

**MACCs Sustainable Yield Trust
2005 Annual Report**

MANAGEMENT'S RESPONSIBILITY

The accompanying financial statements have been prepared by MACCs Administrator Inc., the Manager of MACCs Sustainable Yield Trust, and approved by the Board of Directors of the Manager. The Trust's Manager is responsible for the information and representations contained in these financial statements and other sections of the Annual Report. MACCs Administrator Inc. maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the Trust are described in Note 2 to the financial statements.

Ernst & Young LLP are the external auditors of the Trust. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.



Chief Executive Officer
MACCs Administrator Inc.



Chief Financial Officer
MACCs Administrator Inc.

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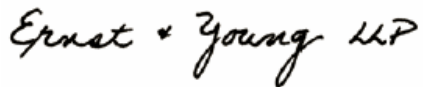
AUDITORS' REPORT

To the Unitholders of
MACCs Sustainable Yield Trust

We have audited the statements of net assets and investments of **MACCs Sustainable Yield Trust** [the "Trust"] as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the period from January 28, 2005, the date of inception, to December 31, 2005. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Trust as at December 31, 2005 and the results of its operations, changes in its net assets and cash flows for the period from January 28, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.



Toronto, Canada,
February 24, 2006 [except as to note 9
which is as of April 4, 2006].

Chartered Accountants

Statement of Net Assets

| As at | Dec. 31, 2005 |
|---|-------------------|
| | \$ |
| Assets (note 6) | |
| Investments, at market value | 38,771,866 |
| Cash and cash equivalents | 46,505 |
| Interest, dividends and distributions receivable | 382,300 |
| Prepaid expenses | 25,994 |
| Total assets | 39,226,665 |
| Liabilities | |
| Management and dealers' service fees payable (note 4) | 40,482 |
| Accounts payable and accrued liabilities | 100,961 |
| Loan facility payable (note 6) | 4,900,242 |
| Distributions payable | 242,850 |
| Total liabilities | 5,284,535 |
| Net assets | 33,942,130 |
| Number of units outstanding (note 5) | 3,439,800 |
| Net asset value per unit | 9.87 |

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

Approved on behalf of the Trust by its Manager, MACCs Administrator Inc.



Conor Bill
Director



Peter Chodos
Director

Statement of Operations

| | Period from Jan. 28, 2005 (Date of Inception) to Dec. 31, 2005 |
|--|--|
| | \$ |
| Revenue | |
| Interest and other income | 1,583,464 |
| Dividends | 159,426 |
| | 1,742,890 |
| Expenses | |
| Management fees (note 4) | 136,663 |
| Dealers' service fees (note 4) | 91,108 |
| Audit fees | 17,314 |
| Custodial fees | 17,314 |
| Legal fees | 8,658 |
| Securityholder fees | 12,988 |
| Administration fees | 110,941 |
| Transfer agency fees | 9,869 |
| Other | 11,256 |
| Interest and bank charges (note 6) | 122,541 |
| | 538,652 |
| Net investment income | 1,204,238 |
| Realized and unrealized gain on investments | |
| Net realized gain on investments | 895,934 |
| Unrealized appreciation on investments | 1,771,559 |
| Net realized and unrealized gain on investments | 2,667,493 |
| Increase in net assets from operations | 3,871,731 |
| Increase in net assets from operations per unit | 1.11 |

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

Statement of Changes in Net Assets

| | Period from Jan. 28, 2005 (Date of Inception) to Dec. 31, 2005 |
|---|--|
| | \$ |
| Net assets, beginning of period | - |
| Increase in net assets from operations | 3,871,731 |
| Distributions to unitholders, paid from: | |
| Capital gains | (879,295) |
| Dividends | (147,635) |
| Income (excluding dividends) | (752,656) |
| Return of capital | (235,053) |
| | (2,014,639) |
| Capital unit transactions (note 5) | |
| Proceeds from issue | 35,300,000 |
| Issue costs | (2,382,750) |
| Purchase and cancellation of Trust units | (832,212) |
| | 32,085,038 |
| Net increase in net assets during the period | 33,942,130 |
| Net assets, beginning of period | - |
| Net assets, end of period | 33,942,130 |

