

2006 Semi-Annual Report



FINANCIAL STATEMENTS OF
COVINGTON STRATEGIC CAPITAL FUND INC.



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Semi-Annual Management Report

of Fund Performance

This semi-annual management report of fund performance contains financial highlights along with the unaudited semi-annual financial statements of Covington Strategic Capital Fund Inc. ("The Fund").

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

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

RESULTS OF OPERATIONS

The net asset value of the Fund for the six months ended February 28, 2006 was \$7,026,425. There were 401,162 Class A Shares, Series I; and 164,316 Class A Shares, Series II outstanding.

Revenue

The Fund had revenue of \$94,245 for the six months ended February 28, 2006 compared to \$64,469 for the six months ended February 28, 2005 and \$200,626 for the year ended August 31, 2005. This revenue is composed mainly of interest income earned on the marketable securities and bond portfolio in the period.

Expenses

The Fund had expenses of \$156,919 for the six months ended February 28, 2006 compared to \$162,040 for the six months ended February 28, 2005 and \$387,004 for the year ended August 31, 2005.

Class A Shares

The Fund had a net fund raising of approximately \$875,488 for the six months period ended February 28, 2006 compared to \$631,001 for the six months period ended February 28, 2005 and \$1.0 million for year ended August 31, 2005.

RECENT DEVELOPMENTS

Ontario Tax Benefits

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

RELATED PARTY TRANSACTIONS

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

Semi-Annual Management Report

of Fund Performance

FINANCIAL HIGHLIGHTS

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

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

	Six months ended February 28, 2006		Year ended August 31, 2005	
	Series I	Series II	Series I	Series II
Net Asset Value, beginning of year ⁽¹⁾	\$11.49	\$11.54	\$11.93	\$11.96
Increase (decrease) from operations:				
Total revenue	0.19	0.18	0.44	0.44
Total expense	(0.31)	(0.30)	(0.87)	(0.84)
Realized and unrealized gains on investments	1.01	1.00	—	—
Total increase from operations ⁽²⁾	0.88	0.89	(0.43)	(0.40)
Net Asset Value, end of period ⁽¹⁾	\$12.41	\$12.46	\$11.49	\$11.54

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

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

RATIO AND SUPPLEMENTARY DATA

	Six months ended February 28, 2006		Year ended August 31, 2005	
	Series I	Series II	Series I	Series II
Net Asset (\$000's) ⁽¹⁾	\$ 4,979	\$ 2,048	\$ 3,999	\$ 1,696
Number of shares outstanding ⁽¹⁾	401,162	164,316	347,993	146,908
Management expense ratio before waivers or absorptions	9.59%	9.18%	11.94%	11.67%
Management expense ratio ⁽²⁾	5.32%	4.96%	7.40%	7.12%
Portfolio turnover rate ⁽³⁾	—	—	—	—
Trading expense ratio ⁽⁴⁾	—	—	—	—
Closing market price or pricing NAV ⁽¹⁾	\$12.41	\$12.46	\$11.49	\$11.54

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

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

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

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

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of Fund Performance

MANAGEMENT FEES

The Fund's management expense ratio ("MER") consist of all of its operating expenses, including distribution services fees, marketing costs, audit and legal expenses, and custody fees. The largest components of the MER are fees that are calculated as a percentage of the Net Asset Value of the Fund. These fees are the Advisor, the Fund Advisor, the Administrator and the Sponsor. The Advisor, Fund Advisor, Directors, and the Sponsor have waived the fees for both the 2005 and 2006 fiscal years.

Description - % of NAV	Six months ended February 28, 2006 (‘000)s	Year ended August 31, 2005 (‘000)s
Administrator - annual rate of 0.06 of NAV	18	31
Legal	30	74
Marketing	12	65
Audit	23	53
Distribution service fee	48	87
Total fees	131	310

