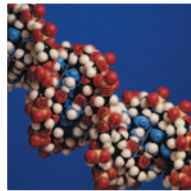


# 2006 Semi-Annual Report



FINANCIAL STATEMENTS OF  
COVINGTON FUND II INC.

# Table of Contents

Semi-Annual Management Report of Fund Performance	1
Financial Statements	5
Notes to Financial Statements	11
Directors and Officers	13
Corporate Information	14

# Semi-Annual Management Report

## of Fund Performance

This semi-annual management report of fund performance contains financial highlights as well as the complete semi-annual unaudited 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 Continuous 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 record 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](http://www.covingtonfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The net asset value of the Fund for the six months ended February 28, 2006 was \$143,649,996. There were 16,805,156 Class A Share outstanding.

### Revenue

The Fund had revenue of \$1,237,057 for the six months ended February 28, 2006 compared to \$1,146,521 for the six months ended February 28, 2005 and \$8,287,328 for the year ended August 31, 2005. This revenue is composed mainly of interest income earned on the marketable securities and dividend income earned on the venture investments during the period.

### Expenses

The Fund had expenses of \$3,309,906 for the six months ended February 28, 2006 compared to \$3,149,838 for the six months ended February 28, 2005 and \$6,225,131 for the year ended August 31, 2005.

### Subscriptions

The Fund had a net fund raising of approximately \$800,000 for the six months period ended February 28, 2006 compared to \$1.2 million for the six months period ended February 28, 2005 and \$1.9 million for year ended August 31, 2005.

## RECENT DEVELOPMENTS

### Ontario Tax Benefits

On September 30, 2005, the Ontario government announced that the provincial LSIF tax credit would be eliminated at the end of the 2010 taxation year. At that time the Ontario Minister of Finance also announced that transition rules would be developed in consultation with the LSIF industry to assist the transition of the program to one that would result in investors receiving only a federal credit. On March 23, 2006, a number of measures relating to the transition of the LSIF program and the *Income Tax Act* (Ontario) and the *Community Small Business Investment Funds Act* (Ontario) were announced in the 2006 Ontario Budget. The proposed amendments must be passed by the Legislature of Ontario and receive Royal Assent to become law. The industry believes that the transition rules, as they are currently drafted, would provide the labour fund industry with favourable changes to investment obligations, investment eligibility and reporting requirements.

## RELATED PARTY TRANSACTIONS

The Investment Advisor, Sponsor and Fund Advisor are deemed to be related parties. Please refer to the section titled "Management Fees" which outlines the six months period ended February 28, 2006 and the year ended August 31, 2005 fees paid to these related parties.

# Semi-Annual Management Report

## of Fund Performance

### FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund, which indicate the Fund's financial performance. This information is derived from the Fund's financial statements.

#### THE FUND'S NET ASSET VALUE (NAV) PER SHARE FOR THE

	Six months ended February 28, 2006	Year ended August 31, 2005
Net asset value, beginning of period <sup>(1)</sup>	\$ 8.24	\$ 7.75
<b>Increase (decrease) from operations:</b>		
Total revenue	0.08	0.50
Total expenses	(0.22)	(0.37)
Write off of deferred charges	(0.01)	(0.33)
Realized and unrealized gains (loss) on investments	0.49	0.72
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.34</b>	<b>0.52</b>
<b>Net asset value, end of period <sup>(1)</sup></b>	<b>\$ 8.55</b>	<b>\$ 8.24</b>

(1) Net asset value is based on the actual number of shares outstanding for the six months ended February 28, 2006 and for the year ended August 31, 2005, respectively.

(2) The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the financial period.

#### RATIOS AND SUPPLEMENTARY DATA

	Six months ended February 28, 2006	Year ended August 31, 2005
Net assets (000's) <sup>(1)</sup>	\$ 143,650	\$ 137,705
Number of shares outstanding <sup>(1)</sup>	16,805,156	16,715,457
Management expense ratio <sup>(2)</sup>	4.73%	4.99%
Portfolio turnover rate <sup>(3)</sup>	1.56%	13.95%
Trading expense ratio <sup>(4)</sup>	0.04%	0.06%
Closing market price or pricing NAV <sup>(1)</sup>	\$ 8.76	\$ 8.49

(1) This information is provided as at February 28, 2006 and August 31, 2005, respectively.

