



CANEXUS INCOME FUND(TSX: CUS.UN) ANNOUNCES ITS 2005 THIRD QUARTER RESULTS

HIGHLIGHTS

- ◆ *Revenue of \$99.5 million for the three-month period was up 1.6 per cent over the same period last year despite a strengthening Canadian dollar*
- ◆ *EBITDA increased 44 per cent from the third quarter of 2004 to \$35 million, including unrealized currency translation gains and an increase in the fair value of foreign exchange options*
- ◆ *The Fund's initial distribution to unitholders paid \$0.1065 per unit for the period August 18 to September 30, 2005, totaling \$3.4 million from distributable cash of \$3.9 million, for a payout ratio of 86 per cent*

MESSAGE TO UNITHOLDERS

On behalf of the Board and management team of Canexus Income Fund, I am pleased to report the results of the third quarter of 2005 – our first quarter as a public company. Canexus had a solid third quarter and the results were fully in line with expectations.

First, I would like to thank everyone who participated in our successful IPO that was completed on August 18, 2005. Technically, the Fund's quarter that ended September 30, 2005, consisted of only 44 days. We are presenting financial results for this 44-day period and, for comparative purposes, the results for the entire three-month period that combines information from Canexus LP (of which the Fund owns 38.6 per cent) and its predecessor, the Chemicals Business of Nexen Inc.

The increasing value of the Canadian dollar and rising natural gas prices were two significant market factors during the third quarter. A currency option program was set up to limit our exposure going forward. Rising prices for electricity generated from natural gas has underlined our strategic hydroelectric competitive advantage, particularly at our Brandon, Manitoba plant.

Operationally, we successfully completed a nine-day maintenance turnaround at our North Vancouver chlor-alkali plant in mid-September. In Brazil, we have completed a program to improve both capacity and reliability and are also improving plant utilization with a new inventory management and storage program.

The end of the quarter saw significant downward pressure on our unit price following the release of a paper by the federal government raising concerns over potentially lost federal tax revenues due to the tax treatment of publicly listed flow-through entities(FTE) versus corporations. Understandably, this has had a negative impact on income trusts by creating uncertainty around the future tax rules relating to FTE's. As unitholders, Canexus employees share your concerns that our strong business has unfairly experienced a loss of market value as a result. The government has initiated public consultations on the topic and is accepting submissions until the end of 2005, before addressing future policy initiatives. I encourage you to participate directly in the consultative process by sending your comments in writing by email to trusts-fiducies@fin.gc.ca or contact the Minister of Finance, The Honourable Ralph Goodale, Department of Finance Canada, 140 O'Connor Street, Ottawa, Ontario, K1A 0A6 (email: goodale.R@parl.gc.ca) or contact your Member of Parliament at www.canada.gc.ca/directories/direct_e.html.

Our financial and operational performance in the third quarter confirms the strengths of Canexus. We are well positioned to meet our goals for 2005 and are committed to growing unitholder value.

To our unitholders, I thank you for your ongoing support.

A handwritten signature in black ink, appearing to read "Gary L. Kubera".

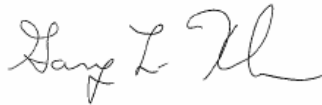
Gary Kubera
President and Chief Executive Officer

Certification of Interim Filings During Transition Period

We, Gary L. Kubera, President and Chief Executive Officer and Richard T. McLellan, Senior Vice President, Finance and Chief Financial Officer of Canexus Income Fund, certify that:

1. We have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Canexus Income Fund (the issuer) for the interim period ending September 30, 2005;
2. Based on our knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on our knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

October 11, 2005



Gary L. Kubera
President and Chief Executive Officer
Canexus Limited



Richard T. McLellan
Senior Vice President, Finance and
Chief Financial Officer
Canexus Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of financial condition and results of operations is prepared as of October 20, 2005. This discussion should be read in conjunction with the unaudited consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") as at and for the three and nine months ended September 30, 2005 (as applicable) and the notes thereto. This discussion should also be read in conjunction with the audited financial statements and notes thereto of the Chemicals Business (as predecessor to Canexus LP – "Chemicals Business") for the year ended December 31, 2004. The unaudited consolidated financial statements of the Fund and Canexus LP have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Canexus Income Fund earns income from its 38.6% interest in Canexus LP. The Fund accounts for its investment in Canexus LP using the equity method and therefore does not consolidate the results of operations of Canexus LP. As a result, unaudited consolidated financial statements with accompanying notes thereon have been presented for both the Fund and Canexus LP. In addition, the following management's discussion and analysis ("MD&A") presents a discussion of the financial condition and results of operations for both the Fund and Canexus LP.

Information for the three month and nine month periods ended September 30, 2005 for Canexus LP includes information from Canexus LP and its predecessor, the Chemicals Business of Nexen Inc. ("Nexen"), not all of the operations of which were acquired from Nexen. Historical comparative information refers to the Chemicals Business of Nexen.

This MD&A contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements. The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "EBITDA", "Gross Margin", "Gross Margin Percentage", "Distributable Cash", "Distributable Cash per Unit" and "Payout Ratio" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

Unless otherwise noted, tabular amounts are in thousands of Canadian dollars.

Additional information relating to the Fund and Canexus LP is available on the Fund's profile on the System for Electronic Data Analysis and Retrieval ("SEDAR") website at www.sedar.com.

GENERAL DESCRIPTION OF THE FUND AND CANEXUS LP

Pursuant to an underwriting agreement dated August 10, 2005 and initial public offering ("IPO"), the Fund sold 30,000,000 units of the Fund ("Fund Units", "Units", or "Unit"), at a price of \$10.00 per Unit for proceeds totaling \$300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition (through the Fund's wholly-owned subsidiary, Canexus Commercial Trust) by the Fund of a 36.5% interest in Canexus LP. On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at \$10.00 per Unit for proceeds of \$17,500,000 which was then used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the \$17,500,000 to repurchase for cancellation 1,750,000 Exchangeable LP Units from Nexen. Following exercise of the over-allotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen holds a 61.4% controlling interest in Canexus LP.

Canexus LP produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in Brazil, largely for the pulp and paper and water treatment industries.

CANEXUS INCOME FUND

The Fund is an unincorporated open-ended trust established by a Trust Indenture dated June 28, 2005, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The Fund is administered by Canexus Limited, a wholly-owned subsidiary of the Fund.

The Fund effectively commenced operations through its indirect investment in Canexus LP on August 18, 2005, and income recorded by the Fund commenced on that date. Accordingly, income reported for the three months ended September 30, 2005 represents 44 days of operations and is therefore not representative of typical quarterly operating results.

Highlights

- ◆ Successful IPO and TSX listing completed on August 18, 2005
- ◆ Acquisition of a 38.6% interest in Canexus LP which purchased the Chemicals Business of Nexen
- ◆ Initial distribution to unitholders of \$0.1065 per unit declared for the period August 18, 2005 to September 30, 2005

	Three Months Ended September 30 2005
Equity Income from Investment in Canexus LP	7,206
Net Income	6,977
Net Income (\$/ Unit)	0.23
Cash Distributions Declared	3,381
Cash Distributions Declared (\$/ Unit)	0.1065
	As At September 30 2005
Total Assets	324,706

Investments

At September 30, 2005 the Fund has an investment in 31,750,000 units (38.6%) of Canexus LP at a cost of \$317.5 million. The Fund accounts for this investment using the equity method.

During the period from August 18, 2005 to September 30, 2005, the Fund's earnings from Canexus LP were \$7.2 million and the carrying value of this investment at September 30, 2005 is \$321.3 million.

Expenses

Trust administration expenses include directors' fees, directors' travel, professional fees and public issuer reporting costs.

The Fund provides Unit based compensation in the form of options, deferred trust units and bonus rights. Management uses the fair-value method to recognize compensation expense associated with unit based compensation at the time of grant. Expense is recognized over the vesting period or expected term of service with a corresponding increase to contributed surplus as these instruments are settled by issuing Fund Units and are not settled in cash.

Distributions

At September 30, 2005, the Fund has a distribution receivable from Canexus LP. Upon receipt of this distribution on October 15, 2005, the Fund will make its first distribution of \$0.1065 per Unit for the period August 18, 2005 to September 30, 2005. Distributions payable of \$3.4 million are outstanding at September 30, 2005.

Statement of Distributable Cash

For the Period
August 18 to
September 30,
2005

Canexus LP	
Net Income	19,362
Provision for Income Taxes	629
Depreciation and Amortization	4,353
Interest Expense	1,075
EBITDA ⁽¹⁾	25,419
Unrealized Gains on Currency Translation	(7,345)
Change in Fair Value of Foreign Exchange Options	(4,174)
Interest Expense	(1,075)
Maintenance Capital Expenditures	(2,029)
Distributable Cash from Canexus LP	10,796
Canexus Income Fund	
Weighted Average Share of Distributable Cash from Canexus LP	4,018
Trust Administration Expenses	(85)
Distributable Cash from Canexus Income Fund ⁽²⁾	3,933
Distributable Cash (\$/ Unit) ⁽²⁾	\$0.1285
Cash Distributions Declared (\$/ Unit)	\$0.1065
Payout Ratio ⁽²⁾	86%

(1) EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments.

(2) Distributable cash, distributable cash per unit and payout ratio are non-GAAP measures generally used by Canadian open-ended trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distributions to unit holders.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. The Fund intends to distribute substantially all of its taxable income to its unitholders and the Fund intends to comply with the provisions of the Income Tax Act (Canada) that permit, amongst other items, the deduction of distributions to unitholders from the Fund's taxable income.

Outstanding Securities of the Fund

At September 30, 2005 and October 20, 2005 the Fund had 31,750,000 units outstanding.

Nexen holds 50,535,714 exchangeable limited partnership units of Canexus LP, each of which is exchangeable into one Fund Unit at no cost at any time at the option of Nexen, and each of which carries a Special Voting Right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

Critical Accounting Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Unaudited Consolidated Financial Statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis, including those related to litigation, asset retirement obligations, unit based compensation, pensions and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Business Risks

The Fund is entirely dependent on distributions from Canexus LP to make its own distributions. Any decrease in the cash generated by Canexus LP or any requirements for Canexus LP to retain cash for capital or other expenditures will reduce the cash distributions made by Canexus LP to the Fund and as a result will decrease the distributions to Fund Unitholders.

For a discussion of certain risks related to Canexus LP's operations, see the "Market Risk Analysis" discussion relating to Canexus LP.

Guarantees

The Fund and each of its wholly-owned subsidiaries, Canexus Commercial Trust, Canexus Limited and Canexus Holdings Limited, have provided guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's bank credit facilities.

CANEXUS LIMITED PARTNERSHIP**Basis of Presentation**

The consolidated financial statements of Canexus LP are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Canexus LP is considered to be a continuation of Nexen's Chemicals Business following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Canexus LP's acquisition of the Chemicals Business is recorded at the net book value of the Chemicals Business's assets and liabilities on August 17, 2005 and the equity of Canexus LP represents the equity of the Chemicals Business at that date. These financial statements should be read in conjunction with the audited financial statements of the Chemicals Business included in the Canexus Income Fund (the "Fund") initial public offering prospectus dated August 10, 2005.

The consolidated statements of income and cash flows for the three months ended September 30, 2005 reflect the activities of the Chemicals Business from July 1, 2005 to August 17, 2005 and the activities of Canexus LP for the period August 18, 2005 to September 30, 2005. The consolidated statements of income and cash flows for the nine months ended September 30, 2005 reflect the activities of the Chemicals Business from January 1, 2005 to August 17, 2005 and the activities of Canexus LP for the period August 18, 2005 to September 30, 2005. The comparative figures represent the activities of the Chemicals Business.

Executive Summary

Our recent quarter and year-to-date performance is fully consistent with our expectations. The closure of Nexen's Amherstburg plant in July and the planned maintenance turnaround in September at Canexus LP's North Vancouver plant which were reflected in the results for the third quarter of 2005 were anticipated.

