GREAT LAKES HYDRO INCOME FUND

2008 ANNUAL REPORT

PROFILE

The Great Lakes Hydro Income Fund (“Fund”)(TSX: GLH.UN) has a unique, diversified portfolio of assets that produce electricity exclusively from environmentally friendly and renewable resources. The Fund indirectly owns, operates and manages 27 hydroelectric generating stations and one wind farm across four distinct geographic regions in North America: Québec, Ontario, British Columbia and New England.

Since inception in 1999, the Fund has provided its unitholders with stable cash flows and a strong return on investment. Its stable performance is driven by long-term contracts, as well as significant storage capabilities, geographically diversified operations and one of the lowest and most stable cost of operations in the power income fund sector.

Brookfield Renewable Power, majority unitholder owning 50.01% of the Fund’s units on a fully-exchanged basis, has more than 100 years of experience as an owner, operator and developer of hydroelectric power facilities. With approximately $12 billion in power assets under management in North America and Brazil, its portfolio includes more than 165 generating facilities with over 4,100 megawatts of capacity, of which 95% is sourced from renewable energy.

FINANCIAL HIGHLIGHTS

	2008	2007	2006
Millions, except where noted	$	$	$
Power generating assets	1,083.4	1,043.7	1,079.1
Long-term debt	641.5	616.7	653.3
Revenues	195.7	155.8	177.1
Income before non-cash items	100.1	65.3	82.6
Net income	59.3	0.7	47.9
Distribution	60.3	60.3	60.1
Per unit			
Income before non-cash items	2.07	1.35	1.71
Net income	1.23	0.01	0.99
Distribution	1.25	1.25	1.24
Power generated (GWh)	4,436	3,487	4,151
Average price (¢KWh)	4.5	4.5	4.3

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LETTER TO UNITHOLDERS

February 5, 2009

The year 2008 was a very successful one for the Fund, as we reported our strongest annual results since the Fund's inception despite the very challenging economic backdrop. Having benefited from the favourable hydrology which prevailed throughout most of the year, our results are also a reflection of the quality of our assets and the robustness of our business model predicated on long-term and stable cash flows.

Generation of 4,436 gigawatt hours ("GWh") in 2008 was well above last year's generation level of 3,487 GWh and the long-term average of 3,912 GWh. Revenues of $195.7 million and income before non-cash items of $100.1 million were also both significantly above prior year amounts of $155.8 million and $65.3 million, respectively.

Investing in the Future

In 2008, we enhanced our asset portfolio and set the stage for continued performance in the future. Late in the year, we announced our intention to indirectly acquire the Prince Wind farm in Ontario and a 50% joint venture interest in the 45 MW Pingston Hydro station. These assets were purchased from the Fund's major unitholder, Brookfield Renewable Power, for a consideration of $65 million in cash and a fixed number of exchangeable shares of the corporation that owns the projects. On a fully-exchanged basis, Brookfield Renewable Power will maintain its 50.01% ownership interest in the Fund. A $75 million bought-deal offering to fund the cash portion of the acquisition was successfully completed just subsequent to year end. The acquisition closed in early February 2009.

Located northwest of Sault Ste Marie, Ontario, Prince Wind is one of the largest wind farms in Canada with an installed capacity of 189 MW, extending over nearly 20,000 acres of land. All power produced by Prince Wind is sold at fixed prices under long-term purchase agreements to the Ontario Power Authority. A wind levelization agreement with Brookfield Renewable Power effectively provides for an annual base generation level of 506 GWh for a period of 10 years. Pingston Hydro is a run-of-river hydroelectric generating station in southeastern British Columbia. All the electricity produced by this facility is sold to BC Hydro pursuant to a long-term, fixed price electricity purchase agreement.

Our investment in these two assets is expected to increase the average annual generation of the Fund by approximately 15%. These assets are an excellent fit within our existing portfolio and complement our strategy of owning high-quality renewable power assets with stable cash flows. We already know these assets well, and the addition of our first wind farm brings resource diversification, while Pingston Hydro expands our footprint in western Canada and adds geographical and seasonal diversification.

This investment is expected to be immediately accretive to the Fund's distributable cash flow. Nonetheless, the Fund intends to retain near-term excess cash flow to offset the impact of its taxability beginning in 2011. As a result, the Fund's payout ratio and liquidity in the near-term will be enhanced and the current annual distribution of $1.25 per unit will remain unchanged.

Looking Ahead

With two years remaining before the Fund becomes taxable in 2011 under the SIFT rules, we continue to explore all available options and will ultimately choose the alternative that is in the best long-term interests of the Fund and its unitholders. The Prince-Pingston investment will add cash flow, and together with favourable tax attributes, will delay the taxation of the Fund after 2011.

Our capital program for 2009 is currently forecasted to total approximately $17.3 million with an additional $4.5 million in major maintenance spending. We have a capital expenditure reserve of approximately $19 million from operational cash flows (24% of income before non-cash items) to fund these expenditures. Since the Fund's inception in 1999, we have invested more than $186 million in capital improvements and $37 million in major maintenance which has helped to preserve the value of our assets and in many cases, generate incremental revenues and cash flows.

The Fund is in a strong financial position. At December 31, 2008, overall reservoir levels are above long-term average and support an expectation of long-term average generation in 2009. Moreover, the long-life nature of our assets, low cost structure and long-term contracts with an average duration of 13 years, continue to protect the Fund against the downturn in economic conditions.

On behalf of the management team and Board of Trustees, thank you for your continued support.

Sincerely,

André Bureau
Chairperson

Richard Legault
President and Chief Executive Officer

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements concerning the business, operations and financial condition of the Fund. Forward-looking statements can be identified by the use of words, such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "pending", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Fund believes that the Fund's anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based on reasonable assumptions and expectations, it can give no assurance that such assumptions and expectations will prove to have been correct. Forward-looking statements and information involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information. More details relating to risk factors can be found in the section entitled Risk Factors on page 19.

Examples of such statements include, but are not limited to factors relating to production and the business, financial position, distribution policy, operations and prospects for the Fund. They include but are not limited to: changes in hydrology and wind conditions; equipment failure; failure by counterparties to fulfill contractual obligations and failure by the Fund to replace contracts; the Fund's dependence on Brookfield Renewable Power Inc. and potential conflicts of interest between Brookfield Renewable Power Inc. and the Fund; inability of the Fund to successfully integrate acquisitions; failure by the Fund to discover liabilities associated with acquisitions; changes in the general economy; failure of transmission systems or adequate transmission capacity; water rights; changes in the Canadian/US dollar exchange rate; changes to regulations and increases in regulatory costs; failure by the Fund to renew, maintain or obtain necessary governmental permits; inability to generate or sell electricity; failure by the Fund to maintain dam safety; inadequate insurance; failure by the Fund to comply with health, safety and environmental regulations; threat of legal action and claims against the Fund; labour disruptions; energy rate fluctuations; changes in technology; inability of the Fund to access and refinance capital on desirable terms and changes in interest rates; changes in credit ratings; inability of the Fund to withdraw cash from subsidiaries; risks related to the nature of the Trust Units, tax matters and investment eligibility, the market for Trust Units and Trust Unit prices, and unitholder liability.

Other factors not presently known to the Fund or that the Fund presently believes are not material, could also cause actual results to differ materially from those expressed in the forward-looking statements and information contained and incorporated by reference herein. Accordingly, undue reliance should not be placed on these forward-looking statements or information. The Fund disclaims any obligation to update publicly or to revise any of the forward-looking statements or information contained or incorporated by reference in this annual report, whether as a result of new information, future events or otherwise, except as required by applicable law.

These forward-looking statements represent our views as of the date of this annual report. These forward-looking statements should not be relied upon as representing the Fund's views as of any date subsequent to March 27, 2009, the date of this annual report.

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The information provided in this Management's Discussion and Analysis of Financial Results ("MD&A") is intended to provide a framework for understanding our competitive advantages, the long-term growth of our business, and the ability of our assets to deliver strong, sustainable distributions to unitholders. In addition, this MD&A is intended to complement and supplement Great Lakes Hydro Income Fund's ("the Fund") financial statements. It should be read in conjunction with the audited consolidated financial statements, which are included on pages 23 through 44 of this report. Additional information relating to the Fund can be found on the website at www.greatlakeshydro.com and on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Unless expressly indicated otherwise, all dollar amounts reflected are in Canadian dollars.

The following MD&A is the responsibility of management. The Board of Trustees carries out its responsibility for review of this disclosure principally through its audit committee. The audit committee reviews this disclosure and recommends its approval by the Board of Trustees.

OVERVIEW OF THE BUSINESS

Great Lakes Hydro Income Fund units are listed for trading on the Toronto Stock Exchange under the symbol GLH.UN. Brookfield Renewable Power ("BRPI"), which comprises the majority of the power operations of Brookfield Asset Management Inc. ("Brookfield"), owns 50.01% of the Fund's outstanding units on a fully exchanged basis.

Great Lakes Hydro Income Fund is one of the premier Canadian income funds and one of the largest power income funds in North America with 1,021 megawatts ("MW") of installed capacity and an average annual production of 3,912 gigawatt hours ("GWh"). With the acquisition of Prince Wind farm and Pingston Hydro station in early 2009, the Fund's installed capacity is increasing to 1,255 MW and to an average annual production of 4,596 GWh. The Fund owns, operates and manages a portfolio of high-quality, long-life power generating assets that generate sustainable cash flows to meet unitholders' expectations for long-term stable distributions.

The Fund acquired in February 2009, the 189 MW Prince Wind farm in southern Ontario and a 50% joint venture interest in the 45 MW Pingston Hydro station in southeastern British Columbia. The acquisition of one of Canada's largest wind farms adds resource diversification to the Fund while the addition of another hydroelectricity station in British Columbia strengthens regional diversification. These acquisitions should immediately contribute to the Fund's cash flows.

With the addition of Pingston Hydro station in 2009, the Fund's portfolio consists of 27 high quality hydroelectric generating stations located on nine rivers in four distinct geographic regions across North America: Québec, Ontario, British Columbia and New England. In order to meet our objective of stable and sustainable cash flows, we have pursued a strategy of geographic diversity to mitigate the impact of any precipitation shortfall in any one of our watersheds. In addition, the Fund's power systems include large reservoirs providing operational flexibility to store water for periods when inflows may be lower than expected. The Prince Wind farm acquired in 2009 adds to the Fund's diversification by adding a second technology to generate renewable power.

Our hydroelectric power assets provide us with a unique competitive advantage over other forms of electricity generation in terms of their ability to respond quickly to changes in demand and supply. Hydroelectric power generation is a proven technology with few moving parts. As a result, we have very low outage rates with our units showing 93% of availability factor, ensuring our facilities are available to operate year round. With excess capacity, our 89 generating units provide us with the flexibility to perform maintenance with little impact on our power generation.

Wind farms, while relatively new to North America are a proven source of clean, low-cost renewable electricity generation. Since commissioning in late 2006, the Prince Wind farm has achieved availability averaging 97%. It adds to the portfolio's long-term average generation 506 GWh from 126 state-of-the-art 1.5 MW GE turbines.

The following table sets forth the Fund's operating profile:

Location	Number of Rivers	Generating Stations	Generating Units	Installed Capacity (MW) [1]	Annual Long-term Average (GWh) [2]
Québec	1	4	12	254	1,501 [4]
Ontario	2	5	10	508	836
British Columbia	2	2	7	83	532 [5]
New England	3	15	57	176	1,043
Total as at December 31, 2008	8	26	86	1,021	3,912
Pingston Hydro [3]	1	1	3	45	178
Prince Wind [3]	–	–	126	189	506 [6]
Total with acquisition	9	27	215	1,255	4,596

[1] Installed capacity refers to the capacity measured at the output terminals of a hydroelectric station calculated on the basis of the anticipated maximum load or simultaneous maximum demand which the generating station is expected to meet.

[2] Long-term Average ("LTA") is the total energy generated annually by a power station, averaged over a period of time of full operation or since the start of full operation, or less, measured in gigawatt hours.

[3] Pingston Hydro station and Prince Wind farm were acquired February 4, 2009. See SUBSEQUENT EVENT for more detail.

[4] In 2009 long-term average generation in Quebec is expected to increase 9 GWh due to improvements at High Falls.

[5] In 2009 long-term average generation in British Columbia is expected to increase 22 GWh due to improvements at Powell River.

[6] This represents the levelized amount.

Revenue Profile

Our revenues are derived from long-term contracts, with a weighted average remaining years outstanding of 11.9. For 2008, the average price earned from these contracts is 4.5 cents per kilowatt hour ("KWh") based upon actual generation. Contracts from our New England operations are denominated in U.S. currency. All of our facilities are interconnected to competitive markets.

Location	Weighted Average Number of Years	Price (¢/KWh)
Québec	11.5	3.7
Ontario	16.1	6.5
British Columbia	3.0	3.6
New England	13.9	4.3
Weighted average as of December 31, 2008	11.9	4.5
Acquisition subsequent to year-end[1]	18.0	7.5
Weighted average with acquisition	12.8	6.0

[1] Pingston Hydro station and Prince Wind were acquired February 4, 2009. See SUBSEQUENT EVENT for more detail.

Our long-term power purchase agreement ("PPA") with BRPI secures the long-term revenues for the Fund and achieves stable cash flows and distributions to unitholders.

Cost Profile

Our power generating assets are among the lowest-cost producers of electricity in North America, a criteria of the utmost importance for premier income funds. Our operating costs consist of property taxes, royalty and license payments, and operations and maintenance costs, which total just over one cent per KWh. Furthermore, we do not incur any fuel costs in the operation of our facilities compared to other forms of power generation technology where fuel represents a significant and volatile cost.

Location	Operating Cost (¢/KWh) [1]
Québec	0.9
Ontario	1.3
British Columbia	0.8
New England	1.5
Weighted average as of December 31, 2008	1.1
Pingston Hydro [2]	1.3
Prince Wind [2]	1.5
Weighted average with acquisition	1.2

(1) Excluding major maintenance expense and non-cash items.

(2) Pingston Hydro station and Prince Wind farm were acquired February 4, 2009. See SUBSEQUENT EVENT for more detail.

Capital Expenditure and Major Maintenance Profile

We are committed to preserving the value and reliability of our assets by investing in their maintenance. To that end, we have invested over $186 million in capital improvements and over $37 million in major maintenance since the Fund was created in 1999. Capital expenditures and major maintenance expenses in excess of our long-term sustainable capital expenditure amount are funded by our credit facilities and will be repaid when our capital expenditures and major maintenance are less than our long-term sustainable capital expenditure amount. In addition to preserving the value of our assets, these investments may generate incremental generation and revenues. Since 1999, we added more than 61 GWh of energy and $2.2 million in additional cash flow including the overhaul of the first unit at the Lois generating station in British Columbia and the two units at the High Falls facility in Québec.