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

Statement of Cash Flows

| | Period from Jan. 28, 2005 (Date of Inception) to Dec. 31, 2005 |
|---|--|
| OPERATING ACTIVITIES | \$ |
| Increase in net assets from operations | 3,871,731 |
| Deduct items not affecting cash: | |
| Net realized gain on investments | (895,934) |
| Unrealized appreciation on investments | (1,771,559) |
| | (2,667,493) |
| Net change in non-cash working capital | |
| Change in other assets and liabilities | (266,851) |
| Cash provided by operating activities | 937,387 |
| FINANCING ACTIVITIES | |
| Proceeds from loan facility | 16,047,199 |
| Repayment of loan facility | (11,146,957) |
| Distributions paid to unitholders | (1,771,789) |
| Net proceeds from issuance of Trust units | 32,917,250 |
| Purchase and cancellation of Trust units | (832,212) |
| Cash provided by financing activities | 35,213,491 |
| INVESTING ACTIVITIES | |
| Proceeds on sales of investments | 18,688,172 |
| Purchases of investments | (54,792,545) |
| Cash used in investing activities | (36,104,373) |
| Net increase in cash during the period | 46,505 |
| Cash and cash equivalents, beginning of period | - |
| Cash and cash equivalents, end of the period | 46,505 |

The accompanying notes are an integral part of these financial statements

Statement of Investments

As at December 31, 2005

| Number of Units | Description | Adjusted Cost (\$) | Market Value (\$) | % of Net Assets |
|--------------------------------------|--|--------------------|--------------------|-----------------|
| Power and Pipeline Funds | | | | |
| 132,400 | Algonquin Power Income Fund | 1,314,133 | 1,383,580 | |
| 58,500 | AltaGas Income Trust | 1,437,779 | 1,635,075 | |
| 141,700 | Atlantic Power Corporation | 1,540,873 | 1,473,680 | |
| 125,700 | Boralex Power Income Fund | 1,338,488 | 1,259,514 | |
| 128,200 | Calpine Power Income Fund | 1,379,689 | 1,029,446 | |
| 31,900 | EPCOR Power LP | 1,114,750 | 1,124,475 | |
| 110,300 | Fort Chicago Energy Partners L.P. Cl. A | 1,318,334 | 1,322,497 | |
| 148,900 | Inter Pipeline Fund Cl. A | 1,419,558 | 1,496,445 | |
| 82,500 | Keyera Facilities Income Fund | 1,232,373 | 1,794,375 | |
| 99,000 | Northland Power Income Fund | 1,393,826 | 1,476,090 | |
| 109,100 | Pembina Pipeline Income Fund | 1,557,736 | 1,740,145 | |
| 135,800 | TransAlta Power, L.P. | 1,315,482 | 1,330,840 | |
| | | 16,363,021 | 17,066,162 | 50.2 |
| Business Funds | | | | |
| 109,300 | CML Healthcare Income Fund | 1,504,069 | 1,573,920 | |
| 36,600 | Fording Canadian Coal Trust | 1,498,132 | 1,472,052 | |
| 121,300 | Noranda Income Fund Cl. A | 1,491,138 | 1,449,535 | |
| 76,100 | Superior Plus Income Fund | 2,259,414 | 1,788,350 | |
| 93,000 | TimberWest Forest Corp. | 1,452,742 | 1,432,200 | |
| 118,000 | UE Waterheater Income Fund | 1,580,584 | 1,628,400 | |
| | | 9,786,079 | 9,344,457 | 27.5 |
| Real Estate Investment Trusts | | | | |
| 1,500 | Calloway Real Estate Investment Trust | 35,172 | 35,610 | |
| 56,800 | Canadian Apartment Properties Real Estate Investment Trust | 805,286 | 917,320 | |
| 50,800 | H&R Real Estate Investment Trust | 978,812 | 1,056,640 | |
| 70,200 | InnVest Real Estate Investment Trust | 847,179 | 880,308 | |
| 70,800 | Primaris Retail Real Estate Investment Trust | 1,072,106 | 1,156,872 | |
| 85,400 | Retirement Residences Real Estate Investment Trust | 819,133 | 747,250 | |
| 36,500 | Summit Real Estate Investment Trust | 759,952 | 896,805 | |
| | | 5,317,640 | 5,690,805 | 16.8 |
| Oil and Gas Funds | | | | |
| 41,300 | Acclaim Energy Trust | 693,000 | 782,635 | |
| 43,300 | ARC Energy Trust | 925,041 | 1,147,017 | |
| 21,600 | Bonavista Energy Trust | 667,786 | 822,960 | |
| 14,700 | Enerplus Resources Fund | 708,632 | 821,142 | |
| 38,300 | Pengrowth Energy Trust Cl. B | 695,981 | 867,495 | |
| 30,900 | Petrofund Energy Trust | 614,724 | 633,141 | |
| 20,600 | PrimeWest Energy Trust | 589,104 | 739,540 | |
| 28,800 | Vermilion Energy Trust | 639,299 | 856,512 | |
| | | 5,533,567 | 6,670,442 | 19.7 |
| TOTAL INVESTMENTS | | 37,000,307 | 38,771,866 | 114.2 |
| Liabilities less other assets | | | (4,829,736) | (14.2) |
| NET ASSETS, AT MARKET VALUE | | | 33,942,130 | 100.0 |