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

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investors receiving taxable capital gains in the period. 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.

# Semi-Annual Management Report

## of Fund Performance

### Management Fees

The Fund's management expense ratio ("MER") consists of all of its operating expenses, including certain ongoing marketing costs of the Fund, audit and legal expenses, fees paid to any independent valuator, certain consultancy costs. Included in the MER are fees that are calculated as a percentage of the net asset value of the Fund including fees paid to the Advisor, the Sponsor and the distribution services fees.

The advisory and sponsor components of the Fund's MER are listed in the table below:

Description - % of NAV	Six months ended February 28, 2006 ( '000)s	Year ended August 31, 2005 ( '000)s
Investment Advisor - annual rate of 2.1%	<b>\$1,416</b>	\$2,586
Fund Advisor - annual rate of 0.75%	<b>\$478</b>	\$970
Fund Administration - annual rate of 0.6%	<b>\$425</b>	\$776
Sponsor - blended rate of 0.3% and 0.1% <sup>(1)</sup>	<b>\$200</b>	\$359
Service Fee - annual rate of 0.5%	<b>\$330</b>	\$662
Sales commissions - 6% of new sales	<b>\$82</b>	\$229
<b>Total Fees</b>	<b>\$2,931</b>	\$5,582

(1) The sponsor is paid a fee of 0.3% of the Net Asset Value of the Fund based on the Fund's portion of the first \$200M of combined assets of the Fund, Covington Fund I Inc. and Covington Strategic Capital Fund Inc., (other LSIFs sponsored by the sponsor) and a rate of 0.1% of the Net Asset Value of the Fund thereafter.

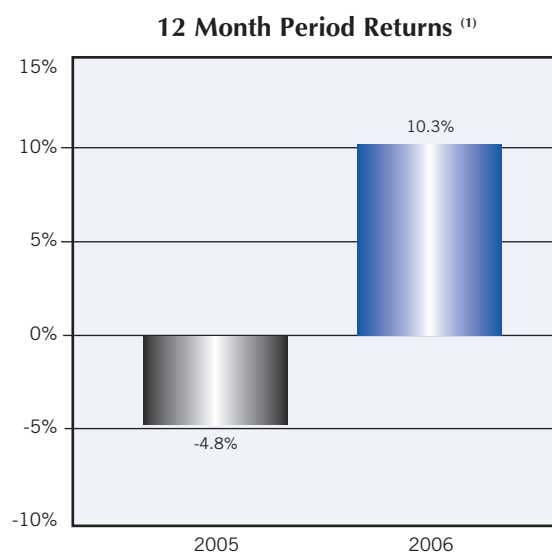
The Advisor is responsible for directing the business, operations and affairs of the Fund while the Advisor is responsible for implementing the investment strategy, monitoring the Fund's investments and providing management assistance to portfolio companies. Because the portfolio companies of the Fund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

### PAST PERFORMANCE

The performance information shown does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The Fund's past performance is no guarantee of how it will perform in the future.

#### Year by Year Returns

The following charts show how the performance of each Class A Share series of the Fund has varied for each of the 12 months period shown. It shows in percentage terms how an investment made in the Fund would have increased or decreased over the Fund's reporting period.



(1) Returns are only presented for full 12-month periods ended February 28.

# Semi-Annual Management Report

## of Fund Performance

### SUMMARY OF INVESTMENT PORTFOLIO

Below is a summary of the Fund's investment portfolio as at February 28, 2006. This is a summary only and subject to change due to on-going portfolio activity in the Fund.

Venture Portfolio as at February 28, 2006 <sup>(1)</sup>	Debt at cost \$	Equity at cost \$	Total at cost \$
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
Coast Software Inc.	4,200,000	2,500,000	6,700,000
Cyence International Inc.	7,107,255	7,973,575	15,080,830
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
Linea Marketing Inc.	—	2,000,004	2,000,004
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
Skulogix Inc.	1,225,000	2,942,720	4,167,720
Soliton Inc.	—	420,000	420,000
Systems Xcellence Inc.	—	3,727,935	3,727,935
ThinkFilm Corp.	—	2,500,000	2,500,000
Tough N Ready Doors Inc.	50,000	250,000	300,000
	21,102,299	64,306,051	85,408,350

(1) For a more detailed breakdown of the venture portfolio, see Statement of Investment Portfolio on page 9.