YEAR AND FOURTH QUARTER IN REVIEW

Overall, 2008 was a record breaking year with the highest annual generation levels since the Fund's inception. The Fund generated total power of 4,436 GWh during the year, which was 949 GWh above the prior year and 524 GWh above our LTA. The strong generation levels were due to the increased precipitation levels throughout the year in the Québec, Ontario and New England regions. Revenues of $195.7 million and income before non-cash items of $100.1 million were both significantly above prior year amounts of $155.8 million and $65.3 million, respectively.

Our results for the fourth quarter of the year were above our expectations. Generation during the fourth quarter was slightly above average by 3 GWh and above the generation levels of 2007 in the Québec, British Columbia and the New England regions. Our facilities generated total power of 905 GWh during the quarter, an increase of 163 GWh or 22% as compared to the same period of 2007. Fourth quarter revenues of $39.9 million and income before non-cash items of $18.7 million were both above the comparative prior year revenues of $33.3 million and income before non-cash items of $11.3 million.

Generation	Three months ended December 31			Years ended December 31		
			Long-term			Long-term
Gigawatt hours	2008	2007	Average	2008	2007	Average
Québec	397	215	354	1,832	1,277	1,501
Ontario	80	131	177	886	587	836
British Columbia	149	136	120	532	532	532
New England	279	260	251	1,186	1,091	1,043
	905	742	902	4,436	3,487	3,912

The key success factor for an income fund is its ability to generate stable and sustainable cash flows to meet unitholder distribution expectations. As such, we focus on income before non-cash items as the measure of our success since it best reflects our ability to generate stable and sustainable cash flows. Income before non-cash items is not a defined financial measure under Canadian generally accepted accounting principles ("GAAP") and, as such, may not be comparable to similar measures presented by other issuers. Income before non-cash items consists of revenues, net of the cost of operating and maintaining our facilities and the cost associated with the financing of these facilities.

	Invested capital		Income before non-cash items			
			Three months ended December 31		Years ended December 31	
	Dec. 31 2008	Dec. 31 2007	2008	2007	2008	2007
Millions, except where noted	$	$	$	$	$	$
Québec	334	335	11.1	5.1	50.3	33.4
Ontario	349	354	2.7	6.2	44.7	29.1
British Columbia	116	118	4.3	4.1	14.8	14.9
New England	284	236	11.3	6.4	32.3	30.4
	1,083	1,043	29.4	21.8	142.1	107.8
Long-term debt	641	617	10.0	9.7	39.3	39.4
Holder of non-controlling interest	–	–	0.7	0.8	2.7	3.1
Invested capital/Income before non-cash items	442	426	18.7	11.3	100.1	65.3
Loss on disposal of power generating assets			0.2	4.2	0.2	4.2
Depreciation and amortization			9.3	8.1	33.1	32.4
Non-controlling interest			0.4	–	0.8	0.1
Future taxes (recovery)			4.3	(5.4)	6.6	27.9
Net income			4.5	4.4	59.4	0.7
Distribution			15.0	15.0	60.3	60.3

Net income for the year totaled $59.4 million, an increase of $58.7 million over last year due to higher income before non-cash items and a one-time non-cash tax charge of $29.5 million in 2007 relating to Bill C-52. Income before non-cash items has increased by $34.8 million year over year and is further explained elsewhere in this MD&A.

Depreciation and amortization expense for the year totaled $33.1 million, an amount comparable to 2007 and $9.3 million for the quarter, an increase of $1.2 million over the same period of 2007. Increased depreciation expense on U.S. assets due to the strengthening U.S. currency relative to the Canadian dollar is largely responsible for the increase.

During 2008, the Fund incurred a total income tax expense of $6.9 million of which $6.6 million was future income taxes and $0.3 million was current income taxes (2007 – $0.6 million of current taxes and $27.9 million of future taxes). The current income tax expense of $0.3 million is attributable to income taxes in British Columbia and New England.

Future taxes for the year ended December 31, 2007 included a one-time non-cash charge of $29.5 million during the second quarter, in relation to Bill C-52, offset by a recovery of $1.6 million due to future decreases in the federal income tax rate. On June 22, 2007, the bill was passed into law resulting in "specified investment flow-through" entities such as the Fund becoming taxable. This future income tax liability recognizes temporary differences between the accounting and tax basis of Fund entities which were previously not taxable such as Mississagi Power Trust, Carmichael L.P., Lièvre Power L.P., Lièvre Power G.P., and Great Lakes Power Trust.

INCOME BEFORE NON-CASH ITEMS BY OPERATING SEGMENT

Québec

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Millions, except where noted	$	$	$	$
Power generated (GWh)	397	215	1,832	1,277
Revenues	15.2	8.9	67.7	49.7
Operating expenses	4.1	3.3	17.0	14.7
Major maintenance	0.2	0.5	0.6	1.6
Interest expense	3.1	3.1	12.5	12.5
Interest on credit facility	–	0.1	0.3	0.1
Income before non-cash items	7.8	1.9	37.3	20.8
Capital expenditures	4.4	5.9	7.5	11.2

Our operations in Québec comprise four hydroelectric generating stations located on the Lièvre River with a combined generating capacity of 254 MW. Similar to the previous quarters, generation in Québec in the fourth quarter of 2008 remained strong and was above both the comparative period in 2007 and the long-term average. Generation totaled 1,832 GWh for the whole year, significantly above last year and long-term average by 555 GWh and 331 GWh, respectively. The year 2008 was the second best year in terms of generation in the Québec region after the record setting generation levels set in 2006. Generation in Québec for the year ended December 31, 2008 was impacted by greater than expected hydrology conditions and was achieved despite on-going repairs at Cedar Dam. We estimate the loss resulting from the unavailability of Cedar Dam totaled approximately 47 GWh. Both units at Cedar Dam returned to operation in September after repairs were made to the actuating rod and gearbox. Both units are fully operational and the deficiencies were covered under warranty by the manufacturer.

Consequently, revenues from our Québec operations totaled $67.7 million during the year, an increase of 36%, or $18.0 million, compared with last year. At December 31, 2008, our reservoir levels in Québec were above long-term average.

Operating expenses in Québec during the year ended December 31, 2008 were $2.3 million, or 16%, above those of 2007 mainly as a result of higher water royalties due to higher generation. Operating expenses in the fourth quarter were also higher than last year as a result of higher generation levels.

Major maintenance expenses decreased in 2008 due to the return to a more normalized level of spending in the current year.

Capital expenditures for the year ended December 31, 2008 totaled $7.5 million. The re-powering of three 25 MW generating units at the High Falls generating station on the Lièvre River, started in 2006, will be completed in 2009. The first unit was returned to service in March 2007 and the overhaul of the second unit was completed in February 2008. Work has begun on the third unit which is planned to be back in service in March 2009. Investments in the High Falls project accounted for $4.9 million of the capital additions in Québec for 2008. This project will add approximately 19 GWh to our annual generation upon its completion in 2009.

Ontario

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Millions, except where noted	$	$	$	$
Power generated (GWh)	80	131	886	587
Revenues	5.6	9.0	57.2	39.1
Operating expenses	2.5	2.5	11.6	9.4
Major maintenance	0.3	0.3	0.8	0.6
Interest expense	3.3	3.3	13.5	13.5
Interest on hydrology reserve facility	0.1	0.1	0.2	0.4
Income before non-cash items	(0.6)	2.8	31.1	15.2
Capital expenditures	1.9	2.7	3.5	7.1

Our hydroelectric facilities in Ontario include five power generating stations in northern Ontario located on the Mississagi and Groundhog Rivers with a combined capacity of 508 MW. Contrary to the remainder of the year, the fourth quarter of 2008 saw lower generation in the Ontario region compared to last year. The decrease was due to poor hydrology conditions during this period. Generation of 67 GWh in the fourth quarter of 2008 from our four facilities located on the Mississagi River was 40% lower than the fourth quarter generation of 112 GWh in 2007. Generation from the Carmichael Falls facility contributed 13 GWh during the current quarter compared to 19 GWh in the fourth quarter of 2007. However, 2008 marked a record breaking year for the Ontario system since being acquired in 2002. Generation from our four facilities located on the Mississagi River of 801 GWh was 299 GWh higher than 2007 and 51 GWh above LTA. Generation from the Carmichael Falls facility, on the Groundhog River, contributed 85 GWh during the year which was in line with the long-term average and was comparable to prior year generation. As a result, revenues totaled $57.2, compared to $39.1 million for 2007, an increase of $18.1 million or 46%. At December 31, 2008, our reservoir levels in Ontario were below long-term average as a result of poor hydrology in the fourth quarter of 2008.

For the year ended December 31, 2008, operating expenses increased by $2.2 million mainly due to higher property tax and water rental calculated on increased generation.

Capital expenditures for the year ended December 31, 2008 totaled $3.5 million. The replacement of two transformers at the Wells generating station accounted for a significant portion of the capital additions in Ontario in 2008. The original transformers were installed in 1970 and their replacement will allow the Mississagi system to operate with less restrictions. This project was part of our long-term capital plan. During 2008, $1.4 million was invested on this project which was completed in the fourth quarter of 2008.

British Columbia

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Millions, except where noted	$	$	$	$
Power generated (GWh)	149	136	532	532
Revenues	5.4	5.0	19.3	19.3
Operating expenses	0.9	0.7	4.1	3.9
Major maintenance	0.1	0.2	0.3	0.5
Interest expense	1.3	1.4	5.3	5.4
Interest on amount due to holder of non-controlling interest	0.7	0.8	2.7	3.1
Income before non-cash items	2.4	1.9	6.9	6.4
Capital expenditures	0.3	1.1	0.7	7.0

Our British Columbia facilities comprise two hydroelectric generating stations with a combined capacity of 83 MW. Generation of 149 GWh at our British Columbia facilities was 13 GWh or 10% greater than the fourth quarter of 2007 and 29 GWh above long-term average. Generation for the year ended December 31, 2008 of 532 GWh was in line with both generation for 2007 and the long-term average. Revenues from our British Columbia operations totaled $19.3 million for the year in line with revenues in 2007. Reservoir levels in British Columbia at the end of the year were below long-term average.

For the year ended December 31, 2008, operating expenses were slightly higher than 2007 mainly due to a current tax recovery received in 2007. Major maintenance expense decreased over the prior year as a result of a return to a more normalized level of spending in the current year. Interest on amount due to holder of non-controlling interest decreased year over year due to an annual adjustment to the interest rate.

During the year ended December 31, 2008, capital additions in this region totaled $0.7 million. In the fourth quarter of 2007, the overhaul of one of the units at the Lois generating station in British Columbia was completed. The unit is now performing at the expected level. There were no capital projects of similar size undertaken in 2008 and capital expenditures are accordingly lower in 2008.

New England

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Millions, except where noted	$	$	$	$
Power generated (GWh)	279	260	1,186	1,091
Revenues	13.7	10.4	51.5	47.7
Operating expenses	1.4	3.6	17.4	15.9
Major maintenance	1.0	0.4	1.8	1.4
Interest expense	2.2	1.7	7.5	7.5
Income before non-cash items	9.1	4.7	24.8	22.9
Capital expenditures	1.8	2.6	5.1	10.4

Our operations in New England include 15 hydroelectric generating facilities in Maine and New Hampshire. Combined, these facilities have a total installed capacity of 176 MW.

Generation in New England continued to be in line with the long-term average and totaled 279 GWh for the quarter, 19 GWh above the same period of 2007 and 28 GWh above long-term average. For the whole year generation in New England totaled 1,186 GWh, above 2007 generation by 95 GWh and above long-term average by 143 GWh. The year 2008 marked the best year in terms of generation for the New England region since their acquisition by the Fund. In total, our New England operations contributed $51.5 million to our revenues during the year, compared with $47.7 million in 2007. Revenues in the fourth quarter of 2008 increased $3.3 million from the same quarter in 2007 due to increased generation and $2.3 million from the strengthening U.S. dollar relative to the Canadian dollar. Our closing reservoir levels were above the long-term average as at December 31, 2008.

Operating expenses in New England increased by $1.5 million in 2008, compared to 2007 as a result of an increase of $0.7 million in water royalties and property taxes and an increase of $0.9 million of additional maintenance costs. Major maintenance expenses increased by $0.4 million compared to 2007 due to projects of higher value incurred in the current year.

Capital additions totaled $5.1 million during the year. In 2008, $3.6 million was spent on the Millinocket generating station to refurbish the penstock and the rotor and stator. Projects completed during 2007 include the overhaul of the gatehouse and four of the seven units at the Millinocket generating station on the Penobscot River in Maine and the replacement of the penstock at the Riverside generating station on the Androscoggin River in New Hampshire.

WORKING CAPITAL

	Years ended December 31	
	2008	2007
Millions, except where noted	$	$
Accounts receivable and due from related parties	12.1	10.5
Prepaid expenses and maintenance materials	4.0	3.3
Payables and due to related party	(34.0)	(32.0)
Distribution payable to unitholders	(5.0)	(5.0)
Total	(22.9)	(23.2)

The increase of $1.6 million in accounts receivable and due from related parties as at December 31, 2008 is due principally to higher receivables resulting from higher generation as well as an increase in taxes receivable in New England. The increase in prepaid expenses and maintenance materials of $0.7 million, compared with December 31, 2007 is due to an increase in prepaid property taxes and the impact of foreign exchange. The increase in payables and due to related party of $2.0 million is attributable to the timing of payments on additions to power generating assets and other payables.

The change in non-cash working capital from operations per the statement of cash flows is $8.4 million as the payables relating to additions to power generating assets are removed as they relate to investing activities.

LIQUIDITY AND CAPITAL RESOURCES

Given current world market conditions and the scarcity of available capital, the Fund assessed its overall liquidity and its ability to successfully persist through these difficult times. With $9.0 million in cash on hand as of December 31, 2008 and $46.0 million available on its credit facilities, the Fund is well positioned to weather this credit crisis. Although well positioned, the Fund continues to be prudent and is continually looking at ways to strengthen its financial position.

The Fund has access to $30.0 million of committed credit facilities, which assists in providing liquidity to fund our operations. These credit facilities were extended for an additional year during the third quarter of 2008. At December 31, 2008, no amount was drawn against the PREI credit facility and $1.6 million was drawn against the Lièvre credit facility to fund our capital expenditures. However, approximately $4.0 million of letters of credit were outstanding, leaving approximately $24.0 million available on these two facilities.

Furthermore, in order to maintain our distributions to unitholders despite hydrology fluctuations, BRPI has made available a $25.0 million hydrology reserve facility for the Lièvre River and the Mississagi Power generating stations with a maximum drawdown of $5.0 million and $3.0 million, respectively, per year. Combined, these stations account for more than 60% of our total generation. With $22.0 million of availability on the hydrology reserve facilities, as at December 31, 2008, the Fund is well positioned from a liquidity perspective.