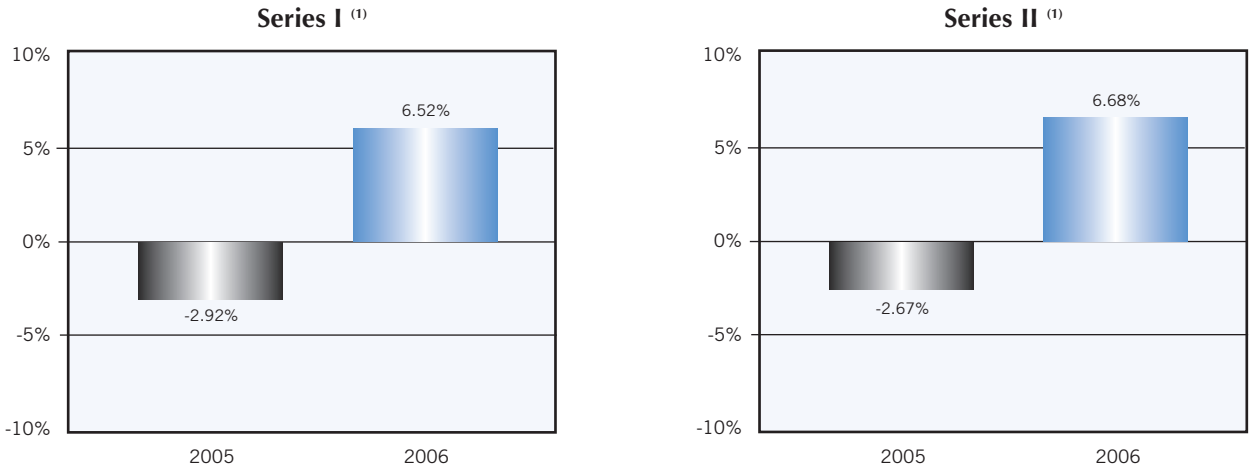
PAST PERFORMANCE

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

Year by Year Returns

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

12 Month Period Returns



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

Semi-Annual Management Report

of Fund Performance

SUMMARY OF INVESTMENT PORTFOLIO

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

Venture Portfolio as at February 28, 2006 ⁽¹⁾	Debt at cost \$ (000's)	Equity at cost \$ (000's)	Total at cost \$ (000's)
1293551 Ontario Inc.	—	745,051	745,051
Business Propulsion Systems Inc.	—	485,000	485,000
Cyence International Inc.	560,091	—	560,091
NECHO Systems Corp.	480,000	—	480,000
Platespin Limited	—	530,806	530,806
Software Innovation Inc.	500,000	—	500,000
	1,540,091	1,760,857	3,300,948

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

Composition of Net Assets	\$	%
Cash and cash equivalents	3,033,794	43.18
Venture investments, at fair value	3,809,928	54.22
Other assets, net of liabilities	182,703	2.60
Net assets, at market value	7,026,425	100.00

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UNAUDITED SEMI-ANNUAL REPORT STATEMENT

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

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Covington Strategic Capital Fund Inc.

STATEMENTS OF FINANCIAL POSITION

As at

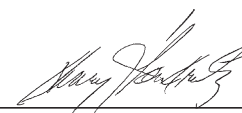
	Unaudited February 28, 2006 \$	Audited August 31, 2005 \$
ASSETS AND LIABILITIES		
Assets		
Venture investments, at fair value	3,809,928	3,000,142
Marketable securities, at market value	2,387,040	2,730,219
Cash	646,754	32,653
Due from trustee	234,162	—
Accounts receivable and prepaid assets	58,459	—
Accrued interest receivable	3,698	3,787
Total assets	7,140,041	5,766,801
Liabilities		
Accounts payable and accrued liabilities	106,416	58,041
Income taxes payable	7,200	14,000
Total liabilities	113,616	72,041
Net assets	7,026,425	5,694,760
Net assets, at market value		
Class A Shares, Series I	4,978,786	3,998,732
Class A Shares, Series II	2,047,639	1,696,028
Class A Shares outstanding		
Series I outstanding	401,162	347,993
Series II outstanding	164,316	146,908
Net asset value per Class A Share		
Series I	12.41	11.49
Series II	12.46	11.54

See accompanying notes

On behalf of the Board:



Leon Paroian
Director



Henry Pankratz
Director

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Covington Strategic Capital Fund Inc.

STATEMENTS OF OPERATIONS (UNAUDITED)

For the six months ended

	February 28, 2006 \$	February 28, 2005 \$
INCOME		
Interest - marketable securities	43,439	64,469
Interest - venture portfolio	50,806	—
	94,245	64,469
EXPENSES		
Investment Advisor's fees	—	—
Fund Advisor fees	—	—
Sponsor's fees	—	—
Distribution services fees	48,102	40,377
Legal fees	30,000	36,223
Marketing	12,000	22,556
Audit fees	23,392	29,258
Fund administration fees	17,794	14,643
Shareholders' communications	8,000	3,733
Goods and Services Taxes	7,886	5,233
Custodial fees	4,774	6,271
Capital taxes	(587)	—
Services fees	4,271	3,746
Directors fees and expenses	—	—
Other	1,287	—
	156,919	162,040
Loss before income taxes	(62,674)	(97,571)
Income taxes	(6,213)	—
Net loss for the period	(56,461)	(97,571)
Increase (decrease) in unrealized net appreciation of venture investments	508,980	—
Increase (decrease) in unrealized net appreciation of marketable securities	3,658	(17,240)
Total net results of operations for the period	456,177	(114,811)
Net results of operations for the year for Class A Share:		
Series I	320,305	81,977
Series II	135,872	32,834
Net results of operations for the year for Class A Share:		
[based on average number of shares outstanding]		
Series I	\$0.89	\$(0.02)
Series II	\$0.90	\$(0.02)

See accompanying notes

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Covington Strategic Capital Fund Inc.

STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)

For the six months ended

	February 28, 2006			February 28, 2005		
	\$			\$		
	Class A Shares Series I \$	Class A Shares Series II \$	Total \$	Class A Shares Series I \$	Class A Shares Series II \$	Total \$
Net assets, beginning of period	4,219,613	1,782,493	6,002,106	3,455,349	1,422,224	4,877,573
Investment activities						
Total net results of operations for the period	320,305	135,872	456,177	81,977	32,834	114,811
Capital transactions						
Proceeds from the issuance of Class A Shares	670,923	222,273	893,196	405,054	252,588	657,642
Amounts paid for Class A Shares redeemed	(11,174)	(6,534)	(17,708)	(19,141)	(7,500)	(26,640)
Net assets, end of year	4,978,786	2,047,639	7,333,771	3,759,285	634,478	5,393,763

	February 28, 2006	February 28, 2005
	\$	\$
Net realized gain (loss) on disposition of venture investments		
Venture investments, at cost, beginning of period	\$ 3,000,142	\$ 880,000
Venture investments, purchased during the period	300,806	2,120,142
Venture investments repaid during the period	—	—
Venture investments, at cost, end of period	3,300,948	3,000,142
Carrying cost of venture investment dispositions	—	—
Net proceeds from disposition of venture investments	—	—
Net realized gain (loss) on disposition of venture investments	—	—
Unrealized net appreciation (depreciation) of investments		
Balance, beginning of period	56	—
Net increase (decrease) for the period		
Venture investments	508,980	—
Marketable securities	3,658	56
Balance, end of period	512,694	56

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Covington Strategic Capital Fund Inc.

STATEMENT OF INVESTMENT PORTFOLIO

As at February 28, 2006

Marketable Securities

Par value \$	Issuer	Coupon rate %	Maturity date	Average cost \$	Market value \$	Percentage of net assets %
Bonds						
2,400,000	Royal Bank of Canada	3.52	May 12, 2009	2,383,326	2,387,040	
				2,383,326	2,387,040	
Total marketable securities				2,383,326	2,387,040	33.98

Venture Investments

	Number of shares or par value \$	Debt at cost \$	Equity at cost \$	Total at cost \$	Percentage of net assets %
1293551 Ontario Ltd. Series 2 Class B Convertible preferred shares	116,866	—	745,051	745,051	
Business Propulsion Systems Inc. Convertible Preferred Shares	485,000	—	485,000	485,000	
Cyence International Inc. 7% convertible debenture due August 2, 2010	\$ 560,091	560,091	—	560,091	
NECHO Systems Corp. 15% Series B debenture due September 3, 2005	\$ 480,000	480,000	—	480,000	
Platespin Ltd. Class A Shares	1,061,611	—	530,806	530,806	
Software Innovation Inc. 8.5% convertible debenture due March 31, 2009	\$ 500,000	500,000	—	500,000	
Total venture investments, at cost		1,540,091	1,760,857	3,300,948	46.98
Unrealized net appreciation of venture investments				508,980	7.24
Total venture investments, at fair value				3,809,928	54.22
Total investments, at market value				6,196,968	88.19
Other assets, net of liabilities				829,457	11.81
Net assets, at market value				7,026,425	100.00

Financial

Statements

Covington Strategic Capital Fund Inc.

STATEMENT OF INVESTMENT PORTFOLIO *(cont'd)*

As at February 28, 2006

The venture portfolio of the Fund is invested solely in technology companies. The table below shows the portfolio distribution according to stage of development.

Stage of Development	Number of companies	Cost \$	% of total venture investments	MV \$	% of total venture investments
Start-up/Early	1	485,000	14.7%	485,000	12.7%
Expansion	5	2,815,948	85.3%	3,324,928	87.3%
Later	—	—	—	—	—
	6	3,300,948	100.0%	3,809,928	100.0%

Notes

to Financial Statements

Covington Strategic Capital Fund Inc.

February 28, 2006

1. CORPORATE STATUS AND ACTIVITIES

Covington Strategic Capital Fund Inc. [the "Fund"] was incorporated under the laws of Ontario by Articles of Incorporation dated November 18, 2003.

The Fund commenced active operations on January 9, 2004 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 qualifies as a mutual fund corporation under the Income Tax Act (Canada) [the "Tax Act"] and the Corporations Tax Act (Ontario). 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 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 Fund invests in primarily Canadian software vendors that develop software applications that may run on one or more Microsoft platforms, and intends to develop and grow investee businesses in cooperation with the Fund's Strategic Partners. The Strategic Partners of the Fund are Microsoft Canada Co. and Hewlett-Packard (Canada) Co.

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

2. ACCOUNTING POLICIES

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

Directors and Officers

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

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

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

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

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

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

Henry J. Pankratz
Toronto, Ontario
Director
Corporate Director

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

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

Website Address: www.covingtonfunds.com

Corporate Information

Covington Strategic Capital Fund Inc.

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Fax: 416-365-9822
Email: info@covingtonfunds.com
Website: www.covingtonfunds.com

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

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Suite 3003
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Telephone: 416-365-0060
Fax: 416-365-9822

Sponsor:

Canadian Professional Police Association

Auditors:

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

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and Registrar:**

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