We continue to have strong markets for our products and have advised our North American customers of price increases on all products for the fourth quarter of 2005. While the industry is facing pressure from rising natural gas costs, Canexus LP will continue to benefit from its low-cost hydroelectric advantage.

Our operating results and cash flows are affected by changes in the Canadian dollar relative to the US dollar. Our North American operations realize a significant portion of their revenues in US dollars with the majority of their costs in Canadian dollars and the majority of our sales in Brazil are under a US dollar fixed margin contract. To manage this exposure, Canexus LP acquired US dollar foreign exchange options on US \$11 million per month in August 2005. Under these options Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of Cdn \$1.23 per US dollar for the period August 24, 2005 to August 9, 2006. These foreign exchange options substantially eliminate Canexus LP's exposure to the US dollar above US \$0.813 until August 9, 2006.

Highlights

- ◆ Distributions to unitholders (Nexen Inc. and, indirectly, the Fund) of \$0.1065 per unit declared for the period August 18, 2005 to September 30, 2005, totaling \$8.8 million
- ◆ Revenue for the third quarter of 2005 was up 1.6% from the prior year
- ◆ Net income for the third quarter of 2005 increased 51% from the prior year
- ◆ EBITDA increased 44% from the third quarter of 2004 to \$35 million
- ◆ Purchase of foreign exchange options on US \$11 million per month if the Canadian dollar exceeds US \$0.813 resulting in a \$4.2 million increase in fair value of foreign exchange options and \$1.1 million of realized gains on foreign exchange options during the period

Selected Annual Financial Information for the Years Ended December 31

	2004	2003	2002
Sales Revenues	377,933	375,172	366,502
Cost of Goods Sold	273,248	275,130	263,911
Gross Margin ^{(1) (3)}	104,685	100,042	102,591
Gross Margin (%) ^{(1) (3)}	28%	27%	28%
Net Income	57,162	45,882	41,937
Plus: Provision for Income Taxes	(69)	(283)	4,794
Plus: Depreciation and Amortization	37,100	44,290	51,836
EBITDA ⁽²⁾	94,193	89,889	98,567
Capital Expenditures			
Maintenance Capital Expenditures	10,957	8,541	9,402
Expansion Capital Expenditures	46,673	14,103	35,476
Total Capital Expenditures	57,630	22,644	44,878
Average Foreign Exchange Rate (Cdn \$ to US \$)	0.77	0.71	0.64
		As At December 31	
	2004	2003	2002
Total Assets	606,325	584,446	638,545
Total Long-Term Liabilities	45,302	44,596	49,679

(1) Gross margin is a non-GAAP measure that represents the contribution of operating activities to earnings. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions.

(2) EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments.

(3) The cost of transporting products to customers is included in cost of goods sold.

Changes in Net Income 2005 vs 2004

	Three Months Ended September 30	Nine Months Ended September 30
Net Income 2004	14,696	35,763
Sales Revenues	1,568	12,159
Cost of Goods Sold	(309)	2,230
General and Administrative Expenses	(1,232)	(2,206)
Interest Expense	(1,075)	(1,075)
Interest Revenue on Loans to Affiliates	(2,660)	(7,235)
Realized Gains on Foreign Exchange Options	1,077	1,077
Depreciation and Amortization	(32)	(13,386)
Unrealized Gains on Foreign Exchange Options	4,174	4,174
Unrealized Currency Translation Gains	8,088	14,253
Income Taxes	(452)	(1,549)
Other	(41)	(704)
Net Income 2005	<u>23,802</u>	<u>43,501</u>

Results of Operations

Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Net income for the three months ended September 30, 2005 increased by \$9.1 million or 62% over the three months ended September 30, 2004. EBITDA for the three months ended September 30, 2005 increased by \$10.7 million or 44% over the three months ended September 30, 2004.

Sales revenue for the North American sodium chlorate segment decreased 12% from \$56.1 million to \$49.4 million. Total sodium chlorate shipments increased by 2%. Production volume at our Brandon plant increased by 37% as a result of the new capacity brought on line during the fourth quarter of 2004. This increased production was offset by the shut down of the Amherstburg plant, which is not part of the Chemicals Business acquired by Canexus LP, as well as the elimination of purchased sodium chlorate for resale. During 2004, sodium chlorate was sourced from third party producers for resale to our customers in advance of the new capacity coming on stream in Brandon. Realized prices declined from \$495/MT to \$466/MT or 6%, as a result of an 8% decline in the value of the US dollar relative to the Canadian dollar over the same period. The impact of this currency loss is partially offset by US dollar foreign exchange options Canexus LP entered into in August, 2005, under which Canexus is entitled to sell US \$11 million per month and acquire Canadian dollars at a price of US \$0.813 per Canadian dollar. Realized gains on the foreign exchange options contract were \$1.1 million and \$nil for the three months ended September 2005 and 2004 respectively. These options were acquired to protect our cash flows if the Canadian dollar strengthens above US \$0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar, below US \$0.813. These options expire on August 9, 2006.

Sales revenue for the North American chlor-alkali segment increased 21% from \$27.7 million to \$33.4 million. Chlor-alkali sales volumes declined by 5,000 MECU or 10%, in the three month period ended September 30, 2005 versus the same period in 2004 primarily as a result of the North Vancouver plant scheduled maintenance shutdown for nine days in September, 2005. There were no major maintenance shutdowns in 2004. Chlor-alkali prices continued to improve in 2005, as a result of a tight supply/demand balance in the North American market. Average MECU values improved by 26% from \$624/MECU to \$789/MECU.

Sales revenue in Brazil increased 18% from \$14.1 million to \$16.7 million. Chlor-alkali volumes increased by 18% as a result of stronger demand from Aracruz Celulose S.A., our primary customer in Brazil, and the merchant market. Partially offsetting the impact of these stronger volumes, were slightly reduced sodium chlorate shipments, which were down 1,075 tonnes versus 2004, principally due to inventory management at customer sites and timing differences in orders and the decline in the value of the US dollar relative to the Canadian dollar.

Cost of goods sold for the business was unchanged in 2005 versus 2004, as reduced costs associated with the new capacity at Brandon were offset by the costs incurred for the North Vancouver plant maintenance outage and the costs incurred for additional production of sodium chlorate in 2005. Total general and administrative expenses were up by \$1.2 million due to increased spending on business development activities and increased staffing levels.

Capital expenditures for the three months ended September 30, 2005 were \$4.9 million compared to \$22.6 million in the same period of 2004. The 2004 capital expenditures include \$20.8 million of expansion capital related to the capacity addition at Brandon. The capital expenditures for the three months ended September 30, 2005 consisted of maintenance capital expenditures. Maintenance capital expenditures, although proportionately higher in the three months ended September 30, 2005, are in line with expected annual expenditures of \$14 million, as most of the maintenance expenditures were scheduled for the latter part of the year.

Interest revenue on loans to Nexen affiliates was \$nil for the period in 2005 as all interest-bearing borrowings were repaid and the facilities cancelled in 2005. Interest expense of \$1.1 million incurred in the three months ended September 30, 2005 relates to the credit facility borrowings drawn on August 18, 2005 of US \$167,098,337 (the US dollar equivalent of \$200,000,000) to partially fund the acquisition of the Chemicals Business.

Other income for the three months ended September 30, 2005 was \$14.2 million compared to \$.9 million for the same period in 2004. Included in other income in 2005 are unrealized currency translation gains of \$8.7 million, arising principally from the translation of the US dollar long-term debt, \$4.2 million from an increase in the fair value of our US dollar foreign exchange options as well as \$1.1 million of realized gains on our US dollar foreign exchange options. The long-term debt and US dollar foreign exchange options were not in place in 2004.

Income taxes for the period were \$0.9 million compared to \$0.5 million in 2004. These income taxes relate primarily to the Brazil operations.

Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Net income for the nine months ended September 30, 2005 increased by \$7.7 million or 22% over the nine months ended September 30, 2004. EBITDA for the nine months ended September 30, 2005 increased by \$23.7 million or 36% over the nine months ended September 30, 2004.

Sales revenue for the North American sodium chlorate segment decreased 9% from \$160.3 million to \$145.1 million. The 31% production volume increase at the Brandon facility was largely offset by the closure of the Amherstburg facility, which is not part of the ongoing operations of Canexus LP, as well as by the elimination of purchased volumes for resale. As a result, overall sales volumes decreased by 2% or 6,250 MT. In addition, realized sodium chlorate prices declined from \$486/MT to \$464/MT or 5%, reflecting an 8% decline in the value of the US dollar relative to the Canadian dollar over the same period. The impact of this currency loss is partially offset by US dollar foreign exchange options Canexus LP entered into in August, 2005, under which Canexus is entitled to sell US \$11 million per month and acquire Canadian dollars at a price of US \$0.813 per Canadian dollar. Realized gains on the foreign exchange options contract were \$1.1 million and \$nil for the nine months ended September 2005 and 2004 respectively. These options were acquired to protect our cash flows if the Canadian dollar strengthens above US \$0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar, below US \$0.813. These options expire on August 9, 2006.

Sales revenue for the North American chlor-alkali segment increased by \$21.0 million (26%) from \$80.5 million to \$101.4 million. Chlor-alkali prices rose, consistent with the typical behaviour of the global chlor-alkali market at the value-increasing portion of the price cycle. Chlor-alkali sales volumes declined by 4% or 6,000 MECU's primarily as a result of the North Vancouver plant taking a scheduled maintenance shutdown for 9 days in September, 2005. This was the first major maintenance shutdown in two years. In addition, there was a temporary shortage of rail cars in early 2005, resulting in reduced production for a short period. However, this volume decline was more than offset by strong chlor-alkali pricing where realized prices increased by 33% from \$573/MECU to \$762/MECU.

Sales revenue from the Brazil operations increased 15% from \$42.7 million to \$49.0 million, largely due to a 9% increase in sodium chlorate sales volumes and a 17% increase in chlor-alkali sales volumes, principally to Aracruz Celulose S.A., Canexus LP's primary customer in Brazil. In addition, the Brazil plant benefited from higher sodium chlorate sales volumes to the merchant market. Sales revenue from Brazil was negatively impacted by the decline in the value of the US dollar relative to the Canadian dollar.

Cost of goods sold decreased \$2.2 million or 1%, mainly as a result of increased production from the expanded low-cost Brandon facility, versus higher cost production from Amherstburg and purchased product for resale. Total general and administrative expenses for the period increased by \$2.2 million over the first nine months of 2004 due to increased staffing levels as well as increased spending on business development activities. Depreciation increased \$13.4 million due to the \$12.1 million impairment charge of the Amherstburg, Ontario property, plant and equipment following the announcement that this production facility would be closed effective July 31, 2005, as well as the additional depreciation on the expanded Brandon plant commissioned in late 2004.

Capital expenditures for the nine months ended September 30, 2005 were \$9.1 million compared to \$44.9 million in the same period of 2004. The 2004 capital expenditures include \$40.2 million of expansion capital related to the significant expansion at the Brandon facility. The capital expenditures in the first nine months of 2005 consisted primarily of maintenance capital expenditures. Management anticipates ongoing annual maintenance capital expenditures of approximately \$14 million per year. Maintenance capital spending in the first nine months of 2005 was lower as most maintenance projects are scheduled to take place later in the year.

Interest revenue on loans to affiliates was \$0.7 million for the nine months ended September 30, 2005 compared to \$7.9 million for the same period in 2004. All interest-bearing borrowings with Nexen affiliates were repaid and the facilities cancelled in 2005. Interest expense for the period was \$1.1 million compared to \$nil in 2004, reflecting the interest on the amount outstanding under the credit facility entered into on August 18, 2005 to partially fund the acquisition of the Chemicals Business from Nexen.

