COVINGTON
CAPITAL CORPORATION

2017 | Annual Report

COVINGTON VENTURE FUND INC.

Series VII
Series VIII
Series VIII-B
Series IX
Series IX-B

For The Year Ended July 31, 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Covington Venture Fund Inc. (the "Fund") are the responsibility of management. They have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies, which management believes are appropriate for the Fund, are described in Note 3 to the financial statements.

Management has developed and maintained 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 to the financial statements primarily through the activities of its Audit and Valuation Committee (the "Committee"), which is composed of members of the Board of Directors. The Committee has responsibility for approving the Fund's Net Asset Values as calculated by management in accordance with the Fund's valuation policies as well as meeting 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 Committee. The Committee also considers, 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 Professional Accountants and Licensed Public Accountants on behalf of the shareholders. The independent auditors' report outlines the scope of their audit and their opinion on the financial statements.

Scott D. Clark
President & CEO,
Covington Capital Corporation

Stephen Campbell
Chief Financial Officer,
Covington Capital Corporation

Toronto, Canada
October 27, 2017

INDEPENDENT AUDITORS' REPORT

To the Class A Shareholders of:

Covington Venture Fund Inc. Series VII, VIII, VIII-B, IX, IX-B (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at July 31, 2017 and July 31, 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares, and cash flows for the years ended July 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at July 31, 2017 and July 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 27, 2017

STATEMENTS OF FINANCIAL POSITION

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

As at		July 31, 2017 $		July 31, 2016 $
ASSETS AND LIABILITIES				
Assets				
Cash		**6,579**		3,669
Marketable securities		**-**		8,867
Venture investments		**1,975**		3,220
Accrued interest receivable		**1**		1
		8,555		15,757
Liabilities				
Accrued expenses [Note 8]		**599**		1,215
Contingent incentive participation amount payable [Note 8]		**77**		77
Redemptions payable		**-**		-
		676		1,292
Net assets attributable to holders of redeemable shares		**7,879**		14,465
Net assets attributable to holders of redeemable shares per Series				
Series VII	**$**	**1,520**	$	2,096
Series VIII	**$**	**938**	$	3,019
Series VIII-B [Note 1]	**$**	**513**		N/A
Series IX	**$**	**3,635**	$	9,350
Series IX-B [Note 1]	**$**	**1,273**		N/A
Redeemable Class A Shares outstanding [Note 6]				
Series VII		**158,173**		209,601
Series VIII		**109,455**		337,783
Series VIII-B [Note 1]		**51,650**		N/A
Series IX		**435,852**		1,076,089
Series IX-B [Note 1]		**128,082**		N/A
Net assets attributable to holders of redeemable shares per share				
Series VII	**$**	**9.61**	$	10.00
Series VIII	**$**	**8.57**	$	8.94
Series VIII-B [Note 1]	**$**	**9.93**		N/A
Series IX	**$**	**8.34**	$	8.69
Series IX-B [Note 1]	**$**	**9.94**		N/A

On behalf of the Board of Directors:

Philip Reddon
Director

John R. Mott
Director

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

[in $ thousands of Canadian dollars, except per share amounts]

For the years ended July 31,		**2017**		2016
		$		$
INCOME				
Interest for distribution purposes		**223**		710
Realized gain/(loss) on sale of investments[1]		**(38)**		62
Change in unrealized depreciation of marketable securities		**(120)**		(467)
		65		305
EXPENSES				
Management fees [Note 8]		**142**		210
Transfer agent fees [Note 8]		**70**		101
Shareholders' communication, marketing, administration and other		**67**		70
Audit fees		**61**		70
Directors' fees [Note 8]		**50**		45
Harmonized Sales Tax		**50**		95
Independent Review Committee [Note 8]		**23**		23
Distribution service fees [Note 8]		**22**		275
Dealer service fees [Note 8]		**20**		16
Custodian fees		**10**		11
Sponsor's fees [Note 8]		**6**		8
Legal fees		**2**		1
Harmonized Sales Tax recovered [Note 9]		**(71)**		-
Management fees recovered [Note 9]		**(545)**		-
		(93)		925
Expenses absorbed by Manager [Note 9]		**-**		(610)
Net expenses		**(93)**		315
Increase/(decrease) in net assets attributable to holders of redeemable shares		**158**		(10)
Increase/(decrease) in net assets attributable to holders of redeemable shares per Series				
Series VII	**$**	**(70)**	$	558
Series VIII	**$**	**(65)**	$	(120)
Series VIII-B	**$**	**101**		N/A
Series IX	**$**	**(236)**	$	(448)
Series IX-B	**$**	**428**		N/A
Increase/(decrease) in net assets attributable to holders of redeemable shares per share (based on weighted average number of shares outstanding)				
Series VII	**$**	**(0.40)**	$	1.88
Series VIII	**$**	**(0.28)**	$	(0.31)
Series VIII-B	**$**	**1.65**		N/A
Series IX	**$**	**(0.29)**	$	(0.36)
Series IX-B	**$**	**2.54**		N/A
Weighted average number of shares outstanding				
Series VII		**175,038**		296,344
Series VIII		**231,851**		386,083
Series VIII-B		**61,381***		N/A
Series IX		**801,671**		1,239,478
Series IX-B		**168,615***		N/A

