



*Fresh Opportunities in a Fast-changing Industry*

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# *Dominion* *Citrus*

## 2006 ANNUAL REPORT

### Fund Profile

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Dominion Citrus Income Fund (the “Fund”, the “Company”, “Dominion Citrus”, “Dominion”, “DCIF”) is a diversified food company supplying fresh produce, premium juices and maple syrup to a wide variety of customers in retail, foodservice and food distribution businesses. The Fund provides procurement, processing, repacking, sorting, grading, warehousing and distribution services to its major domestic markets being Ontario and Québec. The Fund also supplies products to customers in the United States and Europe.

The Fund conducts its importing, distributing and food processing activities through its Dominion Citrus Distribution, Dominion Farms Produce, Country Fresh Packaging, Meschino Banana, and Delta Foods International (“Delta”) divisions and at its wholly owned limited partnerships Les Aliments Bo-Fruits LP (“Bo-Fruits”) and Apple Valley Juice LP (“Apple Valley Juice”).

The website may be accessed at [www.dominioncitrus.com](http://www.dominioncitrus.com).

## 5 Year Financial Highlights

(fiscal year ending)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002
Revenue	\$ 117,335,000	\$ 125,246,000 <sup>†</sup>	\$ 131,126,000 <sup>†</sup>	\$ 120,074,000 <sup>†</sup>	\$ 106,227,000 <sup>†</sup>
Gross Margin %	19.4%	18.5%	18.4%	18.6%	17.6%
Earnings before other income (expense)	\$ 2,590,000	\$ 3,451,000	\$ 4,466,000	\$ 4,692,000	\$ 3,410,000
Earnings before goodwill impairment, portfolio & Catanti related income (expense)	\$ 2,695,000	\$ 3,443,000	\$ 4,131,000	\$ 4,037,000	\$ 3,420,000
Net earnings (loss)	\$ (93,000)	\$ 2,321,000	\$ 1,188,000	\$ 2,535,000	\$ 2,206,000
Earnings (loss) per unit/share	\$ (0.00)	\$ 0.12	\$ 0.06	\$ 0.14	\$ 0.14
Net earnings before goodwill impairment, portfolio & Catanti related income (expense)*	\$ 2,695,000	\$ 2,300,000	\$ 2,614,000	\$ 2,417,000	\$ 2,139,000
Net earnings per unit/share before goodwill impairment, portfolio & Catanti related income (expense)*	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.13	\$ 0.13
Dividends per common share	n/a	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.04
Distributions per unit	\$ 0.12	n/a	n/a	n/a	n/a
EBITDA*	\$ 4,020,000	\$ 4,969,000	\$ 5,885,000	\$ 5,966,000	\$ 4,749,000
Operating Cash Flow (excl. working capital)	\$ 3,732,000	\$ 3,722,000	\$ 3,665,000	\$ 3,678,000	\$ 3,122,000
Operating Cash Flow per unit/share (excl. working capital)	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.21	\$ 0.19
Capital Spending**	\$ 1,182,000	\$ 2,051,000	\$ 1,088,000	\$ 887,000	\$ 567,000
Weighted average units/common shares outstanding	20,475,845	19,857,571	19,754,788	17,780,081	16,286,155

\* Non-GAAP measurement - see MD&A

\*\* Net of capital disposals, recovery

† Restated - see "Selected Annual Information"

## Letter to Unitholders

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2006 represented a challenging year as the food industry and the political environment changed rapidly.

Competition and pricing pressures intensified during the year driven by the full year impact of the Metro Inc. acquisition of The Great Atlantic & Pacific Tea Company of Canada (“A&P”) and as non-traditional retailers continued to take a larger share of the Canadian food market. This combined with adverse weather conditions in key U.S. production areas has placed further stress on an already strained supply side resulting in volume pressure for Dominion Citrus.

Considerable work was done on strategy as we focus on evolving trends and opportunities we see ahead in our industry. During the year, we recruited experienced management to lead our production and warehouse facilities and to bring about greater focus and leadership to our market and sales development activity. These investments in human resources are key to establishing a strong foundation for a successful enterprise in an industry that is undergoing very significant and fundamental changes.

During the year, we expanded our value-added products and services with the acquisition of the assets of Nature’s Best and the introduction of third party storage and distribution services at our new facility in Toronto. New juice products were developed and introduced successfully. The competitiveness and performance of our facilities were improved with new investments in processing and packaging equipment.

In 2006, we recorded a charge against earnings in the amount of \$2,788,000 in recognition of goodwill impairment primarily attributable to the underperformance of our maple syrup business.

We completed our conversion to an income trust on January 1, 2006. The Federal Government announced proposed tax changes affecting income trusts on October 31, 2006. Management is monitoring this situation closely.

We wish to thank our Unitholders for investing in Dominion Citrus and for their continued support.

Dominion Citrus Income Fund



**Michael F. Blair**  
Chairman

**March 27, 2007**



**Jacques L. Lavergne**  
President & CEO

## Management's Discussion and Analysis

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*The following section should be read in conjunction with the accompanying audited consolidated financial statements, and notes prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All dollar amounts are stated in Canadian dollars.*

Effective January 1, 2006, pursuant to a Plan of Arrangement under the laws of the Province of Ontario, Dominion Citrus Income Fund (the "Fund", the "Company", "Dominion", "DCIF") acquired all the issued and outstanding common shares of Dominion Citrus Limited ("DCL") in exchange for units of the Fund, on a one-for-one basis. The trust units are listed on the TSX under the symbol DOM.UN. The Series A preference shares of Dominion Citrus Limited continue to be listed on the TSX under the symbol DMN.PR.A. Readers are directed to the document, Management Information Circular with respect to the Plan of Arrangement providing for the creation of Dominion Citrus Income Fund, dated November 23, 2005 and the Annual Information Form dated March 27, 2007, that are available at [www.sedar.com](http://www.sedar.com).

This Management Discussion & Analysis ("MD&A") contains statements, which, to the extent that they are not a recitation of historical fact, may constitute "forward-looking statements". Forward-looking statements may include financial and other projections, as well as statements regarding our future plans, objectives or performance, or our underlying assumptions. The words "estimate", "anticipate", "believe", "expect", "intend" or other similar expressions of future or conditional verbs such as "will", "should", "would" and "could" are intended to identify forward-looking statements. Persons reading this MD&A are cautioned that such statements are only expectations, and that our actual results or performance may be materially different.

Forward-looking information involves certain risks, assumptions, uncertainties and other factors, which may cause actual future results to differ materially from those expressed or implied in any forward-looking statements.

Readers should not place undue reliance on these forward-looking statements when making decisions, and should consider the date onto which the statements were made. Except as required by applicable security law, management disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Dominion has introduced certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings under GAAP and are unlikely to be comparable to similar measures used by other companies. In addition to providing income measures in accordance with Canadian Generally Accepted Accounting Principles (GAAP), the Fund presents earnings before interest, income taxes, amortization and certain other items (EBITDA) as a supplementary income measure. EBITDA does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. EBITDA is provided to assist investors in determining the Fund's ability to generate cash from operations. The Fund also presents a uniform comparability of earnings arising from its operating activities and from those extraneous to its operating activities, although they include non-GAAP measurements and these are outlined below under the heading 'Other Selected Annual Information'. Lastly, the Fund presents distributable cash flow generated as a supplemental measure of operating performance as it provides an indication of cash available for distribution.

### OVERVIEW OF THE BUSINESS

Dominion is a diversified food company supplying fresh produce, premium juices and maple syrup to a wide variety of customers in retail, foodservice and food distribution businesses. The Company provides procurement, processing, repacking, sorting, grading, warehousing and distribution services to over 400 customers, with its major domestic markets being Ontario and Québec. The Company also supplies products to customers in the United States and Europe.

The Fund, via its wholly owned operating subsidiary DCL and its holdings, operates businesses in two main segments, produce wholesaling and processing ("Produce") and other food. The results for 2006 and 2005 include Les Aliments Dominion Citrus Limitée ("Bo-Fruits") for twelve months whereas the comparative results for 2004 include Bo-Fruits results for ten months as it was acquired February 24, 2004. The results for 2006 include Nature's Best for eleven months as it was acquired February 2, 2006.

## SELECTED ANNUAL INFORMATION

	2006	2005 <sup>(1)</sup>	2004 <sup>(1)</sup>
Revenue (\$000's)	117,335	125,246	131,126
Earnings before other income (expense) (\$000's)	2,590	3,451	4,466
Net earnings (loss) (\$000's) <sup>(1)</sup>	(93)	2,321	1,188
EBITDA (\$000's) <sup>(3)</sup>	4,020	4,969	5,885
Basic earnings per unit	\$0.00	\$0.12	\$0.06
Fully diluted earnings per unit	\$0.00	\$0.11	\$0.06
Distributions declared per unit	\$0.12	n/a	n/a
Cash dividends per common share	n/a	\$0.05	\$0.05
Total assets (\$000's)	34,501	41,229	38,627
Long-term liabilities, capital lease (\$000's)	2,801	2,937	4,090
Convertible debenture (\$000's)	4,374	4,813	4,752
Units outstanding (Basic Weighted Average)	20,475,845	19,857,571	19,754,788

## SELECTED QUARTERLY INFORMATION

	2006				2005 <sup>(1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (\$000's)	31,817	30,251	29,751	25,516	33,261	30,617	32,814	28,554
Earnings before other income (expense) (\$000's)	1,236	757	379	218	1,115	783	622	931
Net earnings (loss) (\$ 000's) <sup>(1)(2)</sup>	(1,763)	607	296	767	638	448	632	603
EBITDA (\$000's) <sup>(3)</sup>	1,593	1,144	695	588	1,562	756	1,334	1,317
Basic earnings	\$ (0.08)	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03
Fully diluted earnings	\$ (0.08)	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.03

(1) The 2005 and 2004 net earnings data preceded the conversion to an income trust, are on an after tax basis, and as such are not comparable.

