

Management Report of Fund Performance



COVINGTON VENTURE FUND INC.

Series VII
Series VIII
Series IX

TABLE OF CONTENTS

Table of Contents	1
Forward Looking Statements.....	2
Investment Objectives and Strategies	2
Risk Factors.....	2 - 3
Results of Operations.....	3
Recent Developments.....	3
Related Party Transactions	3
Financial Highlights	4 - 5
Management Fees	6
Past Performance	6 - 7
Summary of Investment Portfolio	8
Corporate Information.....	Back Cover

This annual management report of fund performance contains financial highlights but does not contain the annual financial statements of the Covington Venture Fund Inc., Series VII, VIII, IX (the "Fund"). You can obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-244-4714, by writing to us at Covington Capital Corporation, 87 Front St. East, Suite 400, Toronto, Ontario M5E 1B8 or by visiting our website at www.covingtonfunds.com or on SEDAR at www.sedar.com.

Shareholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures or proxy voting disclosure record.

CLASS A SHARES, SERIES VII, VIII, IX

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

FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund actions. The words “anticipate”, “could”, “should”, “may”, “expect”, “believe”, “plan”, “intends”, “estimate”, “forecast”, “objective”, “would”; and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors. It is not possible to guarantee that future performance, predictions, forecasts, projections or other forward-looking statements will be achieved. Factors such as economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings or catastrophic events could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund. Please consider these and other pertinent factors before making any investment decisions and do not place undue reliance on forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice.

INVESTMENT OBJECTIVES AND STRATEGIES

Covington Venture Fund Series VII, formerly the Capital First Venture Fund Inc., was launched in February 2004 with the following investment objectives: (i) to realize long-term capital appreciation by investing in securities of community small business investment fund corporations (“CSBIFs”); and (ii) to return to investors an amount equal to the subscription price paid on or about June 1, 2016. The CSBIF portion of Series VII has matured and been wound up; however, the Fund continues to manage eligible investments in emerging and high-growth Canadian companies and intends to develop and grow investee businesses in cooperation with strategic relationships introduced by the Fund’s Manager.

On November 13, 2007, the articles of Covington Venture Fund were amended to create Class A Shares, Series VIII and Series IX respectively. These series were offered for sale until March 31, 2008 at a price of \$10 per share and again from October 16, 2008 to March 31, 2009 at the net asset value per share at date of issue. The investment objectives are: (a) to provide mezzanine investments in eligible businesses and (b) to return an amount equal to an investor’s initial subscription on or about December 31, 2016 for the first offering of the Series VIII and IX shares or December 31, 2017 for the second offering.

Given the commonality of the investment objectives for each of the Series VII, VIII, and IX respectively, the Series were consolidated in February 2009 after receiving shareholder and regulatory approvals. The asset consolidation resulted in the Fund sharing a common pool of assets.

On June 14, 2016 the Fund announced that the Manager was injecting funds to increase the net asset value per Class A share for Series VII to \$10 per share to meet the original investment objective of returning the original subscription amount to the Series VII shareholders. The Manager advised that it was in the position to maintain this \$10 per share pricing until August 31, 2016 at which point the net asset value of the Fund will continue to float freely without any additional capital support from the Manager. As at July 31, 2016 the Manager had advanced \$610 to the Fund.

RISK FACTORS

The Fund is suitable for investors with a longer-term investment focus and higher risk tolerance as discussed in the Fund’s Annual Information Form dated October 21, 2016.

The Fund’s venture portfolio consists of debt and equity instruments of privately held companies for which there is no readily available exit market. The impact to the portfolio is tighter liquidity and estimation in the valuation process. 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 which would have been ascribed had a ready market existed for those investments. This is valuation risk as described in the Fund’s financial statements.

Approximately 61% of the Fund’s net assets attributable to holders of redeemable units at July 31, 2016 are held in either zero-coupon or corporate bond issues. Bond valuations are subject to credit and interest rate risks relating to both the issuer and overall market conditions. In uncertain credit markets, valuation of these bonds may become more volatile.

CLASS A SHARES, SERIES VII, VIII, IX

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

Investors who purchase LSIFs are required to hold their investment for eight years in order to retain the tax credit offered by the provincial and federal governments. If all shareholders were to redeem their shares at the same time, the Fund may need to liquidate investments at lower values than currently ascribed and shareholders may not receive the posted Net Asset Value ("NAV"). In any financial year, the fund is not obligated to redeem greater than 20% of the NAV of the Fund.