** This is the weighted average for 155 days.*
The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

[in $ thousands of Canadian dollars]

For the years ended July 31,	**2017** **$**	2016 $
Net assets attributable to holders of redeemable shares, beginning of year	**14,465**	18,625
Increase/(decrease) in net assets attributable to holders of redeemable shares	**158**	(10)
REDEEMABLE SHARE TRANSACTIONS		
Class A Shares, Series VII		
Amounts paid for Class A Shares, Series VII redeemed	**(510)**	(1,119)
Class A Shares, Series VIII		
Subdivision of shares issued prior to May 1, 2008	**(804)**	
Amounts paid for Class A Shares, Series VIII redeemed	**(1,201)**	(687)
Class A Shares, Series VIII-B		
Net proceeds from issuance of Class A Shares, Series VIII-B	**804**	-
Amounts paid for Class A Shares, Series VIII-B redeemed	**(401)**	-
Class A Shares, Series IX		
Subdivision of shares issued prior to May 1, 2008	**(2,648)**	
Amounts paid for Class A Shares, Series IX redeemed	**(2,804)**	(2,344)
Class A Shares, Series IX-B		
Net proceeds from issuance of Class A Shares, Series IX-B	**2,648**	-
Amounts paid for Class A Shares, Series IX-B redeemed	**(1,828)**	-
Net assets attributable to holders of redeemable shares, end of year	**7,879**	14,465

[1] Breakdown of realized gain/(loss) on sale of investments:

Marketable securities		
Bonds, at cost, beginning of year	**8,747**	15,220
Accretion of discount	**165**	587
Bonds purchased during the year	**-**	-
	8,912	15,807
Bonds, at cost, end of year	**-**	8,747
Cost of bonds sold	**8,912**	7,060
Proceeds from sale of bonds	**8,912**	7,122
Realized gain on sale of marketable securities	**-**	62
Venture investments		
Venture investments, at cost, beginning of year	**4,035**	4,035
Venture investments purchased during the year	**-**	-
Venture investments repaid during the year	**(1,200)**	-
	2,835	4,035
Venture investments, at cost, end of year	**2,790**	4,035
Cost of venture investments sold	**45**	-
Proceeds from sale of venture investments	**7**	-
Realized gain/(loss) on sale of venture investments	**(38)**	-
Realized gain/(loss) on sale of investments	**(38)**	62

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

[in $ thousands of Canadian dollars]

For the years ended July 31,	2017 $	2016 $
Operating activities		
Decrease in net assets attributable to holders of redeemable shares	**158**	(10)
Items not affecting cash:		
Accretion of bond interest	**(165)**	(587)
Realized gain/(loss) on sale of investments	**38**	(62)
Change in unrealized depreciation of investments	**120**	467
Proceeds from sale of venture investment	**7**	-
Proceeds from repayment of loan	**1,200**	-
Proceeds from sale of bonds	**8,912**	7,122
Net change in non-cash working capital:		
Change in other assets and liabilities	**(616)**	657
	9,654	7,587
Financing activities		
Amounts paid for Class A Shares, Series VII, VIII, VIII-B, IX, IX-B redeemed	**(6,744)**	(4,150)
Increase/(decrease) in cash during the year	**2,910**	3,437
Cash, beginning of year	**3,669**	232
Cash, end of year	**6,579**	3,669
Supplementary information:		
Interest received*	**58**	124

** included in operating activities*

The accompanying notes are an integral part of these financial statements.

SCHEDULE OF INVESTMENT PORTFOLIO

[in $ thousands of Canadian dollars, except number of shares [or par value $]]

As at July 31, 2017

Venture investments

Investee companies	**Number of shares (or par value $)**	**Debt at cost $**	**Equity at cost $**	**Total $**
Mist Mobility Integrated Systems Technology Inc., Demand Promissory Note, 12%	$1,975,000	1,975	-	1,975
WireIE Holdings International Inc., Common	2,559,705	-	815	815
Total venture investments, at cost		1,975	815	**2,790**
Unrealized depreciation of venture investments				(815)
Venture investments				**1,975**
Total investments				**1,975**
Other assets, net of liabilities				5,904
Net assets attributable to holders of redeemable shares				**7,879**

As at July 31, 2017	**Number of companies**	**Cost of investments $**	**% Total venture investments at cost %**	**Fair value of investments $**	**% Total venture investments at fair value %**
Stage of Development					
Start-up / Early	1	815	29.2	-	0.0
Expansion	1	1,975	70.8	1,975	100.0
	2	**2,790**	**100.0**	**1,975**	**100.0**
Industry Class					
Manufacturing	1	1,975	70.8	1,975	100.0
Technology	1	815	29.2	-	-
	2	**2,790**	**100.0**	**1,975**	**100.0**
As at July 31, 2016					
Stage of Development					
Start-up / Early	1	815	20.2	-	-
Expansion	3	3,220	79.8	3,220	100.0
	4	**4,035**	**100.0**	**3,220**	**100.0**
Industry Class					
Entertainment / Retail	1	1,200	29.7	1,200	37.3
Manufacturing	1	1,975	49.0	1,975	61.3
Technology	2	860	21.3	45	1.4
	4	**4,035**	**100.0**	**3,220**	**100.0**

The accompanying notes are an integral part of these financial statements.