(2) On December 31, 2005, Dominion adopted the revisions to CICA Handbook Section 3860, Financial Instruments – Disclosure and Presentation, with retroactive restatement of prior period comparatives. These revisions require liability classification for preference shares that could be settled by issuing a variable number of Dominion's common shares in exchange for the preference shares and any outstanding dividends thereon. As a result, Dominion reclassified as liabilities, the Series A preference shares previously included in Shareholders' Equity, which were \$2,297,000 as at December 31, 2005. Dividends on these Series A preference shares, which were shown as a charge to retained earnings, have been reclassified to interest expense in the Consolidated Statements of Earnings. Net income for 2004 has been decreased by \$136,000. There was no change to either basic or fully diluted earnings per share.

(3) References to EBITDA are to earnings before interest, income taxes, depreciation and amortization, gains or losses on the disposal of property plant and equipment and certain one time income and expense items such as restructuring charges, portfolio income or losses, goodwill impairment and the items described in note 14 to the consolidated financial statements.

## 2006 HIGHLIGHTS

The Company completed its first year operating as an income trust, earning \$4,020,000 of EBITDA, generating \$3,033,000 of distributable cash and declaring distributions of \$2,457,000.

Revenue for 2006 was \$117,335,000, 6.3% lower than last year. Earnings before other income (expense) of \$2,590,000 decreased \$861,000 from 2005, mainly due to the decline in revenue, however gross margin as a % of revenue improved to 19.4% from 18.5%.

Other expense was \$2,683,000 versus income of \$13,000 in 2005. \$2,788,000 of this movement was due to a non-cash charge for goodwill impairment, in the fourth quarter, upon completion of the annual goodwill impairment test. Foreign exchange income was down \$219,000 as there were less trading opportunities in 2006. The Company received \$757,000 from the settlement with its fidelity insurer related to losses in the period 2000 to 2004.

The loss before income taxes of \$93,000, due principally to the \$2,788,000 goodwill impairment charge, compared to a profit of \$3,464,000 in 2005.

Financially, the Company generated positive cash flows from operations and working capital of \$2,999,000. In addition, proceeds from a sale lease-back and a draw down of cash helped cover reductions in long-term liabilities and convertible debt of \$1,873,000 and significant investments in property, plant and equipment of \$1,196,000. Cash balances at year end were \$1,731,000 versus \$3,034,000 in 2005.

Operationally, Dominion completed its first full year of operations from its 58,000 sq.ft. state-of-the-art processing and refrigerated warehousing facility in Toronto. Apple Valley expanded its processing capabilities to include new packaging equipment which will allow it to pursue new revenue opportunities. Dominion Farm replaced and upgraded most of its carrot packing line which will provide operating efficiencies and improved food safety. The management team was further strengthened with the hiring of several senior experienced personnel: a manager for Dominion Citrus operations, a director of sales and marketing for the Country Fresh business, plant managers for Delta and Apple Valley and a plant controller for Apple Valley.

#### OTHER SELECTED ANNUAL INFORMATION

In the ensuing tables, Dominion has introduced certain non-GAAP measures to assess performance. Management believes that the data in the tables below provide a uniform comparability of earnings arising from its operating activities and from those extraneous to its operating activities, although they include non-GAAP measurements. The net earnings of the Company have been segregated into two streams: the earnings before other income (expense) less other income (expense), as outlined on the attached income statement, and the sum of the goodwill impairment and portfolio income, both on an after tax basis.

	2006	2005 <sup>(1)</sup>	2004 <sup>(1)</sup>
Net earnings from operations before goodwill impairment, portfolio & Catanti related income (expense) (\$000's)	2,695	2,300	2,614
Net earnings (loss) from goodwill impairment, portfolio & Catanti related income (expense) (\$000's)	(2,788)	21	(1,426)
Net earnings (loss) (\$000's) <sup>(1)</sup>	(93)	2,321	1,188
Basic earnings per unit from operations before goodwill impairment, portfolio & Catanti related income (expense)	\$ 0.14	\$ 0.12	\$ 0.13
Basic earnings (loss) per unit from goodwill impairment, portfolio & Catanti related income (expense)	(0.14)	0.00	(0.07)
Basic earnings per unit	\$ 0.00	\$ 0.12	\$ 0.06
Units outstanding (Basic Weighted Average)	20,475,845	19,857,571	19,754,788

Net earnings from operations before the goodwill impairment for 2006 were \$2,695,000, up 17.2% from the \$2,300,000 earned in 2005. Basic earnings per unit ("EPU") at this level were \$0.14 in 2006 versus \$0.12 reported in 2005.

#### OTHER SELECTED QUARTERLY INFORMATION

	2006				2005 <sup>(1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net earnings from operations before goodwill impairment, portfolio & Catanti related income (expense) (\$000's)	1,025	607	296	767	638	448	632	582
Net earnings (loss) from goodwill impairment & portfolio income (expense) (\$000's)	(2,788)	0	0	0	0	0	0	21
Net earnings (loss) (\$ 000's) <sup>(1)</sup>	(1,763)	607	296	767	638	448	632	603
Basic earnings from operations before goodwill impairment, portfolio & Catanti related income (expense)	\$ 0.06	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03
Basic earnings from goodwill impairment, portfolio & Catanti related income (expense)	(0.14)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Basic earnings (loss)	\$ (0.08)	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03

(1) See notes above under "Selected Quarterly Information".

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## REVENUE

Dominion's revenue for fiscal 2006 was \$117,335,000, down 6.3% from the \$125,246,000 reported for the same period last year.

Revenue in the *produce* business segment was \$97,118,000, 8.1% lower than the \$105,708,000 reported last year. This largely reflects lower volumes due to major retailers continuing with consolidation initiatives, selling price deflation and poor growing conditions in key growing regions.

In the *other food* business segment, revenue increased to \$20,217,000, up \$679,000 or 3.5% from last year. Delta increased shipments to existing customers, added new customers and increased prices. At Apple Valley, the introduction of a new private label product and higher bulk juice revenues more than offset a decline in fruit smoothie revenues.

## GROSS MARGIN

Gross margin decreased by \$351,000 to \$22,777,000 due to the lower revenue, however as a percentage of revenue increased to 19.4% from 18.5% in 2005.

*Produce* segment margins increased to 19.5% of revenue from 18.1% of revenue in 2005. This primarily reflects improved margin management through improved supplier selection, negotiations of better pricing and/or market protection and improved foreign exchange spreads.

Gross margins in the *other food* business declined to 19.0% from 20.7% of revenue. This decline reflects the difficulty of raising selling prices in the face of rising product and processing costs in all divisions.

## EXPENSES

Total expenses of \$20,187,000 increased \$510,000 over 2005.

Warehouse and delivery expenses of \$13,290,000 increased by \$583,000 over 2005. The increase is due mainly to higher costs for transportation, facilities and depreciation, with a partial offset in cold storage costs resulting from the move to the new warehouse.

Selling expenses of \$2,812,000 increased \$272,000 from last year. The increase reflects strengthening sales staff headcount with a partial offset of lower bad debt and advertising and promotion expenses. Also, 2005 included the reversal of a restructuring reserve for \$145,000 that did not recur in 2006.

General and administrative expenses decreased \$345,000 to \$4,085,000. The decrease largely reflects lower incentive compensation provisions being partially offset by higher audit fees, governance costs including those associated with the income trust conversion and consulting fees.

## OTHER INCOME (EXPENSE)

Other expense was \$2,683,000 versus income of \$13,000 reported in 2005. Upon completion of the annual goodwill impairment test, goodwill was written down by a non-cash charge of \$2,788,000 in the fourth quarter, \$2,700,000 of which related to the Delta operation. The major contributing factors impacting goodwill impairment were lower than expected revenues and profitability, a higher discount rate due to the increased cost of capital, and the introduction of legislation to apply income taxes to income trusts commencing with the 2011 tax year. Foreign exchange trading gains were \$385,000, down \$219,000 as there were fewer trading opportunities in 2006. Net interest expenses of \$946,000 increased by \$11,000 due to higher average interest rates. Amortization of deferred financing costs increased due to the refinancing costs associated with renegotiating the bank credit facility. The Company received \$757,000 from a settlement with its fidelity insurer related to losses in the period 2000 to 2004. In 2005 the other income of \$385,000 was due to the settlement of its lawsuit against Producom Holdings Inc. ("Producom").

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## INCOME TAXES

Under the terms of the *Income Tax Act (Canada)*, the Fund is not subject to income taxes to the extent that its taxable income and taxable capital gains are paid or payable to its unitholders. Accordingly, no provision for current income taxes for the Fund has been made. Income tax obligations relating to distributions of the Fund are the obligations of the unitholders.

In 2005, the Company was structured as a corporation and had an effective tax rate of 34.0%.

## NET EARNINGS

The net loss for fiscal 2006 was \$93,000 versus a net income of \$2,321,000 in 2005. Fully diluted earnings per unit were \$(0.00) in 2006 versus the \$0.11 reported in 2005.

## EBITDA

EBITDA is a non-GAAP measure that describes earnings before interest, income taxes, depreciation and amortization, gains or losses on the disposal of property, plant and equipment and certain one-time income and expense items such as restructuring charges, goodwill impairment, insurance proceeds and portfolio income or losses. EBITDA for the year 2006 was \$4,020,000 versus \$4,969,000 for 2005, computed as follows:

	2006	2005
Earnings (loss) before income taxes	\$ (93,000)	\$ 3,464,000
Interest expense, net	946,000	935,000
Amortization	1,140,000	997,000
Insurance, Producom proceeds	(757,000)	(385,000)
Goodwill impairment	2,788,000	–
Other	(4,000)	(42,000)
EBITDA	\$ 4,020,000	\$ 4,969,000

## DISTRIBUTIONS AND DISTRIBUTABLE CASH

The Fund declared twelve monthly distributions of \$0.01 per unit for a total of \$2,457,000.