Other income for the nine months ended September 30, 2005 was \$16.9 million compared to other expense of \$1.9 million for the same period in 2004. In 2005, other income included an unrealized currency translation gain of \$7.7 million on the translation of the US dollar long-term debt, \$4.2 million from the increase in the fair value of our US dollar foreign exchange options, \$1.1 million of realized gains on the US dollar foreign exchange options and unrealized gains of \$2.5 million on foreign currency denominated non-cash working capital. Unrealized currency translation losses of \$4.1 million during the nine months ended September 30, 2004 related to Australian dollar denominated loans with Nexen affiliates.

Income taxes for the period were \$3.7 million in 2005 versus \$2.2 million in 2004. These income taxes relate primarily to the Brazil operations.

Capital Structure

	September 30 2005	December 30 2004
Net Debt ⁽¹⁾		
Bank Debt	167,198	-
Plus: Short-Term Borrowings	813	-
Less: Cash and Cash Equivalents	(865)	(863)
Less: Non-Cash Working Capital ⁽²⁾	(49,705)	(66,862)
Total Net Debt	<u>117,441</u>	<u>(67,725)</u>
Total Equity ⁽³⁾	<u>231,995</u>	<u>434,817</u>

(1) Includes all debt and is calculated as long-term debt less net working capital.

(2) Excludes short-term borrowings.

(3) At September 30, 2005, there were 31,750,000 Ordinary LP Units and 50,535,714 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for units of the Fund at the option of the holder at any time.

Liquidity

The acquisition of the Chemicals Business from Nexen Inc. was structured to provide Canexus LP with working capital on August 18, 2005 of \$75 million plus a \$14 million restricted fund to be used for future site remediation and asset retirement obligations.

During the periods presented, Canexus LP consistently generated positive cash flows from operating activities. Cash generated from operating activities was used to fund capital expenditures and remaining excess cash was used to repay debt. Prior to August 18, 2005 cash not required for ongoing operations flowed to Nexen.

The following table provides an overview of Canexus LP's cash flows for the periods presented:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Cash Flow from Operating Activities	29,489	30,218	72,811	67,551
Cash Flow from (used in) Financing Activities	456,418	(9,316)	423,659	(16,960)
Cash Flow used in Investing Activities	(488,576)	(15,813)	(496,573)	(46,373)

Cash Flow from Operating Activities

Cash from operating activities is generated primarily from the sale of sodium chlorate and chlor-alkali products and is reduced by the purchase of raw materials and utilities, as well as transportation, labour costs and general and administrative expenditures. Stronger chlor-alkali selling prices combined with increased capacity at the low cost Brandon sodium chlorate facility that came on-stream in October 2004 have resulted in increased cash generated from operating activities. For the three and nine months ended September 30, 2005, cash from operating activities includes a cash outflow of \$4.2 million for the purchase of the foreign exchange options contract.

Cash Flow from (used in) Financing Activities

For the three and nine months ended September 30, 2005, cash from financing activities increased due to the US equivalent of \$200 million of debt drawn on the credit facility to partially finance the purchase of the Chemicals Business from Nexen as well as \$301.8 million of proceeds from the issuance of Ordinary LP Units. During the same period, \$26.9 million was repaid on the credit facilities and \$17.5 million was used to repurchase and cancel \$17.5 million of Exchangeable LP Units from Nexen.

Cash Flow used in Investing Activities

For the three and nine months ended September 30, 2005, cash used in investing activities increased as a result of \$484.3 million used to partially fund the purchase of the Chemicals Business from Nexen. Capital expenditures during the period primarily related to maintenance capital.

Future Liquidity

The future liquidity of Canexus LP will be primarily dependent on cash flows from operating activities which will be used to finance its ongoing maintenance capital expenditures and normal course financial commitments. Cash flows are sensitive to changes in sales prices, electricity costs and foreign currency exchange rates and any changes in these will impact future liquidity. Management believes cash flows from operating activities will be sufficient for Canexus LP to meet future obligations and commitments that arise in the normal course of its business activities.

Capital Resources

Canexus LP did not have any commitments for non-maintenance capital expenditures at September 30, 2005 and does not have any such commitments as of the date hereof. Management anticipates ongoing annual maintenance capital expenditures of approximately \$14 million, which will be financed primarily out of cash flows from operations. Additional growth opportunities, including production de-bottlenecking opportunities, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash flow from operations, bank debt and issuances of Trust Units or other securities of the Fund.

On August 18, 2005 Canexus LP entered into a \$350 million four year revolving credit facility with a syndicate of financial institutions and drew down the US dollar equivalent of \$200 million to fund a portion of the purchase price for the Chemicals Business. At September 30, 2005, \$167.2 million was outstanding on the credit facility. The credit facility may also be used to fund future acquisitions and capital expenditures.

Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. As at September 30, 2005 these obligations and commitments were as follows:

	Payments				
	Total	<1 Year	1-3 Years	4-5 Years	>5 Years
Operating Leases ⁽¹⁾⁽²⁾	35,299	11,781	14,596	6,891	2,031
Asset Retirement Obligations ⁽³⁾	73,000	-	2,000	-	71,000
Short-Term Borrowings and Long-Term Debt ⁽⁴⁾	168,011	813	-	-	167,198
Total	276,310	12,594	16,596	6,891	240,229

- (1) Payments for operating leases are included in cash flow from operating activities.
- (2) Operating leases include minimum lease payment obligations associated with leases for office space, rail cars and vehicles.
- (3) Undiscounted asset retirement obligations amount to \$73 million. As of September 30, 2005 the estimated fair value (\$40 million) of these obligations has been provided for in Canexus LP's consolidated financial statements. The timing of any payments is difficult to determine with certainty and the table has been prepared using best estimates. Canexus LP has \$14 million of restricted investments to be used for future site remediation and asset retirement obligations.
- (4) Short and Long-Term Debt amounts are included in the September 30, 2005 Consolidated Balance Sheet. These balances will fluctuate and do not have fixed repayment terms. Interest is payable on outstanding balances and varies depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Interest payments have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.
- (5) Purchase arrangements made in the ordinary course of business have been excluded as they are discretionary.
- (6) Future income tax liabilities have been excluded as the amount and timing of any cash payments for income taxes are based primarily on taxable income for each fiscal year in the various operating jurisdictions.
- (7) Effective August 18, 2005, Canexus LP employees commenced participation in and began accruing benefits under Canexus LP's pension plans. Canexus LP's pension plans provide employees with benefits for their period of service with Nexen Inc. based on plan provisions which are identical to those under the Nexen pension plans immediately prior to August 18, 2005. Canexus LP is responsible for all pension liabilities beginning August 18, 2005. An independent actuary will determine the solvency liabilities related to the Canexus LP employees who participated in and accrued benefits under the Nexen Inc. pension plans at August 18, 2005. Nexen will transfer the pension assets to Canexus LP on a fully-funded solvency basis whereby Nexen will contribute any funding shortfall to Canexus LP. On August 18, 2005, Canexus LP recorded their pro-rata share of Nexen's book value of the pension liabilities related to the Canexus LP employees. At September 30, 2005, Other Deferred Credits includes a \$287,000 pension liability.

From time to time Canexus LP enters into contracts, particularly relating to the sale of products in the ordinary course, that require it to indemnify parties against possible claims. On occasion, Canexus LP provides indemnifications to the purchaser. The overall maximum amount cannot be reasonably estimated. No significant payments have been made related to these indemnifications. Management does not expect that these matters would have a material adverse effect on liquidity, financial condition or results of Canexus LP.

Contingent Liabilities

In the normal course of business, Canexus LP is subject to lawsuits and claims. Management believes the resolution of these matters will not have a material adverse effect, individually or in the aggregate, on Canexus LP's liquidity, combined financial position or results of operations. Canexus LP records costs as they are incurred or become determinable. Additionally, the income tax filings of taxable legal entities included in the companies comprising Canexus LP are subject to audit by taxation authorities. There are audits in progress and items under review, some of which may increase Canexus LP's tax liability. While the results of these items cannot be ascertained at this time, management believes that Canexus LP has an adequate provision for income taxes based on available information. Canexus LP is indemnified by Nexen for any claims for such income tax re-assessments for periods prior to August 18, 2005.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

From time to time Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At September 30, 2005, 7,450 MWh was contracted for the month of October 2005 at a price of \$68.00 per MWh.

During August 2005, Canexus LP acquired US dollar foreign exchange options on US \$11 million per month. Under these options, Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of Cdn \$1.23 per US dollar. These options were designed to protect our cash flows if the Canadian dollar strengthens above US \$0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. These options expire on August 9, 2006.

Guarantees

On August 18, 2005, we entered into a Credit Facility with a syndicate of financial institutions. The Credit Facility consists of a \$350 million, four year revolving facility a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The Credit Facility is available for drawdown during the revolving period. The Credit Facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may drawdown the Credit Facility in either Canadian or US dollars. The Credit Facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests, and subordination agreements.

Transactions with Related Parties

All material inter-company accounts and transactions within the operations of Canexus LP have been eliminated. Divisional equity as set forth on Canexus LP's consolidated balance sheet represents net investments made by Nexen and its non-chemicals affiliates in the operations of Canexus LP. Amounts due to affiliates and due from affiliates set forth on Canexus LP's consolidated balance sheet at December 31, 2004 represent financing activities involving Nexen's non-chemical affiliates. These amounts were settled and discontinued prior to August 17, 2005.

On August 18, 2005 we entered into a Transition Services Agreement whereby Nexen provides certain services to assist in the transition of our business to a stand-alone entity. This agreement provides that, for a period of up to 18 months, Nexen will provide Canexus administrative, operating and financial services including information technology, human resources, tax, legal, corporate accounting, treasury, risk management and office services in the same manner provided by Nexen for the 12 month period prior to August 18, 2005. These services are provided by Nexen on a cost-reimbursement basis including reimbursement of Nexen internal costs. We have agreed to take reasonable steps to become self-sufficient with respect to the subject services as soon as possible, such that some or all of the subject services may not be required for the entire 18 month term of the agreement. During the three and nine months ended September 30, 2005 we incurred \$809,153 of costs under this Transition Services Agreement. Other amounts due to affiliates at September 30, 2005 relate to expenses incurred in the normal course of our operations.

Critical Accounting Estimates

There are a number of critical estimates underlying the accounting policies applied in the preparation of the consolidated financial statements. These critical estimates are discussed below.

Impairment of Long Lived Assets

Canexus LP evaluates its chemical assets for impairment if an adverse event or change occurs. Among other things, this might include falling sales prices for chemical products, changes in operating costs, or significant or adverse political or legal changes. If one of these occurs, undiscounted future cash flows for the assets are estimated to determine if the assets are impaired. If the undiscounted future cash flows for the assets are less than the carrying amount of the assets, the fair value of the assets is calculated using a discounted cash flow approach. The assets are then written down to their fair value.

The Canexus LP assets were assessed for impairment at the end of 2004 and no impairment was found based on future cash flow estimates used.

Cash flow estimates used for purposes of impairment assessments require assumptions about two primary elements — future sales prices and operating costs.

Estimates of future sales prices require significant judgements about highly uncertain future events. For the years 2002, 2003 and 2004, Canexus LP experienced average annual net realized sales prices for sodium chlorate and chlor-alkali products ranging from \$475 per MT to \$538 per MT and from \$525 per MECU to \$609 per MECU, respectively. Sales price forecasts used to assess impairment are based on prices derived from future price forecasts from industry sources and assessments made by Canexus LP. Estimates of future operating costs are made by Canexus LP. Given the significant assumptions required and the possibility that actual conditions will differ, the assessment of impairment is considered to be a critical accounting estimate. Any impairment charges would lower net income.

Asset Retirement Obligations

Canexus LP is required to remove or remedy the effect of its activities on the environment at present and former operating sites by dismantling and removing production facilities and remediate any damage caused. Estimating future asset retirement obligations requires estimates and judgments to be made with respect to activities that will occur many years into the future. In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known and cannot be reasonably estimated as standards evolve in the countries in which Canexus LP operates.