The first mortgage bonds we obtained in 2002 to fund the acquisition of Powell River Energy Inc. are coming due in July 2009. Even though the current credit market environment is challenging, we believe we will successfully refinance that debt at maturity. The strong cash flow generated by the facility since acquisition and its improved performance provide for better credit metrics than in 2002 when it was originally financed. The current debt was issued at a rate of 6.4% when interest rates were much higher than current rates, leading us to believe refinancing at a similar or lower rate is achievable.

The composition of our short-term facilities is as follows:

As at December 31, 2008 Millions	**Commitment** **$**	**Drawn** **$**	**Letters of credit** **$**	**Available** **$**
Credit facilities				
Lièvre River Power	**25.0**	**1.6**	**3.1**	**20.3**
Powell River	**5.0**	**–**	**1.2**	**3.8**
	30.0	**1.6**	**4.3**	**24.1**
Hydrology reserve facilities				
Lièvre River Power	**15.0**	**–**	**–**	**15.0**
Mississagi Power	**10.0**	**3.0**	**–**	**7.0**
	25.0	**3.0**	**–**	**22.0**
	55.0	**4.6**	**4.3**	**46.1**

As at December 31, 2007 Millions	Commitment $	Drawn $	Letters of credit $	Available $
Credit facilities				
Lièvre River Power	25.0	11.7	3.1	10.2
Powell River	5.0	0.5	1.2	3.3
	30.0	12.2	4.3	13.5
Hydrology reserve facilities				
Lièvre River Power	15.0	–	–	15.0
Mississagi Power	10.0	4.2	–	5.8
	25.0	4.2	–	20.8
	55.0	16.4	4.3	34.3

The Fund also has hydrology insurance that covers generation below 90% of LTA, excluding outages, and up to a maximum of $10.0 million over three years. No claims were made under this policy in 2007 and 2008. The policy was renewed on December 31, 2008 for another period of three years.

The following is a summary of our cash flow activities:

	Three months ended December 31		Years ended ended December 31	
	2008	2007	2008	2007
Millions	$	$	$	$
Operating activities	9.6	6.4	108.4	63.7
Investing activities	(11.6)	(12.8)	(27.9)	(36.2)
Financing activities	2.2	10.8	(16.9)	7.8
Distributions to unitholders and non-controlling interest	(15.3)	(15.3)	(61.0)	(61.0)

Operating Activities

Income before non-cash items increased by $34.8 million largely due to higher generation levels in 2008 as compared to 2007. Also contributing to the increase in cash provided by operating activities is the decrease of $8.4 million in non-cash working capital in 2008 compared to an increase of $1.7 million in 2007.

Investing Activities

Investing activities totaled $27.9 million for the year ended December 31, 2008 as compared to $36.2 million in 2007. The decrease is due to less capital spending in the current year as spending returned to a more normalized level.

Financing Activities

Financing activities totaled $16.9 million in 2008, and included the scheduled repayment of $3.6 million on the Carmichael term loan, the net repayment of $10.6 million on the Lièvre and PREI credit facilities, $10.1 million and $0.5 million respectively, and the net repayment of $1.2 million on the Mississagi Power hydrology reserve. At December 31, 2008, $1.6 million on the Lièvre credit facility and $3.0 million on the Mississagi Power hydrology reserve remains outstanding. Both amounts have been repaid in January 2009.

Distributions

Distributions paid to unitholders totaled $60.3 million in 2008, the same amount as paid in 2007. The distribution to our partner in PREI, in addition to the interest accrued, totaled $0.6 million in 2008 (2007 – $0.6 million).

The Fund has distributed to its unitholders 10.42 cents/unit/month in 2007 and 2008. Our distributions are funded through cash flows from operations. The 2008 distributions consist of a 27% return of capital and 73% taxable income.

CAPITALIZATION

Capital structure as at December 31	2008	2007
Credit and hydrology reserve facilities	0.5%	1.7%
Long-term debt (including current portion)	63.6%	63.2%
Non-controlling interest and due to holder of non-controlling interest	0.5%	0.6%
Unitholders' equity	35.4%	34.5%
Total	100%	100%

As at December 31, 2008, the Fund had 48,276,476 units outstanding (2007 – 48,276,476 units). The Fund's market capitalization based on the exchange-trading price of $15.94 per unit on the close of December 31, 2008 totaled approximately $770 million (2007 – $990 million). Overall, the capital structure as at December 31, 2008 remained fairly consistent with that as at December 31, 2007. In January 2009, the Fund issued 5,317,500 additional units through a bought deal public offering and private placement. Upon the exchange of the shares owned by BRPI there will be a further 4,062,500 units issued and outstanding for a total of 57,656,476 units. See SUBSEQUENT EVENT for more detail.

The total long-term debt of the Fund was $641 million (nominal value of $653 million) as compared to $617 million as of December 31, 2007. This increase was mainly due to the strengthening of the U.S. currency offset by principal repayments on the Carmichael term loan facility which began in 2007. There have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

As at December 31, 2008, the Fund's weighted average interest rate and term to maturity for long-term debt were 6.0% and 11 years, respectively, compared to 6.0% and 12 years as of December 31, 2007.

	Weighted Average Remaining Years	Rate	Amount in millions ($)
Lièvre River Power	17	5.6%	225
Powell River	1	6.4%	75
Mississagi Power	12	6.9%	175
Carmichael	3	4.8%	25
New England (US$125 million)	6	5.6%	153
	11	6.0%	653

As at December 31, 2008, our total outstanding significant contractual obligations were due in the following periods:

Millions	Total $	In Years 2009-2013 $	In Years 2014-2018 $	In Years 2019-2023 $	In Years 2024-2028 $
Principal – Repayment (CAD)	500.2	100.2	–	175.0	225.0
Principal – Repayment (USD)	125.0	–	125.0	–	–
Interest (CAD)	357.7	125.9	123.1	85.8	22.9
Interest (USD)	37.9	35.0	2.9	–	–

The Fund is not engaged in any off-balance sheet financing transactions or any hedging activities.

As with most borrowers, the Fund has provided covenants to certain of its lenders. The Fund conducts its businesses indirectly through its trust and is dependent on receipt of cash from those entities to defray its corporate expenses and make distributions to unitholders. Certain of those entities have outstanding debt which was incurred to help fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to the Fund to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark "debt service coverage ratio", which is the ratio of earnings before interest, taxes, depreciation and amortization for a specified time period to the scheduled loan principal and interest payments for the same time period.

The Fund was in compliance with all covenants during both 2007 and 2008.

SUBSEQUENT EVENT

In December 2008, the Fund announced its intention to indirectly acquire from BRPI the 189 MW Prince Wind farm in Ontario and a 50% joint venture interest in the 45 MW Pingston Hydro station. In order to fund this acquisition a public offering of 4,690,000 units in the amount of $75 million was successfully completed on January 6, 2009. At that same time BRPI acquired an additional 627,500 units in the Fund.

In February 2009, the acquisition of Prince Wind farm and Pingston Hydro station was completed. BRPI received in exchange for Prince Wind farm and Pingston Hydro station consideration consisting of $65 million cash and $65 million exchangeable shares in the corporation that owns these two projects. These shares are exchangeable for a fixed number of the Fund's units at any time, and once exchanged, BRPI will own 50.01% of the Fund's trust units.

Until such time as BRPI exercises its exchange rights the Fund will own 49.9% of the corporation owning the two projects and the Fund will account for the acquisition using equity accounting. Equity accounting requires that the initial investment in the acquisition be recorded at cost and adjusted thereafter to include the Fund's pro rata share of the post-acquisition earnings of the acquisition as well as distributions.

After BRPI exchanges the shares for the Fund's trust units the Fund will consolidate Prince Wind farm and Pingston Hydro station. As of December 31, 2008, Prince Wind farm had $291.2 million of debt outstanding in the form of bankers acceptances that were subject to an interest rate swap with a weighted average interest rate of 4.5% and a stamping fee of 1.1%. Pingston Hydro station had $34.7 million of debt outstanding at December 31, 2008. The debt is in the form of mortgage bonds bearing an annual interest rate of 5.3% payable semi-annually.

On March 17, 2009, the Fund commenced a normal course issuer bid to purchase on the Toronto Stock Exchange up to 1,000,000 trust units of its issued and outstanding trust units during the period March 19, 2009 to March 18, 2010. Purchases will be at market prices and up to 12,912 trust units can be purchased on any trading day. The trust units will be cancelled as purchased.

OUTLOOK

Given the cyclical nature of our operations, we expect that there will be periods with lower hydrology, which will in turn be compensated by periods with above average hydrology. The 2008 generation levels have been well over record breaking levels with Ontario and New England attaining the best annual generation since their acquisition by the Fund. Our reservoirs at December 31, 2008 are above LTA levels in the Québec and New England regions. We continue to anticipate generation in line with LTA in 2009.

During 2008, the Fund has returned to a more normalized level of capital spending across all operations, which results in an improvement of our cash balance. The purpose of the capital program is to maintain the quality and reliability of the Fund's systems, as well as to increase operating efficiencies, generating capacity and cash flows. The program to upgrade the Fund's civil works, mechanical equipment and electrical systems represents an investment for the next 20-40 years and will add a complete cycle to the life of our assets. In 2009, the Fund's capital expenditures are forecasted to total approximately $17.3 million with an additional $4.5 million in major maintenance spending.

The Fund will continue to work on the refurbishment of three 25 MW generating units at the High Falls generating station on the Lièvre River, which is forecasted to cost approximately $1.2 million in 2009. This project will add approximately 40 years to the useful life of the facility. In Ontario, work is to be performed on Aubrey G2 including the refurbishment of the rotor poles and also the replacement of the winding and repairs to the damage of the stator core. This work is necessary to extend the useful life of these stations and is expected to amount to $6.0 million in 2009. The remaining investment in capital projects planned for 2009 relates to the on-going maintenance required to preserve the reliability and efficiency of our units.

The global credit crisis has not resolved itself yet and capital remains much more difficult to acquire than in the recent past. We have not been unduly affected by the current capital market crisis and with a strong balance sheet and conservative stewardship of the Fund's assets, we do not foresee any significant issues. The Fund was recently successful in raising $75 million in a public offering through a bought deal with a syndicate of underwriters. This is evidence of the quality of the Fund's underlying assets and operating principles. The acquisition of Prince Wind and Pingston Hydro was completed in early 2009 and both assets should immediately contribute to the Fund's cash flow.

Prince Wind farm is located northwest of Sault Ste Marie, Ontario, and is one of the largest wind farms in Canada with an installed capacity of 189 MW, extending over nearly 20,000 acres of land. All power produced by Prince Wind is sold at fixed prices to the Ontario Power Authority under purchase agreements. Pingston Hydro is a run-of-river hydroelectric generating station situated along the shoreline of Arrow Lake in southeastern British Columbia. Electricity produced by Pingston Hydro is sold to BC Hydro pursuant to a fixed price electricity purchase agreement. This investment is an attractive opportunity to enhance the value of the Fund and its assets over time. The types of assets being acquired are consistent with the Fund's strategy of owning high-quality assets in the renewable energy sector and also meet its strategic investment criteria for high-quality, long-life renewable assets that use proven technology and have predictable cash flows and low operating costs and capital requirements. This acquisition provides growth and diversification of the Fund's generation portfolio. The investment is expected to increase the net generating capacity of the Fund's portfolio by approximately 21% and its average annual generation by approximately 15%. The investment also provides the Fund with technology diversification through the addition of its first wind-powered facility. In addition, the investment reduces the Fund's exposure to resource availability as Prince Wind and Pingston Hydro are geographically diverse, thereby reducing dependence on any one natural resource in any one region. In addition, all power generated from these facilities are under long-term PPAs with creditworthy counterparties which limit the risk associated with this investment.

During the current global markets we remain true to our underlying principles of acquiring and maintaining quality assets that produce steady cash flows. We have been successful in the past following these principles and we anticipate future success.

A significant portion of the power the Fund generates is sold under long-term PPAs with either BRPI, public utilities or industrial end-users (in the latter case, BRPI guarantees the obligation of the purchaser). Therefore we are relatively unaffected by possible changes in demand and price variations as a result of the economic downturn.

Distributions for 2009 are expected to approximate $67 million due to the additional trust units issued in January 2009. We expect a positive contribution from the Powell conversion to 60 hertz in British Columbia (22 GWh) and two of the units at the High Falls generating station in Québec (9 GWh). The Prince Wind farm and Pingston Hydro station should add 506 GWh and 178 GWh of generation annually.

The long-term debt relating to PREI is due in July 2009 and while we anticipate refinancing the debt in a timely manner, we have initiated this process.

STABILITY AND CREDIT RATINGS

The Fund is rated by two agencies. We continuously strive to maintain and improve these ratings. At December 31, 2008, the stability ratings of the Fund were as follows:

Standard & Poor's	SR-2
DBRS	STA-2 (high)

Some of the Fund's debt is also rated by an agency. At December 31, 2008 the ratings were as follows:

Québec	A (Low)	DBRS
Ontario	A (Low)	DBRS
British Columbia	A (Low)	DBRS

RELATED PARTY TRANSACTIONS

The Fund conducts transactions with BRPI and Brookfield (its direct and indirect controlling shareholders) in the normal course of business. These transactions include operational, investing, and financing activities. Activities in 2008 are consistent with the type of transactions that were entered into in the prior year. For more detail on related party transactions, refer to the notes to the 2008 audited consolidated financial statements.

The following table summarizes the related party transactions:

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Millions	$	$	$	$
Revenues				
Sales of electricity to BRPI	25.5	17.0	132.3	89.8
Expenses				
Operations, maintenance and administration services provided by related parties	2.9	2.0	10.2	8.2
Risk Insurance – Brookfield	1.3	1.0	3.8	4.4
Interest – BRPI	(0.2)	–	0.3	0.3
PREI guarantee fee – BRPI	0.1	0.1	0.5	0.5
	4.1	3.1	14.8	13.4

As a result, the following balances are receivable/(payable):

	Years ended December 31	
	2008	2007
Millions	$	$
BRPI	1.2	1.8
BRPI – Hydrology reserve facility	(3.0)	(4.2)
Brookfield	(4.7)	(4.7)

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements are prepared in accordance with Canadian GAAP, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in Note 2 (Significant Accounting Policies) are considered critical accounting estimates as defined in National Instrument 51-102 regulations. Estimates for the Fund include accruals, depreciation, cost allocations and those relevant to the defined benefit pension plan in Mississagi Power Trust. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

CHANGES IN CRITICAL ACCOUNTING POLICIES

On January 1, 2008, the Fund adopted the following accounting standards issued by the CICA for Canadian GAAP purposes:

Financial Instruments – Disclosures and Presentation, Handbook Sections 3862 and 3863

These sections, which replace Handbook Section 3861, revise and enhance disclosure requirements surrounding financial instruments, while carrying forward presentation items unchanged. They place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments to which the Fund is exposed and how the Fund manages those risks. Additional disclosure has been included in the notes to the annual consolidated financial statements.