Distributable cash is not a defined term under Canadian GAAP, nor does it have a standard agreed-upon meaning. As such, the Fund's distributable cash may not be directly comparable to distributable cash reported by other income funds or similar issuers. The Fund defines distributable cash as EBITDA adjusted for maintenance capital expenditures, scheduled debt repayment, cash interest, interest expense - preference shares, certain non-recurring items such as lawsuit and insurance proceeds and such other reserves that the Board of Trustees deem to be reasonable and necessary for the operation of the Fund. Distributable cash for the year 2006 was \$3,033,000 versus \$2,134,000 for 2005, calculated as follows:

	2006	2005
EBITDA	\$ 4,020,000	\$ 4,969,000
Cash interest	(691,000)	(726,000)
Maintenance capital expenditures	(330,000)	(610,000)
Insurance, Producom proceeds	757,000	385,000
Scheduled debt repayment	(71,000)	(1,000,000)
Convertible debenture redemption	(500,000)	–
Income tax payments	–	(751,000)
Interest expense - preference shares	(152,000)	(133,000)
Distributable Cash	\$ 3,033,000	\$ 2,134,000

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#### FOURTH QUARTER

Revenue for the fourth quarter of fiscal 2006 was \$31,817,000 down 4.3% from the \$33,261,000 reported for the same period last year. In the *produce* segment, revenue of \$25,572,000 was down \$975,000 and reflects lower pricing of some key commodities partially offset by higher volumes. Revenue in the *other food* business segment of \$6,245,000 was down \$469,000 as Delta experienced a very strong fourth quarter in 2005 and a large order scheduled for delivery in 2006 was shipped in January 2007.

Gross margins in the *produce* segment improved to 23.1% from 21.2% in the fourth quarter last year. This reflects improved margin management. In the *other food* business segment, gross margins declined to 19.4% from 19.5% due primarily to pricing pressures at Apple Valley.

Total expenses in the quarter increased a modest \$53,000 as small increases in warehouse, delivery and general & administrative expenses were offset by a reduction in selling expenses.

Upon completion of the annual goodwill impairment test, goodwill was written down by \$2,788,000 in the fourth quarter. The major contributing factors impacting goodwill impairment were lower than expected revenues and profitability, a higher discount rate due to the increased cost of capital, and the introduction of legislation to apply income taxes to income trusts commencing with the 2011 tax year. Foreign exchange income was \$134,000 lower due to fewer trading opportunities. Net interest expense and amortization of deferred financing costs was marginally lower than last year.

#### EBITDA and Fully Diluted Net Earnings

The net loss for the fourth quarter of 2006 was \$1,763,000, mainly due to the recording of goodwill impairment of \$2,788,000, versus net income of \$638,000 in 2005. The loss per unit (“EPU”) was \$0.08 versus a profit of \$0.03 reported in 2005.

EBITDA for the fourth quarter of 2006 was \$1,593,000 versus \$1,562,000 for 2005, computed as follows.

	Q-4 2006	Q-4 2005
Earnings (loss) before income taxes	\$ (1,763,000)	\$ 1,033,000
Interest expense, net	322,000	277,000
Amortization	250,000	269,000
Goodwill impairment	2,788,000	–
Other	(4,000)	(17,000)
EBITDA	\$ 1,593,000	\$ 1,562,000

#### Distributions and Distributable Cash

The Fund declared three monthly distributions of \$0.01 per unit for a total of \$614,000.

Distributable cash for the fourth quarter of 2006 was \$1,260,000 versus \$327,000 for 2005, calculated as follows:

	Q-4 2006	Q-4 2005
EBITDA	\$ 1,593,000	\$ 1,562,000
Cash interest	(213,000)	(174,000)
Maintenance capital expenditures	(85,000)	(445,000)
Income tax payments	–	(301,000)
Scheduled debt repayment	(35,000)	(315,000)
Distributable Cash	\$ 1,260,000	\$ 327,000

## LIQUIDITY AND CAPITAL RESOURCES

The Fund has a revolving credit facility of \$5,000,000 with an additional \$3,000,000 available for seasonal requirements, for maple syrup procurement, from April 1st to September 30th each year. The revolving facility contains certain restrictions and requires the achievement of certain financial ratios and other covenants. The fund also has a non-revolving, interest only term credit facility which was \$1,150,000 at year end and was subsequently paid down to \$800,000 in January 2007.

## OPERATING ACTIVITIES

Cash provided by operating activities for the year ending December 31, 2006 was \$2,999,000, a decline of \$1,990,000 as improvements in accounts receivable and inventory were more than offset by reductions in cheques in transit and accounts payable and accrued liabilities. The decline in liabilities largely reflects the payment of trust conversion costs accrued in 2005 in the amount of \$1,179,000, lower incentive accruals and lower trade payable due to lower December sales.

## FINANCING ACTIVITIES

Net cash used in financing activities totaled \$2,926,000. The significant activities were distribution payments of \$2,253,000, long-term liability repayment of \$1,373,000 and a partial repayment of the convertible debenture of \$500,000, partly offset by inflows from capital lease proceeds of \$1,260,000. Subsequent to year-end the Company paid down its non-revolving term loan facility by \$350,000 and its convertible debenture by \$500,000. At December 31, 2006, the Fund was in compliance with all bank covenants.

## INVESTING ACTIVITIES

Property, plant and equipment expenditures totaled \$1,281,000 for 2006, including \$85,000 in accounts payable, down from a record of \$2,561,000 in 2005, including an amount in accounts payable of \$470,000. Major items included the carrot packing line, shrink sleeve packaging equipment and additional expenditures at the Kelfield warehouse. These investments are expected to improve the Company's ability to expand its product and service offerings, competitiveness, efficiency and productivity. In addition, the Company paid \$194,000 related to the acquisition of the assets of Nature's Best in February 2006.

## OFF BALANCE SHEET FINANCING

The Fund's off balance sheet financing includes operating lease commitments. Total commitments are disclosed in note 14 of the consolidated financial statements. Also see the risks and risk management section below.

## DEBT

Dominion's total debt as at December 31, 2006 was \$9,472,000, a net reduction of \$575,000 from December 31, 2005. The debt is composed of a current portion of long-term liabilities, capital lease obligations and the convertible debenture totaling \$720,000, \$3,874,000 in convertible debenture financing, \$1,150,000 in a non-revolving, interest only term credit facility, \$366,000 of mortgages, \$1,065,000 of capital lease obligations and \$2,297,000 of preference share liabilities.

## CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 1,564,000	\$ 48,000	\$ 1,246,000	\$ 96,000	\$ 174,000
Convertible debenture	4,500,000	500,000	4,000,000	—	—
Preference share liability*	2,297,000	—	—	—	2,297,000
Capital leases	1,237,000	172,000	393,000	445,000	227,000
Operating leases	11,009,000	1,244,000	2,035,000	1,555,000	6,175,000
Total Contractual Obligations	\$ 20,607,000	\$ 1,964,000	\$ 7,674,000	\$ 2,096,000	\$ 8,873,000

\*Per note 12(c) to the financial statements the Fund can elect to pay in cash or common shares of DCL

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**OUTSTANDING UNIT (2006), SHARE (2005) DATA**

	<u>2006</u>		<u>2005</u>	
	# Outstanding	\$	# Outstanding	\$
Units / Shares, respectively	20,475,845	\$ 6,312,000	20,475,845	\$ 6,942,000
Series A preference shares	1,021,150	\$ 2,297,000	1,021,150	\$ 2,297,000

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**ACCOUNTING POLICIES**

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. The Company regularly examines its estimates; however, actual results may differ from these estimates under different assumptions or conditions.

*Critical Accounting Estimates**Goodwill and other intangible assets*

The Company believes that valuation of goodwill and intangible assets is a critical accounting estimate because it involves significant judgment and estimates by management. As required by Section 3062 of the CICA Handbook, goodwill and intangible assets must be evaluated at least annually to determine whether any impairment exists. The analysis compares the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets. A portion of the Company's goodwill arose upon acquisition of Delta in 2003 and Bo-Fruits in 2004, with the balance relating to much earlier acquisitions. Intangible assets include deferred financing costs.

The Company has evaluated the carrying value of its goodwill relating to all its acquisitions and concluded that a write-down of \$2,788,000 was required for the reasons described earlier in the MD&A.

*Changes in Accounting Policies*

There were no changes in the Fund's accounting policies in 2006.

Commencing with fiscal years ending on or after October 1, 2006, public entities are required to comply with all of the CICA Handbook sections listed below. The Fund is currently evaluating the impact of adopting the new standards. Prior periods will not be restated in accordance with the prospective application of the new standards.

*Comprehensive income*

CICA Handbook Section 1530, Comprehensive Income, requires presenting comprehensive income and its components (defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources) in financial statements as well as in net income.

*Equity*

CICA Handbook Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the period. It provides standards for an enterprise to present separately each of the changes in equity during the period, including accumulated other comprehensive income, as well as components of equity at the end of the period.

*Financial instruments*

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It provides standards for the classification of financial related interest, dividends, losses and gains, the circumstances in which financial assets and financial liabilities are offset, and disclosures about financial instruments and non-financial derivatives.

CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, replaces Handbook Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed.

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## RISKS AND RISK MANAGEMENT

The two main business segments both have common and unique risks. Management understands these risks and the associated underlying transactions and monitors these risks and uncertainties as follows:

### 1. Industry

The continuing consolidation of existing retailers and food service providers plus the entry into food of non-traditional grocery retailers reduces market share for independent grocers and foodservice providers in the *produce* segment and is a significant risk. The *produce* segment operates in a highly competitive environment and is exposed to seasonality. The *produce* segment also operates businesses in a high inventory turn environment driven largely by the perishable nature of their products. Both the *produce* and *other food* segments are sensitive to commodity pricing. Local market pricing and profitability of key commodities can be impacted by changes in global weather conditions, disease, level of agricultural production, or quality control at the grower level that could result in lower volumes available for sale and/or reduced product marketability, thereby reducing profit potential. These impacts are usually short term in duration and their impact on consolidated earnings are as likely to be favourable as unfavourable. To reduce this exposure and mitigate supply margin pressures, the Company is continually expanding its global supply network.