Asset retirement obligations are recorded in the consolidated financial statements of Canexus LP by discounting the present value of the estimated retirement obligations associated with its chemical plants using a credit-adjusted risk free rate of 5.4%. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment. The obligations are accreted with the passage of time.

A change in any one of the assumptions could impact the asset retirement obligations, property, plant and equipment and net income.

It is difficult to determine the impact of a change in any one of the assumptions. As a result, Canexus LP is unable to provide a reasonable sensitivity analysis of the impact a change in assumptions would have on its financial results. However, management of Canexus LP believes that the assumptions it has made are reasonable.

New Accounting Pronouncements

In an effort to harmonize Canadian GAAP with US GAAP, the Canadian Accounting Standards Board (the "AcSB") has issued standards relating to:

- ◆ Comprehensive Income;
- ◆ Financial Instruments — Recognition and Measurement; and
- ◆ Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives.

Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- ◆ financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- ◆ certain financial instruments that qualify for hedge accounting.

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on qualifying hedging instruments, translation of self-sustaining foreign operations, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard.

These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. Adoption of these standards is not expected to have a material effect on Canexus LP's results of operations or financial position.

The AcSB has approved revisions to the Non-Monetary Transactions standard. This will require all non-monetary transactions to be measured at fair value unless:

- ◆ the transaction lacks commercial substance;
- ◆ the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- ◆ neither the fair value of the assets or services received nor the fair value of the assets or services given up is reliably measurable; or
- ◆ the transaction is a non-monetary, non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

The new requirements apply to non-monetary transactions initiated in periods beginning on or after January 1, 2006. Earlier adoption is permitted as of the beginning of a period beginning on or after July 1, 2005. Management of Canexus LP does not expect the adoption of this section to have any material impact on its results of operations or financial position.

Outlook

Sodium Chlorate

Demand for sodium chlorate in North America continues to require high operating rates at all manufacturing facilities. This stable and robust demand, combined with capacity reductions resulting from energy cost spikes, has resulted in the overall North American supply/demand balance tightening over the last quarter. With natural gas prices, and therefore incremental electricity prices, expected to remain relatively high, sodium chlorate capacity in a number of jurisdictions will continue to come under pressure. Further capacity will be permanently shut down in early 2006, when Superior Plus Income Fund ceases production at their Thunder Bay, Ontario plant as announced by Superior. This will support continued strengthening of market prices for sodium chlorate. Canexus LP is largely insulated from the impact of high natural gas prices as the majority of our capacity is located in regions supplied by hydroelectric power.

South America has emerged as a key investment region for the sodium chlorate industry given the significant access to low cost, renewable wood fibre for pulp and paper production, the number of new pulp production expansion projects planned for the region, relatively stable energy prices and supportive government policy. Management believes Canexus LP is well-positioned to take advantage of growth opportunities in South America, particularly in respect of chemical island opportunities in this market.

Chlor-Alkali

The North American chlor-alkali industry operated at near 100% of practical production capacity during 2004 and for the first nine months of 2005. The market in general experienced some softening in demand, primarily from the PVC and urethanes segments; however, the overall supply/demand balance remains very tight. Approximately 60% of the North American capacity is located in regions impacted by Hurricanes Katrina and Rita. Many of the facilities were shut down for short periods as a result of the hurricanes. By the end of September, approximately half of the capacity shut down during the storms had returned to full operating rates, with approximately 13% of the North American capacity remaining down due to storm damage or inability to access raw materials. Longer term the rebuilding effort should have a positive impact on the chlor-alkali industry. The escalating natural gas prices have also put pressure on chlor-alkali capacity in a number of high cost regions. This, combined with the sustained tight supply/demand balance, has resulted in on-going strengthening of market prices.

Market Risk Analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business. Included in the risks faced by Canexus LP are product price risk, electricity price risk, foreign currency rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in the Canexus Income Fund's initial public offering prospectus dated August 10, 2005.

Product Price Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$10 change in the price per MT of North American produced sodium chlorate, sales revenue would change by \$4 million per year. For every \$10 change in the price per MECU of chlor-alkali products, sales revenue would change by \$1.5 million per year.

These sensitivities to changes in prices assume annual North American sodium chlorate sales of 400,000 MT and annual North American chlor-alkali sales of 150,000 MECU.

Electricity Price Risk

The cost of electricity is a key production cost. For every 1% change in the price of electricity, operating costs would change by \$1 million per year. This sensitivity to changes in electricity prices is based on estimated annual electricity consumption of 3 million MWh.

Canexus LP has used forward swap contracts to manage its exposure to the price of electricity in deregulated regions. The impact of these forward swap contracts are not material to Canexus LP.

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sales of certain chemicals products into the US market as well as the majority of sales in Brazil. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. Accordingly, an increase in the exchange rate of the Canadian dollar against the US dollar will have a negative effect on Canexus LP's earnings.

The Canadian/US dollar exchange rate averaged US\$0.83 during the third quarter of 2005 with a high of US\$0.86 and a low of US\$0.80. During the third quarter of 2004 the rate averaged US\$0.76 with a high of US\$0.79 and a low of US\$0.75. During the first nine months of 2005 the rate averaged US\$0.82, with a high of US\$0.86 and a low of US\$0.79. During the first nine months of 2004 the rate averaged US\$0.75 with a high of US\$0.79 and a low of US\$0.72. For every US\$0.01 increase in the Canadian/US dollar exchange rate, net income before taxes would decrease by \$2.5 million per year, before the impact of hedging instruments.

During August, 2005, Canexus LP acquired US dollar foreign exchange options on US\$11 million per month. Under these options Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of Cdn \$1.23 per US dollar for the period August 24, 2005 to August 9, 2006. These options were designed to protect our cash flows if the Canadian dollar strengthens above US \$0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. These foreign exchange options substantially eliminate Canexus LP's exposure to the US dollar above US \$0.813 until August 9, 2006.

Canexus LP does not have any material exposure to highly inflationary foreign currencies.

Credit Risk

Credit risk is the risk of loss if counterparties do not fulfil their contractual obligations. Most of Canexus LP's receivables are with counterparties in the pulp and paper industry, water treatment and oil and gas industries and are subject to normal industry credit risk. The following precautions are taken to reduce this risk:

- ◆ the financial strength of counterparties is assessed through a rigorous credit process;
- ◆ the total exposure extended to individual counterparties is limited, and collateral may be required from some counterparties;
- ◆ credit risk exposures are routinely monitored, including sector, geographic and corporate concentrations of credit;
- ◆ credit limits are set based on rating agency credit ratings and internal assessments based on company and industry analysis; and
- ◆ counterparty credit limits are reviewed regularly.

The majority of Canexus LP's Brazil production is sold to Aracruz Celulose S.A. under a long-term sales agreement.

Amounts receivable from Aracruz Celulose S.A. represent approximately 10% of Canexus LP's total accounts receivable at September 30, 2005 (December 31, 2004 — 10%; December 31, 2003 — 10%).

Equity Security Repurchases

On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at \$10.00 per Unit for proceeds of \$17,500,000 which was then used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the \$17,500,000 to repurchase for cancellation 1,750,000 Exchangeable LP Units from Nexen.

Summary of Quarterly Results

Information for the three month period ended September 30, 2005 for Canexus LP includes information from Canexus LP and its predecessor, the Chemicals Business of Nexen, not all of the operations of which were acquired from Nexen. Historical comparative information refers to the Chemicals Business of Nexen.

	Three Months Ended						
	2004				2005		
	Mar	June	Sept	Dec	Mar	June	Sept
Sales Revenues ²	91,858	93,546	97,956	94,573	96,533	99,462	99,524
Net Income ²	13,294	7,773	14,696	21,399	15,245	4,454 ¹	23,802

(1) Includes an impairment charge of \$12.1 million relating to the closure of the Amherstburg, Ontario plant.

(2) Only 7 comparative quarters are presented as quarterly information is not available for Q4, 2003 as Canexus LP has not prepared financial statements for that quarter.

Forward Looking Statements

This MD&A contains forward-looking statements relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries that involve risks and uncertainties. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's prospectus dated August 10, 2005 filed with the Canadian securities regulatory authorities. Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

CANEXUS INCOME FUND
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005

Canexus Income Fund
Consolidated Statement of Income
For the three months ended September 30, 2005
Cdn\$ thousands, except per unit amounts

	Three Months Ended September 30 2005
	(unaudited)
Equity Income from Investment in Canexus Limited Partnership	7,206
Trust Administration Expenses	85
Unit Based Compensation (Note 7)	144
Net Income	6,977
Earnings Per Unit	0.23
Diluted Earnings Per Unit	0.23

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund
Consolidated Balance Sheets
Cdn\$ thousands

	September 30 2005	June 30 2005
	(unaudited)	(unaudited)
Current Assets		
Cash and Cash Equivalents	-	-
Distribution Receivable from Canexus Limited Partnership	3,381	-
	3,381	-
Investment in Canexus Limited Partnership (Note 5)	321,325	-
	324,706	-
Current Liabilities		
Accounts Payable and Accrued Liabilities	85	-
Distribution Payable to Unitholders	3,381	-
	3,466	-
Equity		
Unitholders' Equity (Note 6)	321,096	-
Contributed Surplus (Note 7)	144	-
	321,240	-
	324,706	-

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund
Consolidated Statement of Cash Flows
For the three months ended September 30, 2005
Cdn\$ thousands

Three Months
Ended September 30
2005

	(unaudited)
Operating Activities	
Net Income	6,977
Charges and Credits to Income Not Involving Cash	
Equity Income from Investment in Canexus Limited Partnership	(7,206)
Unit Based Compensation (Note 7)	144
Change in Non-Cash Working Capital	85
	-
Financing Activities	
Issuance of Fund Units	317,500
Investing Activities	
Investment in Canexus Limited Partnership	(317,500)
Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents – Beginning of Period	-
Cash and Cash Equivalents – End of Period	-

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund
Consolidated Statement of Unitholders' Equity
For the three months ended September 30, 2005
Cdn\$ thousands

Three Months
Ended September 30
2005

	(unaudited)
Issued Pursuant to Initial Public Offering	300,000
Issued Pursuant to Over-allotment Option	17,500
Net Income	6,977
Fund Unit Distributions	(3,381)
	321,096

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

Notes to Unaudited Consolidated Financial Statements

All tabular amounts in Cdn\$ thousands, except as noted

1. Organization and Business of the Fund

Canexus Income Fund (the "Fund") is an unincorporated open-ended trust established by the Fund Trust Indenture, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The head office and principal business office of the Fund is located in Calgary, Alberta.

Pursuant to an underwriting agreement dated August 10, 2005 and initial public offering ("IPO"), the Fund sold 30,000,000 units of the Fund ("Fund Units", "Units", or "Unit"), at a price of \$10.00 per unit, for proceeds totaling \$300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition (through the Fund's wholly-owned subsidiary, Canexus Commercial Trust) by the Fund of a 36.5% interest in Canexus Limited Partnership ("Canexus LP"). In addition, the Fund granted the underwriters an option, exercisable for a period of 30 days from the closing of the offering on August 18, 2005, to purchase up to an additional 3,000,000 Fund Units at the offering price.

