontario) [the "Ontario Act"]. The Fund is taxable as a mutual fund corporation under the Income Tax Act (Canada) [the "Tax Act"] and Corporations Tax Act (Ontario). The Tax Act and Ontario Act both allow an individual to invest in Class A Shares of the Fund and to obtain a personal income tax credit.

The Fund makes investments in eligible Canadian businesses ["venture investments"] as defined in the Tax Act and Ontario Act. The objective of the Fund is 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.

The sponsor of the Fund is the Canadian Professional Police Association [the "Sponsor"].

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Marketable securities

Short-term investments are valued at amortized cost, which approximates market value.

Bonds are valued on the basis of market quotations at the dates of the statements of financial position. The difference between the market value and average amortized cost of the bonds is recorded as an unrealized appreciation (depreciation) of marketable securities.

Purchases and sales of marketable securities are recorded on a trade date basis.

Venture investments

Venture investments having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted or thinly traded securities, are recorded at values based on the quoted market prices at the dates of the statements of financial position, or if no sale is reported, generally, the average of the bid and ask prices is used. Securities traded over the counter are priced at the average of the latest bid and ask prices quoted by a major dealer in such securities. Private placements of listed securities subject to a hold period are valued as described above with the appropriate discount as determined by Covington Capital Inc. (the "Investment Advisor").

The value of venture investments for which no quoted market value exists will be valued at cost unless a different fair market value is independently determined by the Investment Advisor. The Investment Advisor uses the following criteria for valuing such securities.

(a) Venture investments will normally be carried at cost unless i) there is a bona fide arm's length transaction which establishes a different value, or ii) where a venture investment experiences a material change in value, the valuation will be increased or decreased, as appropriate, to the estimated fair value;

(b) If there is a substantial arm's length, bona fide, enforceable offer with respect to a venture investment, the investment will be valued at the proposed transaction price. Similarly, if there is a valuation prepared by a qualified independent person, such valuation will be given due consideration in assessing the value of an investment;

(c) Debt instruments, other than short-term liquid debt instruments, will initially be valued at the principal amount and thereafter by having regard to whether the instrument is in arrears or whether a write-down or other provision is considered prudent due to the unlikelihood of full realization on the investment; and

(d) In the unusual event that the valuation policies and procedures described above are not appropriate to the particular circumstances, then the Fund's independent valuator, at the Investment Advisor's discretion, may be consulted to approve the appropriate valuation techniques for that investment.

Securities for which market quotations are, in the Investment Advisor's opinion, inaccurate, unreliable, not reflective of all available material information or not readily available are valued at their fair market value as determined by the Investment Advisor.

The Tax Act and the Ontario Act require the Fund to ensure that the value of its Class A Shares are determined, on an annual basis, by means of a valuation carried out by an independent qualified person. The Fund satisfies this requirement by obtaining, on an annual basis, an independent confirmation of the Net Asset Value of the Fund and the Net Asset Value per Class A Share from the Fund's auditors.

Covington Fund II Inc.
August 31, 2005

Deferred charges

Consistent with industry practice, the Fund capitalized sales commissions paid prior to January 1, 2004 related to the sale of the Class A Shares as deferred charges. Deferred charges are amortized, net of related income taxes, on a straight-line basis to retained deficit over eight years from the date of issue of the related shares. Redemptions prior to eight years from the date of issue are charged an early redemption fee. The early redemption fees are applied against the unamortized deferred charges related to such share subscriptions.

In July 2003, the Accounting Standards Board of The Canadian Institute of Chartered Accountants issued a new recommendation, revising the definition of generally accepted accounting principles ["GAAP"]. The result of this change was that, after a transitional period which ended September 1, 2005, any balance of the unamortized deferred charges were no longer allowable as an asset. The Fund was required to write off the unamortized balance of the deferred charges to the retained deficit on September 1, 2004. This will reduce the net asset value of the Fund by the amount of the deferred charges written off.

On September 30, 2003, the Ontario Securities Commission ["OSC"] issued OSC Staff Notice 81-706 allowing, for transitional purposes, limited exemptive relief from the requirement to calculate the net asset value for purposes of pricing purchases and redemptions in accordance with GAAP for labour sponsored investment funds that ceased adding new sales commissions to the existing deferred charge asset balance by December 31, 2003. The OSC Staff Notice will allows the Fund to purchases and redemptions to be determined on the basis that the deferred charge for accounting purposes, existing as an asset of the Fund at December 31, 2003, continue to be deferred and amortized over its remaining period. The unamortized balance of deferred charges at December 31, 2003 was $6,434,959 and will be fully amortized for pricing purposes over its remaining amortization period. Once fully amortized, the net asset value for pricing purposes and for accounting purposes will be equal. As disclosed in Note 3, on September 1, 2004, the Fund wrote off $5,557,420 in unamortized deferred charges to retained earnings (deficit) for accounting purposes in accordance with GAAP.