### 2. Foreign Currency Risk

Most commodities and ingredients imported by the Company and, with the exception of pure maple syrup and local juicing apples, are quoted in United States dollars. Dominion enters into forward and option contracts to manage the exposure resulting from foreign exchange fluctuations, however, there is no assurance that such efforts will be adequate to offset the entire risk exposure. The Company does not use derivatives for trading purposes.

### 3. Product Risk

Both Apple Valley and the produce segment operate in the perishable food business where there is some risk of spoilage and food contamination. To improve its level of food safety, the Company continues to target capital and operating expenditures as well as improved operating practices to maintain and improve its food safety standards. The Company also attempts to lay off a greater portion of this risk on suppliers.

### 4. Personnel Risk

The loss of one or more senior managers or procurement specialists could have a material adverse effect on the Company's business. The Company's contract with its two bargaining units expires June 30, 2008 and June 30, 2009. The Company believes its labour relations are good and is unlikely to be faced with labour interruptions that could result in loss of sales, profitability and customers' accounts.

### 5. Expansion Risk

The Company believes that the produce industry will continue to consolidate and that its long-term growth will be principally via a shifting of emphasis on its product and service offering coupled with acquisition and/or mergers. As such it will be subject to the risks associated with the integration and rationalization of operating activities and inherent in the establishment of new products and service offerings, including lack of customer demand, inadequate sources of supply, changes in customers' tastes or preferences, and unforeseen complications, delays and cost increases, including integration risks.

### 6. Interest Rate Risk

The interest rates for both the revolving and the non-revolving term credit facilities are tied directly to the Canadian prime rate. Management does not believe that an increase in interest rates on this portion of the debt will have a material impact on the consolidated financial statements. The interest rate on the \$4.5 million of convertible debenture debt is fixed at 8.5%. The Company also has the ability to enter into interest rate swaps if deemed appropriate.

### 7. Credit Risk

The Company believes its exposure to credit risk on trade accounts receivable is minimal as in the *produce* segment a portion of the sales are in cash and a portion are indemnified through The Toronto Wholesale Produce Association. The balance is largely to financially sound 'blue chip' companies. Management has adopted credit policies in an effort to minimize potential risks from this latter group and others such that in 2006 and 2005, the Company has experienced minimal bad debt losses. Management also believes that the Company does not have a significant credit exposure to any individual customer.

### 8. Leverage and Restrictive Covenants

The degree to which the Fund is leveraged could significantly impact the amount of income to be generated and the amount of distributable cash flow and the funds available to fund distributions. The Fund's credit facilities contain restrictive covenants that limit

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the discretion of the Fund's management with respect to certain business matters and may, in certain circumstances, restrict the Fund's ability to pay distributions on its units.

#### *9. Tax Related Risk*

On October 31, 2006, significant proposed changes to the income tax rules applicable to publicly traded income trusts were announced, effective 2011. In particular, income earned by an income trust would be taxed in a manner similar to income earned and distributed by a corporation. The proposals may adversely impact the marketability of the Fund's units and the distributable cash of the Fund may be significantly reduced.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

#### *Disclosure Controls and Procedures*

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Fund in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Fund's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Due to the inherent limitations in all control systems, an evaluation of the disclosure controls and procedures can only provide reasonable assurance over the effectiveness of controls. As a result, disclosure controls and procedures are not expected to prevent and detect all misstatements due to error or fraud. Based on the evaluation of disclosure controls and procedures, the CEO and CFO have concluded that the Fund's disclosure controls, policies and procedures are effective as at December 31, 2006.

#### *Internal Control over Financial Reporting*

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The assessment includes a risk evaluation and documentation of key processes. Due to the inherent limitations in all control systems, an evaluation of internal control over financial reporting can only provide reasonable assurance over the effectiveness of controls. As a result, the system of internal control over financial reporting is not expected to prevent and detect all misstatements due to error or fraud. Our review identified areas needing improvement including inventory management. Management is addressing these weaknesses and will continue to augment and strengthen controls and procedures. Based on the assessment of internal control over financial reporting, the CEO and CFO have concluded that the Fund's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles as at December 31, 2006.

### **SUBSEQUENT EVENTS**

- a) On January 31, 2007, the Company sold its option to purchase the Kelfield warehouse for \$350,000 and applied the proceeds against the non-revolving term credit facility.
- b) On February 2, 2007, at the election of debenture holders pursuant to the terms of the trust indenture, the Company redeemed \$500,000 of the 8.5% convertible debenture.

### **OUTLOOK**

Management believes the segments of the food industry in which the Company participates will remain highly competitive and result in continuing volume and margin pressures.

The Fund is modifying its organizational structure to drive revenue increases and better meet customer needs, expand product and process development, increase its supplier base and continue to make selective investments in its processing facilities. In addition, the Fund will continue to pursue acquisitions and alliances to advance its strategy of expanding as a diversified food supplier in the food industry.

## Management's Responsibility for Financial Information

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The accompanying consolidated financial statements and all information in this report were prepared by and are the responsibility of management. The consolidated financial statements were prepared in conformity with Canadian generally accepted accounting principles and reflect management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the consolidated financial statements.

The Fund maintains a system of internal controls, which provides management with reasonable assurance that financial information is relevant, reliable and accurate and that the Fund's assets are properly accounted for and adequately safeguarded.

The Board of Trustees carries out its responsibility for the consolidated financial statements included in this annual report principally through its Audit Committee, consisting solely of outside trustees. The Audit Committee reviews the Fund's annual consolidated financial statements and has recommended their approval by the Board of Trustees. The unitholders' auditors and Audit Committee meet with and without management being present.

The consolidated financial statements have been audited by the independent external auditors, appointed by the unitholders, Smith Nixon LLP. In that capacity they have examined and reported on the consolidated financial statements for the years ending December 31, 2006 and 2005.



**Jacques L. Lavergne**  
President & CEO



**Edward A. Atkinson**  
VP Finance & CFO

## Auditors' Report

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*To the Unitholders of  
Dominion Citrus Income Fund*

We have audited the consolidated balance sheets of Dominion Citrus Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Smith Nison LLP*

TORONTO, ONTARIO  
March 1, 2007

LICENSED PUBLIC ACCOUNTANTS  
CHARTERED ACCOUNTANTS

## CONSOLIDATED STATEMENTS OF EARNINGS AND LOSS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<b>REVENUE</b>	\$ 117,335,000	\$ 125,246,000
<b>COST OF GOODS SOLD</b>	94,558,000	102,118,000
<b>GROSS MARGIN</b>	22,777,000	23,128,000
<b>EXPENSES</b>		
Warehouse and delivery	13,290,000	12,707,000
Selling	2,812,000	2,540,000
General and administrative	4,085,000	4,430,000
	20,187,000	19,677,000
<b>EARNINGS BEFORE OTHER INCOME (EXPENSE)</b>	2,590,000	3,451,000
<b>OTHER INCOME (EXPENSE)</b>		
Foreign exchange gain	385,000	604,000
Interest expense – current	(124,000)	(82,000)
Interest expense – long-term	(733,000)	(777,000)
Interest expense – preference shares (Note 12(c))	(172,000)	(141,000)
Interest income	83,000	65,000
Amortization of deferred financing costs (Note 6(a))	(91,000)	(62,000)
Goodwill impairment (Note 6(b))	(2,788,000)	–
Income on disposal of portfolio investments	–	21,000
Other income (Note 15)	757,000	385,000
	(2,683,000)	13,000
<b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>	(93,000)	3,464,000
<b>INCOME TAXES</b> (Note 11)	–	1,143,000
<b>NET EARNINGS (LOSS) FOR THE YEAR</b>	\$ (93,000)	\$ 2,321,000
<b>EARNINGS (LOSS) PER UNIT</b> (Note 13)		
Basic	\$ (0.00)	\$ 0.12
Fully diluted	\$ (0.00)	\$ 0.11

*(See accompanying notes to consolidated financial statements)*

# CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2006 AND 2005

	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,731,000	\$ 3,034,000
Accounts receivable (Note 4)	13,829,000	15,571,000
Inventories	7,217,000	7,414,000
Prepaid expenses and advances	430,000	426,000
	23,207,000	26,445,000
<b>PROPERTY, PLANT AND EQUIPMENT</b> (Note 5)	9,014,000	8,564,000
<b>OTHER ASSETS</b> (Note 6(a))	211,000	1,393,000
<b>GOODWILL</b> (Note 6(b))	2,069,000	4,827,000
	\$ 34,501,000	\$ 41,229,000
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Cheques in transit	\$ 1,850,000	\$ 3,641,000
Accounts payable and accrued liabilities	13,240,000	14,025,000
Current portion of long-term liabilities (Note 8)	48,000	48,000
Current portion of capital lease obligations (Note 9)	172,000	–
Current portion of convertible debenture	500,000	500,000
Income taxes payable	140,000	180,000
Distributions payable	204,000	–
Interest payable (Note 12(c))	92,000	72,000
	16,246,000	18,466,000
<b>LONG-TERM PAYABLE</b>	–	427,000
<b>DEFERRED GAIN ON SALE-LEASEBACK</b> (Note 9)	93,000	–
<b>LONG-TERM LIABILITIES</b> (Note 8)	1,516,000	2,889,000
<b>CAPITAL LEASE OBLIGATIONS</b> (Note 9)	1,065,000	–
<b>CONVERTIBLE DEBENTURE</b> (Note 10)	3,874,000	4,313,000
<b>PREFERENCE SHARES LIABILITY</b> (Note 12(c))	2,297,000	2,297,000
<b>FUTURE INCOME TAXES</b> (Note 11)	13,000	269,000
	25,104,000	28,661,000
<b>Contingencies and commitments</b> (Note 14)		
<b>Subsequent events</b> (Note 19)		
<b>UNITHOLDERS' EQUITY</b>		
<b>UNIT CAPITAL</b> (Note 12)	6,312,000	6,942,000
<b>CONTRIBUTED SURPLUS</b>	36,000	27,000
<b>EQUITY COMPONENT OF DEBENTURE</b> (Note 10)	425,000	425,000
<b>RETAINED EARNINGS</b>	2,624,000	5,174,000
	9,397,000	12,568,000
	\$ 34,501,000	\$ 41,229,000