Pursuant to a purchase and sale agreement dated August 18, 2005, Canexus LP and certain direct and indirect subsidiaries of Canexus LP acquired the sodium chlorate and chlor-alkali chemicals business ("Chemicals Business") from Nexen Inc. and certain direct and indirect subsidiaries of Nexen Inc., for cash consideration of \$484,250,000 and by issuing 52,285,714 exchangeable limited partnership units ("Exchangeable LP Units") of Canexus LP to Nexen Inc., representing a 63.5% controlling interest in Canexus LP. Canexus LP financed the cash consideration paid in the acquisition by borrowing the US dollar equivalent of \$200,000,000 under its credit facility and by using the net proceeds from the investment made in Canexus LP by the Fund. The Exchangeable LP Units retained by Nexen Inc. are exchangeable on a one-for-one basis for units of the Fund at any time at the option of Nexen Inc. Canexus LP is managed by Canexus Limited, the general partner, which holds a 0.01% interest in Canexus LP. The Fund owns 100% of the shares of Canexus Limited, the general partner ("General Partner"), but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint a majority of the board positions. Canexus Limited is the administrator of the Fund.

The Ordinary LP Unitholders and the Exchangeable LP Unitholders of Canexus LP are entitled to one vote for each unit held at all meetings of holders of the LP Units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Fund Units at the option of the holder at any time. Additionally, Exchangeable LP Units have Special Voting Rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

The Fund effectively commenced operations through its indirect investment in Canexus LP on August 18, 2005, and income recorded by the Fund commenced on that date. Accordingly, income reported for the three months ended September 30, 2005 represents 44 days of operations and is therefore not representative of typical quarterly operating results.

On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at \$10.00 per Unit for proceeds of \$17,500,000, which was then used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the \$17,500,000 to repurchase for cancellation 1,750,000 Exchangeable LP Units from Nexen Inc. Following exercise of the over-allotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen Inc. holds a 61.4% controlling interest in Canexus LP.

2. Significant Accounting Policies

These Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). In the opinion of management, the Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at June 30, 2005 and September 30, 2005 and the results of its operations and cash flows for the three months ended September 30, 2005.

(a) Income Taxes

These Consolidated Financial Statements do not reflect any provision for income taxes as the Fund intends to distribute to its unitholders substantially all of its taxable income and the Fund intends to comply with the provisions of the Income Tax Act (Canada) that permit, amongst other items, the deduction of distributions to unitholders, from the Fund's taxable income.

(b) Use of Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis, including those related to litigation, asset retirement obligations and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

(c) Accounting for Investments in Canexus LP and Canexus Limited

The Fund accounts for its investments in Canexus LP and Canexus Limited using the equity method.

(d) Unit Based Compensation

The Fund has unit based compensation in the form of options, deferred trust units and bonus rights. Management uses the fair-value method to recognize compensation expense associated with these instruments. Compensation expense for these instruments is based on estimated fair values at the time of grant. Compensation expense is recognized over the vesting period or the expected term of service, as applicable, with a corresponding increase to contributed surplus.

3. Fund Units

The Fund may issue an unlimited number of Units for consideration and on the terms and conditions as determined by the directors of the General Partner. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund. All Fund Units are of the same class and have equal rights and privileges.

In connection with the initial public offering and the over-allotment option, the Fund issued 30,000,000 Fund Units on August 18, 2005 and 1,750,000 Fund Units on September 16, 2005 for \$10.00 each. As a result, at September 30, 2005, the total number of units issued and outstanding was 31,750,000 for total consideration of \$317,500,000.

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005, the Exchangeable LP Units held by Nexen Inc. are exchangeable for Fund Units on a one-for-one basis. The Fund has reserved 50,535,714 Units for the exchange of the Exchangeable LP Units.

Fund Units are redeemable at any time on demand by the unitholder. The redemption price per unit is equal to the lesser of:

- ◆ 90% of the weighted average trading price per Unit during the last 10 days on the principal exchange on which the Units are listed; or
- ◆ An amount equal to:
 - (a) the closing price of the Units on the date on which the Units were tendered for redemption, on the principal stock exchange on which the Units are listed if there was a trade on the date on which the Units were tendered for redemption and the stock exchange or market provides a closing price;
 - (b) the average of the highest and lowest prices of the Units on the date on which the Units were tendered for redemption, on the principal exchange on which the Units are listed if there was trading on the date on which the Units were tendered for redemption and the exchange or other market provides only the highest and lowest trade prices of the Units traded on a particular day; or
 - (c) the average of the last bid and ask prices quoted in respect of the Units on the principal exchange on which the Units are listed if there was no trading on the date on which the Units were tendered for redemption.

The Fund expects to pay monthly distributions to its unitholders of record on the last business day of each month approximately 15 days after the end of each month. The first monthly distribution of \$0.1065 per Unit will be paid on or about October 15, 2005, covering the period from August 18, 2005 to September 30, 2005.

4. Earnings per Unit

Earnings per Unit are calculated using net income divided by the weighted-average number of Fund Units outstanding. Diluted earnings per Unit are calculated in the same manner as basic earnings per unit, except the weighted-average number of diluted Fund Units outstanding is used in the denominator.

	Three Months Ended September 30 2005
Weighted-average number of Fund Units outstanding	30,596,591
Units issuable pursuant to options, deferred trust units and bonus rights	19,000
Units to be purchased from proceeds of options, deferred trust units and bonus rights	-
Weighted-average number of diluted Fund Units outstanding	<u>30,615,591</u>

During the period presented, outstanding options, deferred trust units and bonus rights were the only potential dilutive instruments. In calculating the weighted-average number of diluted Fund Units outstanding for the three months ended September 30, 2005, 19,000 deferred trust units and 2,024 corresponding bonus rights were included. Unit options and corresponding bonus rights were excluded from the calculation because their exercise price was greater than the quarterly average Unit trading price and corresponding distributions declared in the period.

5. Investment in Canexus LP

	Number of Ordinary LP Units	Three Months Ended September 30 2005
		(unaudited)
Investment Pursuant to IPO	30,000,000	300,000
Investment Pursuant to Over-allotment Option	1,750,000	17,500
Equity Income from Investment in Canexus LP		7,206
Distributions from Canexus LP		(3,381)
	<u>31,750,000</u>	<u>321,325</u>

6. Unitholders' Equity

	Number of Units	Three Months Ended September 30 2005
		(unaudited)
Investment Pursuant to IPO	30,000,000	300,000
Investment Pursuant to Over-allotment Option	1,750,000	17,500
Net Income		6,977
Distributions to Unitholders		(3,381)
	<u>31,750,000</u>	<u>321,096</u>

7. Unit Based Compensation

The Fund has unit based compensation in the form of options, bonus rights and deferred trust units. The Fund has a Trust Unit Incentive Plan and a Directors' Deferred Trust Unit Compensation Plan under which Units may be issued in accordance with such plans.

(a) Trust Unit Incentive Plan

On August 18, 2005, 570,000 options and corresponding bonus rights were granted to officers and employees under the Trust Unit Incentive Plan.

Each option permits the holder to purchase one Fund Unit at the stated exercise price. The options granted have an exercise price of \$10, vest over three years and are exercisable on a cumulative basis over five years. At the time of grant, the exercise price equaled the market price.

Each bonus right may be redeemed on, or in some cases for a period after, the date of exercise of the corresponding option, to receive additional Units to reflect the notional reinvestment of distributions that would have been paid on the Unit underlying an option from the date of grant of the option.

Under the terms of the Trust Unit Incentive Plan, at all times, 5% of the issued and outstanding Units are reserved and available for issuance upon the exercise of options and exercise of bonus rights.

We estimated the fair value of unit options issued using the Generalized Black-Scholes option pricing model under the following assumptions:

Weighted-Average Fair Value (\$/option)	1.39
Risk-Free Interest Rate (%)	3.4
Estimated Hold Period Prior to Exercise (years)	5
Volatility in the Price of Canexus Income Fund Units (%)	27
Expected Annual Distributions per Fund Unit (\$/unit)	0.8748

(b) Deferred Trust Unit Compensation Plan (the “DTUCP”)

On August 18, 2005, 19,000 Deferred Trust Units and corresponding bonus rights were granted to directors under the Deferred Trust Unit Compensation Plan.

An aggregate of 200,000 Units were initially reserved and available for issuance under the DTUCP.

8. Related Party Transactions

Canexus Limited as administrator of Canexus Income Fund, the General Partner of Canexus LP and indirectly, the Trustee of Canexus Commercial Trust, incurs expenditures on behalf of these entities for which it is reimbursed at cost.

CANEXUS LIMITED PARTNERSHIP
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005

Canexus Limited Partnership
Consolidated Statements of Income

Information for the three and nine months ended September 30, 2005 combines information from Canexus Limited Partnership and its predecessor (Note 3)

Cdn\$ thousands

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Sales	99,524	97,956	295,519	283,360
Interest on Loans to Affiliates (Note 13)	-	2,660	696	7,931
	<u>99,524</u>	<u>100,616</u>	<u>296,215</u>	<u>291,291</u>
Expenses				
Cost of Goods Sold	71,779	71,470	203,263	205,493
Depreciation and Amortization	9,265	9,233	41,610	28,224
General and Administrative	6,821	5,589	19,885	17,679
Interest	1,075	-	1,075	-
	<u>88,940</u>	<u>86,292</u>	<u>265,833</u>	<u>251,396</u>
Income before Other Income (Expenses) and Income Taxes	10,584	14,324	30,382	39,895
Other Income (Expenses) (Note 11)	14,155	857	16,867	(1,933)
Income before Income Taxes	<u>24,739</u>	<u>15,181</u>	<u>47,249</u>	<u>37,962</u>
Provision for Income Taxes (Note 2(h))				
Current	593	205	758	1,055
Future	344	280	2,990	1,144
	<u>937</u>	<u>485</u>	<u>3,748</u>	<u>2,199</u>
Net Income	<u>23,802</u>	<u>14,696</u>	<u>43,501</u>	<u>35,763</u>

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership
Consolidated Balance Sheets
Information for the year ended December 31, 2004 represents information from Canexus Limited
Partnership's predecessor (Note 3)
Cdn\$ thousands, except unit amounts

	September 30	December 31
	2005	2004
	(unaudited)	(unaudited)
ASSETS		
Current Assets		
Cash and Cash Equivalents	865	863
Accounts Receivable	48,329	52,058
Inventories and Operating Supplies (Note 4)	32,051	31,235
Due from Affiliates (Note 13)	-	106,030
Other (Note 7)	13,363	3,745
Total Current Assets	<u>94,608</u>	<u>193,931</u>
Property, Plant and Equipment, Net (Note 5)	373,985	407,971
Restricted Investments (Note 6)	14,043	-
Future Income Tax Assets	3,523	3,751
Other Assets	<u>2,326</u>	<u>672</u>
	<u><u>488,485</u></u>	<u><u>606,325</u></u>
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings	813	-
Accounts Payable and Accrued Liabilities	32,109	33,798
Distributions Payable to Ordinary LP Unitholders	3,381	-
Distributions Payable to Nexen Inc., Exchangeable LP Unitholder	5,382	-
Accrued Interest Payable	334	-
Due to Affiliates (Note 13)	2,832	92,408
Total Current Liabilities	<u>44,851</u>	<u>126,206</u>
Long-Term Debt (Note 8)	167,198	-
Future Income Tax Liabilities	4,488	1,535
Asset Retirement Obligations (Note 9)	39,666	43,767
Other Deferred Credits	287	-
	<u>256,490</u>	<u>171,508</u>
Ordinary LP Units (31,750,000 outstanding)	301,750	-
Exchangeable LP Units (50,535,714 outstanding) (Note 10)	(63,085)	-
Divisional Equity – Net Investment	-	468,033
Retained Earnings	10,599	-
Cumulative Foreign Currency Translation Adjustment	(17,269)	(33,216)
	<u>231,995</u>	<u>434,817</u>
Commitments, Contingencies and Guarantees (Note 12)	<u>488,485</u>	<u>606,325</u>

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership
Consolidated Statements of Cash Flows
Information for the three and nine months ended September 30, 2005 combines information from Canexus
Limited Partnership and its predecessor (Note 3)
Cdn\$ thousands