The table below represents a reconciliation of the August 31, 2005 net asset values per Class A Share on a GAAP basis to the net asset value per Class A Share used to price purchases and redemptions:

	Per Class A Share
Net asset value for GAAP purposes	$8.24
Unamortized deferred sales commissions for pricing purposes	0.25
Net asset value for pricing purposes	$8.49

Income recognition

Interest and other income are recorded on an accrual basis.

Income taxes

The Fund follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that will be in effect when the differences are expected to reverse.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and those differences could be material.

3. NET ASSETS

The net assets of the Fund represent the issued share capital, the cumulative retained earnings (deficit) and unrealized gains (losses) on investment. The components of retained earnings (deficit) are as follows:

For the year ended August 31	**2005 $**	**2004 $**
Deficit, beginning of year	**(29,594,473)**	(15,697,250)
Net income (loss) for the year	**2,129,581**	(4,249,107)
Net realized gains (losses) on investments	**(4,117,454)**	(8,025,589)
Amortization of deferred charges	**(5,557,420)**	(1,268,922)
Sales commissions paid	**(229,408)**	(353,605)
Deficit, end of year	**(37,369,174)**	(29,594,473)

Notes
to Financial Statements

Covington Fund II Inc.
August 31, 2005

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

Authorized

Unlimited number of Class A Shares, issuable from treasury, discretionary dividend entitlement, voting, restrictions on transfer and redemption, redeemable at the Net Asset Value less any redemption fee, entitled to elect two of seven directors.

25,000 Class B Shares issuable only to the Sponsor, no dividend entitlement, voting, entitled to elect five of seven directors.

Unlimited number of Class C Shares, issuable in series.

100 Class D Shares

Issued and outstanding

	2005		2004	
	#	$	#	$
Class A Shares				
Balance, beginning of year	**16,444,695**	**162,067,475**	15,830,468	156,971,446
Issued for cash during the year	**451,375**	**3,220,379**	781,446	6,420,621
Redeemed during the year	**(180,613)**	**(1,349,822)**	(167,219)	(1,324,592)
Balance, end of year	**16,715,457**	**163,938,032**	16,444,695	162,067,475
Class B Shares				
Balance, beginning and end of year	**100**	**100**	100	100

Class A Share subscriptions
Sales commissions and marketing services fees related to the issuance of Class A Shares during the year amounted to $229,408 [2004 - $422,419]. Up to December 31, 2003, the Fund capitalized $68,814 of these to deferred charges. Commencing January 1, 2004, the charges amounting to $353,605 were immediately applied against capital as incurred.

Redemption of Class A Shares
A shareholder may redeem all or part of the Class A Shares held at the Net Asset Value per Class A Share, subject to certain restrictions. One of these restrictions provides that the Fund is not required to redeem Class A Shares in any financial year having an aggregate redemption price exceeding 20% of the Net Asset Value of the Fund as at the beginning of the year. The Fund is required to maintain sufficient liquid assets to honour redemption requests up to the 20% limit. The Fund cannot guarantee that it will be able to honour all redemption requests in the month in which they are made. The redemption of Class A Shares may be suspended in certain circumstances as permitted by applicable securities laws.

Redemption requests must be in writing and the registered owner's signature must be guaranteed by a Canadian bank, trust company or a registered securities dealer. A redemption request may be made directly to the Fund or through a registered securities dealer. Redemption of shares held in a self-directed plan must be made through the trustee of the plan or the broker administering the plan.

4. MANAGEMENT FEES
The Fund has entered into an Investment Advisor Agreement with Covington Capital Inc. [the "Investment Advisor"] to source and manage eligible Canadian investments for the Fund. The Fund pays the Investment Advisor an annual fee calculated monthly for its services at the annual rate of 2% of the Net Asset Value of the Fund. The Investment Advisor is also entitled to an incentive participation amount ["IPA"] based on the performance of the Fund, as disclosed in the annual prospectus [no amounts incurred in 2005 or 2004]. During the year, the Fund incurred Investment Advisor fees of $2,585,676 [2004 - $2,649,440].

The Fund has entered into a Fund Advisor Agreement with Covington Group of Funds Inc. (formerly Triax Covington Corporation) [the "Fund Advisor"], a company affiliated with Covington Capital Inc. to provide marketing and investor relations services to the Fund. The Fund pays the Fund Advisor an annual fee calculated monthly for its services at the annual rate of 0.75% of the Net Asset Value of the Fund. During the year, the Fund incurred Fund Advisor fees of $969,629 [2004 - $993,534].

Notes
to Financial Statements

Covington Fund II Inc.
August 31, 2005

The Fund has entered into a Fund Administrator Agreement with CI Mutual Funds Inc. [the “Fund Administrator”] to provide administration and client services, shareholder reporting and transfer agency services to the Fund. The Fund pays the Fund Administrator an annual fee calculated monthly for its services at the annual rate of 0.60% of the Net Asset Value of the Fund. During the year, the Fund incurred Fund Administrator fees of $775,705 [2004 - $794,827].