(See accompanying notes to consolidated financial statements)

On behalf of the Board of Trustees



Michael F. Blair, Trustee



R. Peter McLaughlin, Trustee

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2006 AND 2005	2006	2005
<b>RETAINED EARNINGS – BEGINNING OF YEAR</b>	\$ 5,174,000	\$ 3,843,000
Net earnings (loss) for the year	(93,000)	2,321,000
Distributions paid/payable – units	(2,457,000)	–
Dividends paid/payable – common shares	–	(990,000)
<b>RETAINED EARNINGS – END OF YEAR</b>	\$ 2,624,000	\$ 5,174,000

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005	2006	2005
<b>CASH PROVIDED BY (USED IN) OPERATIONS</b>		
Net earnings (loss) for the year	\$ (93,000)	\$ 2,321,000
Items not involving current cash flows:		
Amortization of property, plant and equipment	1,033,000	923,000
Goodwill impairment (Note 6(b))	2,788,000	–
Amortization and write-off of deferred financing costs	246,000	150,000
Amortization of debenture discount	61,000	61,000
Income on portfolio investments	–	(21,000)
Gain on disposal of property, plant and equipment	(4,000)	(21,000)
Amortization of other assets	6,000	–
Stock-based compensation expense	9,000	12,000
Other compensation expense	(314,000)	26,000
Future income taxes	–	271,000
	3,732,000	3,722,000
Net change in non-cash working capital:		
Accounts receivable	1,742,000	(3,283,000)
Inventories	204,000	4,329,000
Prepaid expenses and advances	2,000	(223,000)
Cheques in transit	(1,791,000)	2,350,000
Accounts payable and accrued liabilities	(1,074,000)	(2,035,000)
Interest payable (Note 12(c))	20,000	8,000
Distribution payable	204,000	–
Income taxes	(40,000)	121,000
	2,999,000	4,989,000
<b>FINANCING ACTIVITIES</b>		
Other assets	75,000	–
Distributions paid	(2,253,000)	–
Repayment of long-term payables	(112,000)	–
Repayment of long term liabilities	(1,373,000)	(1,693,000)
Proceeds from long-term liabilities	–	540,000
Net proceeds from issue of common shares	–	461,000
Net proceeds from issue of preference shares	–	75,000
Proceeds of sale-leaseback (Note 9)	1,260,000	–
Repayment of capital lease obligation	(23,000)	–
Repayment of convertible debenture	(500,000)	–
Dividends paid	–	(990,000)
	(2,926,000)	(1,607,000)
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of portfolio investments	–	2,583,000
Acquisition of property, plant and equipment	(1,196,000)	(2,091,000)
Acquisition of Bo-Fruits, net of cash acquired (Note 3(b))	–	(175,000)
Acquisition of Nature's Best (Note 3(a))	(194,000)	–
Proceeds on disposal of property, plant and equipment	14,000	40,000
	(1,376,000)	357,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,303,000)	3,739,000
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	3,034,000	(705,000)
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	\$ 1,731,000	\$ 3,034,000
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 691,000	\$ 726,000
Income taxes paid	\$ 40,000	\$ 751,000

During the year, capital assets of \$85,000 (2005 – \$470,000) were acquired and are included in accounts payable.

(See accompanying notes to consolidated financial statements)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

## 1. PLAN OF ARRANGEMENT

Effective January 1, 2006, pursuant to a Plan of Arrangement (the “Arrangement”) under the laws of the Province of Ontario, Dominion Citrus Income Fund (the “Fund”) acquired all the issued and outstanding common shares of Dominion Citrus Limited (the “Company”) in exchange for units of the Fund, on a one-for-one basis. The trust units are listed on the TSX under the symbol DOM.UN. The Series A preference shares continue to be listed on the TSX under the symbol DMN.PR.A. Readers are directed to the document, Management Information Circular with respect to a Plan of Arrangement providing for the creation of Dominion Citrus Income Fund, dated November 23, 2005 that is available at [www.sedar.com](http://www.sedar.com).

Upon completion of the Arrangement, the Fund became the direct owner of all of the common shares of the Company. The transaction is accounted under the continuity-of-interest method, as there has been no substantive change in the ultimate ownership interests in the Company. The assets and liabilities of the Company are recorded at their carrying amount as at January 1, 2006 as if they were always held by the Fund.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of Consolidation

These consolidated financial statements of the Fund include the accounts of Dominion Citrus Limited and its wholly-owned limited partnerships (the “Company”). Any use of the word “Fund” for periods prior to January 1, 2006 means the “Company”, unless otherwise specified.

### (b) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on currently available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenue and expenses during the fiscal year. Actual results could differ from these estimates.

### (c) Cash and Cash Equivalents

The Fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### (d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost generally determined on a first-in, first-out basis. Finished goods are valued at the lower of cost and net realizable value, and cost includes raw materials.

### (e) Property, Plant and Equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets on either straight-line or declining balance at the following rates:

Buildings	20 to 25 years
Computer equipment	3 to 5 years
Office and furniture	5 to 10 years
Manufacturing equipment	5 to 15 years
Transportation equipment	3 years
Other	8% to 33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Assets under capital lease are amortized on the same basis as similar property, plant and equipment.

### (f) Impairment of Long-lived Assets

Long-lived assets are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. When indicators of impairment of the carrying value of the long-lived assets exist and the carrying value is greater than the fair value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

### (g) Financial Instruments and Risk Management

The Fund may periodically use derivative financial instruments, such as forward foreign exchange contracts, to manage risks related to fluctuations in exchange rates in the ordinary course of business. The derivative financial instruments, pertaining to working capital items, are recognized at fair value on the balance sheet. Any changes in fair value are charged to earnings during the year. The fair value of derivative financial instruments, such as forward foreign exchange contracts, is determined based on market quotes.

The carrying value of accounts receivable, bank indebtedness, cheques in transit, accounts payable and accrued liabilities are considered to be representative of their respective values due to their short-term nature.

The fair value of long-term liabilities, convertible debenture and long-term payable is not considered to be materially different from the carrying amount. The fair value of the Series A preference shares is not readily determinable as the repayment terms are uncertain.

The Fund's principal exposure to interest rate fluctuations is with respect to its revolving bank indebtedness, non-revolving bank term loans and mortgages, which bear interest at floating rates.

The Fund is exposed to credit risk on the accounts receivable from its customers. Management has adopted credit policies in an effort to minimize those risks.

#### (h) Foreign Exchange

Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at rates prevailing at the time of the respective transactions. Revenue and expense transactions are translated at the average rates of exchange during the period. Exchange gains and losses are included in income.

#### (i) Income Taxes

The Fund uses the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### Proposed Canadian Income Tax Rule Changes

On October 31, 2006, the Department of Finance of the Canadian Federal Government announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships (the "proposed legislation") will be significantly modified. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. The proposed legislation will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006 provided that certain "normal growth" guidelines are met.

Currently, the Fund is only taxable on amounts that are not deemed to be distributed to Unitholders. If enacted in its current form, the proposed legislation will result in a change in which the earnings of the Fund will be subject to income tax regardless of whether amounts are distributed to the Unitholders or not. The Fund is currently considering the possible impact of the proposed legislation. However, the proposed legislation has not yet been substantively enacted, and therefore the impact of the implementation is uncertain.

#### (j) Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair values assigned to identifiable net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill or intangible assets with indefinite lives exceeds their fair value, an impairment loss is recognized in an amount equal to the excess. As a result of performing the annual test for impairment for the year ended December 31, 2006, the Fund recognized a goodwill impairment charge of \$2,788,000 (see Note 6(b)).

Deferred financing costs are amortized over the terms of the related debts. Amortization is included as part of long-term interest expense and is computed on a straight-line basis based on the terms of the related debt.

#### (k) Unit-Based Compensation

The Fund recognizes an expense for all forms of employee unit-based compensation, including unit options, using the Fair Value method. The Black-Scholes option-pricing model is used to measure the compensation costs.

#### (l) Revenue Recognition

The Fund recognizes revenue from product sales when title passes upon shipment to customers. Revenue for the provision of service including processing, repacking, sorting, grading and warehousing is recognized at the time the service is rendered. Revenue is recorded at the invoice price for each product net of returns, discounts and sales incentives provided to customers. Sales incentives include various rebate programs with the Fund's customers, primarily rebates based on achievement of specified volume levels.

#### (m) Earnings per Unit

Earnings per unit is calculated by dividing net income applicable to unitholders by the weighted average number of units outstanding.

Diluted earnings per unit using the treasury stock method is calculated using an adjusted weighted average number of units outstanding which:

- (i) In 2006, reflects the exercise of unit options and the if converted method for the debenture conversion;
- (ii) In 2005 (prior to the Arrangement), reflects the exercise of stock options, the if converted method for the debenture conversion and the redemption of the Series A preference shares.

#### (n) Leases

Leases are classified as either capital or operating. A lease that transfers substantially all of the benefits and risks of ownership of the property to the Fund is accounted for as an acquisition of an asset and the assumption of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

#### (o) Asset Retirement Obligations

The Fund recognizes a liability for its legal obligations associated with the retirement of its tangible long-lived assets, which includes property, plant and equipment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset, provided a reasonable estimate of the obligation can be made. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. The liability may be adjusted prospectively in future periods as a result of changes in estimates relating to timing or amounts of underlying cash flows.

As at December 31, 2006, the Fund has not incurred or committed any asset retirement obligations related to property, plant and equipment.

#### (p) Employee Future Benefits

The Fund sponsors a defined benefit pension plan for a member of its executive. The cost of the defined benefit plan is actuarially determined utilizing the projected benefit method and incorporates management's best estimate of expected plan investment performance, salary escalation, expected retirement age and other actuarial factors. The cost is then charged to expense as services are rendered. Adjustments arising from plan amendments or from actuarially determined gains or losses are amortized on a straight-line basis over the remaining service life of the executive.