JULY 31, 2017

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

1. CORPORATE STATUS AND ACTIVITIES

Covington Venture Fund Inc. ("CVF" or the "Fund") is registered as both a labour-sponsored investment fund corporation ("LSIF") under the Community Small Business Investment Funds Act (Ontario) (the "Ontario Act") and a Labour Sponsored Venture Capital Corporation ("LSVCC") under the Income Tax Act (Canada) (the "Tax Act"). The Manager of the Fund is Covington Capital Corporation (the "Manager"). The administrator of the Fund is CI Investments Inc. The Fund is sponsored by the Canadian Federal Pilots Association (the "Sponsor"). The address of the Fund's registered office is 36 Distillery Lane, Suite 440, Toronto, Ontario M5A 3C4. These financial statements were authorized for issue by the Fund's Board of Directors on October 24, 2017.

On January 6, 2006 Capital First Venture Fund Inc. ("CFVF") amalgamated with several other LSIF's to become CVF. Specifically, CFVF became CVF Series VII. On November 13, 2007 the articles of amalgamation of the Fund were amended to create and designate the share provisions for the Class A shares, Series VIII and Class A shares, Series IX. The investment objective for Series VIII and IX is to realize long-term capitalization on all or part of its investment portfolio; and to preserve and return an investor's initial subscription price paid for such Series VIII and Series IX shares on or about their capital repayment date. On February 18, 2009 Articles of Amendment were filed in order to amend certain definitions and share provisions relating to Class A Series VII, VIII and IX shareholders resulting in the forming of a larger pool of assets. This group represented a separate portfolio of assets under National Instrument 81-106 ("NI 81-106") which governs Investment Fund Continuous Disclosure Requirements.

On January 31, 2017 the Fund announced that the Manager was going to waive management fees owed to it by the Fund to increase the net asset value to $10 per Class A share for CVF Series VIII and Series IX shareholders who purchased shares before May 1, 2008 in order to meet the original investment objective of returning the original subscription amount to these shareholders. The Manager and the Board determined the most efficient method of returning the original subscription amount was through the normal redemption process. The Manager advised that this pricing of $10 will be maintained from March 3, 2017 to June 3, 2017, at which point the net asset value for these shareholders will continue without any additional support from the Manager. In order to facilitate such a process, CVF Series VIII and Series IX were subdivided into CVF Series VIII, Series VIII-B, Series IX and Series IX-B respectively wherein the subcategory B shares represented units issued before May 1, 2008 while the remainder were issued after such date.

The Fund is currently closed to new subscriptions.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a going concern basis using the historical-cost convention. However, the Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Fund's accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the Net Asset Value for transactions with unitholders. In applying IFRS, these financial statements include estimates and assumptions made by management that affect the reported amounts of assets, liabilities, income, and expenses during the reporting periods. However, existing circumstances and assumptions may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

These financial statements are presented in Canadian dollars, which is the Fund's functional currency.

JULY 31, 2017

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Fund recognizes financial instruments at fair value upon initial recognition, inclusive of transaction costs in the case of financial instruments measured at amortized cost. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and liabilities are measured at fair value through profit or loss ("FVTPL"). The Fund's obligations for net assets attributable to holders of redeemable shares are presented at the redemption amount. All other financial assets and liabilities, such as accounts receivable, receivables for venture investments sold, income receivables, accounts payable, accrued expenses, incentive participation amounts payable and redemptions payable, are measured at amortized cost, which approximates fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's stated rates of interest.

Valuation of investments

At the financial reporting date, all investments having quoted market values and which are publicly traded on a recognized stock exchange, and are not otherwise restricted, are valued based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the existing market conditions. The changes in fair value are recorded as unrealized appreciation (depreciation) of marketable securities.

Fixed income securities, debentures or other debt instruments including short-term investments are valued at the quotation price from recognized investment dealers. Zero-coupon bonds are valued at the quotation price from recognized investment dealers. The discount relating to the zero-coupon bond is recognized on a straight-line basis into income over the life of the respective bond.

Venture investments in securities not having quoted market values or in restricted securities are recorded at estimated fair value ("FV"). The fair values of the venture investments are determined by the Manager using an appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other pertinent considerations.

