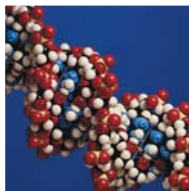


2005 Semi-Annual Report



FINANCIAL STATEMENTS OF

COVINGTON FUND I INC.
COVINGTON FUND II INC.



Message from the Managers 1

Covington Fund I

Fund I Overview 2

Fund I Portfolio 3

Fund I Financial Statements 7

Notes to Financial Statements 12

Covington Fund II

Fund II Overview 14

Fund II Portfolio 15

Fund II Financial Statements 20

Notes to Financial Statements 25

Corporate Directory 27

M e s s a g e

f r o m t h e M a n a g e r s

The market place for venture capital in Canada continues to improve. We have noted significant growth of venture capital activity in the US and as Canada typically lags the activity south of the border, we are encouraged by the increasing mergers and acquisition ("M&A") activity and initial public offerings ("IPO's") in the US and anticipate this resulting in a more robust environment for venture capital in Canada.

Two of the factors that promote M&A and IPO activity are increasing corporate profits and a stabilizing economy. We are in an economic environment where both of these factors are present. A stronger economy results in greater corporate profits and as corporations become more profitable their stock valuations typically increase. When corporations have strong balance sheets and increased stock valuations, they are more able to make acquisitions. We believe many corporations are in the market to purchase other businesses because during the economic and stock market downturn through 2001-2003, large companies were forced to focus on reducing costs and fixing balance sheets in order to bolster stock prices at the cost of reducing research and development programs. The down-side to decreasing research and development expenditures is the potential loss of a company's strategic advantage. Therefore, in order to 'catch-up' or over-take competition, large companies need to acquire pre-made technology or business solutions.

So, what does all this mean to Covington unit holders? Simply this, we have used our expertise to unearth the companies that have developed cutting edge technologies that established large companies need to take-on in order to grow and prosper. We believe that holdings in the Funds such as Masstech Group Inc., Commercial Alcohols Inc., Canadian Insurance Marketing Inc. and Cyence International Inc. - to name a few - represent some of the most desirable technologies and services available in their respective market places and as such, are extremely well positioned to attract potential M&A partners and drive increasing returns for the Funds.

Thank you for your continued support.

Best Regards,



Grant Brown
Managing Partner,
Covington Capital Corporation



Chip Vallis
Managing Partner,
Covington Capital Corporation

Fund I

Overview

Covington launched its flagship Labour Sponsored Investment Fund (LSIF), Covington Fund I in March of 1995. Following five years of fund-raising, the Fund was closed to new investment in May 1999. The Fund was opened in February of 2005 to allow investors the opportunity to "roll-over" their units of the Fund. Covington Fund I is one of the most diversified LSIFs, with a portfolio of 19 companies representing 9 different industry sectors and net assets totalling \$87.1 million.

A principle of Fund I has always been diversification. The Fund is well diversified by both industry and type of investment. Fund I is represented in 9 industries which reduces volatility of the portfolio. The majority of the Fund's investments are structured as debentures or preferred shares and therefore, the Fund is well structured to optimize liquidity opportunities for its holdings. We have seen recent examples of this with our successful exits from Adult Safe Hockey Leagues, Golftown and Proshred.

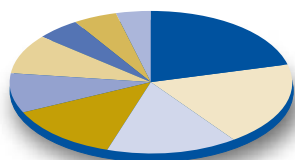
Two of the Fund's holdings that we believe embody our investment philosophy and practices are Commercial Alcohols Inc. and Masstech Group Inc.

Commercial Alcohols Inc. has become the largest manufacturer and supplier of industrial, fuel and beverage grade alcohols (ethyl alcohol/ethanol) in Canada. As the only world scale ethanol plant in Canada, close to 200 million litres of alcohol are produced per year for over 5,000 customers. Demand for ethanol is on the rise as governments implement new mandates for fuel-based ethanol. This bodes well for Commercial Alcohols as the Canadian market continues to realize the many significant benefits of ethanol. Demand should outstrip supply for a long time and Commercial Alcohols is well positioned to lead the Canadian market in the future.

Masstech Group Inc. Masstech has pioneered the development of technology vital to the effective conversion, management and workflow of digital content sold to the broadcasting industry. Masstech has experienced strong revenue and Covington anticipates that with a sound financial base and growth in this target market, that further revenue increases can be achieved as Masstech continues to satisfy its customers.

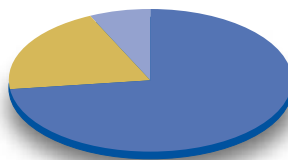
We believe that these businesses exemplify the strength of the Fund's investments and will be key to its long term performance.

INDUSTRY DIVERSIFICATION*



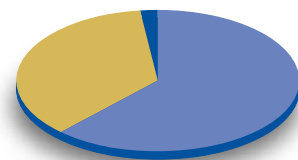
| | |
|--------------------|-----|
| FINANCIAL SERVICES | 21% |
| ENTERTAINMENT | 19% |
| TELECOMMUNICATIONS | 15% |
| ENGINEERING | 13% |
| HEALTH SCIENCES | 9% |
| MANUFACTURING | 9% |
| DISTRIBUTION | 5% |
| SOFTWARE | 5% |
| CONSUMER PRODUCTS | 4% |

STAGE DIVERSIFICATION*



| | |
|-----------------|-----|
| EXPANSION STAGE | 73% |
| LATER STAGE | 20% |
| EARLY STAGE | 7% |

ASSET ALLOCATION*



| | |
|------------------------------|-----|
| VENTURE PORTFOLIO | 62% |
| CASH & MARKETABLE SECURITIES | 36% |
| OTHER | 2% |

*As at February 28, 2005

\$2,565,000

1293551 Ontario Inc. (operating as Masstech Group Inc.)Richmond Hill, ON
www.masstechgroup.com

Masstech is a developer of software, embedded hardware, and 'plug-and-play' products to enable management, conversion, distribution, and sharing of digital content across IT storage and networking infrastructures. The company is a privately held corporation headquartered in Canada, with additional offices in the United States.

\$2,656,057

2045820 Ontario Inc.Carp, ON
www.iwssi.com

The company is the owner of the Slowfluent®/Atomic Freeze Crystallization technology, a proprietary environmentally friendly wastewater treatment process. The technology has application in the municipal, resort/recreation, agri-food and industrial wastewater markets.

\$1,616,493

Adult Safe Hockey Leagues LimitedToronto, ON
www.icesports.com

Adult Safe Hockey League (ASHL) is the largest adult recreational hockey league in the world with over 40,000 players participating in approximately 3,100 teams from across Canada and the United States. In addition to offering both men and women a consistent and safe hockey experience, most of the ASHL facilities provide patrons with well appointed sports bars and restaurants, overlooking the ice for a relaxed viewing experience, and well-stocked sports stores to meet their equipment and sports clothing needs.