The Fund was closed to new subscriptions after the 2009 RSP season; as such the Fund is dependent upon internal growth of its portfolio in order to meet its investment objectives. In order to help meet the investment objectives of the Fund, certain of the original proceeds of sale of Class A Shares were set aside into long-term bonds set to mature in 2016. Even at maturity, there is no guarantee that the objective of returning the original subscription price can be met.

RESULTS OF OPERATIONS

The net asset attributable to holders of redeemable shares as at July 31, 2016 totalled \$14,465. This is further broken down to three Series: Series VII-\$2,096, Series VIII-\$3,019 and Series IX-\$9,349. Overall, net assets have decreased by \$4,160 from July 31, 2015. The Fund realized \$4,150 in redemptions over the year as compared to \$693 in fiscal 2015.

As the time to the Fund's capital repayment dates approaches, management is accruing but not collecting fees in efforts to maintain liquidity within the Fund. While this will not guarantee that the Fund's objectives will be met, it will help to ensure smooth operations through the course as the time horizon shortens.

Unrealized losses within the investment portfolio contributed \$467 to the overall loss of \$10 for the year. Operating expenses for the period totalled \$315 compared to \$1,034 in 2015. The reason for the net decrease in expenses relates to the funds injected into the Fund by the Manager to meet the original Series VII investment objective of returning \$10 per share. This action has reduced the expenses of the Fund by \$610.

No new or follow-on venture investments were completed or realized during the year.

RECENT DEVELOPMENTS

Fund Liquidity

The Fund has a strong liquidity position as at July 31, 2016 with \$12,536 or approximately 80% of total assets held in cash and marketable securities, with \$8,867 of this value maturing in December 2016. While the Fund continues to work towards its investment objective, there is no guarantee that the objective of returning the original subscription price can be met.

RELATED PARTY TRANSACTIONS

The Manager and Sponsor are deemed to be related parties to the Fund. During the year, the Fund accrued or paid \$210 in Management fees payable to the Manager and \$8 in Sponsor fees payable to the Sponsor. No other fees were paid or payable to related parties except for reimbursement of any expenses on account of the Fund which may have been otherwise paid by the Manager on the Fund's behalf. See Note 8 in the Fund's 2016 financial statements.

Included in expenses by way of fee recovery 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.

COVINGTON VENTURE FUND INC.

CLASS A SHARES, SERIES VII, VIII, IX

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

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance.

FUND'S NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

SERIES VII	Year ended July 31, 2016	Year ended July 31, 2015	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012 ⁽³⁾
Net assets attributable to holders of redeemable units, beginning of year ⁽¹⁾ ⁽²⁾	\$ 8.05	\$ 8.36	\$ 8.50	\$ 8.63	\$ 8.71
Increase (decrease) from operations:					
Total revenue	0.35	0.37	0.43	0.34	0.44
Total expenses	1.73	(0.32)	(0.36)	(0.30)	(0.41)
Realized gain (loss) on investments	0.03	-	0.02	0.16	0.05
Unrealized gain (loss) on investments	(0.23)	(0.45)	(0.31)	(0.32)	(0.16)
Total increase (decrease) from operations ⁽²⁾	1.88	(0.40)	(0.22)	(0.12)	(0.08)
Net assets attributable to holders of redeemable units, end of year ⁽¹⁾ ⁽²⁾	\$ 10.00	\$ 8.05	\$ 8.36	\$ 8.50	\$ 8.63
SERIES VIII					
Net assets attributable to holders of redeemable units, beginning of year ⁽¹⁾ ⁽²⁾	\$ 9.25	\$ 9.74	\$ 10.03	\$ 10.32	\$ 10.45
Increase (decrease) from operations:					
Total revenue	0.38	0.43	0.46	0.41	0.52
Total expenses	(0.48)	(0.50)	(0.52)	(0.49)	(0.51)
Realized gain (loss) on investments	0.03	-	0.02	0.16	0.03
Unrealized gain (loss) on investments	(0.24)	(0.44)	(0.25)	(0.36)	(0.19)
Total increase (decrease) from operations ⁽²⁾	(0.31)	(0.51)	(0.29)	(0.28)	(0.15)
Net assets attributable to holders of redeemable units, end of year ⁽¹⁾ ⁽²⁾	\$ 8.94	\$ 9.25	\$ 9.74	\$ 10.03	\$ 10.32
SERIES IX					
Net assets attributable to holders of redeemable units, beginning of year ⁽¹⁾ ⁽²⁾	\$ 9.05	\$ 9.57	\$ 9.89	\$ 10.21	\$ 10.37
Increase (decrease) from operations:					
Total revenue	0.37	0.42	0.45	0.38	0.51
Total expenses	(0.52)	(0.53)	(0.54)	(0.53)	(0.54)
Realized gain (loss) on investments	0.03	-	0.02	0.16	0.03
Unrealized gain (loss) on investments	(0.24)	(0.39)	(0.22)	(0.29)	(0.15)
Total increase (decrease) from operations ⁽²⁾	(0.36)	(0.50)	(0.29)	(0.28)	(0.15)
Net assets attributable to holders of redeemable units, end of year ⁽¹⁾ ⁽²⁾	\$ 8.69	\$ 9.05	\$ 9.57	\$ 9.89	\$ 10.21