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

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1. THE TRUST

MACCs Sustainable Yield Trust (the “Trust”) is a closed-end investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated January 28, 2005 (Date of Inception). The Trust commenced operations on February 18, 2005.

The Manager of the Trust is MACCs Administrator Inc. (the “Manager”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies followed by the Trust in the preparation of its financial statements:

(a) Valuation of Investments

Short-term investments are valued at cost plus accrued interest, which approximates market value.

Investments in publicly traded securities are valued at quoted market value. Investments in securities for which market quotations are not readily available are valued at the last reported recent sales price. If no recent sales price can be ascertained, the value is based on the simple average of the last bid and ask prices quoted by dealers in such securities. Securities for which no such information is readily available are valued at fair value as determined by the Valuation Agent. Listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Valuation Agent and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm’s length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Valuation Agent.

The difference between market value and average cost, as recorded in the accounts, is shown as unrealized appreciation (depreciation) on investments.

(b) Investment transactions and revenue recognition

All investment transactions are accounted for on a trade date basis. Realized gains and losses from investment transactions and unrealized appreciation or depreciation in the value of investments are calculated on an average cost basis.

Interest income and expenses are recognized daily on an accrual basis.

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Dividend and distribution income are recognized on the ex-dividend or ex-distribution date.

Distributions from income trusts which are treated as return of capital for income tax purposes reduce the average cost of the investments on the statement of investments.

Distributions from income trusts which are treated as dividend income, interest income, or capital gains for tax purposes are included as dividend income, interest income, or capital gains distributed from income trusts, as appropriate, in the statement of operations.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term, interest-bearing notes with a term to maturity of less than three months from the date of purchase.

(d) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Net asset value per unit

The net asset value per unit is computed by dividing the net assets of the Trust by the total number of units outstanding on the valuation date. The increase in net assets from operations for the period is based on the average number of units outstanding during the period.

(f) Measurement uncertainty

Allocations of distributions received from income trusts among dividends, interest and other income, capital gains, or return of capital are based on estimates of the categorization of distribution provided by those income trusts. These allocations and the adjusted cost of the related investment may change once final categorizations of the distributions are received from the respective income trusts.

3. TAXATION

The Trust qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada). The Trust is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the period,

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including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the period.

No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the unitholders.

4. EXPENSES OF THE TRUST

(a) Management fees

The Trust is party to a trust agreement (the “Trust Agreement”) dated January 28, 2005 with the Manager pursuant to which the Manager provides all administrative services required by the Trust. The Investment Manager provides investment advisory and portfolio management services to the Trust.

Pursuant to the Trust Agreement the Manager receives a monthly fee at the annual rate of 0.45% of the net asset value of the Trust, calculated and payable monthly in arrears, plus applicable taxes. The Manager is responsible for payment of the investment management fees of the Investment Manager from its annual management fees.