\$2,930,000

Atlas Cold Storage Holdings LimitedNorth York, ON
(TSX: FZR.UN)
www.atlascold.com

With 55 facilities and 270 million cubic feet of refrigerated space strategically located in major distribution centres throughout Canada and the United States, Atlas Cold Storage caters to the storage/logistics requirements of food service providers, retailers, distributors and processors.

\$1,512,323

BTE Technologies Inc. (formerly Hanoun Medical Inc.)Toronto, ON
www.btetech.com

BTE (Baltimore Therapeutic Equipment) is a leading provider of technology-based solutions for the rehabilitation industry. With its own team of clinical experts, software engineers and mechanical engineers merging the latest technological and therapeutic advances into its 'Total Solution' product, BTE helps companies regain control over lost time injuries by focusing on injury prevention, as well as efficient and effective return to work solutions.

Fund I

Portfolio

\$10,000,000

Claymore Capital Management Inc.

Toronto, ON

Claymore provides growth capital coupled with strategic management and revitalization skills to a broad base of undervalued, small and medium sized, Ontario private and public businesses.

\$4,943,301

Commercial Alcohols Inc.

Brampton, ON
www.comalc.com

Commercial Alcohols is Canada's largest fuel grade ethanol producer, and the country's largest provider of alcohol for industrial, medical, cosmetic and beverage uses. The company owns and operates continuous process corn dry milling ethanol distilleries in Chatham and Tiverton, owns and operates an alcohol-packaging facility in Brampton and a distribution facility in the U.S.

\$457,950

Golf Town Income Trust

Markham, ON
www.golftown.com

Golf Town is Canada's largest golf retailer with 21 superstores nation wide - 10 in Ontario, 6 in Quebec, 2 in Alberta and 3 in British Columbia. With stores ranging in size from 14,000 to 25,000 square feet - Golf Town offers consumers a one-stop shopping solution for the best in brand name golf clubs, bags, apparel, shoes, accessories, gifts, and professional instruction.

\$1,866,000

HIP Interactive Corp.

Toronto, ON
(TSX: HP)
www.hipinteractive.com

HIP is one of North America's largest providers of electronic entertainment products, including PC and video games, movies, video game accessories and arcade games. Hip uses its video game distribution business to leverage into higher margin, higher growth areas of the video game industry.

\$1,881,125

Immersion Studios Inc.

Toronto, ON
www.imm-studios.com

Immersion Studios is a leader in interactive, group-based theatre development and production services. Working exclusively in digital, high-definition content, Immersion Studios develops compelling live and computer graphic animation services that allow audiences to actively participate in the narrative through activities, discussion and debate.

\$7,642,482

iMPath Networks Inc.Nepean, ON
www.impathnetworks.com

iMPath has become a global leader in video networking solutions for the surveillance and enterprise video markets by offering affordable, end-to-end networking solutions that increase the manageability and profitability of networks for service providers. IMPath Networks currently has operations in the United States, Europe, and the Asia Pacific region; and its partnerships with some of the world's largest systems integrators extend the company's reach into South America & Africa.

\$2,402,570

IsoTis SA (formerly Gensci Orthobiologics Inc.)Lausanne, CH
(TSX: ISO)
www.isotis.com

IsoTis has positioned itself to become a significant global force within the orthopaedics marketplace. As the global population continues to age, and the average level of physical activity grows, the number of orthopaedic procedures that require the use of bone grafts and substitutes will continue to increase - which bodes well for IsoTis' long-term growth strategies. Some principal applications for IsoTis' bone graft products include spinal fusion, orthopaedic fractures, joint revisions, and bone void filling.

\$1,400,000

Ivey-Roberts CSBIF I & II

London, ON

The Ivey-Roberts CSBIFs invest in companies with proven business models, strong growth potential, and leadership from first-rate management teams. Each CSBIF will also take advantage of the knowledge/expertise provided by the Ivey Business School and the Roberts Research Institute to evaluate each potential investment opportunity.

\$832,080

Look Communications Inc.Milton, ON
(TSX-VE: LOK)
www.look.ca

Look Communications is a wireless broadband carrier that delivers communications services, including high-speed and dial-up Internet access, web applications, digital television distribution and superior customer service to both the business and residential markets across Canada. Through their wireless infrastructure, Look also offers high quality digital entertainment services to consumers in Ontario and Quebec.

Fund I

Portfolio

\$970,217

Nanogen Inc.

Nanogen's objective is to become the leading global supplier of molecular diagnostic tests through the use of its automated, multi-purpose product (NanoChip) that can be used for DNA-based analyses, as well as human identification purposes within the forensics field. Nanogen acquired SynX Pharma Inc. (a former investee company of the Fund) in April 2004.

San Diego, CA
(NASDAQ: NGEN)
www.nanogen.com

\$2,738,400

Photon Technology International (Canada) Inc.

Photon designs, manufactures and markets proprietary electro-optical instruments for use in laboratories around the world for medical research, health care, industrial process, quality control, environmental science and other applications. With offices worldwide, Photon has been recognized for outstanding technological achievement.

London, ON
(OTC: PHTO)
www.pti-nj.com

\$7,247,335

Playdium Corporation

Playdium's destination entertainment centres in Burnaby, British Columbia and Mississauga, Ontario provide the ultimate in high-tech, interactive and virtual entertainment. Playdium's indoor/outdoor complex holds over 200 games and attractions, batting cages, one of Canada's longest and most challenging go-kart tracks and an 18-hole mini-golf course. Playdium also operates game centres in Famous Players theatres across Canada. Its wholly owned subsidiary in Fort Worth, Texas operates game centres in over 60 Cinemark theatres in the Texas area.

Toronto, ON
www.playdium.com

\$447,000

Soliton Inc.

Soliton develops and sells software which enables financial services firms to manage trading histories for stocks, financial statements, current and historical earnings estimates, analysts' reports and press releases. The company's 'TimeSquare' solution is a cost-effective and flexible application that allows financial institutions to streamline operations and eliminate/reduce the likelihood of failed trades and error-prone processes.

Toronto, ON
www.soliton.com

\$1,950,000

ZTest Electronics Inc.

ZTest is an Electronics Manufacturing Services (EMS) company offering materials management, printed circuit board (PCB) assembly, testing and design services. ZTest continues to focus its business activity on high quality, quick-turn, small and medium size run production for the consumer electronics, telecommunications, industrial, military, wireless and medical markets.