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating Activities				
Net Income	23,802	14,696	43,501	35,763
Charges and Credits to Income Not Involving Cash (Note 14)	(3,242)	8,924	30,231	33,426
Expenditures on Asset Retirement Obligations (Note 9)	-	(549)	(167)	(3,222)
Purchase of Foreign Exchange Options	(4,217)	-	(4,217)	-
Changes in Non-Cash Working Capital (Note 14)	13,146	7,147	3,463	1,584
	<u>29,489</u>	<u>30,218</u>	<u>72,811</u>	<u>67,551</u>
Financing Activities				
Short-Term Borrowings	813	-	813	-
Proceeds from Long-Term Debt (Note 8)	200,000	-	200,000	-
Repayment of Long-Term Debt	(26,928)	-	(26,928)	-
Issuance of Ordinary LP Units, Net (Note 1)	301,750	-	301,750	-
Repurchase of Exchangeable LP Units (Note 1)	(17,500)	-	(17,500)	-
Withdrawals from Divisional Equity, Net	(5,089)	(4,192)	(34,790)	(3,120)
Advances from (Repayments to) Affiliates, Net	3,372	(5,124)	314	(13,840)
	<u>456,418</u>	<u>(9,316)</u>	<u>423,659</u>	<u>(16,960)</u>
Investing Activities				
Acquisition of Chemicals Business from Nexen Inc. (Note 1)	(484,250)	-	(484,250)	-
Capital Expenditures	(4,946)	(22,597)	(9,081)	(44,857)
Changes in Non-Cash Working Capital (Note 14)	620	7,464	(2,880)	(836)
Other	-	(680)	(362)	(680)
	<u>(488,576)</u>	<u>(15,813)</u>	<u>(496,573)</u>	<u>(46,373)</u>
Effect of Exchange Rate Changes on Cash and Cash				
Equivalents	62	(1,313)	105	(301)
Increase (Decrease) in Cash and Cash Equivalents	(2,607)	3,776	2	3,917
Cash and Cash Equivalents – Beginning of Period	3,472	1,337	863	1,196
Cash and Cash Equivalent – End of Period	<u>865</u>	<u>5,113</u>	<u>865</u>	<u>5,113</u>

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership
Consolidated Statements of Equity
Information for the three and nine months ended September 30, 2005 combines information from Canexus
Limited Partnership and its predecessor (Note 3)
Cdn\$ thousands

	Three Months Ended		Nine Months Ended	
	September 30 2005	September 30 2004	September 30 2005	September 30 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Ordinary LP Units				
Beginning of Period	-	-	-	-
Issued upon Acquisition of Chemicals Business, Net (Note 1)	284,250	-	284,250	-
Issued upon Exercise of Underwriters Over-allotment Option (Note 1)	17,500	-	17,500	-
End of Period	301,750	-	301,750	-
Exchangeable LP Units				
Beginning of Period	-	-	-	-
Transfer of Residual Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 1)	(45,585)	-	(45,585)	-
Repurchased upon Exercise of Underwriters Over- allotment option (Note 1)	(17,500)	-	(17,500)	-
End of Period	(63,085)	-	(63,085)	-
Divisional Equity – Net Investment				
Beginning of Period	458,031	439,304	468,033	417,165
Withdrawals During the Period	(5,089)	(4,192)	(34,790)	(3,120)
Net Income (Note 3)	4,440	14,696	24,139	35,763
Paid to Nexen Inc. on Acquisition of Chemicals Business (Note 1)	(484,250)	-	(484,250)	-
Transfer of Residual Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 1)	45,585	-	45,585	-
Cumulated Foreign Currency Translation Adjustment Applicable to Predecessor Corporations Not Acquired by Canexus LP	(18,717)	-	(18,717)	-
End of Period	-	449,808	-	449,808
Retained Earnings				
Beginning of Period	-	-	-	-
Net Income	19,362	-	19,362	-
Distributions	(8,763)	-	(8,763)	-
End of Period	10,599	-	10,599	-
Cumulative Foreign Currency Translation Adjustment				
Beginning of Period	(32,223)	(20,993)	(33,216)	(25,324)
Translation Adjustment, Net of Income Taxes Applicable to Predecessor Corporations not Acquired by Canexus LP	(3,763)	(6,814)	(2,770)	(2,483)
End of Period	(17,269)	(27,807)	(17,269)	(27,807)

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership
Notes to Unaudited Consolidated Financial Statements
All tabular amounts in Cdn\$ thousands except as noted

1. ORGANIZATION AND BUSINESS OF CANEXUS LIMITED PARTNERSHIP

Canexus Limited Partnership (“Canexus LP”, “we” or “our”) is a limited partnership established under the laws of Alberta. Canexus LP through its subsidiaries produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in Brazil, largely for the pulp and paper and water treatment industries. The head office is located in Calgary, Alberta with a Corporate office located in Houston.

Canexus Income Fund (the “Fund”) is an unincorporated open-ended trust established by the Fund Trust Indenture, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a “mutual fund trust” for the purposes of the Income Tax Act (Canada). Pursuant to an underwriting agreement dated August 10, 2005, the Fund sold 30,000,000 Fund Units, at a price of \$10.00 per unit, for proceeds totaling \$300,000,000. The proceeds of the offering were used to partially fund the indirect acquisition by the Fund of a 36.5% interest in Canexus LP. In addition, the Fund granted the underwriters an option, exercisable for a period of 30 days from the closing of the offering on August 18, 2005, to purchase up to an additional 3,000,000 Fund Units at the offering price.

Pursuant to a purchase and sale agreement (“PSA”) dated August 18, 2005, Canexus LP and certain direct and indirect subsidiaries of Canexus LP acquired the sodium chlorate and chlor-alkali chemicals business (“Chemicals Business”) from Nexen Inc. and certain direct and indirect subsidiaries of Nexen Inc., for cash consideration of \$484,250,000 and by issuing 52,285,714 exchangeable limited partnership units (“Exchangeable LP Units”) of Canexus LP to Nexen Inc., representing a 63.5% controlling interest in Canexus LP. Canexus LP financed the cash consideration paid in the acquisition by borrowing the US dollar equivalent of \$200,000,000 under its credit facility and by using the net proceeds from the investment made by the Fund. The Exchangeable LP Units retained by Nexen Inc. are exchangeable on a one-for-one basis for Fund units of the Fund at any time at the option of Nexen Inc.

On September 16, 2005, the underwriters exercised a portion of their over-allotment option to purchase 1,750,000 Fund Units at \$10.00 per Unit for proceeds of \$17,500,000, which was used to indirectly acquire an additional 2.1% interest in Canexus LP. Canexus LP then used the \$17,500,000 to repurchase 1,750,000 Exchangeable LP Units from Nexen Inc. Following exercise of the over-allotment option, the Fund indirectly holds a 38.6% interest in Canexus LP and Nexen Inc. holds a 61.4% controlling interest in Canexus LP.

2. ACCOUNTING POLICIES

The Financial Statements (“Financial Statements”) of Canexus LP are prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). In the opinion of management, the Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP’s financial position at September 30, 2005 and the results of its operations and cash flows for the three and nine months ended September 30, 2005.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Unaudited Financial Statements, and revenues and expenses during the reporting period. Our management reviews these estimates on an ongoing basis including those related to litigation, asset retirement obligations and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. The results of operations and cash flows for the three and nine months ended September 30, 2005 are not indicative of the results of operations or cash flows to be expected for the year ending December 31, 2005.

(a) Basis of presentation

Canexus LP is considered to be a continuation of the Chemicals Business following the continuity of interest method of accounting. Under the continuity of interest method of accounting, Canexus LP’s acquisition of the Chemicals Business is recorded at the net book value of the Chemicals Business’s assets and liabilities on August 17, 2005 and the equity of Canexus LP represents the equity of the Chemicals Business at that date. These financial statements should be read in conjunction with the Audited Financial Statements of the Chemicals Business included in the Canexus Income Fund Initial Public Offering Prospectus dated August 10, 2005.

The statements of income and cash flows for the three months ended September 30, 2005 reflect the activities of the Chemicals Business from July 1, 2005 to August 17, 2005 combined with the activities of Canexus LP for the period August 18, 2005 to September 30, 2005. The statements of income and cash flows for the nine months ended September 30, 2005 reflect the activities of the Chemicals Business from January 1, 2005 to August 17, 2005 combined with the activities of Canexus LP for the period August 18, 2005 to September 30, 2005 (see Note 3). The comparative figures represent the activities of the Chemicals Business.

(b) Accounts receivable

Accounts receivable are recorded based on our revenue recognition policy (see Note 1 (g)). An allowance for doubtful accounts is made for specific doubtful receivables.

(c) Inventories and operating supplies

Inventories and operating supplies are stated at the lower of cost and net realizable value. Cost is determined on an average basis.

Inventory costs include expenditures and other costs, including depreciation and amortization, directly or indirectly incurred in bringing the inventory to its existing condition.

(d) Property, plant and equipment (PP&E)

PP&E is recorded at cost and includes only recoverable costs that directly result in an identifiable future benefit. Unrecoverable costs, maintenance and turnaround costs are expensed as incurred. Improvements that increase capacity or extend the useful lives of the related assets are capitalized.

(e) Depreciation and amortization (D&A)

We depreciate plant and equipment costs using the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Projects that are under construction are not depreciated or amortized.

We evaluate the carrying value of our PP&E whenever events or conditions occur that indicate that the carrying value of the PP&E may not be recoverable from future cash flows. These events or conditions may occur periodically. If the carrying value exceeds the sum of undiscounted future cash flows, the PP&E value is impaired. PP&E is then assigned a fair value equal to estimated total future cash flows, discounted for the time value of money, and we expense the excess carrying value to depreciation and amortization. Our cash flow estimates require assumptions about future product prices, operating costs and other factors. Actual results can differ from those estimates.

(f) Asset retirement obligations

We provide for future asset retirement obligations on our facilities based on estimates established by current legislation and industry practices. The asset retirement obligation is initially measured at fair value and capitalized to PP&E as an asset retirement cost. The asset retirement obligation accretes until the time the retirement obligation is expected to settle while the asset retirement cost is amortized over the useful life of the underlying PP&E.

The amortization of the asset retirement cost and the accretion of the asset retirement obligation are included in depreciation and amortization. Actual retirement costs are recorded against the obligation when incurred. Any difference between the recorded asset retirement obligation and the actual retirement costs incurred is recorded as a gain or loss in the period of settlement.

(g) Revenue recognition

Revenue is recognized when our products are delivered to our customers. Delivery only takes place when we have a sales contract in place specifying delivery volumes and sales prices. Provisions for estimated rebates, commissions and pricing allowances are recorded as a reduction to sales. We assess customer credit worthiness before entering into sales contracts to minimize collection risk.

(h) Income taxes

We follow the liability method of accounting for income taxes. This method recognizes income tax assets and liabilities at current rates, based on temporary differences in reported amounts for financial statement and tax purposes. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income when substantively enacted. The provision for income taxes substantially arises from foreign operations.

(i) Foreign currency translation

Monetary balances denominated in a currency other than a functional currency are translated into the functional currency using exchange rates at the balance sheet dates. Gains and losses arising from translation are included in income.

Our Brazilian operations, which are considered financially and operationally independent, are translated from their functional currency into Canadian dollars as follows:

- ◆ assets and liabilities using exchange rates at the balance sheet dates; and
- ◆ revenues and expenses using the average exchange rates throughout the period.

Gains and losses resulting from this translation are included in the cumulative foreign currency translation adjustment in equity.

Our United States operations, are not considered financially and operationally independent, and are translated from their functional currency into Canadian dollars as follows:

- ◆ monetary assets and liabilities using exchange rates at the balance sheet dates;
- ◆ non-monetary assets and liabilities using historical rates;
- ◆ revenues and expenses using the average exchange rates throughout the period;
- ◆ depreciation and amortization is translated at the same exchange rate as the non-monetary assets to which it relates.

Gains and losses resulting from this translation are included in earnings for the period.