(b) Other expenses

The Trust is responsible for all other expenses incurred in connection with its operation and administration, such as custody, valuation, transfer agent, reporting, audit and legal fees. Brokerage commissions paid on securities transactions are not considered to be part of total expenses. These commissions are included in the cost of purchasing, or netted against the proceeds from selling securities. The Trust will pay to the Manager, to pay to registered dealers, an annual service fee equal to 0.30% annually of the net asset value of units held by clients of the sales representatives of such dealers, payable quarterly in arrears.

5. UNITHOLDERS’ EQUITY

The Trust is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. On termination or liquidation of the Trust, unitholders of record will be entitled to receive their pro rata share of all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses.

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On February 18, 2005, the Trust completed an initial public offering of 3,250,000 units at \$10 per unit for total gross cash proceeds of \$32,500,000. On March 3, 2005, an over-allotment option granted to agents was exercised for 280,000 units at \$10 per unit for total gross cash proceeds of \$2,800,000. Total issue costs were \$2,382,750. The Trust's units are listed on the Toronto Stock Exchange under the symbol MYT.UN.

Units may be surrendered for redemption on an annual basis 15 business days prior to the second last business day of July in any year, commencing July 2006. Unitholders will receive a redemption price per unit equal to 100% of the net asset value per unit of the Trust determined as of the redemption date less any costs of funding such redemption.

The Trust has a mandatory market purchase program pursuant to which it is obligated to purchase for cancellation any units offered in the market if the closing price at which units are then offered for sale is less than 95% of the net asset value per unit. The maximum number of units so purchased in any three-month period shall be limited to 1.25% of the units outstanding at the beginning of such period. From January 28, 2005 to December 31, 2005, the Trust purchased 90,200 units for an aggregate cost of \$832,212 at an average cost of \$9.23 per unit.

6. LOAN FACILITY

Pursuant to an agreement with a Canadian chartered bank, the Trust maintains a 364-day renewable revolving loan facility for a maximum amount calculated with reference to total assets and certain collateral but not to exceed \$15,000,000. The loan facility is collateralized by a first-ranking pledge and security agreement over all present and future assets of the Trust. The Trust has the option of borrowing at the prime rate of interest (December 31, 2005 – 5.00%) or at the bankers' acceptance rate plus a fixed percentage. The loan facility is used by the Trust for the purchase of additional investments and for general Trust purposes. The minimum and maximum amount borrowed was nil and \$4,900,242, respectively, during the period from January 28, 2005 to December 31, 2005.

7. BROKER COMMISSIONS AND SOFT DOLLAR CONTRACTS

Soft dollar contracts are arrangements under which products or services other than execution of securities transactions are obtained by an adviser from or through a broker-dealer in exchange for the direction by the adviser of client broker transactions to the broker-dealer. Commissions paid or payable to investment dealers and brokers in connection with portfolio transactions during 2005 were \$153,568.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Trust's investment activities expose it to various types of risk associated with the financial instruments in which it invests directly. In addition to the risks of investing in the income trust market generally, the Trust is also subject to other risks, including interest rate risk as the Trust invests in interest-bearing securities. The income of the Trust may be affected by changes to interest rates relevant to particular securities or as a result of the Trust being unable to secure similar returns on the sale of securities.

9. SUBSEQUENT EVENT

On April 4, 2006 the Trust called a special meeting of unitholders. The meeting will be held on June 5, 2006. The purpose of the meeting is to consider certain amendments to the declaration of trust of the Trust including:

- i) amending the market purchase provisions so that while the purchases themselves remain mandatory, the Trustee, in its capacity as manager, has greater discretion to determine the timing of such purchases;
- ii) to remove certain restrictions on the Trustee's power to borrow which prohibit the Trustee from borrowing in excess of 5% of the total assets of the Trust for working capital purposes and 10% for the purpose of purchasing additional securities of income funds to be included in the Trust's portfolio, effecting market purchases and redemptions of units, and paying fees and expenses of the Trust, while maintaining the restriction on the total amount borrowed; and
- iii) to remove certain restrictions on the Trust's ability to issue units, rights, warrants and options for proceeds of less than the net asset value per unit.