Mississauga, ON
(TSX-VE: YZT)
www.ztest.com

Financial Statements

Covington Fund I Inc.

STATEMENTS OF FINANCIAL POSITION

| As at | Unaudited February 28, 2005 \$ | Audited August 31, 2004 \$ |
|---|--------------------------------------|----------------------------------|
| ASSETS AND LIABILITIES | | |
| Assets | | |
| Venture investments, at fair value | 53,193,558 | 59,179,615 |
| Marketable securities, at market value | 28,911,753 | 30,776,507 |
| Cash | 2,176,587 | 566,158 |
| Accrued interest receivable | 280,555 | 382,341 |
| Accounts receivable and prepaid expenses [Note 3] | 2,534,333 | 4,743 |
| Deferred charges net of accumulated amortization of August 31, 2004 - \$9,601,249 [Note 4] | — | 963,583 |
| Total assets | 87,096,786 | 91,872,947 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 506,508 | 206,424 |
| Due to trustee for shares redeemed | 1,043,862 | 145,714 |
| Total liabilities | 1,550,370 | 352,138 |
| NET ASSETS | 85,546,416 | 91,520,809 |
| Class A Shares outstanding | 10,754,418 | 11,565,054 |
| Net asset value per Class A Share | \$7.95 | \$7.91 |

See accompanying notes

Financial Statements

Covington Fund I Inc.

STATEMENTS OF OPERATIONS (Unaudited)

| For the six months ended | February 28, 2005 \$ | February 29, 2004 \$ |
|---|-------------------------|-------------------------|
| INCOME | | |
| Interest on marketable securities | 766,996 | 999,992 |
| Interest on portfolio investments | 208,964 | 268,873 |
| Dividends and commitment fees | 10,552 | 458,639 |
| | 986,512 | 1,727,504 |
| EXPENSES | | |
| Investment Advisor's fees | 970,860 | 1,070,858 |
| Fund Administrator's fees | 277,389 | — |
| Fund Advisor's fees | 233,821 | 642,051 |
| Service fees | 219,000 | 255,915 |
| Professional fees | 211,266 | 130,216 |
| Capital and other taxes | 165,984 | 163,730 |
| Interest and penalties [Note 3] | 148,280 | — |
| Sponsor's fees | 138,512 | 152,980 |
| Directors' fees and expenses | 75,863 | 77,897 |
| Other | 22,397 | 50,469 |
| Printing | 21,998 | 25,822 |
| Custodial fees | 8,622 | 9,209 |
| | 2,493,992 | 2,579,147 |
| Loss before income taxes | (1,507,480) | (851,643) |
| Provision for income taxes | 22,632 | 21,755 |
| Net loss for the period | (1,530,112) | (873,398) |
| Realized and unrealized gain (loss) on investments | | |
| Net realized gain (loss) on sale of investments | 2,838,211 | (773,933) |
| Increase (decrease) in unrealized net appreciation of marketable securities | (92,131) | 440,934 |
| Increase (decrease) in unrealized net appreciation of venture investments | 270,582 | (2,959,838) |
| Net realized and unrealized gain (loss) on investments | 3,016,662 | (3,292,837) |
| Total net results of operations for the period | 1,486,550 | (4,166,235) |
| Per Class A Share (based on average number of shares outstanding) | | |
| Net loss for the period | \$(0.13) | \$(0.07) |
| Net realized and unrealized gains and losses | \$0.26 | \$(0.28) |
| Total net results of operation for the period | \$0.13 | \$(0.35) |

See accompanying notes

Financial Statements

Covington Fund I Inc.

STATEMENTS OF CHANGES IN NET ASSETS (Unaudited)

| <i>For the six months ended</i> | February 28, 2005 \$ | February 29, 2004 \$ |
|--|-------------------------|-------------------------|
| Total net results of operations for the period | 1,486,550 | (4,166,235) |
| Share capital transactions | | |
| Amounts paid for Class A Shares redeemed | (6,497,360) | (1,777,250) |
| Amortization of deferred charges | (963,583) | (534,757) |
| | (7,460,943) | (2,312,007) |
| Decrease in net assets for the period | (5,974,393) | (6,478,242) |
| Net assets, beginning of period | 91,520,809 | 106,293,253 |
| Net assets, end of period | 85,546,416 | 99,815,011 |
| Net realized gain (loss) on sale of investments | | |
| Marketable securities | | |
| Bonds, at cost, beginning of period | 24,501,972 | 33,823,282 |
| Bonds purchased during the period | — | 147,822 |
| | 24,501,972 | 33,971,104 |
| Bonds, at cost, end of period | 20,519,861 | 30,481,649 |
| Cost of bonds sold | 3,982,111 | 3,489,455 |
| Proceeds on sale of bonds | 4,290,592 | 3,592,738 |
| Net realized gain on sale of marketable securities | 308,481 | 103,283 |
| Venture investments | | |
| Venture investments, at cost, beginning of period | 62,314,973 | 69,315,085 |
| Venture investments purchased during the period | 3,677,904 | 1,854,550 |
| Venture investments repaid during the period | (1,379,167) | (142,500) |
| | 64,613,710 | 71,027,135 |
| Venture investments, at cost, end of period | 56,058,334 | 70,149,918 |
| Cost of venture investments sold | 8,555,376 | 877,216 |
| Proceeds from sale of venture investments | 11,085,106 | — |
| Net realized gain (loss) on sale of venture investments | 2,529,730 | (877,216) |
| Total net realized gain (loss) on sale of investments | 2,838,211 | (773,933) |

See accompanying notes

Financial Statements

Covington Fund I Inc.

STATEMENT OF INVESTMENT PORTFOLIO (Unaudited)

As at February 28, 2005

Marketable Securities

| Par value \$ | Issuer | | Maturity date | Average cost \$ | Market value \$ |
|---|----------------------|-------|------------------|-----------------------|-----------------------|
| Short-term investments | | | | | |
| 7,006,000 | Royal Bank of Canada | 2.45% | March 1, 2005 | 7,006,000 | 7,006,000 |
| | | | | 7,006,000 | 7,006,000 |
| Bonds | | | | | |
| 5,000,000 | Province of Ontario | 4.05% | June 2, 2005 | 5,000,000 | 5,015,465 |
| 8,500,000 | Bell Canada Inc. | 6.25% | January 18, 2008 | 8,485,338 | 9,123,653 |
| 7,067,000 | Bell Canada Inc. | 6.25% | April 12, 2012 | 7,034,523 | 7,766,635 |
| | | | | 20,519,861 | 21,905,753 |
| Total marketable securities | | | | 27,525,861 | 28,911,753 |
| Unrealized net appreciation of marketable securities | | | | | 1,385,892 |

Financial Statements

Covington Fund I Inc.

