

MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance contains an analysis of the operations and financial position of the MACCs Sustainable Yield Trust (the “Trust”) for the period ended December 31, 2005. The Trust was established January 28, 2005 and commenced operations on February 18, 2005. The following information should be read in conjunction with the attached financial statements and accompanying notes thereto for the period ended December 31, 2005.

Unitholders may contact us to request a copy of the Trust’s proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategy

The investment objectives of the Trust are to maintain an SR–1 Stability Rating from Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”) on the units and to provide unitholders with monthly distributions. In order to achieve its investment objectives, the Trust has invested the net proceeds from the issuance of the units, together with borrowings, in a diversified portfolio of income funds, constructed by the Investment Manager based on criteria which it believes are reflective of the requirements for achieving an SR-1 Stability Rating from S&P. The income funds which comprised the portfolio as at December 31, 2005 were selected by the Investment Manager based on the following criteria:

- each income fund was publicly rated by either S&P or Dominion Bond Rating Service Limited;
- each income fund had a minimum float capitalization of \$400 million;
- each income fund had a stability rating of SR-5 or higher (or equivalent); and
- each income fund had a yield of at least 6.50% per annum.

Risk

There were no changes to the Trust during the period which affected the overall level of risk of an investment in the units of the Trust. The suitability and investor risk tolerance characteristics of the Trust remain as disclosed in the Trust’s prospectus.

Results of Operations

Portfolio

As at December 31, 2005, the Trust was fully invested and held 33 income funds in its portfolio, which provided diversification both by issuer and industry concentration.

Net Asset Value

The net asset value per unit as at December 31, 2005 was \$9.87. The decline in net asset value from the original issue price of \$10.00 reflects the effects of issue costs, ongoing operating expenses and distributions, offset by the increase in net assets from operations.

Distributions

During the period, the Trust paid distributions of \$0.57 per unit. A distribution for the month of December of \$0.0706 per unit was declared. This distribution was paid on January 13, 2006.

Redemptions

Units may be redeemed annually commencing on July 31, 2006. Accordingly, there were no redemptions during the period. In addition, the Trust has a mandatory market purchase program under which it repurchases and cancels units under certain circumstances. During the period, the Trust repurchased 90,200 units under this program at an average cost of \$9.23 per unit.

Revenue and Expenses

For the period ended December 31, 2005, the Trust received investment income of \$1,742,890 and incurred expenses of \$538,652. Substantially all of the Trust's income is derived from distributions received from the income funds in its portfolio. The principal components of the Trust's expenses were management fees of \$136,663 and dealers' service fees of \$91,108, interest and bank charges of \$122,541, administration fees of \$110,941 and other expenses of \$77,399.

Borrowings

As at December 31, 2005, the Trust had borrowed a total of \$4,900,242 (12.6% of its total assets) under its credit facility in the form of bankers' acceptances and prime rate borrowings, secured by the investments in the portfolio. These borrowings were used to invest in additional income funds to enhance the overall yield of the Trust and to finance certain working capital expenses of the Trust. During the period the minimum amount borrowed under the credit facility was nil and the maximum was \$4,900,242.

Recent Developments

The Trust has called a Special Meeting of Unitholders for June 5, 2006 to consider certain proposed changes to the terms of its declaration of trust dealing with unit repurchases and the issuance of additional units, among other things. None of the proposed changes would affect the investment objectives or strategy of the Trust.

The inclusion of income trusts in the S&P/TSX Composite Index, the strength of the Canadian dollar and continued increases in commodity prices and interest rates are all factors which may affect the income trust market over the next year.

Related Party Transactions

MACCs Administrator Inc. ("MACCs") is the trustee and manager of the Trust and is responsible for providing and arranging for the provision of administrative services required by the Trust. MACCs is paid a management fee equal to 0.45% per annum of the net asset value of the Trust, calculated and payable monthly in arrears. MACCs is responsible for paying the Investment Manager, YMG Capital Management Inc., out of this fee.