Capital Management – Handbook Section 1535

This section establishes standards for disclosing information about the Fund's capital and how it is managed. The standard requires disclosures of the Fund's objectives, policies and processes for managing capital, the quantitative data about what the Fund regards as capital, whether the Fund has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. Additional disclosure has been included in the notes to the annual consolidated financial statements.

FUTURE ACCOUNTING POLICY CHANGES

Goodwill and Intangible Assets – Handbook Section 3064

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles by profit-oriented enterprises. The new section will be applicable to the Fund's financial statements beginning January 1, 2009. The Fund has evaluated the impact of this pronouncement. There will be no additional disclosures necessary and no accounting adjustment needs to be made upon adoption of the new standard in 2009.

Business Combinations – Handbook Section 1582

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", replacing Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standard ("IFRS"), IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier application is permitted. The Fund is currently evaluating the impact of the adoption of this new Section on the financial statements.

Consolidated Financial Statements – Handbook Section 1601 and Non-Controlling Interests – Handbook Section 1602

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Fund is currently evaluating the impact of the adoption of these new Sections on the financial statements.

Adoption of IFRS

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. Although IFRS is premised on a conceptual framework similar to Canadian GAAP, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows generated by the Fund, the adoption of IFRS will result in changes to the reported financial position and results of operations of the Fund, the effects of which will be material. While we have not completed our quantification of the effects of adopting IFRS in detail, a high level IFRS implementation plan has been developed and is being implemented. An assessment of the financial statement impact of the accounting standard differences is currently in progress. Based on the analysis to date, the most significant differences for the Fund are anticipated to be related to power generating assets, financial instruments, income taxes, business combinations and financial statement disclosure. The Fund's conversion plan is comprehensive and addresses matters including changes in accounting policy, the restatement of comparative periods, organizational and internal control, the modification of existing systems and the training and awareness of staff, in addition to other related business matters. Overall responsibility for the implementation and success of the Fund's conversion plan rests with the Fund's management who report to and are overseen by the Board of Trustees. The following are several of the significant accounting policies, required or expected to be applied by the Fund on adoption of IFRS that will be significantly different than the Fund's current accounting policy choices.

Property, Plant and Equipment

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. Under IFRS an entity is required to choose to account for each class of property, plant and equipment using either the cost model or the revaluation model. The cost model is generally consistent with Canadian GAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation method an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. Subsequent increases in fair value are recorded to the revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account related to the asset, with any excess recognized in income. No decision has been made as to the model to be used by the Fund.

Basis of Consolidation

Under Canadian GAAP the Fund can consolidate an entity using either the variable interest entity ("VIE") model or the voting control model. Under IFRS, the Fund will consolidate an entity if it is determined that control exists. Control is defined as the power to govern the financial and operating policies of an entity to obtain benefit, and control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control may also exist when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control. This change in policy could result in certain entities that are currently consolidated by the Fund under the VIE model to no longer be consolidated under IFRS. The Fund is in the process of completing its evaluation of each entity in which it has an interest to determine whether the entity should remain consolidated under IFRS.

Business Combinations

Under IFRS, the Fund will account for business combinations in accordance with IFRS 3 Business Combinations as revised in 2008 ("IFRS 3R"). IFRS 3R is similar to the Fund's current accounting for business combinations under Canadian GAAP, in that both frameworks require the acquisition method of accounting for all business combinations, however significant differences exist. Under IFRS, transaction costs are expensed immediately, whereas under Canadian GAAP such amounts are capitalized; contingent consideration under IFRS 3R is recognized on the date of acquisition with subsequent changes recognized in income, whereas under Canadian GAAP such amounts are only recognized initially to the extent probable; and under IFRS 3R the acquirer can elect to measure any non-controlling interest at fair value at the date of acquisition or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree and can make this election on a transaction-by-transaction basis.

Impairments

Under Canadian GAAP for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets is less than their carrying value. Under IFRS, IAS 36 Impairment of Assets ("IAS 36"), a write-down is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or the discounted future cash flows from an asset or group of assets, is less than carrying value. Consistent with Canadian GAAP impairments are measured at the amount by which carrying value exceeds fair value less costs to sell.

The financial performance and financial position as disclosed in our GAAP financial statements may be significantly different when presented in accordance with IFRS. The potential impact on our consolidated financial statements of the adoption of IFRS will depend on the particular circumstances prevailing at the adoption date and the IFRS accounting policy choices made.

BUSINESS ENVIRONMENT

The unique nature of our hydroelectric generation provides many advantages over other forms of electricity generation. The advantages of hydroelectric power include high level of reliability, low operating costs, operational flexibility to meet ongoing base load electricity needs and peak demands, minimal environmental impact, and reliance on water, a renewable resource.

Reliability

The equipment involved in producing hydroelectric power has relatively few moving parts. Since the process does not include combusting fossil fuels at high temperatures or creating steam, there is minimal wear and tear on the machinery, which contributes to long-life and low maintenance requirements. Unplanned outage rates for hydroelectric units are among the lowest in the electricity industry.

Low Operating Costs

Other than water royalties paid to some governmental authorities, hydroelectric facilities do not have any other significant variable costs, such as fuel costs, which can be quite material and highly volatile for fossil-fuelled plants. As well, most hydroelectric plants can be operated remotely by a single person from a centralized control centre. Combined with the low maintenance and outstanding reliability of the equipment, operating expenses are comparatively low.

High Operational Flexibility

Hydroelectric plants can adjust quickly to changes in demand and, depending on the flow of the river and the storage capacity of the reservoirs, hydroelectric plants can service both the base power requirements of its customers as well as their peak power requirements.

Low Environmental Impact

Hydroelectric generation produces virtually no greenhouse gas emissions or acid rain, both of which have major impacts on the environment. Hydroelectric generation minimizes thermal, chemical, radioactive, water and air pollution as compared to fossil-fuelled and nuclear generated power. Instead of producing substantial amounts of residual wastes during the power generation process, hydroelectric generation simply returns the water to the river.

RISK FACTORS

The following represents a summary of the most relevant risk factors relating to our business. This summary contains only certain risk factors and is not all-inclusive. For a more comprehensive description of these and other possible risks such as: the availability of capital to meet obligations, dam failure, insurance limits, health and safety and environmental risks, litigation, labour relations, changes in technology, risks associated with tax matters, nature of trust units, income tax matters, investment eligibility, markets for trust units and trust unit prices and unitholder liability, please see the Annual Information Form filed with SEDAR at www.sedar.com.

Changes in Hydrology and Wind Conditions

The revenues generated by the Fund's facilities are proportional to the amount of electricity generated which in turn is dependent upon available water flows and wind conditions. Hydrology and wind conditions have natural variation from year to year and may also change permanently because of climate change or other factors. A sustained decline in water flow of the Fund's hydroelectric stations or wind conditions at the Fund's wind energy facilities could lead to a material adverse change in the volume of electricity generated, revenues and distributable cash.

Performance of Counterparties and Contract Expiry

A significant portion of the power the Fund generates is sold under long-term PPAs with either BRPI, public utilities or industrial end-users (in the latter case, BRPI guarantees the obligation of the Purchaser). If for any reason any of the purchasers of power under such PPAs or the guarantor are unable or unwilling to fulfill their contractual obligations under the relevant PPA or if they refuse to accept delivery of power pursuant to the relevant PPA, the Fund's assets, liabilities, business, financial condition, results of operations and distributable cash could be materially and adversely affected as the Fund may not be able to replace the agreement with an agreement on equivalent terms and conditions. In addition, certain of the PPAs provide for terms that are above market and as such PPAs expire, the Fund may not be able to replace the agreement with an agreement on equivalent terms and conditions.

Dependence on BRPI and Potential Conflicts of Interest

The Fund is dependent on BRPI, as guarantor of the price for certain electricity produced and delivered, as manager and/or operator of the power systems, as purchaser of power and as sales and marketing agent. Accordingly, distributions to unitholders will be dependent upon the ability of BRPI to satisfy its obligations under certain agreements relating to the power systems.

Certain conflicts of interest may arise as a result of BRPI pursuing its own business interests, which may render BRPI in competition with the Fund. As well, there may be conflicts which arise due to market conditions as BRPI is the guarantor of electricity prices for some power systems as well as the dispatcher and operator of the power systems.

Capital Markets and Refinancing Risk

Future acquisitions and development, construction of new facilities and other capital expenditures will be financed out of cash generated from the Fund's operations, borrowings and possible future sales of equity. As such, in order to finance the Fund's growth, it may depend on raising additional equity and debt capital. The Fund's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in renewable energy assets in general and the Fund's securities in particular.

In addition, many of the Fund's project financings consist of interest-only or limited amortization financings. As such, a significant portion of outstanding indebtedness must be refinanced at maturity.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Fund's ability to complete acquisitions and make necessary capital investments to construct new or maintain existing facilities may be impaired, and its assets, liabilities, business, financial condition, results of operations and distributable cash may be materially and adversely affected as a result. In addition, the Fund's future financings may be exposed to interest rate risk. If interest rates increase, an increased proportion of the Fund's distributable cash may be required to service indebtedness.

Project Financing

The Fund relies on limited-recourse project financing structures to finance a significant portion of its operations. Such financings generally require the Fund to grant a first-priority security interest in underlying project assets in favor of third party lenders. In addition, the Fund's ability to withdraw distributable cash from its subsidiaries financed on a limited-recourse basis is usually dependent on the achieving of minimum distributable cash or interest coverage ratios as well as the maintenance of certain collateral accounts. If the Fund cannot withdraw cash flow from its subsidiaries, its financial position and distributable cash could be materially and adversely affected.

Foreign Exchange

Distributable cash generated by the Fund's New England operations is denominated in US dollars and, therefore, distributions by the Fund may be affected by the fluctuations of the Canadian/US dollar exchange rate over time. A material increase in the value of the Canadian dollar may negatively impact the Fund's distributions. The Fund may manage the risk associated with foreign exchange rate fluctuations by, from time to time, entering into forward foreign exchange contracts and engaging in other hedging strategies. To the extent that the Fund engages in risk management activities related to foreign exchange rates, the Fund will be subject to credit risks associated with the counterparties that it contracts with. Defaults by counterparties to these contracts may have a material adverse effect on the Fund's results of operations.

Equipment Failure

The Fund's generation assets may not continue to perform as they have in the past and there is a risk of equipment failure due to wear and tear, latent defect, design error, operator error, or other reasons. In particular, wind generation turbines are less commercially proven than the Fund's existing assets. An equipment failure could have a material adverse effect on the Fund's assets, liabilities, business, financial condition, results of operations and distributable cash.

Regulatory Regime

The operation of the Fund's generation assets is subject to extensive regulation by various government agencies at the municipal, provincial, state and federal level. As legal requirements frequently change and are subject to interpretation and discretion, the Fund is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Any new law or regulation could require additional expenditure to achieve or maintain compliance. Also, operations that are not currently regulated may become subject to regulation which could result in additional cost to the Fund's business.

Governmental Permits

The Fund's projects are required to comply with numerous domestic and foreign federal, regional, state and local statutory and regulatory standards and to maintain numerous licenses, permits and governmental approvals required for operation. Some of the licenses, permits and governmental approvals that have been issued to the Fund's projects contain conditions and restrictions, or may have limited terms. If the Fund fails to satisfy the conditions or comply with the restrictions imposed by its licenses, permits and governmental approvals, or the restrictions imposed by any statutory or regulatory requirements, it may become subject to regulatory enforcement action and the operation of the projects could be adversely affected or be subject to fines, penalties or additional costs. In addition, the Fund may not be able to renew, maintain or obtain all necessary licenses, permits and governmental approvals required for the continued operation of its projects, as a result of which the operation of the Fund's projects may be limited or suspended. The Fund's failure to renew, maintain or obtain all necessary licenses, permits or governmental approvals may have a material adverse effect on its assets, liabilities, business, financial condition, results of operations and distributable cash.

Risks Associated with Acquisitions

Acquisitions involve risks that could materially and adversely affect the Fund's business, including the failure of the projects to achieve the results the Fund expects. In addition, liabilities may exist that the Fund will not discover in its due diligence prior to the consummation of an acquisition or circumstances may exist with respect to the entities or assets acquired that could lead to future liabilities and, in each case, the Fund may only be entitled to limited recourse against the counterparties to the acquisition agreement. The discovery of any material liabilities subsequent to an acquisition could have a material adverse effect on the Fund's assets, liabilities, business, financial condition, results of operations and distributable cash.

CONSOLIDATED QUARTERLY RESULTS

Variations in quarterly results are directly related to the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows, which fluctuate on a seasonal basis and from period to period. The following is a summary of unaudited quarterly financial information for the last eight consecutive quarters.

				2008				2007
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Millions, except where noted	**$**	**$**	**$**	**$**	$	$	$	$
Power generation (GWh)	**905**	**1,110**	**1,260**	**1,161**	742	749	932	1,064
Long-term average generation (GWh)	**902**	**932**	**1,111**	**967**	894	924	1,100	957
Revenues	**39.9**	**48.0**	**56.6**	**51.2**	33.3	32.9	41.4	48.2
Income before non-cash items	**18.7**	**23.1**	**31.4**	**26.9**	11.3	11.2	18.0	24.8
Net income (loss)	**4.5**	**13.5**	**22.5**	**18.9**	4.4	1.7	(20.3)	14.9
Net income (loss) per trust unit ($/unit)	**0.09**	**0.28**	**0.47**	**0.39**	0.09	0.03	(0.42)	0.31
Distribution	**15.0**	**15.1**	**15.1**	**15.1**	15.0	15.1	15.1	15.1
Trust units outstanding (000s)	**48,276**	**48,276**	**48,276**	**48,276**	48,276	48,276	48,276	48,276
Installed capacity (MW)	**1,021**	**1,021**	**1,021**	**1,021**	1,015	1,015	1,015	1,015

The following table reconciles income before non-cash items and net income (loss):

				2008				2007
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Millions, except where noted	**$**	**$**	**$**	**$**	$	$	$	$
Income before non-cash items	**18.7**	**23.1**	**31.4**	**26.9**	11.3	11.2	18.0	24.8
Depreciation and amortization	**9.3**	**8.0**	**7.9**	**7.9**	8.1	8.1	8.0	8.2
Loss on disposal of power generating assets	**0.2**	**–**	**–**	**–**	4.2	–	–	–
Non-controlling interest	**0.4**	**0.1**	**(0.2)**	**0.5**	–	–	0.3	(0.2)
Future taxes (recovery)	**4.3**	**1.5**	**1.2**	**(0.4)**	(5.4)	1.4	0.5	1.9
Net income before special item	**4.5**	**13.5**	**22.5**	**18.9**	4.4	1.7	9.2	14.9
Future taxes related to Bill C-52	**–**	**–**	**–**	**–**	–	–	29.5	–
Net income (loss)	**4.5**	**13.5**	**22.5**	**18.9**	4.4	1.7	(20.3)	14.9

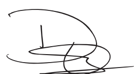
ANNUAL INFORMATION FORM

The Fund prepares an Annual Information Form, which can be accessed on SEDAR at www.sedar.com.