For warrants that are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used.

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

Financial assets and liabilities at fair value

The Fund carries its investment in equity and debt as financial assets or financial liabilities at FVTPL. This has two sub-categories: (1) financial assets or financial liabilities held for trading; and (2) those designated at FVTPL at inception.

(1) Financial assets and financial liabilities held for trading: a financial asset or financial liability is classified as held for trading ("HFT") if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition, it is part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; and,

(2) Financial assets and financial liabilities designated at FVTPL: a financial asset or financial liability is designed as FVTPL at inception are financial instruments that are not classified as HFT but are managed and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's investments are designated as FVTPL.

JULY 31, 2017

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Subsidiaries, associates, joint ventures and structured entities

Subsidiaries are entities, including investments in other investment entities, over which a Fund has control. A Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Associates and joint ventures are investments over which a Fund has significant influence or joint control. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factors in deciding who controls the entity, or when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

IFRS 10, *Consolidated Financial Statements*, establishes principles for consolidation when one entity controls another but allows an exemption for the consolidation of subsidiaries of investment entities and requires such entities to recognize all subsidiaries at FVTPL. IAS 28, *Investment in Associates*, also allows investments in associates that are held by investment entities to be recognized and measured at FVTPL and to be accounted for in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and IFRS 13, *Fair Value Measurement*, with changes in fair value recognized in the Statements of Comprehensive Income in the period of change. As such, investments that are held as part of the Fund's investment portfolio are carried on the Statements of Financial Position at fair value even though the Fund may have control or significant influence over those companies. Investments in unconsolidated structured entities, if any, have been designated at FVTPL.

Income recognition and security holder transactions

Interest and income for distribution purposes and other income are recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Investment transactions are accounted for on a trade date basis and gains and losses from such transactions are calculated based on average cost excluding transaction costs. Net realized and unrealized gains (losses) on investments include the related foreign exchange gains and losses in the Statements of Comprehensive Income.

Commissions and other portfolio transaction costs

Transaction costs, such as brokerage commissions, if any, incurred in the purchase and sale of securities are included in "Commissions and other portfolio transaction costs" in the Statements of Comprehensive Income.

Foreign currency translation

The Fund may hold certain venture investments where the original purchase price was stated in US dollars. The cost is converted to Canadian dollars at the exchange rate in effect at the time of purchase and this amount becomes the historical cost of the investment. When a venture investment is purchased in US dollars, the fair value of these investments is adjusted weekly for the change in the exchange rate.

Increase (decrease) in net assets attributable to holders of redeemable shares

Increase (decrease) in net assets attributable to holders of redeemable shares per series of Class A share in the Statements of Comprehensive Income is calculated by dividing the increase (decrease) in net assets attributable to holder of redeemable shares per series by the weighted average number of shares outstanding for the relevant series of Class A Share during the period.

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The most significant accounting judgments and estimates that the Fund has made preparing the financial statements are:

(1) Fair value of venture investments in securities not having quoted market values – The Fund holds some investments that are not quoted on a recognized stock exchange. Such unlisted securities may be valued based on price quotations from recognized investment dealers, or if not available, determined by the Manager using valuation methodologies and considerations as described in Note 3. The process of valuing venture investments for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments.

(2) Classification and measurement of investments and application of the fair value option – In classifying and measuring the financial instruments held by the Fund, the Manager is required to make significant judgements about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39. The most significant judgement includes the determination that the fair valuation option can be applied to the Fund's investments.

5. UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND STRUCTURED ENTITIES

The Fund meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but rather, recognizes the as investments at FVTPL. The Fund does not hold any interest in unconsolidated subsidiaries, associates or structured entities.

6. REDEEMABLE SHARES

Class A Shares issued and outstanding represent the capital of each Series. Each Series is authorized to issue an unlimited number of Class A Shares in an unlimited number of Series. Generally, each Series has specific capital requirements and restrictions as outlined in either the Fund's annual information form or in Series VII, VIII and IX's initial prospectus.

The Fund is registered as both an LSIF under the Ontario Act and an LSVCC under the Tax Act. Under these Acts, the Fund is required to invest a portion of capital raised in eligible small and medium sized Canadian businesses. Companies of this size tend to be privately owned and are characterized as having less than $50 million in assets and fewer than 500 employees. The investment restrictions, if not adhered to, could have negative impacts as the Fund could be levied with penalty taxes and ultimately, the Fund could have its LSIF status revoked. As at December 31, 2016, the compliance filing deadline under the Acts, the Fund was in compliance with all of these restrictions under both the Ontario and Tax Acts.

The Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares, identifies changes in each Series' capital during the period. The Manager manages the capital of the Series in accordance with each Series' investment objectives, including managing their liquidity in order to meet redemptions.

JULY 31, 2017

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

6. REDEEMABLE SHARES *(Cont'd)*

The following is a description of the authorized and issued shares:

Authorized

Unlimited Class A Shares, issuable from treasury, discretionary dividend entitlement, voting, restrictions on transfer and redemption and entitled to elect one director.