FINANCIAL HIGHLIGHTS

Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the past year. This information is derived from the Trust's audited financial statements.

The Trust's Net Asset Value (NAV) per Unit

	2005
Net asset value, beginning of period	<u>\$10.00*</u>
Increase (decrease) from operations:	
Total revenue	0.50
Total expenses	(0.15)
Realized gains for the period	0.26
Unrealized gains for the period	<u>0.51</u>
Total increase from operations⁽¹⁾	<u>1.12</u>
Distributions	
From income (excluding dividends)	(0.21)
From dividends	(0.04)
From capital gains	(0.25)
Return of capital	<u>(0.07)</u>
Total annual distributions⁽²⁾	<u>(0.57)</u>
Net asset value at December 31 of period shown	<u>\$9.87</u>

* Initial unit value (Inception date is January 28, 2005).

- (1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- (2) Distributions were paid in cash.

The 2005 layout of the financial highlights has been adjusted to conform to the requirements of National Instrument 81-106. It is not intended that the Trust's Net Asset Value (NAV) per unit table act as a continuity of opening and closing NAV.

Ratios and Supplemental Data

Net assets (000's) ⁽¹⁾	\$33,942
Number of units outstanding ⁽¹⁾	3,439,800
Management expense ratio ⁽²⁾	10.31%
Management expense ratio before waivers or absorptions	10.31%
Portfolio turnover rate ⁽³⁾	62.18%
Trading expense ratio ⁽⁴⁾	0.54%
Closing market price	\$9.18

(1) This information is provided as at December 31 of the period shown.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The management expense ratio for 2005 is calculated on an annualized basis and reflects issue costs of \$2,382,750 related to the units and that the Trust operated for the period from February 18, 2005 to December 31, 2005.

(3) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. 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.

PERFORMANCE

As the Trust has not yet completed a full year of operations, no performance data is presented.

INVESTMENT PORTFOLIO

Portfolio Composition

	% of Net Assets
Power and Pipeline Funds	50.2
Business Funds	27.5
Real Estate Investment Trusts	16.8
Oil and Gas Funds	19.7
Liabilities less other assets	(14.2)
Total Net Assets	100.0

Investments

Power and Pipeline Funds

Algonquin Power Income Fund	3.6%
AltaGas Income Trust	4.2%
Atlantic Power Corporation	3.8%
Borex Power Income Fund	3.2%
Calpine Power Income Fund	2.7%
EPCOR Power LP	2.9%
Fort Chicago Energy Partners L.P. Cl. A	3.4%
Inter Pipeline Fund Cl. A	3.9%
Keyera Facilities Income Fund	4.6%
Northland Power Income Fund	3.8%
Pembina Pipeline Income Fund	4.5%
TransAlta Power, L.P.	3.4%

Business Funds

CML Healthcare Income Fund	4.1%
Fording Canadian Coal Trust	3.8%
Noranda Income Fund Cl. A	3.7%
Superior Plus Income Fund	4.6%
TimberWest Forest Corp.	3.7%
UE Waterheater Income Fund	4.2%

Real Estate Investment Trusts

Calloway Real Estate Investment Trust	0.1%
Canadian Apartment Properties Real Estate Investment Trust	2.4%
H&R Real Estate Investment Trust	2.7%
InnVest Real Estate Investment Trust	2.3%
Primaris Retail Real Estate Investment Trust	3.0%
Retirement Residences Real Estate Investment Trust	1.9%
Summit Real Estate Investment Trust	2.3%

Oil and Gas Funds

Acclaim Energy Trust	2.0%
ARC Energy Trust	3.0%
Bonavista Energy Trust	2.1%
Enerplus Resources Fund	2.1%
Pengrowth Energy Trust Cl. B	2.2%
Petrofund Energy Trust	1.6%
PrimeWest Energy Trust	1.9%
Vermilion Energy Trust	2.2%

The investment portfolio may change due to ongoing portfolio transactions of the Trust. Quarterly updates are available within 60 days of each quarter end by visiting www.mtauburncapital.com or by contacting the Trust.