The Fund also sponsors two defined contribution pension plans. Fund contributions to these plans are expensed as incurred.

### 3. BUSINESS AND ASSET ACQUISITIONS

#### (a) Nature's Best Acquisition

On February 2, 2006, the Fund acquired the assets of Nature's Best for a cash purchase price of \$194,000 as follows:

Inventory	\$	7,000
Prepaid expenses		6,000
Property, plant and equipment		119,000
Other assets		31,000
Goodwill		31,000
Total purchase price	\$	194,000

#### (b) Les Aliments Dominion Citrus Limitée ("Bo-Fruits") Acquisition

Effective February 24, 2004 the Fund acquired 100% of the outstanding common shares of Distribution Bo-Fruits Inc. and subsequently renamed the company Les Aliments Dominion Citrus Limitée (now called "Les Aliments Dominion Citrus LP"). The purchase price was funded by a cash payment of \$1,203,000, plus the issuance of 187,668 common shares of the Fund, valued at \$1.865 per common share for a total share consideration of \$350,000. In 2005, a performance payment of \$175,000 was paid based on the actual Bo-Fruits results for the twelve-month period following closing and was accounted for as additional goodwill. The acquisition was accounted for using the purchase method and the results of operations are included from the date of acquisition.

The fair value of net assets acquired was as follows:

Assets (including cash of \$12,000)	\$	899,000
Liabilities		(673,000)
Net identifiable assets acquired		226,000
Goodwill		1,514,000
Total consideration and acquisition costs		1,740,000
Less: Cash acquired		12,000
Net outlay	\$	1,728,000

### 4. ACCOUNTS RECEIVABLE

	2006	2005
Trade	\$ 13,210,000	\$ 15,285,000
Other	619,000	286,000
	\$ 13,829,000	\$ 15,571,000

## 5. PROPERTY, PLANT AND EQUIPMENT

	2006		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 335,000	\$ –	\$ 335,000
Building and leasehold improvements	4,838,000	2,128,000	2,710,000
Trucks and automobiles	806,000	776,000	30,000
Manufacturing equipment	12,202,000	7,999,000	4,203,000
Other equipment and furniture	1,692,000	1,216,000	476,000
Manufacturing equipment under capital lease (Note 9)	1,260,000	–	1,260,000
	<b>\$ 21,133,000</b>	<b>\$ 12,119,000</b>	<b>\$ 9,014,000</b>

	2005		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 335,000	\$ –	\$ 335,000
Building and leasehold improvements	4,154,000	1,445,000	2,709,000
Trucks and automobiles	806,000	763,000	43,000
Manufacturing equipment	11,369,000	6,428,000	4,941,000
Other equipment and furniture	1,480,000	944,000	536,000
	<b>\$ 18,144,000</b>	<b>\$ 9,580,000</b>	<b>\$ 8,564,000</b>

## 6. OTHER ASSETS

(a) Other Assets	2006	2005
Deferred financing costs	\$ 887,000	\$ 831,000
Conversion costs	886,000	985,000
	1,773,000	1,816,000
Less: Transferred to unit capital	886,000	–
Less: Accumulated amortization	676,000	423,000
	<b>\$ 211,000</b>	<b>\$ 1,393,000</b>

### (b) Goodwill

The goodwill impairment test, which was based on a discounted cash flow valuation approach, indicates that goodwill attributed to the Other Food segment is impaired by \$2,788,000. The major contributing factors were reduced expectations due to lower than expected revenues and profitability, the significant proposed changes to the income tax rules applicable to publicly traded income trusts, effective 2011, and a higher discount rate due to the increased cost of capital. After this impairment charge, there remains no goodwill associated with the Other Food segment.

	2006	2005
Goodwill	\$ 5,324,000	\$ 5,294,000
Less: Goodwill impairment	2,788,000	–
	2,536,000	5,294,000
Less: Accumulated amortization	467,000	467,000
	<b>\$ 2,069,000</b>	<b>\$ 4,827,000</b>

## 7. BANK INDEBTEDNESS

The Fund has an agreement for a \$5,000,000 revolving and \$2,400,000 non-revolving interest only term credit facility secured by all present and future assets, properties and undertakings of the Fund. Both credit facilities have a term of three years and the revolving term loan has an additional \$3,000,000 available for seasonal requirements from April 1st to September 30th each year. Interest is paid at the bank's prime interest rate plus 0.50% and the effective interest rate at December 31, 2006 was 6.50% (2005 – 5.50%). At December 31, 2006, the Fund was in compliance with all bank covenants. Also see Subsequent Events Note 19(a).

The Fund has obligations for standby letters of credit totalling \$190,000 at year-end (2005 - \$327,000).

## 8. LONG-TERM LIABILITIES

	2006	2005
Non-revolving term credit facility, at prime plus 0.50%, maturing December 31, 2008. The effective interest rate at December 31, 2006 was 6.50% (2005 - 5.50%).	\$ 1,150,000	\$ 2,400,000
Mortgages, at prime plus 2.00%, repayable in monthly principal installments of \$3,000 maturing in 2020 and principal installments of \$1,000 maturing in 2011, secured by a hypothec on certain land and building.	414,000	537,000
	1,564,000	2,937,000
Less: Current portion	48,000	48,000
	<u>\$ 1,516,000</u>	<u>\$ 2,889,000</u>

Principal repayments of the long-term liabilities are as follows:

2007	\$ 48,000
2008	1,198,000
2009	48,000
2010	48,000
2011	48,000
Thereafter	174,000
	<u>\$ 1,564,000</u>

## 9. CAPITAL LEASE OBLIGATIONS AND DEFERRED GAIN ON SALE-LEASEBACK

On December 29, 2006, the Fund sold processing equipment via a sale-leaseback arrangement for total proceeds of \$1,260,000 which resulted in a gain of \$93,000. Since the gain does not exceed the residual value amount of \$227,000, the gain is deferred and will be recognized at the end of the term of the lease.

	2006
Future minimum lease payments	\$ 1,573,000
Less: Portion representing interest	336,000
	1,237,000
Less: Current portion	172,000
Long-term portion	<u>\$ 1,065,000</u>

Interest is calculated at 8.75% per annum, compounded monthly. Blended monthly payments are \$23,000 per month.

Principal repayments of the capital lease obligations including the residual at the end of the lease term are as follows:

2007	\$ 172,000
2008	188,000
2009	204,000
2010	222,000
2011	224,000
Thereafter	227,000
	<u>\$ 1,237,000</u>

## 10. CONVERTIBLE DEBENTURE

On February 1, 2002, the Fund completed a private offering of a \$5.0 million, 8.5% convertible debenture, due January 31, 2009. The debenture pays interest, in arrears, on January 31, April 30, July 31 and October 31. The debenture is convertible, at any time, into common shares of the Company at \$1.40 per share. Beginning on February 1, 2006, debenture holders may elect for principal repayments of up to \$500,000 in aggregate per year. By extraordinary resolution of the Debentureholders dated November 10, 2005, such holders authorized an amendment to the terms of the Debentures to provide, inter alia, that the Debentures be convertible at the option of the holder, at any time, into Units of the Fund at a conversion rate of 771.684 Units per \$1,000 principal amount of Debentures held. The foregoing amendments to the Debentures were made, amongst other things, upon the completion of the Plan of Arrangement. On February 3, 2006, at the election of debenture holders pursuant to the terms of the trust indenture, the Fund redeemed \$500,000 of the 8.5% convertible debenture. Also see Subsequent Events Note 19(b).

The debenture is a financial instrument that contains both a liability and equity component. In accordance with CICA Handbook Section 3860, the debenture proceeds were allocated based on the fair value of the debt component calculated at \$4,575,000 with the residual of \$425,000 being assigned to the equity component.

The debt component of the debenture will be increased to the face value of the debenture over the seven-year term, with the resulting charge recorded to non-cash interest expense. The non-cash interest expense ascribed to the debt component of the debenture in 2006 was \$61,000 (2005 - \$61,000). The \$425,000 has been classified as a separate component of unitholders' equity.

## 11. INCOME TAXES

(a) The future income tax asset (liability) is comprised of the following temporary differences:

	2006	2005
Capital and other assets	\$ (436,000)	\$ (581,000)
Reserves and loss carryforward	240,000	312,000
Conversion costs	183,000	–
	\$ (13,000)	\$ (269,000)

(b) The major factors that cause variations from the Fund's combined federal and provincial statutory Canadian income tax rates of 36.12% (2005 - 36.12%) were the following:

	2006	2005
Earnings (loss) before income taxes	\$ (93,000)	\$ 3,464,000
Expected income tax expense at statutory rates	\$ (33,000)	\$ 1,251,000
Increase (decrease) in taxes:		
Impairment of goodwill	975,000	–
Inter company interest income earned in non-taxable entities	(834,000)	–
Other non deductible and non-taxable items	78,000	22,000
Manufacturing and processing deduction	2,000	(101,000)
Legal settlement	–	(70,000)
Other	(188,000)	41,000
	\$ –	\$ 1,143,000

(c) Provision

The details of the income tax provision are as follows:

	2006	2005
Current provision	\$ –	\$ 872,000
Future provision	–	271,000
	\$ –	\$ 1,143,000

## 12. UNIT CAPITAL AND PREFERENCE SHARE LIABILITY

### (a) Authorized

Unlimited number of units  
Unlimited number of preference shares in series

### (b) Issued

	Number of Shares/Units	Consideration
<b>Common shares/units</b>		
Balance December 31, 2004	19,805,845	\$ 6,481,000
Shares issued on exercise of stock options	670,000	461,000
Balance December 31, 2005*	20,475,845	6,942,000
Conversion costs transferred (net of income tax benefit of \$256,000)	–	(630,000)
Balance December 31, 2006	20,475,845	\$ 6,312,000
<b>Series A Preference shares liability</b>		
Balance December 31, 2004	987,650	\$ 2,222,000
Shares issued on exercise of stock options	33,500	75,000
Balance December 31, 2005 and 2006	1,021,150	\$ 2,297,000

\*On January 1, 2006 the common shares of the Company were exchanged for units of the Fund on a one-for-one basis.