Composition of Net Assets	\$	%
Cash and cash equivalents	41,594,854	28.96
Venture investments, at fair value	101,441,049	70.62
Other assets, net of liabilities	614,093	0.42
Net assets, at market value	143,649,996	100.00

# Financial

## *Statements*

### UNAUDITED SEMI-ANNUAL REPORT STATEMENT

The accompanying interim financial statements have not been reviewed by the external auditors of the Fund. The external auditors will be auditing the annual financial statements of the Fund in accordance with Canadian generally accepted auditing standards.

# Financial

## Statements

### Covington Fund II Inc.

### STATEMENTS OF FINANCIAL POSITION

As at

Unaudited  
February 28, 2006  
\$

Audited  
August 31, 2005  
\$

#### ASSETS AND LIABILITIES

##### Assets

Venture investments, at fair value	101,441,049	103,962,714
Marketable securities, at market value	40,345,744	32,851,480
Cash	1,249,110	836,573
Accrued dividend and interest receivable	256,238	427,522
Subscription receivable	244,051	65,500
Accounts receivable and prepaid expenses	906,493	130,786
Income taxes recoverable	—	220,253
<b>Total assets</b>	<b>144,442,685</b>	<b>138,494,828</b>

##### Liabilities

Accounts payable and accrued liabilities	792,689	790,112
<b>Total liabilities</b>	<b>792,689</b>	<b>790,112</b>

<b>Net Assets</b>	<b>143,649,996</b>	<b>137,704,716</b>
-------------------	--------------------	--------------------

<b>Class A Shares outstanding</b>	<b>16,805,156</b>	<b>16,715,457</b>
-----------------------------------	-------------------	-------------------

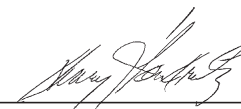
<b>Net Asset Value per Class A Share</b>	<b>\$8.55</b>	<b>\$8.24</b>
--	---------------	---------------

See accompanying note

On behalf of the Board:



Leon Paroian  
Director



Henry Pankratz  
Director

# Financial

## Statements

### Covington Fund II Inc.

#### STATEMENTS OF OPERATIONS (UNAUDITED)

For the six months ended

	February 28, 2006 \$	February 28, 2005 \$
<b>INCOME</b>		
Interest - marketable securities	570,180	966,759
Interest - venture portfolio	64,438	112,077
Dividends and commitment fees	602,439	67,685
	<b>1,237,057</b>	<b>1,146,521</b>
<b>EXPENSES</b>		
Investment Advisor's fees	1,415,765	1,274,981
Fund Advisor's fees	530,911	478,118
Fund Administrator's fees	424,730	382,496
Service fees	329,900	350,000
Sponsor's fees	200,454	170,767
Goods and Services Taxes	190,421	180,706
Shareholders' communications	60,602	31,079
Audit fees	60,333	64,658
Other	39,762	11,416
Fund accounting	42,233	—
Directors fees and expenses	30,167	33,880
Capital tax (recovery)	20,111	72,294
Custody fees	12,067	14,443
Interest and penalties	1,675	—
Legal fees	(49,225)	85,000
	<b>3,309,906</b>	<b>3,149,838</b>
Loss before income taxes	(2,072,849)	(2,003,317)
Provision for income taxes	16,038	43,812
<b>Net loss for the period</b>	<b>(2,088,887)</b>	<b>(2,047,129)</b>
Net realized gain (loss) on disposition of venture investments	3,210,561	(1,962,197)
Net realized gain on disposition of marketable securities - bonds	—	158,070
Increase (decrease) in unrealized net appreciation of marketable securities	(1,107,826)	(366,568)
Increase (decrease) in unrealized net appreciation of venture investments	5,232,240	8,558,511
<b>Total net results of operations for the period</b>	<b>5,246,088</b>	<b>4,340,687</b>
<b>Net results on operations for the period per Class A Share</b> (based on weighted average number of shares outstanding)	<b>\$ 0.34</b>	<b>\$ 0.26</b>