Unlimited Class B Shares, issuable to the Sponsor, no dividend entitlement, voting, entitled to elect all but one director.

Class A Share subscriptions

The Class A Shares of the Fund are no longer offered for subscription to the investors. The Fund may recommence offering these shares at any time the Fund deems appropriate.

Class A Share redemptions

A shareholder may redeem all or part of the Class A Shares held at the Net Asset Value per Redeemable Class A Share ("NAVPS"), subject to certain restrictions. One of these restrictions is 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 Assets Attributable to Holders of Redeemable Shares as at the last day of the preceding fiscal year.

Redeemable shares are classified as liabilities unless they meet certain criteria for classification as equity, including identical features for the most subordinate class of shares. As the Fund's Class A Shares do not meet the exception criteria in IAS 32, *Financial Instruments: Presentation*, for classification of redeemable shares as equity, the Fund's Class A Shares are classified as financial liabilities.

The Fund cannot guarantee that it will be able to honour all redemption requests on the day in which they are made. Some of the Fund's investments are held in non-liquid securities. As such, if all shareholders were to redeem their shares at the same time, the Fund may need to liquidate these investments at lower values than currently ascribed and shareholders may not receive the NAVPS ascribed. The redemption of Class A Shares may be suspended in certain circumstances as permitted by applicable securities law.

For CVF Class A Shares, Series VII, VIII and VIII-B, a redemption fee in the amount of up to 6% of the original issue price calculated as 0.75% of the original issue price times the number of years remaining until the eighth anniversary of the date of issue is charged by the Fund.

For CVF Class A Shares, Series IX and IX-B, a redemption fee is charged by the Fund in the amount of up to 10% of the original issue price calculated as 1.25% of the original issue price times the number of years remaining until the eighth anniversary of the date of issue.

The following shares were issued and redeemed during the years indicated:

July 31, 2017

Number of shares [Note 1]	Series VII	Series VIII	Series VIII-B	Series IX	Series IX-B
Class A Shares					
Balance, beginning of year	209,601	337,783	-	1,076,089	-
Shares issued prior to May 1, 2008*	-	(91,631)	91,631	(310,795)	310,795
Redeemed during the year	(51,428)	(136,697)	(39,981)	(329,442)	(182,713)
Balance, end of year	158,173	109,455	51,650	435,852	128,082

* *Material change report filed January 31, 2017*

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

6. REDEEMABLE SHARES *(Cont'd)*

July 31, 2016

Number of shares	Series VII	Series VIII	Series IX
Class A Shares			
Balance, beginning of year	330,120	413,875	1,341,892
Redeemed during the year	(120,519)	(76,092)	(265,803)
Balance, end of year	209,601	337,783	1,076,089

Class B Shares

There are 600 Class B Shares issued and outstanding to the Sponsor. No such shares have been issued or redeemed in the years ended July 31, 2017 or 2016.

7. ALLOCATION OF INCOME AND EXPENSES

The Fund allocates income, expenses, realized gains (losses) and unrealized gains (losses) on the following basis:

Income and realized and unrealized gains (losses) are apportioned on a weekly basis based on the net asset value of the respective Series to the total net asset value of the Fund as at the most recent valuation date. Expenses are categorized and tracked as to expenses directly attributable to a specific Series ("direct expenses") and those that are common expenses of the Fund. Direct expenses of a particular Series are recorded as a direct expense to that Series. Common expenses are allocated to each Series in a consistent manner as the income allocation described above.

8. MANAGEMENT FEES, INCENTIVE PARTICIPATION AMOUNT AND OPERATING EXPENSES

The Fund has entered into various agreements for the provision of management, investment advisor, sponsor, transfer agent, dealer and custodian services.

Under the terms of the investment agreements, the Manager, transfer agent, dealer and Sponsor are entitled to receive from the Fund a monthly fee calculated based on the Net Asset Value of the Fund at the end of the month. The annual fee rates are stated as follows:

	Series VII	Series VIII	Series VIII-B	Series IX	Series IX-B
Management fees	1.25%	1.25%	1.25%	1.25%	1.25%
Sponsor fees	0.05%	0.05%	0.05%	0.05%	0.05%
Transfer agent fees	0.60%	0.60%	0.60%	0.60%	0.60%
Dealer service fees	0.50%	0.50%	0.50%	-	-
Distribution service fees*	-	1.152%	1.152%	1.92%	1.92%

** As of May 1, 2017, distribution service fees are no longer being charged.*

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[in $ thousands of Canadian dollars, except per share amounts and number of shares]

8. MANAGEMENT FEES, INCENTIVE PARTICIPATION AMOUNT AND OPERATING EXPENSES *(Cont'd)*

The Manager is entitled to an incentive participation amount (the "IPA") based on the performance of CVF Class A Shares Series VII as disclosed in the Fund's annual information form and is based on performance of the Series dating to the inception of CFVF prior to the amalgamation forming CVF. The Fund's annual information form details the IPA on the performance of CVF Class A Shares Series VIII and IX which were launched in December 2007.