CERTIFICATION OF ANNUAL FILINGS

Form 52-109F1 - Certification of Annual Filings is attached to this document on SEDAR.

The Chief Executive Officer and the Chief Financial Officer of the Fund, after evaluating the effectiveness of the Fund's disclosure controls and procedures as of December 31, 2008, have concluded that the Fund's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Fund and its consolidated subsidiaries would have been known to them.



Donald Tremblay
Executive Vice President and Chief Financial Officer
March 27, 2009

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

To the Unitholders of Great Lakes Hydro Income Fund

The attached financial statements and other financial information have been prepared by the Fund's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Fund maintains systems of internal control and policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. These policies and procedures are designed to provide relevant, reliable and timely financial information. These statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the unitholders, have examined the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report as auditors is set out below.

These statements have also been approved by the Board of Trustees after review and recommendations by the Audit Committee, who meets with the auditors and management to review the activities of each and reports to the Board of Trustees. The auditors have full access to the Audit Committee and meet with the Committee both with and without the presence of management. The Board of Trustees, through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Donald Tremblay
Executive Vice President and Chief Financial Officer
February 5, 2009

AUDITORS' REPORT

To the Unitholders of Great Lakes Hydro Income Fund

We have audited the consolidated balance sheets of Great Lakes Hydro Income Fund as at December 31, 2008 and 2007 and the consolidated statements of unitholders' equity, income, comprehensive income (loss), 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 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants
Ottawa, Canada
February 5, 2009, except as to Note 22 which is as of March 20, 2009

CONSOLIDATED BALANCE SHEETS

As at December 31 *CAD$ thousands*	Notes	2008 $	2007 $
ASSETS			
Current assets			
Cash and cash equivalents		8,976	5,309
Accounts receivable and due from related parties	5	12,136	10,549
Prepaid expenses and maintenance materials		3,971	3,278
		25,083	19,136
Power generating assets	6	1,083,445	1,043,701
Other assets	7	16,137	15,704
		1,124,665	1,078,541
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Payables and due to related party	5	33,985	32,039
Distribution payable to unitholders		5,029	5,029
Credit and hydrology reserve facilities	5,8	4,600	16,354
Current portion of long-term debt	9	79,000	3,600
		122,614	57,022
Long-term debt	9	562,468	613,114
Due to holder of non-controlling interest	9	21,501	21,501
Future income tax	15	77,036	66,246
		783,619	757,883
Non-controlling interest	11	(15,965)	(16,167)
Unitholders' equity		357,011	336,825
		1,124,665	1,078,541

See accompanying notes

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31 *CAD$ thousands*	Notes	2008 $	2007 $
Trust units, end of year	12	573,308	573,308
Deficit, beginning of year		(184,067)	(125,011)
Financial instruments - recognition and measurement	3	–	585
Net income		59,346	706
Distributions to unitholders	13	(60,348)	(60,347)
Deficit, end of year		(185,069)	(184,067)
Accumulated other comprehensive loss, beginning of year		(52,416)	(35,068)
Unrealized foreign currency translation gains (losses) of self-sustaining foreign operations	12	21,188	(17,348)
Accumulated other comprehensive loss, end of year		(31,228)	(52,416)
Unitholders' equity, end of year		357,011	336,825

See accompanying notes

Approved on behalf of the fund

Richard Legault
President and Chief Executive Officer

Donald Tremblay
Executive Vice President and
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31 *CAD$ thousands, except per trust unit amounts*	Notes	2008 $	2007 $
Revenues	5	195,734	155,778
Expenses			
Operating and maintenance	5	50,285	44,383
Current taxes	15	359	618
Selling and administrative expenses	5	2,968	2,872
		142,122	107,905
Interest and financing fees	5,14	39,320	39,441
Interest on due to holder of non-controlling interest		2,730	3,120
Income before non-cash items		100,072	65,344
Depreciation and amortization		33,123	32,449
Loss on disposal of power generating assets	6	208	4,216
Non-controlling interest		820	89
Future taxes	15	6,575	27,884
Net income		59,346	706
Net income per trust unit		1.23	0.01
Weighted average number of units outstanding (000s)	12	48,276	48,276

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31 *CAD$ thousands*	Notes	2008 $	2007 $
Net income		59,346	706
Other comprehensive income (loss), net of tax:			
Unrealized foreign currency translation gains (losses) of self-sustaining foreign operations	12	21,188	(17,348)
Comprehensive income (loss)		80,534	(16,642)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31 *CAD$ thousands*	Notes	2008 $	2007 $
Operating activities			
Net income		59,346	706
Add non-cash items:			
Depreciation and amortization		33,123	32,449
Loss on disposal of power generating assets	6	208	4,216
Non-controlling interest		820	89
Future taxes	15	6,575	27,884
Change in non-cash working capital	16	8,375	(1,650)
		108,447	63,694
Investing activities			
Additions to power generating assets		(26,484)	(35,750)
Additions to intangible and other assets		(1,461)	(436)
		(27,945)	(36,186)
Financing activities			
Financing fees		(1,575)	(143)
Credit facility – drawdown	8	5,600	11,650
Credit facility – repayment	8	(17,354)	(498)
Long-term debt – repayment	9	(3,600)	(3,200)
Distributions to non-controlling interest		(619)	(632)
Distributions to unitholders	13	(60,348)	(60,347)
		(77,896)	(53,170)
Effect of foreign exchange rate changes on cash and cash equivalents		1,061	(776)
Increase (decrease) in cash and cash equivalents		3,667	(26,438)
Cash and cash equivalents, beginning of year		5,309	31,747
Cash and cash equivalents, end of year		8,976	5,309
Cash and cash equivalents is comprised of:			
Cash		8,561	4,970
Short-term investments		415	339
		8,976	5,309
Supplementary information:			
Interest paid during the year		42,443	39,062
Income taxes paid during the year		4,416	1,305

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 NATURE AND DESCRIPTION OF THE FUND

Great Lakes Hydro Income Fund (the "Fund") was established under the laws of the Province of Québec pursuant to a Declaration of Trust ("Trust Indenture") on September 14, 1999, as amended, as an unincorporated open-ended trust. The Fund commenced its operation on November 18, 1999 through its wholly-owned trust, Great Lakes Power Trust ("GLPT"). GLPT owns:

- through its exclusive participation in Lièvre Power L.P. ("LPLP"), Lièvre River Power which consists of four hydroelectric generating stations located on the Lièvre River in the Province of Québec and its wholly-owned corporation Lièvre Power Financing Corporation ("LPFC");
- through its wholly-owned trust, Powell River Energy Trust ("PRET"), a 50% economic interest in Powell River Energy Inc. ("PREI") which owns two hydroelectric generating stations located on the Powell and Lois Lakes in British Columbia;
- through its wholly-owned trust, GNE Trust ("GNET"), Great Lakes Hydro America ("GLHA") which consists of six hydroelectric generating stations and 11 water storage dams located on the Penobscot River in Maine, one hydroelectric generating station located on the Moose River in Maine, and eight hydroelectric stations located on the Androscoggin River in New Hampshire;
- through its wholly-owned trust, Mississagi Power Trust ("MPT"), Mississagi Power which consists of four hydroelectric generating stations and four water storage dams located on the Mississagi River in Ontario; and
- through its exclusive participation in Carmichael Limited Partnership ("CLP"), Carmichael which operates one hydroelectric generating station located on the Groundhog River also in Ontario.

2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA"). All figures are reported in thousands (000s) of Canadian dollars, unless otherwise noted.

The significant accounting policies are summarized below:

[a] Basis of consolidation

The consolidated financial statements of the Fund include the accounts of its wholly-owned trust, GLPT. The consolidation of PREI is due to the adoption of Accounting Guideline 15 ("AcG 15"). PREI is a variable interest entity under AcG 15.

[b] Power generating assets

Power generating assets are accounted for at cost, less accumulated depreciation. The cost of the power generating assets, less estimated residual value, is depreciated as follows:

	Method	Service Life or Rate
Dams	Straight-line over estimated service life	40 to 60 years
Generating stations	Straight-line over estimated service life	19 to 60 years
Equipment	Straight-line over estimated service life	5 to 60 years
Buildings	Straight-line over estimated service life	5 to 60 years
Water rights	Declining	2.5%

[c] Power purchase agreements

Acquired power purchase agreements for the sale of power of Brassua and Errol, which are entities within GLHA, are accounted for at cost and are amortized over six and nine years, respectively. The CLP power purchase agreement is accounted for at cost and is amortized over six years.

The amortization period corresponds to the period over which the power purchase agreement prices are significantly above forecasted market energy prices.

[d] Impairment of long-lived assets

The Fund reviews power generating assets and power purchase agreements for permanent impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value.

[e] Deferred financing fees

Financing costs associated with the offering of long-term debt are capitalized, netted against long-term debt, and amortized using the effective interest rate method.

[f] Cost relating to issuance of capital

Costs relating to the issuance of capital are netted against the proceeds.

[g] Revenue recognition

Electricity sales are recorded at the time energy is delivered to customers. Hydrology insurance income is recognized when insurance proceeds can be reasonably estimated and collection is reasonably assured.

[h] Income taxes

Income taxes for the Fund are calculated using the asset and liability method. Temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes give rise to future income tax assets or liabilities. These temporary differences are measured using the tax rates and laws substantively enacted at the balance sheet date.

[i] Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the period. During the years presented, management has made a number of estimates and valuation assumptions including accruals, depreciation, cost allocations and those relevant to the defined benefit pension plan in MPT. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from estimates.

[j] Cash and cash equivalents

All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash and cash equivalents approximates the amount shown on the financial statements.

[k] Foreign currency translation

As a self-sustaining foreign subsidiary, the GLHA currency translation gain or loss has been recorded in accumulated other comprehensive loss on the balance sheet. Assets and liabilities denominated in foreign currencies have been translated at the rate of exchange in effect at the balance sheet date, and revenues and expenses at average rates of exchange during the period.

[l] Pension benefits and employee future benefits

The cost of retirement benefits for the defined benefit plan and post-employment benefits are recognized as the benefits are earned by the employees. The Fund uses the projected benefit method pro-rated on length of service and management's best estimate assumptions to value its pension and other retirement benefits. Assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs resulting from plan amendments have been amortized on a linear basis over the average remaining service period of active members expected to receive benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service lifetime at December 31, 2008 is 10.5 years (2007 – 11.0 years). For the defined contribution plan, the Fund's expense payments are based on employee earnings.

3 CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Fund adopted the following accounting standards issued by the CICA for Canadian GAAP purposes:

Financial Instruments – Disclosures and Presentation, Handbook Sections 3862 and 3863

These sections, which replace Handbook Section 3861, revise and enhance disclosure requirements surrounding financial instruments, while carrying forward presentation items unchanged. They place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments to which the Fund is exposed and how the Fund manages those risks. Additional disclosure has been included in note 18.

Capital Management – Handbook Section 1535

This section establishes standards for disclosing information about the Fund's capital and how it is managed. The standard requires disclosures of the Fund's objectives, policies and processes for managing capital, quantitative data about what the Fund regards as capital, whether the Fund has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. Additional disclosure has been included in note 21.

On January 1, 2007, the Fund adopted the following accounting standards for Canadian GAAP:

Handbook Sections 1530, Comprehensive Income and 3251, Equity

"Comprehensive Income" establishes standards for reporting and presenting comprehensive income, which is defined as the change in unitholders' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

The Fund adopted Section 3251, "Equity" replacing Section 3250, "Surplus". This section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, "Comprehensive Income".

Accordingly, the Fund now reports a consolidated statement of comprehensive income (loss) and includes the amount of accumulated other comprehensive (loss) income in the unitholders' equity section on the consolidated balance sheet.

Handbook Section 3855, Financial Instruments – Recognition and Measurement

Under this standard, all financial instruments are classified as one of the following: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive (loss) income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition or adoption of this standard.

The fund has implemented the following classification:

a. Cash and cash equivalents are designated as financial assets held-for-trading and measured at fair value through net income at each period end.

b. Accounts receivable and due from related parties, classified as loans and receivables and payables and due to related party, and distribution payable to unitholders, classified as other financial liabilities, are measured at fair value at inception, which due to their short-term nature, approximates amortized cost.

c. Credit and hydrology reserve facilities and long-term debt are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Starting January 1, 2007, the Fund is amortizing its deferred financing fees using the effective interest rate method rather than on a straight-line basis over the term of the financing.

The Fund selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value. This rule had no impact on the consolidated financial statements of the Fund.

The adoption of this section is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated financial statements of measuring the financial assets and liabilities using the effective interest rate method and reclassifying the deferred financing fees directly attributable to the issuance of the long-term debt is summarized in the table below:

	December 31, 2006	January 1, 2007	Net Impact
	$	$	$
Other assets - deferred financing fees	12,524	–	12,524
Long-term debt	653,250	640,056	(13,194)
Deferred credits	41,377	41,462	85
Unitholders' equity	417,671	418,256	585

4 FUTURE ACCOUNTING POLICY CHANGES

Goodwill and Intangible Assets – Handbook Section 3064

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles by profit-oriented enterprises. The new section will be applicable to the Fund's financial statements beginning January 1, 2009. The Fund has evaluated the impact of this pronouncement and does not expect it to have any effect on the Fund's financial statements.

Business Combinations – Handbook Section 1582

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", replacing Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the International Financial Reporting Standard ("IFRS"), IFRS 3 (Revised),"Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier application is permitted. The Fund is currently evaluating the impact of the adoption of this new Section on the financial statements.

Consolidated Financial Statements – Handbook Section 1601 and Non-Controlling Interests – Handbook Section 1602

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Fund is currently evaluating the impact of the adoption of these new Sections on the financial statements.

