



MACCs SUSTAINABLE YIELD TRUST



**December 31, 2006
Annual Report**

MANAGER
MACCs ADMINISTRATOR INC.

CORPORATE INFORMATION

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MANAGEMENT REPORT OF FUND PERFORMANCE

This management report of fund performance contains financial highlights, but does not contain either interim or annual statements of the Trust. The annual financial statements of the Trust are attached to this report. The following information should be read in conjunction with the attached financial statements and accompanying notes thereto for the year ended December 31, 2006.

Unitholders may request a copy of the Trust's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure. Unitholders can contact us by writing to us at 70 University Avenue, Suite 1200, Toronto, ON M5J 2M4 or by visiting our website at www.mtauburncapital.com.

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 that comprised the portfolio as at December 31, 2006 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 that 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, 2006, the Trust held 37 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, 2006 was \$8.81. 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 an increase in net assets from operations.

Distributions

During the year, the Trust declared distributions of \$0.6972 per unit. A distribution for the month of December 2006 of \$0.0556 per unit was declared. This distribution was paid on January 15, 2007.

Redemptions

Units may be redeemed annually on July 31. In July 2006 the Trust received notices from unitholders to redeem 1,383,079 units. In addition, the Trust has a mandatory market purchase program under which it repurchases and cancels units under certain circumstances. During the year, the Trust repurchased 51,300 units under this program.

Revenue and Expenses

For the year ended December 31, 2006, the Trust received investment income of \$2,053,342 and incurred expenses of \$1,043,656. 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 \$136,703, dealers' service fees of \$89,860, legal fees of \$264,974, interest and bank charges of \$223,615, administration fees of \$98,487, audit fees of \$76,925 and other expenses of \$153,092.

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Borrowings

As at December 31, 2006, the Trust had borrowed a total of \$3,188,789 (12.4% 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 year, the minimum amount borrowed under the credit facility was \$3,188,789 and the maximum was \$8,000,000.

Recent Developments

The Trust held a Special Meeting of Unitholders in June 2006 at which certain changes to the terms of its Declaration of Trust dealing with unit repurchases and the issuance of additional units, among other things, were approved. The Trust changed its custodian from State Street to RBC Dexia in September 2006. The Trust also filed a prospectus qualifying the issuance of up to 2,042,121 additional units by way of a warrant offering. The exercise price of the warrants was \$8.64 and their expiry date was February 15, 2007. As at December 31, 2006, 502,048 warrants had been exercised and 622,248 were exercised in total prior to their expiry. An additional 120,200 warrants were exercised prior to February 15, 2007 for aggregate proceeds of \$1,038,528. The Trust redeemed 1,383,079 units at a net asset value of \$9.567 pursuant to its annual retraction provisions.

The strength of the Canadian dollar, fluctuations in commodity prices and interest rates are all factors that may affect the income trust market over the next year. In addition, on October 31, 2006 the federal government announced proposed changes to the rules governing income trusts in Canada. The effect of these proposed rules upon the value of the Trust's holdings was substantial. If enacted as proposed, these changes could have a further significant affect upon the Trust.

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, Fiera YMG Capital 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 years shown. This information is derived from the Trust's audited financial statements.

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

	2006	2005
Net asset value, beginning of period	\$9.87	\$10.00*
Increase (decrease) from operations:		
Total revenue	0.70	0.50
Total expenses	(0.35)	(0.15)
Realized gains for the period	0.31	0.26
Unrealized gains (losses) for the period	(0.81)	0.51
Total increase (decrease) from operations ⁽¹⁾	(0.15)	1.12
Distributions		
From income (excluding dividends)	(0.13)	(0.21)
From dividends	(0.05)	(0.04)
From capital gains	(0.33)	(0.25)
Return of capital	(0.18)	(0.07)
Total annual distributions ⁽²⁾	(0.70)	(0.57)
Net asset value at December 31 of period shown	\$8.81	\$9.87

* Initial unit value.

(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.