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

As at February 28, 2005

Venture Investments

| Investee companies | Number of shares (or par value \$) | Debt, at cost \$ | Equity, at cost \$ | Total \$ |
|--|---------------------------------------|------------------------|--------------------------|-------------------|
| 1293551 Ontario Inc., Series I, Cl. B Preferred Shares | 697,605 | — | 2,156,205 | 2,156,205 |
| 1293551 Ontario Inc., 8% debenture due December 31, 2005 | \$ 408,795 | 408,795 | — | 408,795 |
| 2045820 Ontario Inc., demand debenture | \$2,656,057 | 2,656,057 | — | 2,656,057 |
| ACS Freezers Income Trust | 1 | — | 1 | 1 |
| Adult Safe Hockey Leagues Ltd., 2.25% debenture due July 1, 2007 | \$1,616,493 | 1,616,493 | — | 1,616,493 |
| Atlas Cold Storage Holdings Ltd., CIC special shares convertible to 710,000 ACS Trust Units | 526,269 | — | 2,930,000 | 2,930,000 |
| BTE Technologies Inc. | 4,324 | — | 1,512,323 | 1,512,323 |
| Claymore Capital Management Inc., 2% debenture due December 10, 2007 | \$10,000,000 | 10,000,000 | — | 10,000,000 |
| Claymore Capital Management Inc. | 2,667 | — | — | — |
| Commercial Alcohols Inc. | 497,682 | — | 4,943,301 | 4,943,301 |
| Commercial Alcohols Inc., special shares | 123,645 | — | — | — |
| Golf Town Income Trust | 45,795 | — | 457,950 | 457,950 |
| HIP Interactive Corp. | 1,866,000 | — | 1,866,000 | 1,866,000 |
| iMPath Networks Inc. | 3,709,091 | — | 3,750,000 | 3,750,000 |
| iMPath Networks Inc., Cl. D pref. | 122,698,756 | — | 800,000 | 800,000 |
| iMPath Networks Inc., Cl. A pref. | 54,378,864 | — | 2,667,482 | 2,667,482 |
| iMPath Networks Inc., Cl. B pref. | 1,654,849 | — | 425,000 | 425,000 |
| Immersion Studios Inc., Series A pref. | 12,500 | — | 1,881,125 | 1,881,125 |
| Isotis SA | 914,470 | — | 2,402,570 | 2,402,570 |
| Ivey-Robarts CSBIF I Inc. | 70,000 | — | 700,000 | 700,000 |
| Ivey-Robarts CSBIF II Inc. | 70,000 | — | 700,000 | 700,000 |
| Look Communications Inc. | 104,010 | — | 832,080 | 832,080 |
| Nanogen Inc. | 109,933 | — | 970,217 | 970,217 |
| Photon Technology International (Canada) Inc., pref. | 296,296 | — | 2,738,400 | 2,738,400 |
| Playdium Corporation | 800,000 | — | 5,532,335 | 5,532,335 |
| Playdium Corporation, 15% debenture due July 15, 2010 | \$1,715,000 | 1,715,000 | — | 1,715,000 |
| SMC Ventures Inc. | 192,521 | — | — | — |
| Soliton Inc., Cl. A, Series II pref. | 406,364 | — | 447,000 | 447,000 |
| Z-Test Electronics Inc. | 500,000 | — | 750,000 | 750,000 |
| Z-Test Electronics Inc., pref. | 328,640 | — | 1,200,000 | 1,200,000 |
| Total venture investments, at cost | | 16,396,345 | 39,661,989 | 56,058,334 |
| Unrealized net appreciation (depreciation) of venture investments | | | | (2,864,776) |
| Total venture investments, at fair value | | | | 53,193,558 |

See accompanying notes

Notes to Financial Statements

(Unaudited)
Covington Fund I Inc.
February 28, 2005

1. CORPORATE STATUS AND ACTIVITIES

Covington Fund I Inc. [the "Fund"] was incorporated under the laws of Canada by Articles of Incorporation dated October 4, 1994. The Fund was originally organized under the name C.I. Covington Fund Inc. and effected a name change to its current name on June 26, 2000. The Fund commenced active operations on March 1, 1995 on the initial issue of its Class A Shares. On October 7, 1999, the Board of Directors resolved that the fund cease to offer Class A Shares and determined by resolution dated November 25, 2004 to recommence offering Class A Shares. The Fund re-opened on February 28, 2005.

The Fund is registered as a labour-sponsored venture capital corporation under the Income Tax Act (Canada) [the "Tax Act"] and a labour-sponsored investment fund 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 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 Incorporated.

2. ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited semi-annual financial statements conform with those presented in Covington Fund I Inc.'s August 31, 2004 audited financial statements except for the accounting for deferred sales commissions as outlined in note 4. 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. REFUNDABLE TAXES

The Fund has recorded a receivable of \$2,436,725 in these financial statements with respect to payments to the Ontario Minister of Finance ("MOF") for 2002 and 2004 investment obligations. Subsequent to year-end, the Fund agreed to pay a refundable tax penalty to the MOF in the amount of \$1,398,697 plus non-refundable interest of \$148,280 to resolve a dispute with the MOF related to the Fund's 2002 investment obligations. The Fund was also subject to a refundable interest penalty of \$1,068,028 in respect of its December 31, 2004 investment obligations and paid this amount on January 31, 2005. Based on the Fund's determinations of its investment obligations under the Ontario Act, the Fund expected to be in compliance with these requirements on or before March 1, 2005 and has therefore applied for a refund of the tax penalties paid. The non-refundable interest amount of \$148,280 has been expensed in it these financial statements and reduced net asset value per Class A share by \$0.01, which the Fund believes to be not material.

4. 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.

Notes

to Financial Statements

(Unaudited)

Covington Fund I Inc.

February 28, 2005

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 is that, after a transitional period which ended September 1, 2004, 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 reduced 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 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 \$1,647,961 and will be fully amortized to income no later than May 2008. Once fully amortized, the net asset value for pricing purposes and for accounting purposes will be equal.

Below represents a reconciliation of the March 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 assets, at market value, for GAAP purposes | \$7.95 |
| Unamortized deferred sales commissions for pricing purposes | 0.05 |
| Net assets, at market value, for pricing purposes | \$8.00 |

5. COMPARATIVE FINANCIAL STATEMENTS

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

Fund II

Overview

Covington Fund II is one of the most diversified LSIFs available to investors. The Fund, which focuses on later stage private companies, forms the cornerstone of any LSIF portfolio. Covington Capital's diversification strategy combined with its hands-on management approach ensures maximization of shareholder value while minimizing risk. Covington Fund II is a maturing portfolio, consisting of 21 companies broadly diversified across 10 economic sectors totalling \$127.2 million.