If certain performance criteria as outlined in the Fund's offering documents have been met, the Fund records Conditional IPA. Conditional IPA represents a provisional estimate of what would be payable to the manager if the entire venture portfolio of the Series were disposed of at fair value as at the reporting date whereas IPA payable is based on actual realized transactions. Conditional IPA was formerly referred to as "Contingent IPA" prior to the adoption of IFRS by the Fund.

As at July 31, 2017, either Conditional IPA or IPA payable included in the financial statements are as follows:

Expensed year ended July 31, 2017	Expensed year ended July 31, 2016	IPA payable as at July 31, 2017	IPA payable as at July 31, 2016	Paid during year ended July 31, 2017	Paid during year ended July 31, 2016
-	-	77	77	-	-

During the course of the Fund's investment activities, the Fund may pay commissions and other transaction costs to dealers in connection with purchases and sales of venture investments. During the year, no commissions have been paid (2016-NIL).

Directors of the Fund are entitled to receive an annual fee of $7.5 and a fee of $1 for each meeting of the Board of Directors or any committee thereof attended. Directors of the Fund who are members of the Sponsor or are directors, officers or shareholders of the Manager will receive no compensation.

Members of the Fund's Independent Review Committee ("IRC") also serve other LSIFs managed by Covington. The IRC members each receive total remuneration across all Funds of $12 per year plus a per meeting fee of $2 for the Chairperson and $1.5 per meeting for each of the other two members. The annual fee is allocated across all of the Funds served by the IRC whereas per meeting fees are borne by the particular Fund for which the meeting is called, if any.

9. RELATED PARTY TRANSACTIONS

The Fund receives investment advisory services provided by the Manager. These services are in the normal course of operations and the renumerations are recorded at the amount of the considerations agreed to by the parties, as described in Note 8. Management fees, incentive participation amount and sponsor's fees are reported in the Statements of Comprehensive Income. Amounts due to/from the Manager and contingent incentive participation amount payable to the Manager at period-end, if any, are reported in the Statements of Financial Position. Included in accrued expenses as at July 31, 2017 is $430 (July 31, 2016 - $347) due to the Manager for accrued management fees.

On January 31, 2017, the Fund announced that the Manager was going to waive management fees owed to it by the Fund to increase the net asset value to $10 per Class A Share Series VIII-B and Series IX-B shares. In total, the manager waived fees of $545 plus HST of $71 in fiscal 2017 shown in the Statement of Comprehensive Income as a recovery. Netted against expenses in 2016 is an amount of $610 injected by the Manager to increase the net asset value of the Class A Series VII shares to $10 per share to meet the original investment objective of returning the original subscription amount to the Series VII shareholders.

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

10. INCOME AND OTHER TAXES PAYABLE

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. Taxes payable on dividend income earned by the Fund will be partially refundable upon the payment or deemed payment of dividends by the Fund. The Tax Act and Ontario Act set minimum levels of qualifying venture investments required to be made by the Fund. If the required minimum level of qualifying venture investments is not met under each statute, the Fund will be subject to defined taxes and penalties. The Fund is currently in compliance with the requirements of the Tax Act, and Ontario Act.

The Fund is a single corporation for income tax purposes and computes its income (loss) for tax purposes as such. All revenue, expenses, capital gains and losses, either common to all series of the Fund or to a particular series, will be taken into account in determining the income or loss of the Fund as a whole and applicable taxes payable by the Fund as a whole.

The Fund has capital losses of $138,773 and non-capital losses of $29,168 available to offset future capital gains and income respectively. 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: 2026 - $7,831; 2027 - $5,409; 2028 - $nil; 2029 - $5,415; 2030 - $5,570; 2031 - $nil; 2032 - $2,173; 2033 - $1,654; 2034 - $nil; 2035 - $nil and 2036 - $1,116. Capital losses can be carried forward indefinitely.

The tax amounts reflected in these financial statements are based on management's best estimate of the amounts that will ultimately be assessed. This determination is based on numerous factors such as the pace at which the Fund makes qualifying venture investments, the amount of share capital raised and redeemed, and the net income and the undistributed net realized gains (losses) on sale of investments by the Fund. Should actual events not agree with the estimates made by management of the Fund, material adjustments to the tax amounts may be required.

11. FINANCIAL INSTRUMENTS

Fair value hierarchy

The following describes the three-level hierarchy for fair value measurements based on transparency of inputs to the valuating of an asset or liability as at the measurement dates. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable market inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 – Quoted Prices in an Active Market

Unadjusted quoted prices in active markets for identical assets or liabilities. This level of the hierarchy includes listed equity securities on major exchanges, highly liquid temporary deposits with Canadian Banks, as well as term deposits, bank deposit notes and corporate bonds. The fair value of instruments that are quoted in active markets are determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place.