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The 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

	<u>2006</u>	<u>2005</u>
Net assets (000s) ⁽¹⁾	\$22,079	\$33,942
Number of units outstanding ⁽¹⁾	2,507,469	3,439,800
Management expense ratio ⁽²⁾	3.69%	10.31%
Management expense ratio before waivers or absorptions ⁽²⁾	3.69%	10.31%
Portfolio turnover rate ⁽³⁾	86.93%	62.18%
Trading expense ratio ⁽⁴⁾	0.40%	0.54%
Closing market price	\$8.28	\$9.18

- (1) This information is provided as at December 31 of the year 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.

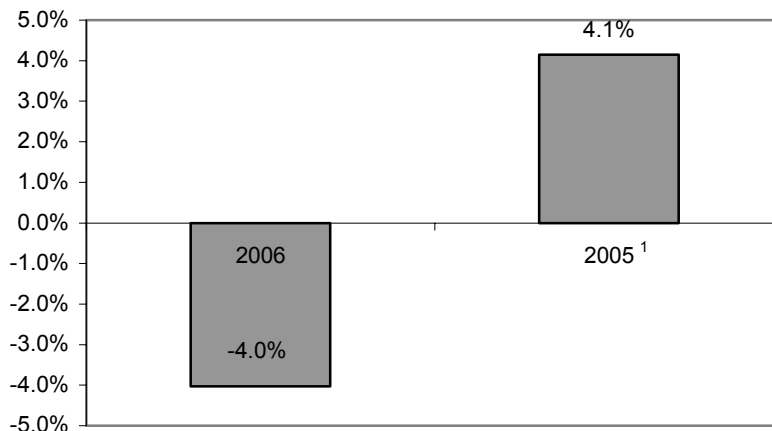
PAST PERFORMANCE

General

The performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust at the then prevailing trading price. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Trust has performed in the past does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The bar chart below shows the Trust's annual performance for each of the periods shown, and illustrates how the Trust's performance has changed from period to period. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial period at the then net asset value per share would have grown or decreased by the last day of each financial period. The annual return for 2005 relates to the period from the date of inception on February 18, 2005 to December 31, 2005 and reflects issue expenses of \$2,382,750. The annual returns also reflect the distributions paid on the Trust units.



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Annual Compound Returns

	Past Year	Since Inception
Units	-4.0%	0.0%
S&P/TSX Capped Income Trust Index ⁽¹⁾	-10.9%	1.2%

⁽¹⁾ S&P/TSX Capped Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classifications Standard sectors of the income trust marketplace. Income trusts that qualify for inclusion derive the distribution income from actual operating entities. Relative weights of individual constituent income trusts are capped at 25%. The number of constituents is not fixed.

INVESTMENT PORTFOLIO

Portfolio Composition as at December 31, 2006

	% of Net Assets
Short-term Investments	16.1
Power and Pipeline Funds	39.7
Business Funds	26.6
Real Estate Investment Trusts	13.5
Oil and Gas Funds	19.4
Other Assets, Net of Liabilities	(15.3)
Total Net Assets	100.0

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<i>Top 25 Holdings</i>	<i>% of Net Assets</i>
Canada Treasury Bills	16.1%
Pengrowth Energy Trust	5.6%
EPCOR Power LP	4.1%
Atlantic Power Corporation	4.0%
Fort Chicago Energy Partners L.P. Class A	3.5%
Chartwell Seniors Housing Real Estate Investment Trust	3.4%
The Consumers' Waterheater Income Fund	3.3%
Timberwest Forest Corp.	3.3%
Calpine Power Income Fund	3.2%
Inter Pipeline Fund	3.2%
CanWest MediaWorks Income Fund	3.1%
Teranet Income Fund	3.0%
Algonquin Power Income Fund	3.0%
UE Waterheater Income Fund	3.0%
H&R Real Estate Investment Trust	3.0%
Pembina Pipeline Income Fund	2.9%
CML Healthcare Income Fund	2.9%
Canadian Apartment Properties Real Estate Investment Trust	2.8%
AltaGas Income Trust	2.8%
InnVest Real Estate Investment Trust	2.8%
Bell Nordinq Income Fund	2.7%
Boralex Power Income Fund	2.7%
TransAlta Power L.P.	2.7%
Harvest Energy Trust	2.6%
Noranda Income Fund, Class A	2.5%

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.