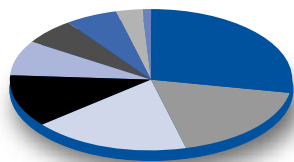
Covington searches the best private Canadian enterprises poised to dominate their respective markets. Investments are made in companies that have built a solid foundation for growth based on key business fundamentals - they have great products or services meeting a market gap or need, good management teams, own market share, are generating earnings and revenue and are on a clear path to profitability. Currently, the Fund has 5 investments with revenues between \$10 and \$15million, 2 with revenues between \$50 and \$100 million and 2 with revenues in excess of \$100 million.

During the first six months of the fiscal year the Fund has made new investments in ThinkFilm Corp. and BPS Inc. ThinkFilm acquires film rights to independent films for distribution in Canada and the US through various channels including theatrical, home video television and non-theatrical channels such as airlines and schools. www.thinkfilmcompany.com BPS is a leader in the web-native project management software and business process automation. BPS develops, implements and supports software that drives productivity in corporations. Its foundation software, BPS Project, automates workforce management processes including planning and scheduling, time and labour management and project management. www.bpsproject.com.

The Fund completed a full disposition of shares in Proshred Security International. Proshred operates a leading mobile shredding service in North America with over 15 years experience protecting manufactures, the banking, healthcare and insurance industries as well as governments at all levels. www.proshred.com

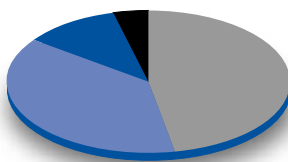
Golf Town Canada Inc. completed an IPO on the TSX as an income trust (GLF.UN) raising over \$100 million. Golf Town is the largest retailer of golf merchandise in Canada. The company opened its first store in 1999 in the GTA and over the past five years has expanded across Canada, currently operating 21 retail stores. www.golftown.com

INDUSTRY DIVERSIFICATION*



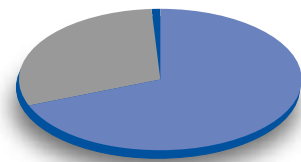
| | |
|--------------------------|-----|
| ■ SOFTWARE | 28% |
| ■ MEDIA & COMMUNICATIONS | 18% |
| ■ FINANCIAL SERVICES | 18% |
| ■ HEALTH SCIENCES | 12% |
| ■ ENVIRONMENTAL | 8% |
| ■ MANUFACTURING | 6% |
| ■ TELECOMMUNICATIONS | 6% |
| ■ ENTERTAINMENT | 3% |
| ■ CONSUMER PRODUCTS | 1% |

STAGE DIVERSIFICATION*



| | |
|-------------------|-----|
| ■ EXPANSION STAGE | 47% |
| ■ LATER STAGE | 38% |
| ■ EARLY STAGE | 11% |
| ■ START-UP | 4% |

ASSET ALLOCATION*



| | |
|--------------------------------|-----|
| ■ VENTURE INVESTMENTS | 69% |
| ■ CASH & MARKETABLE SECURITIES | 30% |
| ■ OTHER | 1% |

*As at February 28, 2005

F u n d I I

Portfolio

\$7,007,263

Adventus Remediation Technologies Limited

Mississauga, ON
www.adventusremediation.com

Adventus develops, manufactures, markets and sells a family of proprietary bioremediation technologies designed to effectively treat a wide range of hazardous compounds found in contaminated soil and sediments, as well as both wastewater and ground water. In addition to providing biotechnology-based remedial solutions that effectively manage complex, challenging environmental liabilities - Adventus' technologies are also economically advantageous.

\$2,128,312

BTE Technologies Inc. (formerly Hanoun Medical Inc.)

Toronto, ON
www.btetech.com

BTE (Baltimore Therapeutic Equipment) is a leading provider of technology-based solutions for the rehabilitation industry. With its own team of clinical experts, software engineers and mechanical engineers merging the latest technological and therapeutic advances into its 'Total Solution' product, BTE helps companies regain control over lost time injuries by focusing on injury prevention, as well as efficient and effective return to work solutions.

\$1,520,000

Business Propulsion Systems Inc.

Toronto, ON
www.bpserver.com

BPS is a leader in enterprise-wide, Web-native business process automation solutions. With offices in Toronto, Ontario and Grand Rapids, Michigan. BPS delivers best-in-class solutions for the management and continuous improvement of compliance and operational risk-based processes for today's world class reporting issuers and financial services institutions.

\$6,259,375

CanCable Inc.

Burlington, ON
www.cancable.com

Cancable Inc. provides high-speed and broadband installation services to residential customers across Canada through various end-user contract services to cable television companies such as Rogers and Cogeco.

\$2,500,000

Coast Software Inc.

Ottawa, ON
www.coast.com

Specializing in Web Quality Management, Coast Software provides executives, compliance officers and technical managers alike with software solutions that report, analyze and monitor the standards of compliance for web sites. From fully customized hosted e-services, to low-cost packaged testing and reporting, Coast solutions scale to meet the quality management needs and budgets of today's e-businesses.

Fund II

Portfolio

\$8,975,000

Cyence International Inc.

Burlington, ON
www.cyence.com

As a leading Business Services Provider (BSP), Cyence's focus is to enable Internet based transaction processing on behalf of financial institutions, brokers, captive or independent finance companies and business providers. The company's user-friendly, cost-effective, web-based financial services applications enable its clients to generate real-time financial transactions with dramatically improved efficiency and cost savings. Cyence currently employs over 50 individuals, with offices in the United States, Canada, and the United Kingdom.

\$3,598,069

EGL Financial Holdings Inc. (referred to as Echelon, formerly Canadian Insurance Marketing Inc.)

Toronto, ON
www.egi.ca

Echelon is a wholly-owned subsidiary of EGL Financial Holdings Inc. In January 2005, E.G.I. amalgamated with Canadian Insurance Marketing Inc. (with the former shareholders of C.I.M.I. now owning approximately 57% of E.G.I.). Echelon specializes in the underwriting of non-standard automobile insurance and niche programs in other lines of insurance. The Co-operators Group continues to own a 43% interest in Echelon. The Co-operators is the largest Canadian owned insurance company in Canada. Echelon will continue to provide service through both Co-operators' Agents and Independent Insurance Brokers.