# Financial

## Statements

### Covington Fund II Inc.

#### STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)

For the six months ended

	February 28, 2006 \$	February 28, 2005 \$
<b>Net assets, beginning of period</b>	<b>137,704,716</b>	127,423,816
<b>Investment activities</b>		
Total net results of operations for the period	5,246,088	4,340,687
<b>Capital transactions</b>		
Amounts paid for Class A Shares issued	1,232,044	1,762,752
Amounts paid for Class A Shares redeemed	(450,861)	(577,541)
Amortization of deferred charges, net of related income taxes	—	(5,557,420)
Sales commissions paid	(81,991)	(118,091)
<b>Net assets, end of period</b>	<b>143,649,996</b>	127,274,203
<b>Net realized gain (loss) on disposition of venture investments</b>		
Venture investments, at cost, beginning of period	93,209,614	90,489,642
Venture investments, purchased during the period	2,033,843	8,587,665
Venture investments repaid during the period	—	(1,281,673)
	95,243,457	97,795,634
Venture investments, at cost, end of period	85,408,350	85,292,823
Carrying cost of venture investment dispositions	9,835,107	12,502,811
Net proceeds from disposition of venture investments	13,045,668	10,540,614
<b>Net realized gain (loss) on disposition of venture investments</b>	<b>3,210,561</b>	(1,962,197)
<b>Net realized gain (loss) on disposition of marketable securities</b>		
Bonds, at cost, beginning of period	31,068,423	23,605,574
Bonds, purchased during the period	—	20,000,000
	31,068,423	43,605,574
Bonds, at cost, end of period	31,068,423	33,557,300
Carrying cost of bonds dispositions	—	10,048,274
Net proceeds from disposition of bonds	—	10,206,344
<b>Net realized gain on disposition of bonds</b>	<b>—</b>	158,070

# Financial

## Statements

### Covington Fund II Inc.

### STATEMENT OF INVESTMENT PORTFOLIO

As at February 28, 2006

Venture Investments		Security	Debt, at cost \$	Equity, at cost \$	Total \$	Percentage of net asset %
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	
Coast Software Inc.	824,900 common shares		4,050,000	—	4,050,000	
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	
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		—	—	—	
EGI Financial Holdings Inc. <i>(formerly Canadian Insurance Marketing Inc.)</i>	996,964 common shares		—	3,598,069	3,598,069	
Excel-Tech Ltd.	970,874 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	
Linea Marketing Inc.	2,353,334 common shares		—	2,000,004	2,000,004	
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.	demand debenture		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	
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.	420,000 Class A Series II preferred shares		—	420,000	420,000	
Systems Xcellence Inc.	5,325,622 common shares		—	3,727,935	3,727,935	
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			21,102,299	64,306,051	85,408,350	
Unrealized					16,032,699	
<b>Total venture investments, at fair value</b>					<b>101,441,049</b>	<b>70.62</b>
<b>Total investments, at market value</b>					<b>141,786,793</b>	<b>98.71</b>
Other assets, net of liabilities					1,863,203	1.29
<b>Net assets, at market value</b>					<b>143,649,996</b>	<b>100.00</b>

# Financial

## Statements

### Covington Fund II Inc.

#### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at February 28, 2006

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	7.6%	6,520,000	6.4%
Expansion	16	70,218,695	82.2%	87,889,338	86.7%
Later	4	8,669,655	10.2%	7,031,711	6.9%
	23	85,408,350	100.0%	101,441,049	100.0%

Industry Class	Number of companies	Cost \$	% of venture investments at cost	Fair value \$	% of venture investments at market
Entertainment	3	5,145,430	6.0%	3,216,507	3.2%
Health Sciences	1	2,648,356	3.1%	2,648,356	2.6%
Financial Services	3	8,518,069	10.0%	16,067,500	15.8%
Technology	9	50,265,003	58.9%	61,340,762	60.5%
Manufacturing	7	18,831,492	22.0%	18,167,924	17.9%
	23	85,408,350	100.0%	101,441,049	100.0%

#### Marketable Securities

Par value \$	Issuer	Coupon rate %	Maturity date	Average cost \$	Market value \$	Percentage of net asset %
--------------	--------	---------------	---------------	-----------------	-----------------	---------------------------

#### Short-term Investments

5,015,000	Halifax Bank of Scotland Treasury Services	3.71	March 28, 2006	5,000,256	<b>5,000,256</b>	
5,017,000	Loblaws Companies	3.70	April 3, 2006	4,999,240	<b>4,999,240</b>	
				9,999,496	<b>9,999,496</b>	<b>6.96</b>