Level 2 – Valuation Techniques with Observable Parameters

Inputs other than quoted prices included in Level 1 that are observable for the asset and liability either directly (ie. as prices) or indirectly (ie. derived from prices). This level of the hierarchy includes zero coupon bonds held by Funds that are valued using valuation models determined by third party pricing services. These sources generally determine the value of the zero coupons bonds using observable market input such as: data points from various Canada yield curves and corporate spreads. These may be combined with liquidity spreads into proprietary valuation models. Since the inputs may be observable inputs but the application of a valuation model is used, these financial instruments are considered Level 2.

Level 3 – Valuation Techniques with Significant Unobservable Parameters

Inputs that are not based on observable market inputs Level 3 instruments include equities, debentures, term loans and promissory notes issued by privately-held companies. As observable prices are not available for these securities, the Fund may use a variety of valuation techniques to derive the fair value.

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[in $ thousands of Canadian dollars, except per share amounts and number of shares]

11. FINANCIAL INSTRUMENTS *(Cont'd)*

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. These amendments have been made to address the need for increased consistency and comparability of fair value measurements, and to expand the disclosure surrounding fair value measurements and do not have any impact on the net assets of the Fund.

Financial instruments carried at fair value

The following tables classify the carrying value of the Fund's financial instruments held at fair value across the fair value hierarchy as at July 31, 2017 and 2016:

	Financial instruments at fair value			
As at July 31, 2017	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Marketable securities	-	-	-	-
Venture investments	-	-	1,975	1,975
Total financial assets	**-**	**-**	**1,975**	**1,975**
As at July 31, 2016				
Marketable securities	-	8,867	-	8,867
Venture investments	-	-	3,220	3,220
Total financial assets	-	8,867	3,220	12,087

During the years ended July 31, 2017 and 2016, there were no transfers between any levels of the fair value hierarchy in any of the Fund's Series.

The following is a reconciliation of Level 3 fair value measurements:

	July 31, 2017	July 31, 2016
	$	**$**
Balance, beginning of year	3,220	3,220
Proceeds from sale of venture investments	(7)	-
Venture debt repaid	(1,200)	-
Realized loss on sale of venture investment	(38)	-
Balance, end of year	**1,975**	3,220
Total change in unrealized gains and losses during the year included in the statement of comprehensive income for assets held at end of year	**-**	-

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[in $ thousands of Canadian dollars, except per share amounts and number of shares]

11. FINANCIAL INSTRUMENTS *(Cont'd)*

Risk Management

The Fund's activities expose it to a variety of financial risks: valuation risk, market risk (which includes currency risk, interest rate risk and other price risk), liquidity risk and credit risk as described below. The Fund's overall risk management program seeks to minimize potential adverse effects on the Fund's financial performance through a regular program of monitoring the Fund's investment positions and updating the valuation of the private company portfolios. The value of investments within a portfolio can fluctuate daily as a result of changing economic and market conditions, prevailing interest rates and company specific news relating to portfolio investments. The Fund has managed this risk through its Audit and Valuation Committee which reviews a quarterly report from the Manager on the investment portfolio as a whole and on determination of fair value for the venture investments including a discussion of significant events affecting the valuation of such investments. The majority of this committee is independent from the Manager and is responsible for considering the appropriateness of the valuation policies adopted by the Fund and the Manager.

(a) Valuation and other market risk

There is a risk of loss of capital associated with all venture investments of the Fund. Valuation risk is the risk that the estimated fair values of investments for which no quoted market value exists as determined by the Manager may differ from values that would have been used had a ready market existed for these investments. Other market risk is the risk that the value of the venture investments will fluctuate as a result of changes in market prices.

Among the assets held for trading by the Fund are venture investments for which no quoted market values exist. These investments are in privately held companies whereby fair values are estimated by the Manager using valuation techniques as described in Note 3. These are also the assets that are included at Level 3 in the valuation hierarchy investments for which the fair values have been estimated based on assumptions that may not be supported by observable market prices.

The potential effect of changing the assumptions to reasonably possible alternative assumptions on the fair value of the venture investments would result in a decrease or increase in net assets as at July 31, 2017 and July 31, 2016 as follows:

July 31, 2017		July 31, 2016	
Fair value of privately held investments $	**Decrease/Increase in net assets**	Fair value of privately held investments $	Decrease/Increase in net assets
1,975	**-**	3,220	-

The FV of each Level 3 investment is generally related to the underlying value and/or creditworthiness of small to medium sized privately-held businesses. Management reviews a number of valuation techniques for each investment depending on a number of factors including: financial performance, stage of the business, follow-on financings from external parties, relation of business financial measures to public company comparables, reliability of future cash flow projections and publicly available information on transactions involving similar businesses in the marketplace.