\$6,750,000

Excel-Tech Limited

Oakville, ON
www.xltek.com

Excel-Tech is a manufacturer of high-end medical instruments for the diagnosis and monitoring of patients over Internet Protocol (IP) networks. The Company's core product, XLTEK REALPATIENT, allows for the simultaneous streaming of medical data, voice and video over a single managed network, providing a reliable and technologically advanced medical monitoring system.

\$1,524,225

Exco Technologies Limited

Markham, ON
 TSX: XTC
www.excocorp.com

Exco is a global supplier of innovative technologies servicing the die-cast, extrusion and automotive industries. Through 13 strategic locations, Exco employs 1,950 people and services a diverse and broad customer base.

\$4,500,000

FRI Corporation

Toronto, ON
www.fricorporation.com

FRI is a leading provider of securities information services and asset, wealth, trading, and risk management software solutions to a broad base of customers in the financial markets in Canada and abroad. FRI delivers reliable, scalable, flexible and integrated solutions to the global investment community. These attributes enable enterprise-class solutions to respond to changing client needs.

F u n d I I

Portfolio

\$2,100,000

Golf Town Income Trust

Golf Town is Canada's largest golf retailer with 21 superstores nation wide - 10 in Ontario, 6 in Quebec, 2 in Alberta and 3 in British Columbia. With stores ranging in size from 14,000 to 25,000 square feet - Golf Town offers consumers a one-stop shopping solution for the best in brand name golf clubs, bags, apparel, shoes, accessories, gifts, and professional instruction.

Markham, ON
TSX: GLF.UN
www.golftown.com

\$5,000,000

Ivey-Robarts CSBIF I & II

The Ivey-Robarts CSBIFs invest in companies with proven business models, strong growth potential, and leadership from first-rate management teams. Each CSBIF will also take advantage of the knowledge/expertise provided by the Ivey Business School and the Robarts Research Institute to evaluate each potential investment opportunity.

London, ON

\$5,000,137

Kaval Wireless Technologies Inc.

Kaval was a global provider of in-building wireless coverage extension solutions, with products designed to extend wireless coverage into commercial, public and industrial buildings, and other areas commonly impenetrable by wireless signals. In February 2004, certain of Kaval's assets and liabilities were acquired by Powerwave (NASDAQ: PWAV). Proceeds from this transaction and realization on the remaining assets will be received at intervals over the next 12 months.

Markham, ON
www.kaval.com

\$7,500,000

Marketrend Inc.

Marketrend is a premier, full-service automotive marketing company that provides services such as e-marketing and website development, customer relationship management, telemarketing/call centre support, merchandising systems, and consulting to dealerships and OEM clients alike. Operating throughout Canada, the United States and the Caribbean, Marketrend's client base currently includes significant automobile dealerships, as well as OEM clients like Honda, Toyota, Lexus, Acura, and Subaru.

Toronto, ON
www.marketrend.com

\$2,000,000

Millennium Media Television Enterprises Ltd.

Millennium Media provides production and sale of independent television programming to various market segments.

Toronto, ON
www.millenniummedia.tv

Fund II

Portfolio

\$3,000,000

Mist Mobility Integrated System Technology Inc.

Toronto, ON
www.mmist.ca

Mist Mobility Integrated System Technology Inc. is a Canadian manufacturer of Precision Guided Parachute Aerial Delivery Systems (Sherpa). MMIST has developed innovative, robust and affordable solutions to the concept of carrying, releasing and controlling the delivery of supplies and equipment with Ram Air Parachutes.

\$1,382,300

Nanogen

San Diego, CA
 NASDAQ: NGEN
www.nanogen.com

Nanogen's objective is to become the leading global supplier of molecular diagnostic tests through the use of its automated, multi-purpose product (NanoChip) that can be used for DNA-based analyses, as well as human identification purposes within the forensics field. Nanogen acquired SynX Pharma Inc. (a former investee company of the Fund) in April 2004.

\$4,086,600

Skulogix Inc.

Toronto, ON
www.skulogix.com

Skulogix offers information handling solutions and fulfillment services that enables vendors and retailers to substantially improve logistical efficiency and maximize sales, while at the same time minimizing costs and inventory risk. The company's solutions have already been used to optimize the distribution of branded consumer goods such as apparel, cosmetics, footwear & other fashion categories.

\$630,000

Soliton Inc.

Toronto, ON
www.soliton.com

Soliton develops and sells software which enables financial services firms to manage trading histories for stocks, financial statements, current and historical earnings estimates, analysts' reports and press releases. The company's 'TimeSquare' solution is a cost-effective and flexible application that allows financial institutions to streamline its operations and eliminate/reduce the likelihood of failed trades and error-prone processes.

\$6,000,001

Systems Xcellence Inc.

Milton, ON
 (TSX: SXC)
www.systemsxcellence.com

Systems Xcellence is the largest North American provider of pharmacy IT processing solutions and services to both the healthcare benefits management and out-patient pharmacy industries. The company's comprehensive suite of software products, information processing technologies, and consulting services provide a single-source solution for every setting within today's pharmacy supply and delivery system.

F u n d I I

P o r t f o l i o

\$2,500,000

ThinkFilm Corp.

Toronto, ON
www.thinkfilmcompany.com

ThinkFilm acquires film rights to independent films for distribution in Canada and the US through various channels including theatrical, home video television and non-theatrical channels such as airlines and schools.

\$300,000

Tough N Ready Doors Inc.

Barrie, ON
www.tnrdoors.com

TNR Doors manufactures custom made, heavy-duty industrial rubber doors. With an experienced management and product design team, TNR's 'built to your needs' solutions provide the best value for its clients. As specialists in the durable rubber door market, TNR provides expert solutions for clients worried about rugged/harsh environments, high traffic conditions, and door impact concerns.

Financial Statements

Covington Fund II Inc.

STATEMENTS OF FINANCIAL POSITION

| As at | Unaudited February 28, 2005 \$ | Audited August 31, 2004 \$ |
|---|--------------------------------------|----------------------------------|
| ASSETS AND LIABILITIES | | |
| Assets | | |
| Venture investments, at fair value | 88,161,875 | 84,800,183 |
| Marketable securities, at market value | 38,036,151 | 29,748,247 |
| Cash | 246,003 | 344,106 |
| Due from trustee for shares issued | 321,360 | 374,430 |
| Accrued interest receivable | 346,104 | 162,224 |
| Accounts receivable and prepaid expenses | 841,439 | 7,283,812 |
| Deferred charges net of accumulated amortization of August 31, 2004 - \$5,101,524 [Note 3] | — | 5,557,420 |
| Total assets | 127,952,932 | 128,270,422 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 678,729 | 846,606 |
| Total liabilities | 678,729 | 846,606 |
| NET ASSETS | 127,273,203 | 127,423,816 |
| Class A Shares outstanding | 16,636,798 | 16,444,695 |
| Net asset value per Class A Share | \$7.65 | \$7.75 |

See accompanying notes

Financial Statements

Covington Fund II Inc.

