

**MACCs Sustainable Yield Trust
2006 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.

**MACCs Sustainable Yield Trust
2006 Annual Report**

AUDITORS' REPORT

To the Unitholders of
MACCs Sustainable Yield Trust

We have audited the statements of net assets of **MACCs Sustainable Yield Trust** [the "Trust"] as at December 31, 2006 and 2005, the statement of investments as at December 31, 2006 and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2006 and the period from January 28, 2005 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 audits.

We conducted our audits 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 of the Trust as at December 31, 2006 and 2005, the statement of investments as at December 31, 2006 and the results of its operations, changes in its net assets and cash flows for the year ended December 31, 2006 and the period from January 28, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Toronto, Canada,
March 20, 2007.

Chartered Accountants

MACCs Sustainable Yield Trust
2006 Annual Report
Statements of Net Assets

As at December 31	2006	2005
	\$	\$
Assets (note 6)		
Investments, at market value	25,462,566	38,771,866
Cash	46,900	46,505
Interest, dividends and distributions receivable	237,839	382,300
Prepaid expenses	-	25,994
Total assets	25,747,305	39,226,665
 Liabilities		
Management and dealers' service fees payable (note 4)	33,517	40,482
Due to brokers	159,300	-
Accounts payable and accrued liabilities	146,930	100,961
Loan facility payable (note 6)	3,188,789	4,900,242
Distributions payable	139,602	242,850
Total liabilities	3,668,138	5,284,535
Net assets	22,079,167	33,942,130
Number of units outstanding (note 5)	2,507,469	3,439,800
Net asset value per unit	\$8.81	\$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

MACCs Sustainable Yield Trust
2006 Annual Report
Statements of Operations

	Year ended Dec. 31, 2006	Period from Jan. 28, 2005 to Dec. 31, 2005
	\$	\$
Revenue		
Interest	1,892,643	1,583,464
Dividends	160,699	159,426
	2,053,342	1,742,890
Expenses		
Management fees (note 4)	136,703	136,663
Dealers' service fees (note 4)	89,860	91,108
Legal fees	264,974	8,658
Interest and bank charges (note 6)	223,615	122,541
Administration fees	98,487	87,781
Audit fees	76,925	17,314
Securityholder reporting costs	49,589	12,988
Advisory board fees	39,960	23,160
Transfer agency fees	29,367	9,869
Custodial fees	10,558	17,314
Other	23,618	11,256
	1,043,656	538,652
Net investment income	1,009,686	1,204,238
Realized and unrealized gain (loss) on investments		
Net realized gain on investments	913,586	895,934
Change in unrealized appreciation (depreciation) on investments	(2,381,275)	1,771,559
Net realized and unrealized gain (loss) on investments	(1,467,689)	2,667,493
Increase (decrease) in net assets from operations	(458,003)	3,871,731
Increase (decrease) in net assets from operations per unit	(\$0.15)	\$1.11

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

MACCs Sustainable Yield Trust
2006 Annual Report
Statements of Cash Flows

	Year ended Dec. 31, 2006	Period from Jan. 28, 2005 to Dec. 31, 2005
OPERATING ACTIVITIES	\$	\$
Increase (decrease) in net assets from operations	(458,003)	3,871,731
Add (deduct) items not affecting cash:		
Net realized gain on investments	(913,586)	(895,934)
Change in unrealized appreciation (depreciation) on investments	2,381,275	(1,771,559)
	1,467,689	(2,667,493)
Net change in non-cash working capital balances related to operations	368,759	(266,851)
Cash provided by operating activities	1,378,445	937,387
 FINANCING ACTIVITIES		
Proceeds from loan facility	-	16,047,199
Repayment of loan facility	(1,711,453)	(11,146,957)
Distributions paid to unitholders	(2,148,718)	(1,771,789)
Net proceeds from issuance of units	4,337,694	32,917,250
Purchase and cancellation of units	(13,697,184)	(832,212)
Cash provided by (used in) financing activities	(13,219,661)	35,213,491
 INVESTING ACTIVITIES		
Proceeds on sale of investments	40,157,981	18,688,172
Purchase of investments	(28,316,370)	(54,792,545)
Cash provided by (used in) investing activities	11,841,611	(36,104,373)
 Net increase in cash during the period	395	46,505
Cash, beginning of period	46,505	-
Cash, end of the period	46,900	46,505

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

MACCs Sustainable Yield Trust
2006 Annual Report
Statements of Changes in Net Assets

	Year ended Dec. 31, 2006	Period from Jan. 28, 2005 to Dec. 31, 2005
	\$	\$
Increase (decrease) in net assets from operations	(458,003)	3,871,731
Distributions to unitholders:		
From capital gains	(958,147)	(879,295)
From dividends	(160,698)	(147,635)
From income (excluding dividends)	(391,926)	(752,656)
Return of capital	(534,699)	(235,053)
	(2,045,470)	(2,014,639)
Capital unit transactions (note 5)		
Proceeds from issuance of units	4,337,694	35,300,000
Issue costs	-	(2,382,750)
Purchase and cancellation of units	(13,697,184)	(832,212)
	(9,359,490)	32,085,038
Net increase (decrease) in net assets during the period	(11,862,963)	33,942,130
Net assets, beginning of period	33,942,130	-
Net assets, end of period	22,079,167	33,942,130