Adoption of IFRS

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. While the Fund has not completed its quantification of the effects of adopting IFRS in detail, a high level IFRS implementation plan has been developed and an assessment of the financial statement impact of the accounting standard differences is currently in progress. Based on the analysis to date, the most significant differences for the Fund are anticipated to be related to power generating assets, financial instruments, income taxes, business combinations and financial statement disclosure.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows generated by the Fund, it may result in changes to the definition of cash and cash equivalents and the cash flow statement categories, and it will result in changes to the reported financial position and results of operations of the Fund. The potential impacts on the Fund's consolidated financial statements of the adoption of IFRS will depend on the particular circumstances prevailing at the adoption date and IFRS accounting policy choices made.

5 RELATED PARTY TRANSACTIONS

The Fund's related party transactions are primarily with Brookfield Renewable Power Inc., ("BRPI"), a subsidiary of Brookfield Asset Management Inc., which owns 50.01% of the units of the Fund.

[a] Pursuant to a 20-year power agency and guarantee agreement expiring in 2019, BRPI guarantees to LPLP the price (the "Guaranteed Price") and collectibility of each megawatt hour ("MWh") of energy produced and delivered by Lièvre River Power (excluding the generating facilities of Cedar Dam). In 2008, the Guaranteed Price was (i) $40 per MWh for the first 1,065,000 MWh generated, and (ii) $32 per MWh for generation in excess of 1,065,000 MWh (2007 – $39 and $32, respectively). The Guaranteed Price is subject to an annual adjustment equal to the lesser of 40% of the increase in the Consumer Price Index ("CPI") during the previous calendar year or 3%. Should the total revenues of the business of Lièvre River Power be less than the Guaranteed Price for energy, then BRPI will pay to LPLP an amount equal to the deficiency. If BRPI is able to sell electricity produced by Lièvre River Power for prices in excess of the Guaranteed Price, BRPI will receive the positive difference, if any, between the revenues received by LPLP from sales of electricity and all ancillary services and the Guaranteed Price for all energy. For 2008, revenues are shown net of the guarantee amount of $1,300 (2007 – $25).

[b] Pursuant to 20-year power purchase agreements, the Fund will sell to BRPI all energy at rates indicated below:

	Rate per MWh
GLHA[1]	US$37
MPT	CAD$59

[1] Excludes the Errol and Brassua generating facilities which sell power to unrelated parties.

The energy rates are subject to an annual adjustment equal to 20% of the increase in the CPI during the previous year.

[c] Pursuant to a 20-year power purchase agreement guarantee, BRPI guarantees to PREI the payment obligations of Catalyst Paper for an annual fee of $500.

[d] BRPI has provided hydrology reserve facilities (the "Facility") totaling $25,000 (2007 – $25,000) to the Fund in order to levelize cash distributions to unitholders due to changes in hydrology from year to year, up to a maximum drawdown of $8,000 per year (2007 – $8,000). The Facility is available until 2014 ($15,000) for Lièvre River Power and 2017 ($10,000) for MPT. The Facility is unsecured, bears interest at the prime rate of a Canadian chartered bank plus 2% and is repayable from the excess revenues in years when electricity generated and delivered exceeds average levels. In 2008, the Fund reimbursed $4,204 to BRPI (2007 – nil). The balance owing on the Facility at December 31, 2008 is the result of a $3,000 drawdown by MPT in the fourth quarter (2007 – $4,204 by MPT).

[e] BRPI operates and maintains and/or provides administrative services to Lièvre River Power, PRET, MPT, and GLHA. BRPI is reimbursed for all direct costs incurred. The agreements mature between 2019 and 2026.

Also, under a management, operations and maintenance agreement maturing in 2026, BRPI operates and maintains and/or provides administrative services to CLP for an annual management fee of $525. In 2008, the Fund was charged an annual management fee of $525 (2007 – $525) by BRPI.

Also, pursuant to a 20-year power agency and guarantee agreement expiring in 2019, BRPI receives, for acting as the exclusive agent of Lièvre River Power in connection with the sale of power and for providing sales, scheduling, dispatch, and transmission services, an annual fee subject to an annual adjustment equal to the increase in the CPI during the previous year. In 2008, the annual fee paid to BRPI was $600 (2007 - $589).

[f] As part of the acquisition of the six facilities on the Penobscot River in Maine in 2002, the Fund had a note payable to the seller. The note was pledged to BRPI by the seller to secure its obligations under a power purchase agreement with BRPI. As the seller defaulted on its obligations to BRPI, BRPI made a payment demand to the Fund in the amount of $3,480 (2007 - $2,846). At December 31, 2008, the note was recorded as a current liability.

[g] BRPI has provided guarantees under the following agreements: (i) a letter of credit totaling $600 (2007 - $600) to comply with financial covenants of the CLP non-revolving term loan facility (ii) a letter of credit totaling $2,137 (2007 – $1,747) to comply with financial covenants of the GLHA senior secured notes and (iii) a letter of credit totaling $6,052 (2007 - $6,052) to comply with financial covenants of the MPT first mortgage bonds. Also, BRPI has provided a letter of credit totaling $100 (2007 - $100) on behalf of MPT in favor of the Ontario Ministry of the Environment.

[h] All Fund insurance is obtained through a broker affiliated with Brookfield Asset Management Inc. The expense for the year ended December 31, 2008 was $3,787 (2007 – $4,382) and is included in operating and maintenance expenses.

[i] As part of the termination of a power purchase agreement in a previous year, the Fund had agreed to transfer a substation for nominal consideration to a company under common control. An obligation of $4,702 has been recorded (2007 - $4,702).

[j] To meet its obligations under a power purchase agreement with Papier Masson Ltée, LPLP purchased power during the year from BRPI in the amount of nil (2007 - $847).

[k] On August 23, 2007, the Fund sold a short-term investment to Brookfield Asset Management Inc. at its redemption value of $8,350.

[l] The following table summarizes related party transactions for the year, which were all entered into at the exchange amount, which the Fund considers to be fair market value.

	2008 $	2007 $
Revenues		
Sales of electricity to BRPI	132,325	89,754
Expenses		
Operations, maintenance and administration service provided by related parties	14,075	12,537
Interest – BRPI	259	340
PREI guarantee fee – BRPI	500	500
	14,834	13,377

The following balances are receivable/(payable) as of December 31:

	2008 $	2007 $
BRPI	1,191	1,766
BRPI - Hydrology reserve facility	(3,000)	(4,204)
Brookfield Asset Management Inc.	(4,702)	(4,702)

6 POWER GENERATING ASSETS

	Cost $	Accumulated Depreciation $	2008 Net Book Value $
Land	9,022	–	9,022
Dams	353,537	35,901	317,636
Generating stations	783,712	102,592	681,120
Equipment	48,059	11,378	36,681
Buildings	5,529	939	4,590
Water rights	6,894	542	6,352
Work in progress	28,044	–	28,044
	1,234,797	151,352	1,083,445

	Cost $	Accumulated Depreciation $	2007 Net Book Value $
Land	7,795	–	7,795
Dams	338,149	28,944	309,205
Generating stations	724,865	76,244	648,621
Equipment	41,503	8,518	32,985
Buildings	4,805	678	4,127
Water rights	6,894	379	6,515
Work in progress	34,453	–	34,453
	1,158,464	114,763	1,043,701

During 2008, PREI and MPT disposed of generating station assets for total net proceeds of nil (2007 - nil) and resulting in a loss on disposal of $208 (2007 - $4,216 relating to PREI).

7 OTHER ASSETS

Other assets are comprised of:

	2008 $	2007 $
Power purchase agreements	11,486	14,925
Accrued pension and post-retirement benefit asset (note 10)	864	165
Headwater benefit agreement	1,552	614
Deferred financing fees - prospectus fees	1,575	–
Acquisition costs and other	660	–
	16,137	15,704

Cost and accumulated amortization for the power purchase agreements as at December 31, 2008 totaled $24,041 (2007 -$22,741) and $12,555 (2007 – $7,816), respectively.

The headwater benefit is associated with the overhaul of a dam located upstream on the Androscoggin River in New Hampshire as provided for in the Headwater Benefit Agreement and in which GLHA benefits from the regulation of the headwaters, but does not have ownership of the dam. The costs will accumulate until 2011 when the project is expected to be completed, and amortization will begin at that time.

8 CREDIT FACILITIES

LPLP senior secured credit facility in the amount of $25,000 is secured by the Lièvre Power System, has a one year term and may be extended for additional individual periods of one year. The credit facility is available by way of advances in Canadian dollars of (i) prime rate loans (ii) bankers' acceptances ("BA") and (iii) letters of credit. The credit facility bears interest at prime plus applicable margin. The applicable margin refers to the spread applied to direct borrowings, issuances of letters of credit and standby fees charged on the undrawn facility balance which is tiered on the basis on the Fund's senior secured bond rating. If not renewed, the credit facility will be due on October 30, 2009.

PREI credit facility in the amount of $5,000 is secured by PREI assets and is available by way of advances in Canadian dollars of (i) prime rate loans (ii) BA loans and (iii) letters of credit. The credit facility bears interest at prime plus applicable margin and standby fees are charged on the undrawn balance. If not renewed, the credit facility will be due on December 10, 2009.

Amounts may only be drawn against these facilities if capital expenditures in these regions, in a given period, exceed the designated capital expenditure reserve.

As at December 31, 2008, the Fund had drawn $1,600 (2007 – $11,650) on the LPLP senior secured credit facility and nil (2007 – $500) on the PREI credit facility.

9 LONG-TERM DEBT

		Principal Value $	2008 $	2007 $
LPLP –	**Senior secured bonds** Series 1 - bearing an annual interest rate of 5.6% payable quarterly, maturing on October 6, 2025	225,000	218,843	218,630
PREI –	**First mortgage bonds** Series 1 - bearing an annual interest rate of 6.4% payable quarterly, maturing on July 24, 2009	75,000	74,839	74,569
MPT –	**First mortgage bonds** Series 1 - bearing an annual interest rate of 6.9% payable semi-annually, maturing on November 27, 2020	175,000	172,719	172,601
CLP –	**Non-revolving term loan facility** Series 1 - bearing an annual interest rate of 4.8% payable quarterly, quarterly principal repayments of $900 in 2008, $1,000 in 2009, $1,100 in 2010, and $1,200 in 2011, maturing on November 3, 2011	25,200	25,006	28,518
GLHA –	**Senior secured notes** US$125,000 bearing annual interest rates of 5.5% (US$110,000) and 6.0% (US$15,000) payable quarterly, maturing on May 28, 2014	152,625	150,061	122,396
		652,825	641,468	616,714
Less :	current portion of long-term debt	(79,000)	(79,000)	(3,600)
		573,825	562,468	613,114

As of December 31, 2008, the amounts of debt payable for the next five years ending December 31 are as follows: 2009 – $79,000, 2010 – $4,400, 2011– $16,800, 2012 – nil and 2013 – nil.

The LPLP, PREI, MPT, CLP and GLHA debts are secured by a first ranking lien on all LPLP, PREI, MPT, CLP and GLHA assets respectively. The fair value of the long-term debt is estimated at $613,114 (2007 – $646,000). Fair value was estimated by the Fund by comparing the rates currently available for long-term debt of similar terms and risks.

The PREI shareholders' notes in the amount of $21,501 (2007 - $21,501) are composed of both interest-bearing and non-interest-bearing amounts. $2,000 is non-interest bearing and matures on December 31, 2020. Early repayment is at the option of PREI. $19,501 bears annual interest based on the previous year's income before interest, taxes, depreciation and amortization, subject to a maximum of 18% and a minimum of 10%, payable quarterly, maturing on December 31, 2020. The interest rate charged in 2008 was 14% (2007 – 16%). Due to the unique terms of the shareholders' notes, the fair value cannot be estimated.

The following deferred financing fees are netted against long-term debt:

			2008	2007
	Cost $	Accumulated Depreciation $	Net Book Value $	Net Book Value $
Deferred financing fees (note 2)	15,796	4,439	11,357	11,899

In 2008, the Fund incurred nil of deferred financing fees (2007 - $143) and amortization totaled $1,028 (2007 - $991). Amortization of deferred financing fees is included in depreciation and amortization in the Consolidated Statements of Income.

10 PENSION BENEFITS AND EMPLOYEE FUTURE BENEFITS

Defined Benefit Plans

MPT maintains a registered defined benefit pension plan and an unfunded non-pension benefit plan for all of its employees. In addition, CLP and GLHA offer a defined contribution plan to all of its employees. The details of these plans are outlined below:

	2008		2007	
	Defined Benefit Pension Plan	Non-pension Benefits Plan	Defined Benefit Pension Plan	Non-pension Benefits Plan
Assumptions				
Benefit obligation				
Discount rate	7.50%	7.50%	5.50%	5.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial weighted average health care trend rate	–	6.74%	–	6.00%
Ultimate weighted average health care trend rate	–	4.75%	–	4.24%
Year ultimate rate reached	–	2016	–	2015
Benefit expense				
Discount rate	5.50%	5.50%	5.25%	5.25%
Long-term rate of return on plan assets	6.75%	–	6.75%	–
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial weighted average health care trend rate	–	6.95%	–	6.47%
Ultimate weighted average health care trend rate	–	4.75%	–	4.24%
Year ultimate rate reached	–	2016	–	2015
Accrued pension and employee future benefit obligations	$	$	$	$
Balance, beginning of year	13,141	2,391	12,543	2,151
Current service cost	369	119	369	96
Interest cost	744	130	700	126
Employee contributions	105	–	113	–
Benefits paid	(172)	(14)	(520)	(4)
Actuarial (gain) loss	(3,958)	(897)	(64)	22
Balance, end of year	10,229	1,729	13,141	2,391
Fair value plan assets				
Balance, beginning of year	12,902	–	11,622	–
Employer contributions	1,241	14	1,214	4
Employee contributions	105	–	113	–
Benefits paid	(172)	(14)	(520)	(4)
Actual (loss) return on plan assets	(2,587)	–	473	–
Balance, end of year	11,489	–	12,902	–
Plan excess (deficit)	1,260	(1,729)	(239)	(2,391)
Unamortized net actuarial loss (gain)	1,631	(298)	2,173	622
Accrued benefit asset (liability)	2,891	(2,027)	1,934	(1,769)
Expense				
Current service costs	369	119	369	96
Interest cost on accrued benefits	744	130	700	126
Actual loss (return) on plan assets	2,587	–	(473)	–
Actuarial (gain) loss	(3,958)	(897)	(64)	22
(Gains) costs arising in the period	(258)	(648)	532	244
Differences between costs arising in the period and costs recognized in the period in respect of:				
Amortization of net actuarial loss	4,040	920	184	22
Expected return on plan assets	(3,498)	–	(338)	–
Expense recognized	284	272	378	266

Defined Contribution Plan

The employer expense for the defined contribution plan totaled $284 in 2008 (2007 – $293).