(j) Derivative instruments

From time to time we use financial derivatives to manage the risks associated with fluctuations in currency and power rates. We have not designated our derivative instruments as hedges for accounting purposes. We record these instruments at fair value at the balance sheet date and record any change in fair value as a net gain or loss during the period of change.

(k) Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments that mature within three months of their purchase. They are recorded at cost, which approximates market value.

(l) Restricted Investments

Restricted investments are recorded at the lower of cost or market.

(m) Transportation

We pay to transport the chemicals products that we market and transportation costs are included in cost of goods sold.

(n) Employee Benefits

The cost of pension benefits earned by employees in our defined benefit pension plans is actuarially determined using the projected-benefit method prorated on service and our best estimate of the plans' investment performance, salary escalations and retirement ages of employees. To calculate the plan's expected returns, assets are measured at fair value. Past service costs arising from plan amendments, and net actuarial gains and losses which exceed 10% of the greater of the accrued benefit obligation and the fair value of plan assets, are expensed in equal amounts over the expected average remaining service life of the employee group. We will measure the plan assets and the accrued benefit obligation on October 31 each year.

(o) Reclassification

Certain comparative figures have been reclassified for consistency with current period presentation.

3. RESULTS OF CANEXUS LP AND ITS PREDECESSOR

(a) Consolidated Statements of Income and Cash Flows

The following consolidated statements of income and cash flows reflect the activities of Canexus LP for the three months ended September 30, 2005 separated to show the results of the Chemicals Business prior to August 18, 2005 and the results of Canexus LP subsequent to August 17, 2005.

Consolidated Statements of Income	July 1 to August 17, 2005	August 18 to September 30, 2005	Three Months ended September 30, 2005
Revenues			
Sales	54,378	45,146	99,524
	54,378	45,146	99,524
Expenses			
Cost of Goods Sold	41,072	30,707	71,779
Depreciation and Amortization	4,912	4,353	9,265
General and Administrative	3,707	3,114	6,821
Interest	-	1,075	1,075
	49,691	39,249	88,940
Income before Other Income and Income Taxes	4,687	5,897	10,584
Other Income	61	14,094	14,155
Income before Income Taxes	4,748	19,991	24,739
Provision for Income Taxes			
Current	467	126	593
Future	(159)	503	344
	308	629	937
Net Income	4,440	19,362	23,802

Consolidated Statements of Cash Flows	July 1 to August 17 2005	August 18 to September 30 2005	Three Months ended September 30 2005
Operating Activities			
Net Income	4,440	19,362	23,802
Charges and Credits to Income Not Involving Cash	4,452	(7,694)	(3,242)
Purchase of Foreign Exchange Options	(4,217)	-	(4,217)
Changes in Non-Cash Working Capital	5,511	7,635	13,146
	<u>10,186</u>	<u>19,303</u>	<u>29,489</u>
Financing Activities			
Short-Term Borrowings	-	813	813
Proceeds from Long-Term Debt	-	200,000	200,000
Repayment of Long-Term Debt	-	(26,928)	(26,928)
Issuance of Ordinary LP Units	-	301,750	301,750
Repurchase of Exchangeable LP Units	-	(17,500)	(17,500)
Contributions to (Withdrawals from) Divisional Equity, Net	(17,198)	12,109	(5,089)
Advances from (Repayments to) Affiliates, Net	4,959	(1,587)	3,372
	<u>(12,239)</u>	<u>468,657</u>	<u>456,418</u>
Investing Activities			
Acquisition of Chemicals Business from Nexen Inc.	-	(484,250)	(484,250)
Capital Expenditures	(2,917)	(2,029)	(4,946)
Changes in Non-Cash Working Capital	1,357	(737)	620
	<u>(1,560)</u>	<u>(487,016)</u>	<u>(488,576)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents			
	455	(393)	62
Increase (Decrease) in Cash and Cash Equivalents	<u>(3,158)</u>	<u>551</u>	<u>(2,607)</u>
Cash and Cash Equivalents – Beginning of Period	<u>3,472</u>	<u>314</u>	<u>3,472</u>
Cash and Cash Equivalents – End of Period	<u>314</u>	<u>865</u>	<u>865</u>

(b) Operations Not Acquired from Predecessor

Included in the results of the predecessor's operations for the three and nine months ended September 30, 2005 and 2004 are amounts related to the Amherstburg, Ontario and the Taft, Louisiana sodium chlorate production facilities and the Watson Island terminal. The Amherstburg plant was closed on July 31, 2005 and the Taft plant was dismantled and transferred to Brandon, Manitoba for use in the 2004 expansion of the Brandon sodium chlorate production facility. Under the terms of the purchase and sale agreement, Canexus LP is not responsible for any obligations resulting from these operations. The results of these operations, and the corresponding asset retirement obligations, are not included in the results of Canexus LP after August 17, 2005.

(c) Affiliate Financings

Included in the results of the predecessor's operations are amounts related to affiliate financing arrangements with Nexen Inc. or its affiliates. These financing arrangements were terminated prior to August 17, 2005 and therefore are not included in the results of Canexus LP after this date.

(a) **INVENTORIES AND OPERATING SUPPLIES**

	September 30 2005	December 31 2004
Raw materials and work in progress	4,775	5,531
Finished goods	14,555	13,204
Operating supplies	12,721	12,500
	<u>32,051</u>	<u>31,235</u>

(b) **PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2005		
	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate ⁽¹⁾	498,728	243,751	254,977
North America Chlor-Alkali	137,676	103,170	34,506
Brazil	110,192	26,053	84,139
Other	4,845	4,482	363
	<u>751,441</u>	<u>377,456</u>	<u>373,985</u>
	December 31, 2004		
	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate	569,161	284,077	285,084
North America Chlor-Alkali	132,657	99,773	32,884
Brazil	112,211	22,434	89,777
Other	5,027	4,801	226
	<u>819,056</u>	<u>411,085</u>	<u>407,971</u>

- (1) On June 29, 2005, Nexen Inc. announced it would close the sodium chlorate plant located in Amherstburg, Ontario. As a result, the property, plant and equipment were fully depreciated during the period ended June 30, 2005 and an impairment charge of \$12.1 million was recorded. Canexus LP did not acquire the Amherstburg operations as part of the purchase of the Chemicals Business and therefore the cost and accumulated depreciation of the Amherstburg sodium chlorate plant are not included in the September 30, 2005 balance.

The balances at September 30, 2005 include capitalized costs of \$5 million (December 2004 - \$7 million) relating to projects under construction or development. These costs are not being depreciated or amortized.

(c) **RESTRICTED INVESTMENTS**

Restricted investments represent funds maintained in a segregated bank account. These funds and any interest earned on these funds are to be used for the settlement of ongoing asset retirement obligations and site remediation activities.

(d) **DERIVATIVE INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

(a) *Carrying value and estimated fair value of derivative and financial instruments*

	September 30, 2005			December 31, 2004		
	Carrying Value	Fair Value	Unrecognized Gain/(Loss)	Carrying Value	Fair Value	Unrecognized Gain/(Loss)
Non-Trading Activities						
Electricity Rate Risk						
Forward Swap Contracts	-	(21)	(21)	-	5	5
Foreign Currency Risk						
Foreign Exchange Options	8,697	8,697	-	-	-	-
Total Derivatives	<u>8,697</u>	<u>8,676</u>	<u>(21)</u>	<u>-</u>	<u>5</u>	<u>5</u>
Financial Assets and Liabilities						
Long-Term Debt	<u>167,198</u>	<u>167,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(b) *Electricity rate risk management*

We use forward swap contracts to manage our exposure to the price of electricity in deregulated regions. The following contracts were outstanding at September 30, 2005 and at December 31, 2004:

	September 30, 2005		
	Volumes (MWh)	Month	Price (Cdn\$MWh)
Electricity Forward Swap Contracts	7,450	October 2005	68.00

	December 31, 2004		
	Volumes (MWh)	Month	Price (Cdn\$MWh)
Electricity Forward Swap Contracts	7,440	January 2005	48.75

The financial impact of mark-to-market adjustments on these contracts is not material to these Consolidated Financial Statements.

The carrying value of cash and cash equivalents, amounts receivable, and short-term obligations approximated their fair value because the instruments are near maturity. Restricted investments approximate their fair value due to the nature of the investments.

(c) *Foreign currency risk management*

Our operating results and cash flows are affected by changes in the Canadian dollar relative to the US dollar. Our North American operations realize a significant portion of their revenues in US dollars with the majority of their costs in Canadian dollars and the majority of our sales in Brazil are under a US dollar fixed margin contract.

During August 2005, Canexus LP acquired US dollar foreign exchange call options on US \$11 million per month. Under the options, Canexus LP is entitled to sell US dollars and acquire Canadian dollars at a price of Cdn \$1.23 per US dollar for the period August 24, 2005 to August 9, 2006. The options were designed to protect our cash flows if the Canadian dollar strengthens above US \$0.813 while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar below US \$0.813.

(d) Credit risk management

Our accounts receivable are with counterparties in the pulp and paper, water treatment and oil and gas industries and are subject to normal credit risk associated with these industries. The concentration of risk within these industries is reduced because of our broad base of domestic and international counterparties. We assess the financial strength of our counterparties, and we limit the total exposure to individual counterparties. In some cases, our contracts contain provisions that allow us to demand the posting of collateral in the event downgrades to non-investment grade credit ratings occur. We routinely monitor credit risk, including credit concentrations. The majority of our Brazil production is sold to Aracruz Celulose S.A. under a long-term sales agreement. Amounts receivable from Aracruz Celulose S.A. represent approximately 10% of total accounts receivable at September 30, 2005 (December 31, 2004 – 10%).

8. LONG-TERM DEBT

On August 18, 2005, we entered into a Credit Facility with a syndicate of financial institutions. The Credit Facility consists of a \$350 million, four year revolving facility a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The Credit Facility is available for drawdown during the revolving period. The Credit Facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may drawdown the Credit Facility in either Canadian or US dollars. The Credit Facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements.

On August 18, 2005, \$200,000,000 (US \$167,098,337) was drawn on the Credit Facility to partially fund the acquisition of the Chemicals Business from Nexen Inc. At September 30, 2005, we have \$167,198,400 (US \$144,000,000) outstanding on this Credit Facility.

9. ASSET RETIREMENT OBLIGATIONS

Changes in carrying amounts of the asset retirement obligations associated with our property, plant and equipment are as follows:

	Nine Months Ended September 30 2005	Year Ended December 31 2004
Balance at Beginning of Period	43,767	43,061
Obligations Assumed with Investing Activities	-	1,381
Obligations Retained by Nexen Inc.	(5,445)	-
Expenditures on Asset Retirement Obligations	(167)	(2,861)
Accretion	1,841	2,276
Effect of Foreign Exchange	(330)	(90)
Balance at End of Period	<u>39,666</u>	<u>43,767</u>

Our total estimated undiscounted asset retirement obligations at September 30, 2005 amounted to \$73 million (December 31, 2004 - \$81 million). We have discounted the total estimated asset retirement obligations using a weighted-average credit-adjusted risk-free rate of 5.4%. Approximately \$2 million included in our asset retirement obligations are expected to be settled over the next three years.

10. EQUITY

Canexus LP is entitled to issue various classes of partnership interests, for such consideration and on such terms and conditions as determined by the General Partner, Canexus Limited.