(1) This information is derived from the Fund's audited annual financial statements. The net assets per security presented in the financial statements may differ from the asset value calculated for fund pricing purposes.

(2) Net assets are based on the actual number of shares outstanding as at the stated dates. The increase/(decrease) from operations is based on the weighted average number of shares outstanding over the fiscal period.

(3) Historical figures are based on Canadian GAAP.

COVINGTON VENTURE FUND INC.

CLASS A SHARES, SERIES VII, VIII, IX

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

RATIOS AND SUPPLEMENTAL DATA

SERIES VII	Year ended July 31, 2016	Year ended July 31, 2015	Year ended July 31, 2014	Year ended July 31, 2013	Year ended July 31, 2012
Total net assets attributable to holders of redeemable units ⁽¹⁾	\$ 2,096	\$ 2,657	\$ 3,354	\$ 4,463	\$ 6,521
Number of shares outstanding	209,601	330,120	401,356	525,122	755,056
Management expense ratio ⁽²⁾	-20.93%	3.91%	3.84%	3.48%	4.63%
Management expense ratio before IPA ⁽²⁾	-20.93%	3.91%	3.84%	3.63%	4.57%
Management expense ratio before management fee recovery ⁽²⁾	3.81%	3.91%	3.84%	3.63%	4.57%
Portfolio turnover rate ⁽³⁾	-	-	-	18.99%	0.56%
Trading expense ratio ⁽⁴⁾	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 10.00	\$ 8.05	\$ 8.36	\$ 8.50	\$ 8.64

SERIES VIII

Total net assets attributable to holders of redeemable units ⁽¹⁾	\$ 3,019	\$ 3,827	\$ 4,058	\$ 4,238	\$ 4,398
Number of shares outstanding	377,783	413,875	416,664	422,353	426,000
Management expense ratio ⁽²⁾	5.25%	5.30%	5.18%	4.79%	4.89%
Management expense ratio before IPA ⁽²⁾	5.25%	5.30%	5.18%	4.91%	4.80%
Portfolio turnover rate ⁽³⁾	-	-	-	18.99%	0.56%
Trading expense ratio ⁽⁴⁾	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 8.94	\$ 9.25	\$ 9.74	\$ 10.03	\$ 10.32

SERIES IX

Total net assets attributable to holders of redeemable units ⁽¹⁾	\$ 9,350	\$ 12,141	\$ 12,931	\$ 13,549	\$ 14,125
Number of shares outstanding	1,076,089	1,341,892	1,351,290	1,369,763	1,382,335
Management expense ratio ⁽²⁾	5.85%	5.71%	5.54%	5.18%	5.22%
Management expense ratio before IPA ⁽²⁾	5.85%	5.71%	5.54%	5.31%	5.13%
Portfolio turnover rate ⁽³⁾	-	-	-	18.99%	0.56%
Trading expense ratio ⁽⁴⁾	-	-	-	-	-
Net assets attributable to holders of redeemable units per unit	\$ 8.69	\$ 9.05	\$ 9.57	\$ 9.89	\$ 10.22

(1) This information is provided as at July 31 of the years shown.

(2) Management expense ratio includes all fees, expenses, capital taxes, and HST and the Manager's contingent IPA and is expressed as an annualized percentage of the average net assets administered during the period. IPA is the determination of the bonus that would be payable to the Manager if the Fund were to dispose of its venture investment at its carrying value as at the dates shown. The Manager is entitled to this bonus only upon realization of certain conditions as outlined in the Fund's prospectus and/or annual information form.