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[in $ thousands of Canadian dollars, except per share amounts and number of shares]

11. FINANCIAL INSTRUMENTS *(Cont'd)*

The list below summarizes the significant unobservable inputs used in the fair value measurement of Level 3 financial instruments.

The Fund has investments in two (2016 - four) privately-held businesses for which level 3 inputs have been used in determining the value of the investments. Collectively, these investees have been ascribed a fair value of $1,975 (2016 - $3,220).

The primary valuation technique used to value these companies was net estimated realizable value with inputs considering probability of collection and exit multiples respectively. Based on the ranges of reasonably possible inputs, management has determined that there is no net increase or decrease in the fair value of these securities as at July 31, 2017 or 2016.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may not reflect the prices at which the Fund's investments may actually be sold.

(b) Foreign currency risk

Foreign currency risk arises from venture investments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. Although the Manager has flexibility to manage the foreign currency risk by hedging its currency exposure, the Manager did not engage in currency hedging during the period due to the low volume of foreign currency transactions and dollar values involved. Increases and decreases in the exchange rate between the Canadian currency and the foreign currency may increase or decrease the value of the foreign currency denominated investments within the Fund. The Fund had no US dollar denominated investments or cash as at July 31, 2017 or July 31, 2016.

(c) Interest rate risk

If interest rates fall, the fair value of existing debt securities may increase due to the increase in yield. On the other hand, if interest rates rise, the yield of existing debt securities will decrease which will lead to a decrease in fair value. The magnitude of the change will generally be greater for long-term debt securities than short-term debt securities. Interest rate risk also applies to convertible securities. The fair value of these securities varies inversely with interest rates, similar to other debt securities. However, since they may be converted into common shares, convertible securities are generally less affected by interest rate fluctuations than other debt securities. As at July 31, 2017 the Fund did not hold any debt instruments. (As at July 31, 2016, the Fund held a zero coupon bond of $8,867 with less than 1 year to maturity. As at July 31, 2016, if the yield curve had shifted in parallel by 25 basis points, and all other variables remained constant, the net assets would have increased or decreased, respectively by $9.)

In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(d) Other price risk

Other price risk is the risk that the fair value or future cash flows of the investments will fluctuate because of changes in market prices. In addition to venture investments for which no quoted market values exist, the Fund may hold investments that are publicly traded on a recognized stock exchange. There is market price risks associated with investments in publicly traded securities; however the Fund had no exposure to publicly-traded equities as at July 31, 2017 and July 31, 2016.

[in $ thousands of Canadian dollars, except per share amounts and number of shares]

11. FINANCIAL INSTRUMENTS *(Cont'd)*

(e) Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. Fair value of investments with low liquidity may have variances or impairments. The Fund is exposed to weekly redemptions and, therefore, attempts to maintain a portion of its assets in the form of marketable securities which can be readily disposed of. The Fund is not required to redeem Class A Shares, in any financial year having an aggregate redemption price exceeding exceeding 20% of the NAV of the Fund as at the last day of the preceding fiscal year. Many of the Fund's investments are held in non-liquid securities. As such, if all shareholders were to redeem their shares at the same time, the Fund may need to liquidate these investments at lower values than currently ascribed and shareholders may not receive the NAV ascribed. As the Fund matures, liquidity becomes more difficult to achieve as the venture portfolio has longer term holds.

(f) Credit risk

Credit risk is the risk that a debt security issuer or counterparty cannot meet its financial obligations, such as making interest payments or principal repayments. Issuers that have suffered adverse changes in financial conditions may receive a low credit rating reflecting a high credit risk. A change in the credit rating of the debt security can affect its liquidity and may result in an impairment of its fair value. The Manager manages credit risk by investing the reserve portfolio of the Fund in high quality investment grade debt obligations with a minimum rating of "A" at the time of investment.

The Fund holds a portion of its investment portfolio in private debt instruments which can be considered high risk debt instruments. These instruments are not rated by any of the market bond rating services and are subject to valuation risk as described in part (a) above.

As at July 31, 2017 the Fund did not hold any debt instruments. As at July 31, 2016 the Fund was invested in AA rated* debt instrument with a cost basis of $8,867 as follows (not including the venture portfolio listed in (a) above or short-term marketable securities).

* *Credit ratings are obtained from Dominion Bond Rating Services and/or Standard & Poor's. Where one or more rating is obtained, the lowest rating has been used.*

12. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Fund plans to adopt the new standard on the required effective date. During 2017, the Fund has performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Fund in the future. Overall, the standard is not expected to have a material impact on the measurement basis of the financial assets held by the Fund since majority of the financial assets are measured at fair value through profit or loss. The Fund expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at FVPL under IFRS 9 as the Fund does not expect to hold the assets to collect contractual cash flows. Therefore, no impact on the Net Assets and the results of the Fund is expected from the adoption of IFRS 9.

Fund Symbols*

Series VII CIG462
Series VIII CIG465
Series VIII-B CIG465
Series IX CIG466
Series IX-B CIG466
** All Series closed to new purchases*

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