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

Statement of Investments

As at December 31, 2006

Number of Units / Par Value	Description	Yield (%)	Maturity Date	Adjusted Cost (\$)	Market Value (\$)	% of Net Assets
Short-term Investments						
1,330,000	Canada Treasury Bills	4.14%	11-Jan-07	1,318,812	1,318,812	
195,000	Canada Treasury Bills	4.16%	22-Mar-07	192,845	192,845	
2,050,000	Canada Treasury Bills	4.14%	8-Mar-07	2,032,416	2,032,416	
				3,544,073	3,544,073	16.1
Power and Pipeline Funds						
67,100	Algonquin Power Income Fund			625,317	666,303	
23,700	AltaGas Income Trust			662,175	620,940	
78,200	Atlantic Power Corporation			842,257	882,878	
63,100	Boralex Power Income Fund			608,360	591,878	
56,700	Calpine Power Income Fund			561,100	712,151	
25,700	Enbridge Income Fund			283,310	339,240	
34,000	EPCOR Power LP			1,024,973	909,500	
68,200	Fort Chicago Energy Partners L.P., Class A			781,715	782,254	
13,600	Great Lakes Hydro Income Fund			258,892	261,120	
41,400	Innergex Power Income Fund			579,768	548,964	
77,700	Inter Pipeline Fund			722,806	702,408	
1,000	Keyera Facilities Income Fund			15,655	16,640	
39,000	Northland Power Income Fund			543,412	509,730	
40,500	Pembina Pipeline Income Fund			564,891	641,115	
78,900	TransAlta Power L.P.			696,452	589,383	
				8,771,083	8,774,504	39.7
Business Funds						
20,000	Bell Aliant Regional Communications Income Fund			560,142	539,200	
40,000	Bell Nordiq Income Fund			601,155	596,400	
98,300	CanWest MediaWorks Income Fund			755,689	678,270	
45,900	CML Healthcare Income Fund			632,510	640,305	
56,500	Noranda Income Fund, Class A			687,456	556,525	
75,400	Teranet Income Fund			739,800	670,306	
54,900	The Consumers' Waterheater Income Fund			844,110	736,759	
48,300	Timberwest Forest Corp.			754,489	727,881	
46,800	UE Waterheater Income Fund			618,215	659,412	
4,800	Yellow Pages Income Fund			74,958	61,776	
				6,268,524	5,866,834	26.6
Real Estate Investment Trust						
33,700	Canadian Apartment Properties Real Estate Investment Trust			510,740	626,146	
53,300	Chartwell Seniors Housing Real Estate Investment Trust			711,340	743,002	
27,100	H&R Real Estate Investment Trust			570,305	652,839	
44,400	InnVest Real Estate Investment Trust			517,562	612,720	
18,700	Primaris Retail Real Estate Investment Trust			244,953	353,056	
				2,554,900	2,987,763	13.5
Oil and Gas Funds						
22,300	ARC Energy Trust			514,730	497,290	
18,400	Bonavista Energy Trust			597,700	517,960	
29,700	Canetic Resources Trust			708,987	488,268	
20,000	Fording Canadian Coal Trust			805,831	481,000	
22,000	Harvest Energy Trust			573,100	577,060	
61,600	Pengrowth Energy Trust			1,253,446	1,228,304	
47,800	Primary Energy Recycling Trust			479,908	499,510	
				4,933,702	4,289,392	19.4
TOTAL INVESTMENTS				26,072,282	25,462,566	115.3
Other assets, net of liabilities					(3,383,399)	(15.3)
NET ASSETS					22,079,167	100.0

The accompanying notes are an integral part of these financial statements. Page 12

MACCs Sustainable Yield Trust

Notes to Financial Statements

December 31, 2006

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. 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 recorded as unrealized appreciation or 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.

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

Distributions from income trusts which are treated as return of capital for income tax purposes reduce the adjusted 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 statements of operations.

MACCs Sustainable Yield Trust

Notes to Financial Statements

December 31, 2006

(c) 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 year. Actual results could differ from those estimates.

(d) 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 (decrease) in net assets from operations for the year is based on the average number of units outstanding during the year.

(e) 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 year, 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 year.

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 average 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% of the net asset value of units held by clients of the sales representatives of such dealers at the end of each calendar quarter, payable quarterly in arrears.

MACCs Sustainable Yield Trust

Notes to Financial Statements

December 31, 2006

5. UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of transferable, redeemable 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.

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 1, 2006 to December 31, 2006, the Trust purchased 51,300 units (2005 – 90,200 units) for an aggregate cost of \$457,209 (2005 - \$832,212) at an average cost of \$8.91 (2005 - \$9.23) per unit.

In July 2006, the Trust received notices from unitholders to redeem 1,383,079 units at the net asset value per unit for such purpose, calculated as of July 31, 2006. The redemption price was \$9.567 per unit and \$13,231,917 in the aggregate. The redemptions were funded by selling securities held by the Trust.

On August 24, 2006, the Trust filed a final prospectus relating to a warrant offering of 2,042,121 units available to all unitholders. One warrant was issued for no consideration for each unit of the Trust held on September 8, 2006, the record date. Each warrant entitles the holder thereof to purchase one unit of the Trust at an exercise price of \$8.64 on or before February 15, 2007, the expiry date. As at December 31, 2006, 502,048 warrants had been exercised for aggregate proceeds of \$4,337,694. Expenses of the offering were included in the applicable expense balance in the statements of operations. Diluted increase (decrease) in net assets from operations per unit is not presented as the impact of the warrants would have been anti-dilutive.

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, 2006 – 6%) 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 \$3,188,789 and \$8,000,000, respectively, during the year ended January 1, 2006 (2005 – nil and \$4,900,242, respectively).

MACCs Sustainable Yield Trust

Notes to Financial Statements

December 31, 2006

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 2006 were \$111,066 (2005 – \$153,568). Included in this amount are soft dollar commissions of \$6,648 (2005 - \$125).

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. **COMPARATIVE FIGURES**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

10. **SUBSEQUENT EVENT**

During the period from January 1, 2007 to February 15, 2007, 120,200 warrants were exercised for aggregate proceeds of \$1,038,528. The remaining unexercised warrants expired on February 15, 2007.