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

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

CLASS A SHARES, SERIES VII, VIII, IX

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

MANAGEMENT FEES

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

The Manager uses its management fees to finance its operations as follows: 97% for general administration over the affairs of the Fund including implementation of the Fund’s investment strategy, portfolio management and monitoring, retaining and supervising service providers and managing the overall business affairs of the Fund and the Manager; and 3% for the implementation of communications, sales, marketing, and distribution strategies of the Fund and the Manager.

The Fund pays annual fees of 1.25% of the net asset value of the Fund for these management fees.

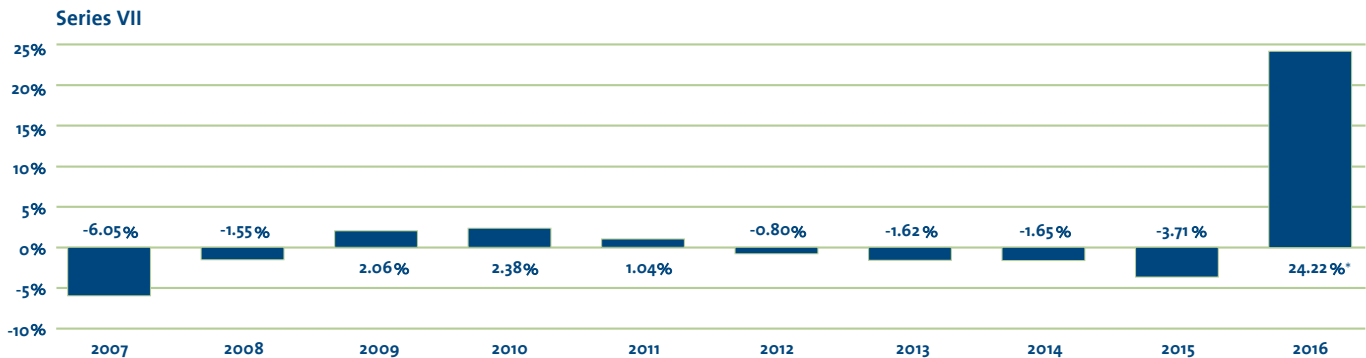
The Fund’s MER consists of all of its operating expenses, including sales commissions, certain ongoing marketing costs of the Fund, audit and legal expenses, fees paid to any independent valuator, IPA (if any), and certain consultancy costs. The largest component of the MER are fees that are calculated as a percentage of the NAV of the Fund and these fees are the Management fees, the Dealer Service fees, the Sponsor’s fees and the Transfer Agent’s fees. For a summary of these fees, please see Note 8 to the Fund’s annual financial statements.

PAST PERFORMANCE

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

Year by Year Non-Cumulative Returns

The following chart shows how the performance of each series of Class A Shares of the Fund has varied year to year. It also shows, in percentage terms, how an investment made in the Fund would have increased or decreased over the Fund’s reporting period.



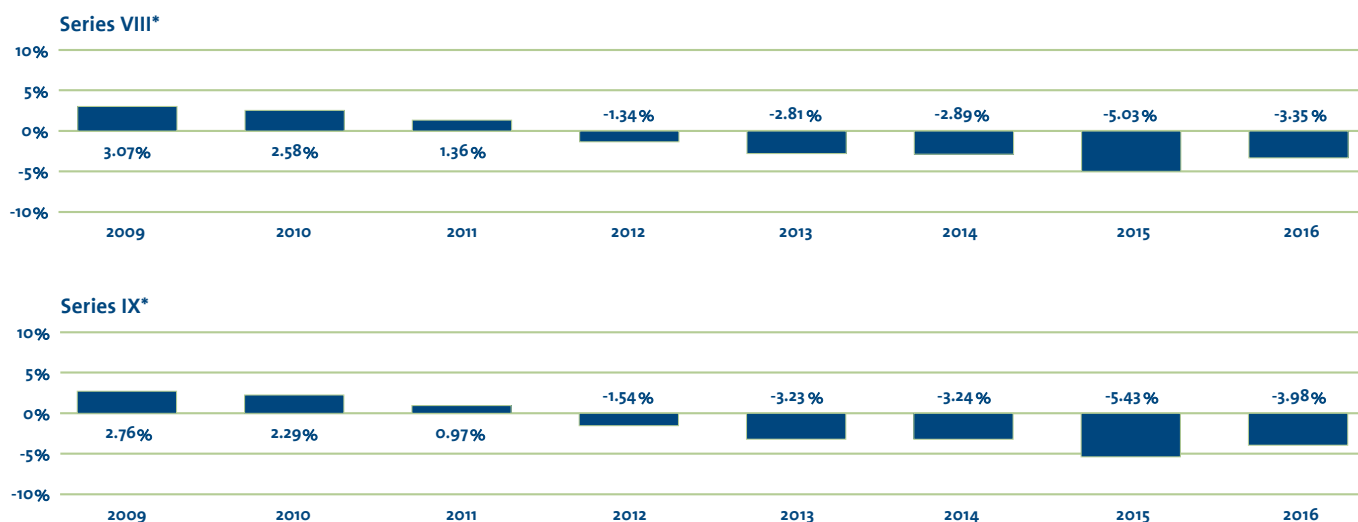
* The 2016 calculation reflects the impact of the capital injection from the Manager.