The Fund pays the Sponsor an annual fee of up to 0.3% of the Net Asset Value of the Fund with respect to the Fund’s share of the first $200,000,000 of combined assets of the Fund. Covington Fund I Inc. and Strategic Capital Fund Inc., also labour-sponsored investment fund corporations sponsored by the Sponsor, and a rate of 0.1% of the Net Asset Value of the Fund with respect of the Fund’s share of any combined assets in excess of $200,000,000, provided that all assets of Covington Fund I Inc. shall be included in the first $200,000,000 of the combined assets. During the year, the Fund incurred Sponsor’s fees of $358,865 [2004 - $337,540].

The Fund pays a service fee to selling agents of the Fund equal to 0.5% of the annual Net Asset Value of the Fund. During the year, the Fund incurred service fees of $662,000 [2004 - $581,700].

5. INCOME TAXES

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

The Fund intends to recover all of its refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of its income as paid-up capital pro rata on its Class A Shares. If and to the extent the Fund increases the paid-up capital of the Class A Shares, the holder of the shares will be deemed to have received a dividend and the adjusted cost base of the holder’s shares will be increased by the amount of the deemed dividend.

Both the Tax Act and the Ontario Act set minimum levels of venture investments for the Fund. If the minimum level of qualifying venture investments is not met, the Fund will be subject to defined taxes and penalties.

At December 31, 2004, the Fund was in compliance with both requirements set out in the Tax Act and the Ontario Act.

The Fund’s provision for income taxes consists primarily of Large Corporations Tax.

The Fund has capital losses of approximately $17,481,000 available to offset future capital gains. The Fund also has non-capital losses of approximately $18,440,000 available to offset future taxable capital gains and income. The benefit, if any, of these losses has not been recognized in the financial statements. If not utilized, the non-capital losses will expire as follows: 2008 - $1,831,800; 2009 - $5,228,800; 2010 - $5,031,700 and 2014 - $6,347,700.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Venture investments are carried at amounts in accordance with the valuation methodologies set out in note 2. In management’s opinion the carrying value of other financial assets and liabilities approximates fair value.

7. CONTINGENCIES

The Fund is party to a legal action which has been commenced against it. As the Fund believes that the outcome of the legal proceedings is not determinable no amounts associated with this action have been accrued in these financial statements. Further management does not believe that their settlement, if any, would have a material effect on the financial position of the Fund.

Notes
to Financial Statements

Covington Fund II Inc.
August 31, 2005

8. SUBSEQUENT EVENTS

Labour Sponsored Investment Fund Legislative Changes

On September 30, 2005 the Ontario Ministry of Finance ("MOF") confirmed its plans to end its involvement with the LSIF tax credit program and harmonize certain requirements to help LSIFs move to the federal government's Labour Sponsored Venture Capital Corporation program. The Province proposes to phase out the tax credit over a six year-period ending with the 2011 RSP season. The MOF, in consultation with the LSIF industry is in the process of developing transitional rules governing investment obligations, investment eligibility and reporting requirements. Until the transitional rules have been formulated and announced, management of the Fund will be unable to definitively determine the impact such changes will have on the assets of the Fund over the long run. Should the transitional rules be received by the market as unfavourable, there could be a material adverse effect on the Fund.

9. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.

10. STATEMENT OF PORTFOLIO TRANSACTIONS

The Fund will provide, without charge, a Statement of Portfolio Transactions [unaudited] upon request by any shareholder to the Fund at 200 Front Street West, Suite 3003, Box 10, Toronto, Ontario, M5V 3K2.

Directors
and Officers

Leon Paroian
LaSalle, Ontario
Chairman of the Board and Director
Founding Partner,
Paroian, Raphael, Courey, Cohen & Houston

Tony Cannavino
Gatineau, Quebec
Director
President,
Canadian Professional Police Association

David A. Griffin
Ottawa, Ontario
Director
Executive Officer,
Canadian Professional Police Association

Daryl Tottenham
Abbotsford, British Columbia
Director
Canadian Professional Police Association

R. Scott Colbran
Acton, Ontario
Director
Corporate Director

A. Warren Moysey
Toronto, Ontario
Director
Corporate Director

Henry J. Pankratz
Toronto, Ontario
Director
Corporate Director

K. Chipman Vallis
Toronto, Ontario
President and Chief Executive Officer
President and Chief Executive Officer,
Covington Capital Inc.

Scott D. Clark
Toronto, Ontario
Vice-President
Senior Vice-President of Investments,
Covington Capital Inc.

Jeffrey G. Park
Thornhill, Ontario
Vice-President
Senior Vice-President of Investments,
Covington Capital Inc.

Philip R. Reddon
Burlington, Ontario
Vice-President
Senior Vice-President of Investments,
Covington Capital Inc.

Lisa M. Low
Toronto, Ontario
Chief Financial Officer
Chief Financial Officer,
Covington Capital Inc.

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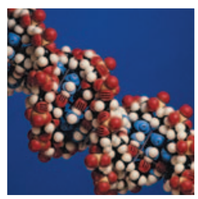

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Sponsor:
Canadian Professional Police
Association

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