### (c) Series A Preference Shares Liability

The Series A preference shares (“Series A”) have a stated value of \$2.25 and a cumulative dividend calculated using the bank prime rate on January 1st and July 1st plus 2%, subject to a minimum rate of 4% per annum and a maximum rate of 8% per annum payable semi-annually on January 20th and July 20th. The Series A are redeemable at the option of the Company at any time pro rata from the holders at \$2.25 per share plus any accrued unpaid dividends (the “Redemption Price”). The Series A are retractable at the option of the holders effective April 1, 2013 for payment on April 15, 2013 with the notice period effective from January 1, 2013 to March 31, 2013. The Fund can elect to pay in cash or in common shares at the Redemption Price with the common share retraction price being 95% of the average of the closing prices for the 20 trading days immediately prior to April 1, 2013.

### (d) Unit Options

The board of directors and shareholders approved an employee stock option plan effective December 2000. The maximum number of common shares that may be purchased upon the exercise of all options granted under the plan may not exceed 2,430,000 common shares.

Under the Arrangement, all outstanding options to purchase common shares of the Company, which had been issued under the Company’s stock option plan, were cancelled. In exchange, holders of 310,000 options of the Company received options to purchase an aggregate of 330,089 units of the Fund. The additional 20,089 options allow for the right of certain options, on exercise, to receive the equivalent of 1/20 of a Series A preference share. The remaining 1,340,000 options available for future grants under the stock option plan of the Company were cancelled.

The continuity of options granted and outstanding under the stock option plan is as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding December 31, 2004	1,055,000	\$ 0.98
Options exercised	(670,000)	\$ 0.80
Options expired	(55,000)	\$ 0.80
Options cancelled prior to vesting	(20,000)	\$ 1.40
Options outstanding December 31, 2005	310,000	\$ 1.39
Options cancelled	(310,000)	\$ 1.39
Options issued on conversion to unit options	330,089	\$ 1.39
Options expired prior to vesting	(108,036)	\$ 1.33
Options cancelled prior to vesting	(54,017)	\$ 1.33
Options outstanding December 31, 2006	168,036	\$ 1.44

<b>Date of Grant</b>	<b>Number</b>	<b>Price</b>	<b>Expiry Date</b>
March 11, 2003	108,036	\$ 1.46	March 10, 2007
April 4, 2003	60,000	\$ 1.40	April 3, 2008
	168,036		

The March 11, 2003 options vest evenly over four years and the April 4, 2003 options vest evenly over five years.

During the year ended December 31, 2006, the Fund recognized stock-based compensation expense of \$9,000 (2005 - \$12,000), based on the fair value of options that vested during the year.

The fair value of share options issued was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

Stock price at grant date	\$ 1.33
Exercise price	\$ 1.33
Average life of options (years)	4.33
Expected stock price volatility	15%
Expected dividend yield	3.77%
Risk-free interest rate	3.43%
Fair value	\$ 34,000

### 13. EARNINGS (LOSS) PER UNIT

	2006	2005
Basic earnings (loss) per unit computation		
Earnings (loss) available to units	\$ (93,000)	\$ 2,321,000
Weighted average units outstanding	20,475,845	19,857,571
Basic earnings (loss) per unit	\$ (0.00)	\$ 0.12
Diluted earnings (loss) per unit computation		
Earnings (loss) available to units	\$ (93,000)	\$ 2,321,000
Dilutive effect of:		
Interest on preference shares	–	141,000
After-tax income from convertible debenture	–	332,000
Earnings available to unitholders, assuming dilution	\$ (93,000)	\$ 2,794,000
Weighted average units outstanding	20,475,845	19,857,571
Dilutive effect of:		
Preference shares	–	1,864,221
Convertible debenture	–	3,571,429
Weighted average units outstanding	20,475,845	25,293,221
Diluted earnings (loss) per unit	\$ (0.00)	\$ 0.11

The convertible debenture has been excluded from the calculation of the diluted earnings per unit for the year ended December 31, 2006 because the effect including the after-tax income from the convertible debenture would be anti-dilutive. The full number of the weighted average units outstanding including the dilutive effect of the employee unit options and convertible debenture is 23,948,423. The calculation of diluted earnings per unit for the year ended December 31, 2005 including the income from the preference shares and after-tax effect of the convertible debenture would give a weighted average of 25,293,221.

### 14. CONTINGENCIES AND COMMITMENTS

#### (a) Foreign Exchange Contracts

The Fund enters into foreign exchange contracts to manage exposures resulting from foreign exchange fluctuations in the ordinary course of business. As at December 31, 2006, the notional amount of contracts and the average rate of settlement was nil (2005 - US \$2,500,000 at \$1.17604).

#### (b) Operating Leases

The Fund has operating leases that require future payments as follows:

2007	\$ 1,244,000
2008	1,135,000
2009	900,000
2010	787,000
2011	768,000
Thereafter	6,175,000
	\$ 11,009,000

#### (c) General

In the ordinary course of business activities, the Fund is a party in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the consolidated financial position of the Fund.

## 15. OTHER INCOME

(a) In 2006, the Fund received \$757,000 from its fidelity insurer related to losses in the period 2000 to 2004.

(b) In 2005, the Fund received \$385,000, net of legal expenses, from the settlement of its lawsuit against Producom Holdings Inc.

## 16. SEGMENTED INFORMATION

The Fund is aggregated into two broad categories: "Produce Wholesaling and Processing" and "Other Food".

	2006	2005
(a) Produce Wholesaling and Processing		
Revenue	\$ 97,118,000	\$ 105,708,000
Segment earnings	3,534,000	3,649,000
Amortization of property, plant and equipment	670,000	573,000
Amortization of deferred financing costs	246,000	150,000
Property, plant and equipment expenditures	923,000	2,249,000
Segment assets	17,982,000	21,970,000
(b) Other Food		
Revenue	\$ 20,217,000	\$ 19,538,000
Segment earnings (loss)	(2,975,000)	187,000
Amortization of property, plant and equipment	363,000	350,000
Goodwill impairment	2,788,000	-
Property, plant and equipment expenditures	358,000	312,000
Segment assets	16,519,000	19,259,000
(c) Total		
Revenue	\$ 117,335,000	\$ 125,246,000
Segment earnings	559,000	3,836,000
Amortization of property, plant and equipment	1,033,000	923,000
Amortization of deferred financing costs	246,000	150,000
Goodwill impairment	2,788,000	-
Property, plant and equipment expenditures	1,281,000	2,561,000
Segment assets	34,501,000	41,229,000
Segment earnings before unallocated items:	\$ 559,000	\$ 3,836,000
Unallocated items -		
Foreign exchange gain	385,000	604,000
Interest, net	(946,000)	(935,000)
Amortization of deferred financing costs	(91,000)	(62,000)
Income on disposal of portfolio investments	-	21,000
Earnings (loss) before income taxes	\$ (93,000)	\$ 3,464,000

In fiscal 2006, two customers accounted for 17.5% and 14.2% of the Fund's consolidated revenues (2005 – one customer, 12.7%).

## 17. PENSION PLANS

In May 2005, the Fund initiated a pension benefit for the CEO of the Fund by establishing two separate pension plans: an individual pension plan ("IPP") that is a defined benefit plan, and a retirement compensation arrangement plan ("RCA") that is a defined contribution plan. The combined funding by the Fund to these plans is limited to \$85,000 per year for ten years. During 2006, the Fund contributed \$85,000 (2005 - \$56,000 on a prorated basis), in respect of this annual funding obligation. In addition, a contribution for past service in the amount of \$102,000 was contributed into the IPP in 2005. As part of the funding requirements under the IPP, the CEO paid \$216,000 into the IPP in 2005.

## Defined Benefit Plan - IPP

Information about the defined benefit plan is as follows:

Total defined benefit pension expense is comprised as follows:

	2006	2005
Defined benefit plan:		
Current service cost	\$ 32,000	\$ 26,000
Interest cost	24,000	22,000
Expected return on plan assets	(27,000)	(13,000)
Amortization of net actuarial loss	3,000	–
Amortization of past service cost	15,000	15,000
<b>Total defined benefit pension expense</b>	<b>\$ 47,000</b>	<b>\$ 50,000</b>
Changes in fair value of plan assets:		
Fair value of plan assets, beginning of year	\$ 348,000	\$ –
Employer contributions – past service	–	102,000
– current service	25,000	23,000
Employee contributions	–	216,000
Actual return on plan assets	32,000	7,000
<b>Market value of plan assets, end of year</b>	<b>\$ 405,000</b>	<b>\$ 348,000</b>
Changes in accrued benefit obligations:		
Obligation at beginning of year	\$ 498,000	\$ –
Current service cost	32,000	26,000
Past service costs	–	380,000
Interest cost	24,000	22,000
Actuarial loss on accrued benefit obligation	2,000	70,000
<b>Accrued benefit obligation, end of year</b>	<b>\$ 556,000</b>	<b>\$ 498,000</b>
Reconciliation of funded status at end of year:		
Items not recognized in earnings:		
Funded status – plan deficit	\$ (151,000)	\$ (150,000)
Unamortized net actuarial loss	70,000	76,000
Unamortized past service costs	133,000	149,000
<b>Pension fund asset</b>	<b>\$ 52,000</b>	<b>\$ 75,000</b>

The defined benefit pension plan is not fully funded as of December 31, 2006.

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligation are as follows:

	2006	2005
Discount rate	4.75%	4.75%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%
Retirement age	65 years	65 years
Expected remaining service life	9.75 years	10.75 years

Based on the results of an actuarial valuation completed as of January 1, 2005, funding contributions are expected to be \$27,000 for the year 2007 and \$25,000 for the year 2008. Payments will commence upon retirement of the key executive. The next actuarial valuation of the plan for funding purposes will be required no later than December 31, 2007 or in the event of a plan amendment.