COVINGTON VENTURE FUND INC.

CLASS A SHARES, SERIES VII, VIII, IX

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

PAST PERFORMANCE - Continued



* Series VIII and IX were closed to new subscriptions on March 31, 2008 and as such, commercial active operations on April 1, 2008. As such, annual return is unavailable since there is only a four-month return as of July 31, 2008.

Annual Compound Returns

The table below summarizes the Fund's past performance for the five, three and one year periods ended July 31 of the periods indicated. As a basis of comparison, we have provided the Retail Venture Capital Index as posted on www.globefund.com as of July 31, 2016.

The retail Venture Capital Index is the most representative broad-based securities market index as it accumulates all the Ontario based LSIFs.

Compound Returns	Series VII	Series VIII	Series IX	Retail Venture Capital Peer Index*	BMO Nesbitt Burns Cdn Small Cap Index**
1 Year	24.22%	-3.35%	-3.98%	-4.96%	18.14%
3 Years	5.56%	-3.76%	-4.22%	-3.20%	6.77%
5 Years	2.80%	-3.09%	-3.49%	-2.15%	1.63%
10 Years	1.15%	N/A	N/A	0.11%	3.88%
Since Inception	0%	-1.34%	-1.67%	***	***

* Source: globefund.com

** The inclusion of the BMO Nesbitt Burns Cdn Small Cap Index is only intended to give perspective to general market activity.

*** This has not been included because there is no comparable index quotation for the same period.

COVINGTON VENTURE FUND INC.

CLASS A SHARES, SERIES VII, VIII, IX

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SUMMARY OF INVESTMENT PORTFOLIO

Below is a summary of the Fund's portfolio as at July 31, 2016. This is a summary only and may change due to ongoing portfolio activity in the Fund. See the Statement of Investment Portfolio in the financial statements for a complete listing. An update is available quarterly on Covington's website at www.covingtonfunds.com.

Stage of development	Number of companies	Cost of investments \$	% Total venture investments at cost %	Fair value of investments \$	% Total venture investments at fair value %
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
Composition of net assets				Fair value of investments \$	% of net assets %
Marketable securities				8,867	61.3
Venture investments				3,220	22.3
Liabilities, net of other assets				2,378	16.4
Net assets				14,465	100.0

TOP HOLDINGS ⁽¹⁾

	Debt at cost \$	Equity at cost \$	Total at cost \$
Marketable securities			
Royal Bank of Canada	8,747	-	8,747
Venture investments			
Mist Mobility Integrated Systems Technology Inc.	1,975	-	1,975
Fidelity Stainless Ltd.	1,200	-	1,200
WireE Holdings International Inc.	-	815	815
bitHeads Inc.	-	45	45

⁽¹⁾ Excluding cash and short-term investments

Fund Symbols

Series VII CIG462 - Closed
Series VIII CIG465 - Closed
Series IX CIG466- Closed

**Fund Manager
and Advisor**

Covington Capital Corporation
87 Front Street East, Suite 400
Toronto, ON M5E 1B8

Sponsor

Canadian Federal Pilots Association
350 Sparks Street, Suite 400
Ottawa, ON K1R 7S8

Auditor

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

**Transfer Agent
and Registrar**

CI Investments Inc.
15 York Street, 2nd Floor
Toronto, ON M5J 0A3
Customer Service: 1 888 746 4751

87 Front Street East
Suite 400
Toronto, ON M5E 1B8
Telephone: 416 365 0060
Facsimile: 416 365 9822
Email: info@covingtonfunds.com
Website: www.covingtonfunds.com