#### Bonds

7,100,000	Bell Canada	6.25	January 18, 2008	7,090,956	<b>7,348,906</b>	
5,000,000	Farm Credit Corporation	4.05	June 22, 2006	5,000,000	<b>4,863,935</b>	
7,000,000	Farm Credit Corporation	4.45	August 10, 2006	7,000,000	<b>7,108,857</b>	
5,000,000	Farm Credit Corporation	2.04	December 1, 2011	5,000,000	<b>4,398,750</b>	
2,500,000	Farm Credit Corporation	12.00	June 1, 2014	2,500,000	<b>2,398,875</b>	
1,500,000	Farm Credit Corporation	7.00	August 5, 2015	1,500,000	<b>1,244,625</b>	
3,000,000	Royal Bank of Canada	3.52	May 12, 2009	2,977,467	<b>2,982,300</b>	
				31,068,423	<b>30,346,248</b>	<b>21.13</b>
<b>Total marketable securities</b>				41,067,919	<b>40,345,744</b>	<b>28.09</b>

#### Unrealized net depreciation of marketable securities

(722,175)

# Notes

## *to Financial Statements*

### **Covington Fund II Inc.**

*February 28, 2006*

---

#### **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, as amended.

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. ACCOUNTING POLICIES**

The accounting policies used in the preparation of these unaudited semi-annual financial statements conform with those presented in Covington Fund II Inc.'s August 31, 2005 audited financial statements except for the accounting for deferred sales commissions as outlined in note 3. These unaudited semi-annual financial statements do not include all of the disclosures included in the audited financial statements and accordingly, should be read in conjunction with the audited financial statements.

#### **3. DEFERRED CHARGES**

Consistent with industry practice, the Fund capitalized sales commissions it paid prior to January 1, 2004 related to the sale of the Class A Shares as deferred charges. Deferred charges were 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 are no longer allowable as an asset. The Fund was required to write off the unamortized balance of the deferred charges to the 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 cease adding new sales commissions to the existing deferred charge asset balance by December 31, 2003. The OSC Staff Notice allows the Fund to price 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 amortization 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.

# Notes

## *to Financial Statements*

### **Covington Fund II Inc.**

*February 28, 2006*

---

The table below represents a reconciliation of the February 28, 2006 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:

	<b>Per Class A Share</b>
Net assets, at market value, for GAAP purposes	\$8.55
Unamortized deferred sales commissions for pricing purposes	0.21
Net assets, at market value for pricing purposes	\$8.76

#### **4. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of these 2006 semi-annual financial statements.

# 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*

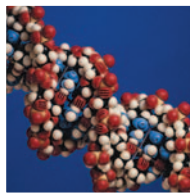
**K. Chipman Vallis**  
Toronto, Ontario  
**President and Chief Executive Officer**  
*President and Chief Executive Officer,  
Covington Capital Corporation*

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

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

**Julianna Varpalotai-Xavier**  
Oakville, Ontario  
**Chief Financial Officer**  
*Chief Financial Officer,  
Covington Capital Corporation*

Website Address: [www.covingtonfunds.com](http://www.covingtonfunds.com)



## CORPORATE INFORMATION

**Corporate Address:**

200 Front Street West  
Suite 3003  
Toronto, ON M5V 3K2  
Telephone: 416-365-0060  
Fax: 416-365-9822  
Email: [info@covingtonfunds.com](mailto:info@covingtonfunds.com)  
Website: [www.covingtonfunds.com](http://www.covingtonfunds.com)

**Fund Symbol: CIG 911****Investment Advisor:**

Covington Capital Corporation  
200 Front Street West  
Suite 3003  
Toronto, ON M5V 3K2  
Telephone: 416-365-0060  
Fax: 416-365-9822

**Sponsor:**

Canadian Professional Police  
Association

**Auditors:**

Ernst & Young LLP  
Ernst & Young Tower  
P.O. Box 251  
Toronto-Dominion Centre  
Toronto, ON M5K 1J7

**Administrator, Transfer Agent  
and Registrar:**

CI Mutual Funds Inc.  
CI Place  
151 Yonge Street  
Toronto, ON M5C 2W7  
Customer Service: 416-364-0759  
Toll Free: 1-888-746-4751