Sensitivity analysis

The Fund's sensitivity in the MPT non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2008, is summarized as follows:

	Benefit Obligation	Benefit Expense
	$	$
Impact of a 1% increase in health care cost trend rate	316	32
Impact of a 1% decrease in health care cost trend rate	(248)	(24)

Asset category

The Fund's defined benefit pension plan asset allocations at December 31, by asset category are as follows:

	2008	2007
Equity securities	60%	60%
Debt securities	40%	40%
Total	100%	100%

Actuarial valuations

Actuarial valuations for the Fund's pension plans are required every three years. The most recent actuarial valuations of the MPT defined benefit pension plan and non-pension benefit plan were conducted as of December 31, 2006. The Fund measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The Fund may choose to perform valuations for these plans prior to the earliest required dates.

Cash payments

All employer contributions for the pension plan of $321 (2007 – $301) as well as a special payment of $920 (2007 – $919) were fully paid during the year and as such, no balance owing remains outstanding as at year-end.

11 NON-CONTROLLING INTEREST

The amounts recorded as non-controlling interest for the 50% economic interest in PREI as at December 31, 2008 and 2007 are reconciled as follows:

	2008	2007
	$	$
Balance, beginning of year	(16,167)	(15,624)
Income for the year	820	89
Distribution to Catalyst	(618)	(632)
Balance, end of year	(15,965)	(16,167)

12 UNITHOLDERS' EQUITY

The Trust Indenture provides that an unlimited number of trust units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

As at December 31, 2008, 48,276,476 (December 31, 2007 – 48,276,476) trust units were outstanding for a total of $573,308 (December 31, 2007 – $573,308).

The units are redeemable at the holder's option at an amount equal to the lesser of (i) 90% of the weighted average market price during the period of the last 10 days during which the trust units were traded on the Toronto Stock Exchange, and (ii) the closing market price at the date of redemption as defined in the Trust Indenture. Redemptions are subject to a maximum of $250 in cash redemptions in any particular month. Redemptions in excess of this amount will be paid by way of a distribution of units and notes of GLPT.

The significant elements that gave rise to the change in the exchange loss in accumulated other comprehensive loss, within the Consolidated Statements of Unitholders' Equity, during the year are as follows:

	2008	2007
	$	$
Balance, beginning of year	(52,416)	(35,068)
Foreign exchange effect on:		
Power generating assets, power purchase agreements, and headwater benefit agreement	52,094	(39,903)
Deferred financing fees	489	(449)
Long-term debt	(27,812)	21,437
Cash and cash equivalents	1,061	(776)
Working capital and other	(4,644)	2,343
	21,188	(17,348)
Accumulated other comprehensive loss, end of year	(31,228)	(52,416)

13 DISTRIBUTIONS

The Fund declares a discretionary monthly distribution to all unitholders on record at the declaration date. During 2008, the Fund declared distributions totaling $60,348 (2007 - $60,347).

14 INTEREST AND FINANCING FEES

Interest and financing fees are comprised of:

	2008	2007
	$	$
Interest on debt	38,258	38,420
Interest on credit and hydrology reserve facilities	562	521
PREI guarantee fee	500	500
	39,320	39,441

15 INCOME TAXES

The provision for income taxes in the consolidated statements of income represents an effective tax rate different than the Canadian statutory rate of 31.0% (2007 – 34.1%). The differences are as follows:

	2008 $	2007 $
Net income	59,346	706
Current taxes	359	618
Future taxes	6,575	27,884
Earnings before income taxes	66,280	29,208
Computed income tax expense at Canadian statutory rate	20,547	9,966
Increase (decrease) resulting from:		
Income of trust distributed directly to unitholders	(10,219)	(7,756)
Tax on U.S. distributions	1,146	324
Different rates in other jurisdictions	1,272	725
Impact of rate reduction	(760)	(2,840)
Impact of adoption of new legislation	–	29,535
Future tax on previously non-taxable entities	–	(1,197)
Difference between statutory and future tax rate	(2,528)	–
Reversal of temporary difference at a zero rate	(2,212)	–
Other	(312)	(255)
Income tax provision	6,934	28,502
Presentation in the statements of income		
Current taxes	359	618
Future taxes	6,575	27,884
	6,934	28,502
Future tax liabilities		
Net book value in excess of undepreciated capital cost	79,336	66,246
Non-capital loss carry forward	(2,300)	–
	77,036	66,246

The loss carry forward will expire in 2028.

On June 22, 2007, Bill C-52 received royal assent making "specified investment flow-through" entities, such as the Fund, taxable. Although the new legislation is not expected to apply to the Fund until 2011 due to transitional provisions, a $29,535 charge has been recorded in accordance with Canadian accounting guidelines. Previously, distributions paid to unitholders, other than returns of capital, were claimed as a deduction by the Fund in its calculation of taxable income, thus eliminating taxation at the Fund level. The new legislation results in a two-tiered tax structure whereby distributions commencing in 2011 would first be subject to taxation at a rate of 29.5% at the Fund level and then investors would be subject to tax on the distribution as if it were a taxable dividend paid by a taxable Canadian corporation. Until 2011, the new legislation does not directly affect the Fund's cash flow from operations, and correspondingly, the Fund's financial condition.

16 CONSOLIDATED STATEMENTS OF CASH FLOWS DETAILS

The change in non-cash working capital is comprised of the following:

	2008 $	2007 $
Accounts receivable and due from related parties	(1,587)	1,264
Prepaid expenses and maintenance materials	(693)	836
Payables and due to related party	11,658	(2,823)
Accrued pension and post-retirement benefit	(699)	(574)
Foreign exchange effect	(304)	(353)
	8,375	(1,650)

17 SEGMENTED AND OTHER INFORMATION

The Fund owns and operates hydroelectric assets in both Canada and the United States with operations in four distinct geographic regions across North America: Québec, Ontario, British Columbia and New England. These four regions represent the Fund's reportable segments, which are used to manage the business, and are based on the location of the underlying generating and infrastructure facilities. The accounting policies of these reportable segments are the same as those described in Notes 2 and 3.

The Fund analyzes the performance of its operating segments based on their income before non-cash items which is defined as net income before loss on disposal of power generating assets, depreciation, amortization, non-controlling interest and future taxes (recovery). Income before non-cash items is not a measure of performance under Canadian GAAP; however, management uses this measure to assess the operating performance of its reportable segments. Income for each segment is presented on the same basis as those of the Fund.

	Québec **$**	**Ontario** **$**	**British Columbia** **$**	**New England** **$**	**Other** **$**	**2008** **$**
Revenues	**67,675**	**57,263**	**19,330**	**51,466**	**–**	**195,734**
Interest and financing fees	**12,501**	**13,522**	**5,260**	**7,467**	**570**	**39,320**
Interest on due to holder of non-controlling interest	**-**	**-**	**2,730**	**-**	**-**	**2,730**
Income before non-cash items	**38,011**	**31,167**	**6,854**	**24,800**	**(760)**	**100,072**
Depreciation and amortization	**8,298**	**12,026**	**3,457**	**9,342**	**-**	**33,123**
Non-controlling interest	**-**	**-**	**820**	**-**	**-**	**820**
Future taxes (recovery)	**-**	**-**	**(1,048)**	**5,332**	**2,291**	**6,575**
Additions to power generating assets	**7,510**	**3,448**	**674**	**5,141**	**-**	**16,773**
Power generating assets	**334,425**	**349,263**	**115,602**	**284,155**	**-**	**1,083,445**
Total assets	**350,253**	**357,881**	**118,488**	**298,043**	**-**	**1,124,665**
Long-term debt (note 9)	**218,843**	**197,725**	**74,839**	**150,061**	**-**	**641,468**

	Québec $	Ontario $	British Columbia $	New England $	Other $	2007 $
Revenues	49,746	39,081	19,282	47,669	–	155,778
Interest and financing fees	12,501	13,547	5,351	7,521	521	39,441
Interest on due to holder of non-controlling interest	–	–	3,120	–	–	3,120
Income before non-cash items	21,455	15,171	6,466	22,901	(649)	65,344
Depreciation and amortization	8,721	11,989	3,541	8,198	–	32,449
Non-controlling interest	–	–	89	–	–	89
Future taxes (recovery)	–	–	(4,591)	4,137	28,338	27,884
Additions to power generating assets	11,225	7,119	6,994	10,412	–	35,750
Power generating assets	335,001	354,695	118,190	235,815	–	1,043,701
Total assets	336,005	372,977	122,238	247,321	–	1,078,541
Long-term debt (note 9)	218,630	201,119	74,569	122,396	–	616,714

Electricity sales to customers representing more than 10% of the Fund's revenues are as follows:

	Segment	2008 $	2007 $
BRPI	All	132,325	89,754
Papier Masson Ltée	Québec	30,153	29,741
Catalyst Paper	British Columbia	19,209	19,240

18 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. All financial instruments are classified into one of the five categories: held-for-trading, loans and receivables, other financial liabilities, held-to-maturity investments or available-for-sale financial assets.

Held-for-trading financial instruments are financial assets and financial liabilities typically acquired with the objective of resale or short-term buyback. The carrying amount is recorded at fair value determined using market prices. Interest earned and gains and losses incurred are recognized in net income. Cash and cash equivalents are designated as financial assets held-for-trading and are measured at fair value with changes being recorded in net income during each period.

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are measured at amortized cost. Accounts receivables and due from related parties are classified as loans and receivables and are measured at fair value at inception, which due to their short-term nature, approximates amortized cost.

Other financial liabilities are promises to repay on specified dates or on demand usually with interest. Payables and due to related party and distribution payable to unitholders are classified as other financial liabilities and are measured at fair value at inception, which due to their short-term nature, approximates amortized cost. Credit and hydrology reserve facilities and long-term debt are also classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Held-to-maturity financial assets have fixed or determinable payments and maturity and management's intention and ability are to hold to maturity. These financial assets are measured at amortized cost. The Fund does not hold any financial assets under this classification.

Available-for-sale instruments are non-derivative financial assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading financial assets. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). The Fund does not hold any financial assets under this classification.

The Fund is exposed, in the normal course of business, to a number of financial risks arising from its use of financial instruments. The Fund's overall risk management strategy is designed to identify, manage and mitigate these risks to the extent possible.

Credit Risk

The Fund is exposed to credit-related losses in the event of non-performance by counterparties. Maximum credit exposure is the carrying value of the asset net of any allowances for losses. The Fund manages its credit risk by conducting business with a limited number of counterparties, all of whom are creditworthy and whose credit is reviewed regularly. Consistent with previous years, the Fund does not have any allowances for losses as accounts receivables have been collected in a timely manner. As at December 31, 2008, the Fund is exposed to a maximum credit risk of $606 for energy sales that is not guaranteed by BRPI. BRPI, as guarantor of a significant portion of the Fund's revenue, has investment grade issuer ratings which significantly reduce the Fund's credit risk. In addition, as at December 31, 2008, all account receivables within the Fund remain current.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to fund all cash outflow commitments as they become due. The Fund's asset-liability management allows it to maintain its financial position by providing sufficient liquid assets available to cover its potential funding requirements. The Fund's management is in charge, among other things, of ensuring sound management of available cash resources and financing for all Fund operations. It manages liquidity through regular monitoring of cash and covenant requirements.

As at December 31, 2008, the total outstanding significant contractual obligations are due in the following periods:

Millions	Total $	In years 2009-2013 $	In years 2014-2018 $	In years 2019-2023 $	In years 2024-2028 $
Principal - Repayment (CAD)	500,200	100,200	–	175,000	225,000
Principal - Repayment (USD)	125,000	–	125,000	–	–
Interest (CAD)	357,699	125,903	123,100	85,761	22,935
Interest (USD)	37,917	35,000	2,917	–	–

The Fund has facilities in place to manage liquidity despite hydrological fluctuations. These facilities include access to $30,000 of committed credit facilities, which assists in providing liquidity to fund capital expenditures exceeding the capital reserve if necessary. In addition, BRPI has made available a $25,000 hydrology reserve facility for the Lièvre River and MPT systems (see note 5). As at December 31, 2008, the Fund had $24,077 of availability on its credit facilities and $22,000 available on its hydrology reserve facility. In the near term, the Fund has the First Mortgage Bonds of $75,000 issued for PREI due in July 2009. It is management's intention to refinance the full amount at maturity.

Based on historical cash flows and current financial performance, management believes that the cash flow from the Fund's operating activities will continue to provide sufficient liquidity for the Fund to satisfy debt service obligations and ensure stable distribution to unitholders.

Market Risk

Market risk is the risk of loss that results from changes in market factors such as commodity prices, foreign currency exchange rates and interest rates. The level of market risk to which the Fund is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and composition of the Fund's financial assets and liabilities.

[a] Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rate. All of the Fund's long-term debt bears fixed interest rates. Consequently, there is no cash flow exposure associated with those instruments. However, the Fund is exposed to interest rate risk with respect to its credit facilities. Given there were minimal borrowings on the credit facilities during the fourth quarter of 2008, the Fund does not believe it is exposed to significant market risk. The Fund's interest rate risk policy and goals restrict the use of derivative financial instruments to non-speculative purposes. There are no derivative financial instruments held by the Fund as at December 31, 2008 (December 31, 2007 – nil).

[b] Currency Risk

Currency risk refers to the Canadian dollar value of U.S. dollar cash flows varying as a result of the movements in exchange rates. The Fund, as a Canadian dollar functional currency issuer, conducts all of its business in Canadian dollars with the exception of its self-sustaining operations located in the United States. As at December 31, 2008, a change in the foreign exchange rate of 1 cent ($US to $CAD) causes a variation in net income of approximately $200 on an annual basis. The Fund does not actively manage this risk.

[c] Commodity Price Risk

Commodity price risk refers to the constant fluctuation of the price of power. The Fund actively manages commodity price risk as substantially all of its revenues are earned through long-term power purchase agreements which contain fixed prices for electricity supplied therefore, the Fund is not exposed to any material price fluctuation.

Fair Value Risk

The Fund is exposed to fair value fluctuations in its short term investments and pension assets and liabilities. This risk is limited as the investments are short-term in nature and are of a low dollar value as are the pension assets and liabilities.

19 GUARANTEES

In the normal course of operations, the Fund executes agreements that provide for guarantees to third parties. The Fund provided guarantees under the following agreements: a) a letter of credit totaling $3,125 (2007 - $3,125) to comply with financial covenants of the LPLP Deed of Trust, b) a letter of credit totaling $1,198 (2007 - $1,198) to comply with financial covenants of the PREI First mortgage bonds, c) a letter of credit for $382 (2007 - $313) pursuant to the Brassua power purchase agreement to secure payment in case of liquidated damages, d) a letter of credit totaling $600 (2007 - $600) to comply with financial covenants of the CLP non-revolving term loan facility, e) a letter of credit totaling $2,137 (2007 - $1,747) to comply with financial covenants of the GLHA senior secured notes and f) a letter of credit totaling $6,052 ($6,052) to comply with financial covenants of the MPT first mortgage bonds. Also, BRPI has provided a letter of credit totaling $100 (2007 – $100) in favor of the Ontario Ministry of the Environment.