STATEMENTS OF OPERATIONS (Unaudited)

| For the six months ended | February 28, 2005 \$ | February 29, 2004 \$ |
|---|-------------------------|-------------------------|
| INCOME | | |
| Interest on marketable securities | 966,759 | 1,082,319 |
| Interest on portfolio investments | 112,077 | 78,746 |
| Commitment fees and other | 67,685 | 175,470 |
| | 1,146,521 | 1,336,535 |
| EXPENSES | | |
| Investment Advisor's fees | 1,274,981 | 1,337,850 |
| Fund Advisor's fees | 478,118 | 501,694 |
| Fund Administrator's fees | 382,496 | 401,355 |
| Service fees | 350,000 | 325,000 |
| Capital and other taxes | 253,000 | 244,937 |
| Sponsor's fees | 170,767 | 164,913 |
| Professional fees | 149,658 | 132,671 |
| Directors' fees and expenses | 33,880 | 19,297 |
| Shareholders' communications | 31,079 | 42,634 |
| Other | 11,416 | 12,699 |
| Custodial fees | 14,443 | 13,103 |
| | 3,149,838 | 3,196,153 |
| Loss before income taxes | (2,003,317) | (1,859,618) |
| Provision for income taxes | 43,812 | 36,510 |
| Net loss for the period | (2,047,129) | (1,896,128) |
| Realized and unrealized gain (loss) on investments | | |
| Net realized gain (loss) on sale of investments | (1,804,127) | (7,757,504) |
| Increase (decrease) in unrealized net appreciation of marketable securities | (366,568) | (967,421) |
| Increase (decrease) in unrealized net appreciation of venture investments | 8,558,511 | 7,239,946 |
| Net realized and unrealized gain (loss) on investments | 6,387,816 | (1,484,979) |
| Total net results of operations for the period | 4,340,687 | (3,381,107) |
| Per Class A Share (based on average number of shares outstanding) | | |
| Net loss for the period | \$(0.12) | \$(0.12) |
| Net realized and unrealized gains (losses) | \$0.38 | \$(0.09) |
| Total net results of operation for the period | \$0.26 | \$(0.21) |

See accompanying notes

Financial Statements

Covington Fund II Inc.

STATEMENTS OF CHANGES IN NET ASSETS (Unaudited)

| <i>For the six months ended</i> | February 28, 2005 \$ | February 29, 2004 \$ |
|--|-------------------------|-------------------------|
| Total net results of operations for the period | 4,340,687 | (3,381,107) |
| Share capital transactions | | |
| Proceeds from issuance of Class A shares | 1,762,752 | 4,151,777 |
| Amounts paid for Class A Shares redeemed | (577,541) | (642,960) |
| Sales commissions paid [Note 3] | (118,091) | (159,414) |
| Amortization of deferred charges [Note 3] | (5,557,420) | (634,498) |
| | (4,490,300) | 2,714,905 |
| Decrease in net assets for the period | (149,613) | (666,202) |
| Net assets, beginning of period | 127,423,816 | 136,199,155 |
| Net assets, end of period | 127,274,203 | 135,532,953 |
| Net realized gain on sale of investments | | |
| Marketable securities | | |
| Bonds, at cost, beginning of period | 23,605,574 | 35,817,376 |
| Bonds purchased during the period | 20,000,000 | 4,368,772 |
| | 43,605,574 | 40,186,148 |
| Bonds, at cost, end of period | 33,557,300 | 33,680,091 |
| Cost of bonds sold | 10,048,274 | 6,506,057 |
| Proceeds on sale of bonds | 10,206,344 | 7,170,906 |
| Net realized gain on sale of marketable securities | 158,070 | 664,849 |
| Venture investments | | |
| Venture investments, at cost, beginning of period | 90,489,642 | 91,193,587 |
| Venture investments purchased during the period | 8,587,665 | 9,461,011 |
| Venture investments repaid during the period | (1,281,673) | (500,000) |
| | 97,795,634 | 100,154,598 |
| Venture investments, at cost, end of period | 85,292,823 | 91,593,123 |
| Cost of venture investments sold | 12,502,811 | 8,561,474 |
| Proceeds from sale of venture investments | 10,540,614 | 139,122 |
| Net realized gain (loss) on sale of venture investments | (1,962,197) | (8,422,352) |
| Total net realized gain (loss) on sale of investments | (1,804,127) | (7,757,503) |

See accompanying notes

Financial Statements

Covington Fund II Inc.

STATEMENT OF INVESTMENT PORTFOLIO (Unaudited)

As at February 28, 2005

Marketable Securities

| Par value \$ | Issuer | | Maturity date | Average cost \$ | Market value \$ |
|---|------------------------------------|--------|--------------------|-----------------------|-----------------------|
| Short-term investments | | | | | |
| 4,209,000 | Franchise Trust | 2.55% | March 23, 2005 | 4,202,253 | 4,202,253 |
| | | | | 4,202,253 | 4,202,253 |
| Bonds | | | | | |
| 2,000,000 | Royal Bank of Canada Step-up | 3.60% | August 4, 2005 | 2,000,000 | 1,983,160 |
| 5,000,000 | Farm Credit Corporation | 4.00% | December 22, 2005 | 5,000,000 | 4,977,000 |
| 7,000,000 | Farm Credit Corporation | 4.40% | February 10, 2006 | 7,000,000 | 6,964,998 |
| 2,000,000 | Bank of Nova Scotia Ratchet Coupon | 2.75% | September 17, 2006 | 2,000,000 | 1,978,800 |
| 7,100,000 | Bell Canada Inc. | 6.25% | January 18, 2008 | 7,086,602 | 7,621,140 |
| 3,000,000 | Royal Bank of Canada | 2.99% | May 12, 2009 | 2,970,699 | 2,950,800 |
| 5,000,000 | Farm Credit Corporation | 12.00% | December 1, 2010 | 5,000,000 | 4,914,500 |
| 2,500,000 | Farm Credit Corporation | 12.00% | June 1, 2014 | 2,500,000 | 2,443,500 |
| | | | | 33,557,300 | 33,833,898 |
| Total marketable securities | | | | 37,759,553 | 38,036,151 |
| Unrealized net appreciation of marketable securities | | | | | 276,598 |

Financial Statements

Covington Fund II Inc.