## Plan Assets

The asset allocation of the defined benefit plan investments as at December 31, 2006 is as follows:

	2006	2005
Fixed income	55%	50%
Canadian equity	24%	48%
International equity	21%	2%

### Defined Contribution Plan - RCA

In 2006, the Fund contributed \$60,000 (\$33,000 from inception May 2005 to December 31, 2005) to the RCA. As required by the Income Tax Act (Canada), under the terms of the RCA, 50% of all contributions to and earnings in the plan are required to be deposited with the Canada Revenue Agency.

### Other Defined Contribution Plan

The Fund also has a defined contribution plan in place for certain other employees. Contributions to this plan are based on specified percentages of salaries. The total expense for this defined contribution pension plan was \$50,000 (2005 – \$42,000).

## 18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified from statements previously presented to conform to the presentation adopted in the current year.

## 19. SUBSEQUENT EVENTS

- (a) On January 31, 2007, the Fund sold its option to purchase the Kelfield warehouse for \$350,000 and applied the proceeds against the non-revolving term credit facility.
- (b) On February 2, 2007, at the election of debenture holders pursuant to the terms of the trust indenture, the Fund redeemed \$500,000 of the 8.5% convertible debenture.

## Investor Information

### COMPARATIVE DATA<sup>(2)</sup>

	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002	Dec. 31 2001
<b>Operations (\$000's)</b>						
Revenue	117,335	125,246	131,126	120,074	106,227	106,606
Earnings before other income (expense)	2,590	3,451	4,466	4,692	3,410	2,875
Income before goodwill impairment, portfolio & Catanti related income (expense)	2,695	3,443	4,131	4,037	3,420	3,351
Net earnings (loss)	(93)	2,321	1,188	2,535	2,206	1,872
Net earnings before goodwill impairment, portfolio & Catanti related income (expense) <sup>(3)</sup>	2,695	2,300	2,614	2,417	2,139	2,016
EBITDA <sup>(3)</sup>	4,020	4,969	5,885	5,966	4,749	4,229
Cash flow from operations, excluding working capital	3,732	3,722	3,665	3,678	3,122	2,563
Cash flow from operations	2,999	4,989	4,534	(1,616)	5,433	4,287
<b>Financial (\$000's)</b>						
Total assets	34,501	41,229	38,627	38,293	31,934	21,102
Long-term liabilities, capital lease	2,801	2,937	4,090	4,842	1,648	2,382
Convertible debenture	4,374	4,813	4,752	4,691	4,630	–
Preference shares liability	2,297	2,297	2,222	2,218	305	–
Retained earnings	2,624	5,174	3,843	3,644	3,851	2,296
Unit/shareholders' equity	9,397	12,568	10,764	10,181	6,185	4,041
<b>Per Unit/Share (\$)</b>						
Basic earnings (loss)	\$ (0.00)	\$ 0.12	\$ 0.06	\$ 0.14	\$ 0.14	\$ 0.12
Fully diluted earnings (loss)	\$ (0.00)	\$ 0.11	\$ 0.06	\$ 0.13	\$ 0.12	\$ 0.11
Basic earnings before goodwill impairment, portfolio & Catanti related income (expense) <sup>(3)</sup>	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.12
Book value per common unit/share	\$ 0.46	\$ 0.63	\$ 0.54	\$ 0.68	\$ 0.38	\$ 0.25
Weighted average number of units/common shares outstanding (000's)	20,476	19,858	19,755	17,780	16,286	16,219

#### Notes:

1. The Company became listed as a public company on the Toronto Stock Exchange on March 7, 2001. On January 1, 2006, pursuant to a Plan of Arrangement, Dominion Citrus Income Fund became the direct owner of all of the common shares of Dominion Citrus Limited.
2. Certain comparative data have been reclassified from that previously presented to conform to the presentation adopted in the current year. Net earnings previously reported have not been affected by this reclassification.
3. Non-GAAP measurement - see MD&A.

**QUARTERLY DATA<sup>(2)</sup>**

	2006				2005			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Revenue (\$000's)	31,817	30,251	29,751	25,516	33,261	30,617	32,814	28,554
Earnings before other income (expense) (\$000's)	1,236	757	379	218	1,115	783	622	931
Net earnings (loss) (\$000's)	(1,763)	607	296	767	638	448	632	603
EBITDA (\$000's) <sup>(3)</sup>	1,593	1,144	695	588	1,562	756	1,334	1,317
Basic earnings (loss) per unit/share	\$ (0.08)	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03
Fully diluted earnings (loss) per unit/share	\$ (0.08)	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.03
Net earnings before goodwill impairment, portfolio & Catanti related income (expense)(\$000's) <sup>(3)</sup>	1,025	607	296	767	638	448	632	582
Basic earnings before portfolio & Catanti related income (expense) <sup>(3)</sup>	\$ 0.06	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03

**UNIT/COMMON SHARE PRICES**

	The Toronto Stock Exchange		
	High \$	Low \$	Volume (000's)
<b>2006</b>			
Fourth Quarter	\$ 0.87	\$ 0.61	1,662
Third Quarter	\$ 0.90	\$ 0.70	970
Second Quarter	\$ 1.00	\$ 0.68	3,162
First Quarter	\$ 1.11	\$ 0.92	791
<b>2005</b>			
Fourth Quarter	\$ 1.19	\$ 0.84	1,835
Third Quarter	\$ 1.38	\$ 1.15	703
Second Quarter	\$ 1.36	\$ 1.08	1,512
First Quarter	\$ 1.45	\$ 1.25	1,169
<b>2004</b>			
Fourth Quarter	\$ 1.45	\$ 1.10	2,138
Third Quarter	\$ 1.65	\$ 1.40	470
Second Quarter	\$ 1.79	\$ 1.50	501
First Quarter	\$ 2.00	\$ 1.68	494

## Notes:

1. The Company became listed as a public company on the Toronto Stock Exchange on March 7, 2001. On January 1, 2006, pursuant to a Plan of Arrangement, Dominion Citrus Income Fund became the direct owner of all of the common shares of Dominion Citrus Limited.
2. Certain comparative data have been reclassified from that previously presented to conform to the presentation adopted in the current year. Net earnings previously reported have not been affected by this reclassification.
3. Non-GAAP measurement - see MD&A.

## Fund Information

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www.dominioncitrus.com

### Divisional Offices

#### Apple Valley Juice LP

P. O. Box 188  
Clarksburg, Ontario  
N0H 1J0  
Tel: (519) 599-2182  
Fax: (519) 599-6664

#### Country Fresh Packaging

51 Kelfield Street  
Toronto, Ontario  
M9W 5A3  
Tel: (416) 252-5801  
Fax: (416) 242-4591

#### Delta Foods International

R. R. 4  
P. O. Box 1408  
Brockville, Ontario  
K6V 5Y6  
Tel: (613) 345-4155  
Fax: (613) 345-6020

#### Dominion Citrus Distribution

165 The Queensway  
Suite 304  
Toronto, Ontario  
M8Y 1H8  
Tel: (416) 259-6328  
Fax: (416) 259-1731

## Trustees

Michael F. Blair  
Chairman,  
Dominion Citrus Income Fund

Barry Cracower  
Independent Business Consultant

Henry J. Knowles  
Business and  
Financial Consultant

Peter M. Kozicz  
President,  
Arlea Corporation

Jacques L. Lavergne  
President & CEO,  
Dominion Citrus Income Fund

### Dominion Farm Produce

215 Dissette Street  
Bradford, Ontario  
L3Z 2B3  
Tel: (416) 798-7741  
Fax: (905) 775-4707

### Kelfield Warehouse

51 Kelfield Street  
Toronto, Ontario  
M9W 5A3  
Tel: (416) 242-8341  
Fax: (416) 242-4591

### Les Aliments Bo-Fruits LP

1767 Rte de l'Aéroport  
L'Ancienne-Lorette  
Québec  
G2G 2P5  
Tel: (418) 877-9908  
Fax: (418) 877-9907

### Meschino Banana Company

1613 St. Clair Ave. West  
Toronto, Ontario  
M6E 1C9  
Tel: (416) 654-7133  
Fax: (416) 654-3131

### Auditors

Smith Nixon LLP  
Toronto, Ontario

### Bankers

The Bank of Nova Scotia

### Legal Counsel

Sheldon Huxtable  
Toronto, Ontario

### Transfer Agent and Registrar

Computershare Trust  
Company of Canada  
Investor Services  
Tel: (416) 981-9800  
www.computershare.com

### Annual Meeting

Thursday, May 24, 2007  
10:00 AM  
The Doubletree International  
Plaza Hotel  
655 Dixon Road  
Toronto, Ontario  
M9W 1J3

### Share Trading Information

Toronto Stock Exchange  
Trust Units: DOM.UN  
Preference Shares: DMN.PR.A

### Investor Relations

Edward A. Atkinson  
Vice-President Finance,  
Chief Financial Officer & Secretary  
Dominion Citrus Income Fund  
51 Kelfield Street  
Toronto, Ontario  
M9W 5A3  
Tel: (416) 242-8341  
Fax: (416) 242-4591  
t.atkinson@dominioncitrus.com

Additional information is  
available at:  
www.dominioncitrus.com

### Registered Trade Marks

Apple Valley  
Catanti  
Country Fresh  
Fruit Aura  
Fruit Fix  
Special Occasion

## Officers

Edward A. Atkinson  
Vice-President Finance, Chief  
Financial Officer & Secretary

Susan Bricks  
Vice-President & General Manager  
Dominion Citrus Distribution

Jacques L. Lavergne  
President & CEO

Nino Tomizza  
Senior Vice-President

## Committees

### Audit Committee

Michael F. Blair, Chairman  
R. Peter McLaughlin  
Rae E. Wallin

### Corporate Governance Committee

All Board Members

### Compensation Committee

All Board Members

*Dominion*  *Citrus*

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51 Kelfield Street  
Toronto, Ontario M9W 5A3  
[www.dominioncitrus.com](http://www.dominioncitrus.com)