20 COMMITMENTS AND CONTINGENCIES

In the course of its operation, the Fund has entered into lease agreements for the use of water, land and/or dams. Payment under those leases depends on the amount of power generated as follows:

	Expiry	Estimated Annual Payment Based on Long-Term Average Generation
New England		US$
Brassua generating station	2012	380
Errol generating station	2023	730
Pontook generating station	2032	550
Total (U.S.$)		1,660
Quebec		
Lièvre River	2019	4,700
Cedar Dam generating station	2025	200
Total		4,900

Also included within LPLP's 20-year lease, expiring in 2019, with the Ministère des Ressources naturelles and the Ministère de l'Environnement of the Province of Québec is a commitment to reimburse all of the ongoing maintenance and operating costs, as well as the capital expenditures and major maintenance costs, incurred in connection with the three water storage reservoirs. The annual estimated payment under the lease relating to these reservoir maintenance and operating costs is approximately $492.

The Fund has committed as at December 31, 2008 to spend approximately $1,688 on capital projects, entered into in the normal course of operations, in future years.

Entities within the Fund have entered into various agreements with BRPI (note 5). The commitments concerning management, operating and maintenance agreements, as well as power purchase agreements mature between 2019 and 2026.

The Fund may, from time to time, be involved in legal proceedings, claims, and litigation that arise in the ordinary course of business which the Fund believes would not reasonably be expected to have a material adverse effect on the financial condition of the Fund.

The Fund has asset retirement obligations associated with its generating stations. The retirement date for these generating stations cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be estimated at this time. As a result, no liability has been accrued in these financial statements.

21 CAPITAL MANAGEMENT

The Fund's objective when managing its capital structure is to uphold a strong capital base so as to maintain unitholder, creditor and market confidence and to sustain future development of the business. In addition, the Fund strives to continue as a going concern, while providing an adequate return to its unitholders. The Fund does not have any specific quantitative capital criteria; however, its main objective is to generate stable and sustainable cash flows to meet unitholder distribution requirements.

In the management of capital, the Fund includes unitholders' equity (excluding accumulated other comprehensive loss), long-term debt and due to holder of non-controlling interest in the definition of capital.

The Fund manages its capital structure to support its corporate strategy and takes into account changes in economic conditions. In order to maintain a solid capital structure, the Fund may issue new trust units, issue new debt, issue new debt to replace existing debt (with different characteristics), reduce the amount of existing debt or modify the level of capital expenditures. Management monitors and reviews on a regular basis whether distributions remain adequate. Management of the Fund is of the view that the current level of distributions is reasonable.

The Fund's strategy with respect to debt has been to leverage its assets with property-specific borrowings. Most of the long-term debt is non-recourse and has fixed interest rates for its terms. The level of financing associated with any asset is determined by the risk associated with the asset and the potential variability of the cash flows. Given the Fund's long-term power purchase agreements and various guarantees offered by BRPI the variability in cash flows is limited allowing the Fund to leverage its assets.

The Fund has provided covenants to certain of its lenders to ensure capital requirements are met. The Fund conducts its businesses indirectly through its subsidiaries and is dependent on receipt of cash from those entities to meet its corporate expenses and make distributions to unitholders. Certain of those entities have outstanding debt which was incurred to fund the entities' original investments. Under the credit agreements for such debt, it is conventional for distributions of cash to the Fund to be prohibited if the loan is in default (notably for non-payment of principal or interest) or if the entity fails to achieve a benchmark "debt service coverage ratio", which is the ratio of earnings before interest, taxes, depreciation and amortization for a specified time period to the scheduled loan principal and interest payments for the same time period. The specified ranges for this covenant are 1.50 - 1.25: 1.00 depending on the loan. The Fund is in compliance with all capital requirements as at December 31, 2008.

There were no changes in the Fund's approach to capital management during the year.

22 SUBSEQUENT EVENTS

[a] On January 6th 2009, the Fund closed its previously announced public offering of 4,690,000 trust units at a price of $16.00 per trust unit raising gross proceeds of $75,040. Concurrent with the closing of the public offering, the Fund also sold to BRPI 627,500 trust units at a price of $16.00 per trust unit raising additional proceeds of $10,040.

[b] On February 4, 2009, the Fund indirectly acquired for cash consideration of $65 million a 49.9% interest in each of i) the 189 MW Prince Wind farm in Ontario and (ii) a 50% joint venture interest in the 45 MW Pingston Hydro station in British Columbia.

[c] On March 17, 2009, the Fund commenced a normal course issuer bid to purchase on the Toronto Stock Exchange up to 1,000,000 trust units of its issued and outstanding trust units during the period March 19, 2009 to March 18, 2010. Purchases will be at market prices and up to 12,912 trust units can be purchased on any trading day. The trust units will be cancelled as purchased.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

Our corporate governance practices relate to the activities of the Board and its Trustees who are elected by, and are accountable to, the Unitholders.

The Board encourages and supports sound corporate governance practices designed to promote the best long-term interests of the Fund, enhancement of value for all Unitholders as well as positive benefits for the communities in which we operate.

The Board is of the view that the Fund's corporate governance policies and practices are comprehensive and consistent with the guidelines for improved corporate governance in Canada adopted by the Toronto Stock Exchange and Regulation 58-101 – Disclosure of Corporate Governance Practices.

COMMITTEES OF THE BOARD

The Board has two standing committees: the Audit Committee and the Governance, Nominating and Compensation Committee. All members of the Audit Committee and the Governance, Nominating and Compensation Committee are independent as defined by Regulation 52-110 – Audit Committees. While the Board retains overall responsibility for corporate governance matters, the Audit Committee and the Governance, Nominating and Compensation Committee each have specific responsibilities for certain aspects of corporate governance, as described below.

THE AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the Fund's systems and procedures for financial reporting, risk management and internal controls, reviewing all public disclosure documents and monitoring the performance of the Fund's external auditors.

The Audit Committee assumes responsibility for developing (with the approval of the Board), implementing and overseeing the Fund's disclosure policy and practices.

The Audit Committee consists of the following Trustees, all of whom are independent: Kenneth W. Harrigan (Chairman), Dian Cohen and Pierre Dupuis.

THE GOVERNANCE, NOMINATING AND COMPENSATION COMMITTEE

It is the responsibility of the Governance, Nominating and Compensation Committee, in consultation with the Chairperson of the Board, to periodically assess the size and composition of the Board and its committees, to review the effectiveness of the Board's operations and its relations with management, to review the Fund's statement of corporate governance practices, and to review and recommend Trustees' compensation. The Governance, Nominating and Compensation Committee is also responsible for reviewing the credentials of nominees for election or appointment to the Board, and recommending candidates for Board membership. The Governance, Nominating and Compensation Mandate ensures an objective nomination process of the Trustees.

The Governance, Nominating and Compensation Committee consists of three independent trustees: André Bureau (Chairman), Pierre Dupuis and Dian Cohen.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board promotes the highest ethical business conduct. One of its tools is the Code of Business Conduct and Ethics (the "Code"). The Code provides guidelines to ensure that all employees and Trustees respect the Fund's commitment to conduct business relationships with respect, openness and integrity. A hotline has been set up for employees to report activities which they feel are not consistent with the spirit and intent of the Code. Calls are monitored and managed by an independent third party. The Board has not granted any waivers of the Code. The Code can be found on the Fund's web site at www.greatlakeshydro.com or on SEDAR at www.sedar.com.

BOARD ASSESSMENTS

Every year the Governance, Nominating and Compensation Committee conducts a Board self-survey as a whole and individually, and reports to the Board with recommendations based on feedback.

COMMUNICATIONS AND CORPORATE DISCLOSURE POLICY

The Fund has a corporate disclosure policy which summarizes its policies and practices regarding disclosure of material information to investors, analysts and the media. The purpose of this policy is to ensure that the Fund's communications with the investment community are timely, consistent and in compliance with all applicable securities legislation. A copy of the Fund's Policy can be found on the Fund's website at www.greatlakeshydro.com.

TRUSTEES OF THE GREAT LAKES POWER TRUST

ANDRÉ BUREAU

O.C., Chairman of the Board, Astral Media Inc. and counsel with Heenan Blaikie

Mr. Bureau has spent his professional career in the field of communications. He is currently Chair of the Board of Astral Media Inc., and is also Chair of the Board of Jade Tower Inc. and a director of The Guarantee Company of North America. From 1983 to 1989, Mr. Bureau was Chairman of the Canadian Radio-Television and Telecommunications Commission (CRTC).

DIAN COHEN

C.M., Economic Consultant

Dian Cohen is an economist and economic consultant. She is also the author of a number of books on money management, investing, social and government policy issues. Ms. Cohen is the recipient of many literary awards, as well as the Order of Canada in 1993. Ms. Cohen is also a director of Dorel Industries and Norbord Inc.

PIERRE DUPUIS

Corporate Director

Mr. Dupuis is the Chairman of MAAX Bath Inc. and a director of Norbord Inc. He was formerly Vice President and Chief Operating Officer of Dorel Industries Inc. and President and Chief Executive Officer (1993–1996) of Sico Inc., prior to which he was a senior executive at Domtar Inc.

HARRY A. GOLDGUT

Chairman, Brookfield Renewable Power Inc.

Involved in the electric power industry since 1985, Mr. Goldgut joined Brookfield Asset Management Inc. in 1997. As a Senior Managing Partner of Brookfield Asset Management Inc. as well as Chairman of Brookfield Renewable Power Inc., he has been actively involved in developing and expanding Brookfield Asset Management Inc.'s power operations. He also played an active role in the restructuring of the electricity industry in Ontario as a member of Ontario's Market Design Committee.

KENNETH W. HARRIGAN

O.C., Corporate Director

Former Chairman and Chief Executive Officer (1990–1992) and President and Chief Executive Officer (1981-1990) of Ford Motor Company of Canada, Limited, Mr. Harrigan is a director and advisor to several Canadian and international corporations, including Samuel Manu-Tech Inc., and Kim-Tam Truck Leasing Ltd.

EDWARD C. KRESS

Group Chairman, Power, Brookfield Asset Management Inc.

Mr. Kress joined Brookfield Asset Management Inc. in 1974 and held a variety of executive positions, including Chief Executive Officer of Brookfield Renewable Power Inc. and Chief Financial Officer of Brookfield Asset Management Inc. Mr. Kress is also a director of Morguard REIT.

RICHARD LEGAULT

President and Chief Executive Officer, Great Lakes Hydro Income Fund

Mr. Legault joined Brookfield Asset Management Inc. in 1989 and has held a number of positions in the power and forest products sectors within the company's operations. In addition to his current position with the Fund, he is a Senior Managing Partner of Brookfield Asset Management Inc. as well as President and Chief Executive Officer of Brookfield Renewable Power Inc.

PRODUCTION BASE FOR EXISTING FACILITIES

Québec		Ontario		British Columbia		New England	
Generating Stations	4	Generating Stations	5	Generating Stations	2	Generating Stations	15
Generating Units	12	Generating Units	10	Generating Units	7	Generating Units	57
Installed Capacity (MW)	254	Installed Capacity (MW)	508	Installed Capacity (MW)	83	Installed Capacity (MW)	176
Average Annual Generation (GWh)	1,501	Average Annual Generation (GWh)	836	Average Annual Generation (GWh)	532	Average Annual Generation (GWh)	1,043
Storage (GWh)	518	Storage (GWh)	158	Storage (GWh)	158	Storage (GWh)	506
Average Price (¢/KWh)	3.7	Average Price (¢/KWh)	6.5	Average Price (¢/KWh)	3.6	Average Price (¢/KWh)	4.3
Operating Cost (¢/KWh)	0.9	Operating Cost (¢/KWh)	1.3	Operating Cost (¢/KWh)	0.8	Operating Cost (¢/KWh)	1.5

PRODUCTION BASE FOR ACQUISITIONS OF PINGSTON HYDRO AND PRINCE WIND

Pingston Hydro		Prince Wind	
Generating Stations	1		
Generating Units	3	Generating Units	126
Installed Capacity (MW)	45	Installed Capacity (MW)	189
Average Annual Generation (GWh)	178	Average Annual Generation (GWh)	506[1]
Storage (GWh)	–	Storage (GWh)	–
Operating Cost (¢/KWh)	1.3	Operating Cost (¢/KWh)	1.5

(1) Based on levelized amounts

UNITHOLDER INFORMATION

Corporate Office

480 de la Cité Blvd
Gatineau, Québec, J8T 8R3
Tel: (819) 561-2722
Fax: (819) 561-7188
www.greatlakeshydro.com

Sole Trustee

CIBC Mellon Trust Company
2001 University Street
Suite 1600
Montréal, Québec
H3A 2A6

Officers of the Fund

Richard Legault
President and
Chief Executive Officer

Donald Tremblay
Executive Vice President and
Chief Financial Officer

Patricia Bood
Secretary

Kim Osmars
Chief Operating Officer
and Senior Vice President,
U.S. Operations

André Legault
Chief Operating Officer
and Senior Vice President,
Canadian Operations

Transfer Agent & Registrar

CIBC Mellon Trust Company
2001 University Street
16th Floor
Montréal, Québec H3A 2A6
Tel: (514) 285-3600
Fax: (514) 285-3640
www.cibcmellon.ca

Exchange Listing

TSX: GLH.UN

Investor Information

Visit us online at www.greatlakeshydro.com for more information about Great Lakes Hydro Income Fund. The 2008 Annual Report is also available online. For detailed and up to date news and information, please visit our News Release section.

Additional financial information is filed electronically with various securities regulators in Canada through SEDAR at www.sedar.com.

Unitholder enquiries should be directed to the Investor Relations Department at (416) 359-1955 or unitholderenquiries@greatlakeshydro.com

Annual Meeting

The Fund's Annual General Meeting of Unitholders will be held at the Hockey Hall of Fame, The Esso Theatre, Brookfield Place, 30 Yonge Street, Toronto, Ontario at 2:00 p.m. on May 13, 2009.

Directors and Senior Officers of Brookfield Energy Marketing Inc., the Administrator of the Fund

Harry A. Goldgut
Chairman of the Board
and Director

Edward C. Kress
Director

Richard Legault
President, Chief Executive
Officer and Director

Donald Tremblay
Executive Vice President

Colin L. Clark
Executive Vice President

Laurent Cusson
Executive Vice President

Benjamin Vaughan
Chief Operating Officer

Brian Cook
Chief Financial Officer

Richard Bordeleau
Senior Vice President, Portfolio
Management

Vincent Francoeur
Vice President, Trading

TSX:

GLH.UN

www.greatlakeshydro.com