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

As at February 28, 2005

| Venture Investments | | | | |
|---|---------------------------------------|------------------------|--------------------------|---------------------|
| Investee companies | Number of shares (or par value \$) | Debt, at cost \$ | Equity, at cost \$ | Total \$ |
| Adventus Remediation Technologies Inc., Cl. A pref. | 6,990,523 | — | 7,007,263 | 7,007,263 |
| Adventus Remediation Technologies Inc. | 742,942 | — | — | — |
| BTE Technologies Inc. | 6,095 | — | 2,128,312 | 2,128,312 |
| Business Propulsion Systems Inc., convertible pref. | 1,520,000 | — | 1,520,000 | 1,520,000 |
| CanCable Inc., 16% debenture due July 12, 2005 | 2,500,000 | 2,500,000 | — | 2,500,000 |
| CanCable Inc., 15% promissory note due January 31, 2005 | 1,259,375 | 1,259,375 | — | 1,259,375 |
| CanCable Inc., warrant | 1 | — | — | — |
| CanCable Inc. | 7,952,246 | — | 2,500,000 | 2,500,000 |
| Coast Software Inc., Series B pref. | 4,115,905 | — | 2,500,000 | 2,500,000 |
| Cyence International Inc., 12% demand promissory note | 5,475,000 | 5,475,000 | — | 5,475,000 |
| Cyence International Inc., Series A pref. | 3,595,262 | — | 3,500,000 | 3,500,000 |
| Cyence International Inc. | 584,059 | — | — | — |
| EGI Financial Holdings Inc. (formerly Canadian Insurance Marketing Inc.) | 498,482 | — | 3,124,069 | 3,124,069 |
| EGI Financial Holdings Inc. (formerly Canadian Insurance Marketing Inc.), pref. | 498,482 | — | 474,000 | 474,000 |
| Excel-Tech Ltd., Series A pref. | 970,874 | — | 5,000,000 | 5,000,000 |
| Excel-Tech Ltd., 6% debenture due April 20, 2006 | 1,750,000 | 1,750,000 | — | 1,750,000 |
| Exco Technologies Limited | 202,528 | — | 1,524,225 | 1,524,225 |
| FRI Corporation | 272,727 | — | 4,500,000 | 4,500,000 |
| Golf Town Income Trust | 63,543 | — | 645,430 | 645,430 |
| Ivey-Robarts CSBIF I Inc. | 250,000 | — | 2,500,000 | 2,500,000 |
| Ivey-Robarts CSBIF II Inc. | 250,000 | — | 2,500,000 | 2,500,000 |
| Kaval Wireless Technologies Inc., Cl. A pref. | 2,325,581 | — | 5,000,137 | 5,000,137 |
| Marketrend Inc., Cl. A preferred shares | 2,775,000 | — | 5,000,000 | 5,000,000 |
| Marketrend Inc., 4.5% debenture due April 2, 2008 | 2,500,000 | 2,500,000 | — | 2,500,000 |
| Millenium Media Television Enterprises Ltd., 8% debenture due April 5, 2005 | 2,000,000 | 2,000,000 | — | 2,000,000 |
| Millenium Media Television Enterprises Ltd. | 47 | — | — | — |
| Mist Mobility, 15% debenture due November 4, 2009 | 750,000 | 750,000 | — | 750,000 |
| Mist Mobility | 3,690,136 | — | 2,250,000 | 2,250,000 |
| Nanogen Inc. | 54,740 | — | 1,382,300 | 1,382,300 |
| Skulogix Inc. | 26,820,128 | — | 2,861,600 | 2,861,600 |
| Skulogix Inc., promissory note due August 24, 2007 | 1,225,000 | 1,225,000 | — | 1,225,000 |
| Soliton Inc., Cl. A, series II preferred shares | 630,000 | — | 630,000 | 630,000 |
| Systems Xcellence Inc. | 8,571,430 | — | 6,000,001 | 6,000,001 |
| Thinkfilm Corp. | 2,400,000 | — | 2,500,000 | 2,500,000 |
| Tough N Ready Doors Inc. | 250,000 | — | 250,000 | 250,000 |
| Tough N Ready Doors Inc., 15% debenture due December 15, 2006 | 50,000 | 50,000 | — | 50,000 |
| Other investments | | 1,736,111 | 750,000 | 2,486,111 |
| Total venture investments, at cost | | 19,245,486 | 66,047,337 | 85,292,823 |
| Unrealized net appreciation (depreciation) of venture investments | | | | 2,869,052 |
| Total venture investments, at fair value | | | | \$88,161,875 |

See accompanying notes

(Unaudited)

Covington Fund II Inc.

February 28, 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 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 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 Incorporated.

2. SIGNIFICANT 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, 2004 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.

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 is that, after a transitional period which ended September 1, 2004, the unamortized deferred charges are no longer be 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 reduced 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 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 to income no later than December 2011. Once fully amortized, the net asset value for pricing purposes and for accounting purposes will be equal.

Notes to Financial Statements

(Unaudited)
Covington Fund II Inc.
February 28, 2005

Below represents a reconciliation of the February 28, 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 assets, at market value, for GAAP purposes | \$7.65 |
| Unamortized deferred sales commissions for pricing purposes | 0.29 |
| Net assets, at market value, for pricing purposes | \$7.94 |

4. COMPARATIVE FINANCIAL STATEMENTS

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

Directors and Officers

Leon Paroian

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

A. Warren Moysey

Toronto, Ontario
Director
Corporate Director

M. Grant Brown

Oakville, Ontario
President and Secretary
Managing Partner,
Covington Capital Corporation

Donald M.E. Hamilton

North Vancouver, British Columbia
Director
President and Chief Executive Officer,
General Communications Corporation Ltd.

R. Scott Colbran

Acton, Ontario
Director
Corporate Director

David A. Griffin

Ottawa, Ontario
Director
Executive Officer,
Canadian Professional Police Association

Glen Hayden

Edmonton, Alberta
Director,
Canadian Professional Police Association

Henry J. Pankratz

Toronto, Ontario
Director
Corporate Director

K.C. Vallis

Toronto, Ontario
Vice-President and Chief Financial Officer
Managing Partner,
Covington Capital Corporation

Tony Cannavino

Ottawa, Ontario
Director
President,
Canadian Professional Police Association

Bob Baltin

Norval, Ontario
Director
Director,
Canadian Professional Police Association

Brian Adkin

Barrie, Ontario
Director
Vice-President,
Canadian Professional Police Association

Daryl Tottenham

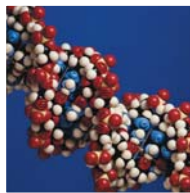
Abbotsford, British Columbia
Director,
Canadian Professional Police Association

Lisa Low

Toronto, Ontario
Controller
Chief Financial Officer,
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Anna de Sousa

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