	Number of Units	Nine Months Ended September 30 2005	Year Ended December 31 2004
GP Units			
Beginning of Period	-	-	-
Issued upon Formation (Note 1)	1	-	-
End of Period	1	-	-
Ordinary LP Units			
Beginning of Period	-	-	-
Issued upon Acquisition of Chemicals Business, Net (Note 1)	30,000,000	284,250	-
Issued upon Exercise of Underwriters Over-allotment Option (Note 1)	1,750,000	17,500	-
End of Period	31,750,000	301,750	-
Exchangeable LP Units			
Beginning of Period	-	-	-
Transfer of Residual Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 1)	52,285,714	(45,585)	-
Repurchased upon Exercise of Underwriters Over-allotment option (Note 1)	(1,750,000)	(17,500)	-
End of Period	50,535,714	(63,085)	-
Divisional Equity – Net Investment			
Beginning of Period		468,033	417,165
Withdrawals During the Period		(34,790)	(6,294)
Net Income		24,139	57,162
Paid to Nexen Inc. on Acquisition of Chemicals Business (Note 1)		(484,250)	-
Transfer of Residual Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 1)		45,585	-
Cumulated Foreign Currency Translation Adjustment Applicable to Predecessor Corporations Not Acquired by Canexus LP		(18,717)	-
End of Period		-	468,033

The GP Unitholder is entitled to one vote for each unit held at all meetings of holders of partnership units and to an allocation of 0.01% of the income or loss of Canexus LP for each fiscal year.

The Ordinary LP Unitholders and the Exchangeable LP Unitholder are entitled to one vote for each unit held at all meetings of holders of the LP Units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Fund Units at the option of the holder at any time. Additionally, Exchangeable LP Units have Special Voting Rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

Canexus LP declared a distribution of \$0.1065 per unit payable to Ordinary LP unitholders and Exchangeable LP unitholders of record September 30, 2005 for payment on or about October 15, 2005.

11. OTHER INCOME (EXPENSES)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
Unrealized Currency Translation Gains (Losses)				
Debt	7,693	-	7,693	-
Other	984	589	2,502	(4,058)
	8,677	589	10,195	(4,058)
Realized Currency Translation Gains (Losses)	(325)	-	(325)	-
Change in Fair Value of Foreign Exchange Options	4,174	-	4,174	-
Realized Gains on Foreign Exchange Options	1,077	-	1,077	-
	13,603	589	15,121	(4,058)
Other	552	268	1,746	2,125
	14,155	857	16,867	(1,933)

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

	December 31					
	2005	2006	2007	2008	2009	Thereafter
Operating Leases	11,781	8,146	6,450	4,225	2,666	2,031

From time to time, Canexus LP enters into multi-year salt supply contracts with certain strategic suppliers. These contracts are entered into in the normal course of business, are discretionary in nature and do not give rise to any material commitments.

In the normal course of business, Canexus LP is subject to lawsuits and claims, including potential income tax reassessments. Management believes the resolution of these matters will not have a material effect, individually or in the aggregate, on Canexus LP's liquidity, combined financial position or results of operations. Canexus LP records costs as they are incurred or become determinable.

13. AMOUNTS DUE TO / FROM AFFILIATES AND RELATED PARTY TRANSACTIONS

Due to affiliates at December 31, 2004 represents amounts owing to Nexen Energy Holdings International Limited. All borrowings under this facility are repayable on demand and are non-interest bearing. These amounts were repaid and the facilities cancelled during 2005.

Due from affiliates at December 31, 2004 represents amounts made available on a borrowing facility to Nexen Petroleum Australia Pty Limited. All borrowings on the facility are repayable on demand and bear interest at the Reserve Bank of Australia's Large Business Variable Term Rate plus 1.5%. Interest is payable monthly. During 2004, the average interest rate was 10.35%. These amounts were repaid and the facilities cancelled during 2005.

Due to affiliates at September 30, 2005 includes amounts due from Nexen Inc. Under the terms of a purchase and sale agreement dated August 18, 2005, Nexen Inc. was required to pay Canexus LP for any shortfall in working capital below \$75 million (after certain agreed upon adjustments) at the date of the acquisition of the Chemicals Business. Other amounts due to affiliates relate to amounts owing in the normal course of operations as discussed below.

On August 18, 2005, we entered into a Transition Services Agreement whereby Nexen Inc. provides certain services to assist in the transition of our business to a stand-alone entity. This agreement provides that, for a period of up to 18 months, Nexen Inc. will provide us administrative, operating and financial services including information technology, human resources, tax, legal, corporate accounting, treasury, risk management and office services in the manner provided by Nexen Inc. for the 12 month period prior to August 18, 2005. These services are provided by Nexen Inc. on a cost-reimbursement basis including reimbursement of Nexen Inc.'s internal costs. We have agreed to take reasonable steps to become self-sufficient with respect to the subject services as soon as possible such that some or all of the subject services may not be required for the entire 18 month term of the agreement. During the three and nine months ended September 30, 2005, we incurred \$809,153 of costs under this Transition Services Agreement.

14. CASH FLOWS

(a) Charges and credits to income not involving cash

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Depreciation and Amortization	9,265	9,233	41,610	28,224
Change in Fair Value of Foreign Exchange Options	(4,174)	-	(4,174)	-
Unrealized Currency Translation (Gains) Losses	(8,677)	(589)	(10,195)	4,058
Future Income Taxes	344	280	2,990	1,144
	(3,242)	8,924	30,231	33,426

(b) Changes in non-cash working capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Accounts Receivable	7,068	1,837	3,729	(3,910)
Inventories and Operating Supplies	1,956	3,314	(816)	1,895
Other Current Assets	(2,726)	(924)	(1,227)	(1,764)
Accounts Payable and Accrued Liabilities	8,557	12,339	(1,689)	5,673
Accrued Interest Payable	334	-	334	-
Effect of Foreign Exchange on Non-Cash Working Capital	(1,423)	(1,955)	252	(1,146)
Total Change in Non-Cash Working Capital	13,766	14,611	583	748
Relating to:				
Operating Activities	13,146	7,147	3,463	1,584
Investing Activities	620	7,464	(2,880)	(836)
Total Change in Non-Cash Working Capital	13,766	14,611	583	748

(c) Other Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Interest Paid	741	-	741	-
Income Taxes Paid	221	274	455	1,028

15. OPERATING AND GEOGRAPHIC SEGMENTS

Canexus LP's operations comprise North American sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia; as well as a North American chlor-alkali production facility at North Vancouver, British Columbia and a sodium chlorate and chlor-alkali production facility in Brazil. In Brazil, most of our sales are made to a single customer, Aracruz Celulose S.A., under a long-term sales agreement. The accounting policies of our segments are the same as those described in Note 2. Identifiable assets are those used in the operations of the segments.

Three Months Ended September 30, 2005

	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-Alkali			
Revenues					
Sales	49,429	33,408	16,687	-	99,524
	49,429	33,408	16,687	-	99,524
Expenses					
Cost of Goods Sold	35,834	23,505	12,440	-	71,779
Depreciation and Amortization	6,384	1,273	1,608	-	9,265
General and Administrative	4,575	1,718	480	48	6,821
Interest	-	-	-	1,075	1,075
	46,793	26,496	14,528	1,123	88,940
Income (Loss) before Other Income and Income Taxes	2,636	6,912	2,159	(1,123)	10,584
Other Income	-	-	-	14,155	14,155
Income before Income Taxes	2,636	6,912	2,159	13,032	24,739
Capital Expenditures	1,108	2,575	1,208	55	4,946

Nine Months Ended September 30, 2005

	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-Alkali			
Revenues					
Sales	145,101	101,436	48,982	-	295,519
Interest on Loans to Affiliates	-	-	-	696	696
	145,101	101,436	48,982	696	296,215
Expenses					
Cost of Goods Sold	104,512	65,699	33,052	-	203,263
Depreciation and Amortization ⁽¹⁾	32,960	3,793	4,857	-	41,610
General and Administrative	12,151	6,345	1,250	139	19,885
Interest	-	-	-	1,075	1,075
	149,623	75,837	39,159	1,214	265,833
Income (Loss) before Other Income and Income Taxes	(4,522)	25,599	9,823	(518)	30,382
Other Income	-	-	-	16,867	16,867
Income before Income Taxes	(4,522)	25,599	9,823	16,349	47,249
Capital Expenditures	1,848	5,126	2,052	55	9,081

- (1) On June 29, 2005, Nexen Inc. announced it would close the sodium chlorate plant located in Amherstburg, Ontario. As a result, the property, plant and equipment were fully depreciated during the period ended June 30, 2005 and an impairment charge of \$12.1 million was recorded.

Three Months Ended September 30, 2004

	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-Alkali			
Revenues					
Sales	56,111	27,706	14,139	-	97,956
Interest on Loans to Affiliates	-	-	-	2,660	2,660
	<u>56,111</u>	<u>27,706</u>	<u>14,139</u>	<u>2,660</u>	<u>100,616</u>
Expenses					
Cost of Goods Sold	43,411	19,023	9,036	-	71,470
Depreciation and Amortization	6,271	1,285	1,677	-	9,233
General and Administrative	3,608	1,751	176	54	5,589
Interest	-	-	-	-	-
	<u>53,290</u>	<u>22,059</u>	<u>10,889</u>	<u>54</u>	<u>86,292</u>
Income before Other Income and Income Taxes	2,821	5,647	3,250	2,606	14,324
Other Income	-	-	-	857	857
Income before Income Taxes	<u>2,821</u>	<u>5,647</u>	<u>3,250</u>	<u>3,463</u>	<u>15,181</u>
Capital Expenditures	<u>20,340</u>	<u>796</u>	<u>1,461</u>	<u>-</u>	<u>22,597</u>

Nine Months Ended September 30, 2004

	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-Alkali			
Revenues					
Sales	160,256	80,453	42,651	-	283,360
Interest on Loans to Affiliates	-	-	-	7,931	7,931
	<u>160,256</u>	<u>80,453</u>	<u>42,651</u>	<u>7,931</u>	<u>291,291</u>
Expenses					
Cost of Goods Sold	117,323	61,207	26,963	-	205,493
Depreciation and Amortization	18,880	4,304	5,040	-	28,224
General and Administrative	11,265	4,934	1,362	118	17,679
Interest	-	-	-	-	-
	<u>147,468</u>	<u>70,445</u>	<u>33,365</u>	<u>118</u>	<u>251,396</u>
Income before Other Expenses and Income Taxes	12,788	10,008	9,286	7,813	39,895
Other Expenses	-	-	-	(1,933)	(1,933)
Income before Income Taxes	<u>12,788</u>	<u>10,008</u>	<u>9,286</u>	<u>5,880</u>	<u>37,962</u>
Capital Expenditures	<u>41,063</u>	<u>1,128</u>	<u>2,666</u>	<u>-</u>	<u>44,857</u>

	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-Alkali			
Identifiable Assets					
September 30, 2005	292,276	65,652	102,897	27,660	488,485
December 31, 2004	<u>341,808</u>	<u>53,188</u>	<u>104,883</u>	<u>106,446</u>	<u>606,325</u>

16. PENSION AND OTHER POST RETIREMENT BENEFITS

Pursuant to the PSA dated August 18, 2005, all Canexus LP employees who participated in and accrued benefits under the pension plans for Nexen Inc., ceased to participate in the Nexen Inc. pension plans as of that date. Effective August 18, 2005, Canexus LP established contributory and non-contributory defined benefit and defined contribution pension plans, which together cover substantially all employees. Under the defined benefit plans, we provide benefits to retirees based on their length of service and final average earnings. Benefits paid out of Canexus LP's defined benefit plan are indexed to 75% of the annual rate of inflation.

Effective August 18, 2005, Canexus LP employees commenced participation in and began accruing benefits under Canexus LP's pension plans. Canexus LP's pension plans provide employees with benefits for their period of service with Nexen Inc. based on plan provisions which are identical to those under the Nexen Inc. pension plans immediately prior to August 18, 2005. Canexus LP is responsible for all pension liabilities beginning August 18, 2005.

An independent actuary will determine the solvency liabilities related to the Canexus LP employees who participated in and accrued benefits under the Nexen Inc. pension plans at August 18, 2005. Nexen Inc. will transfer the pension assets to Canexus LP on a fully-funded solvency basis whereby Nexen Inc. will contribute any funding shortfall to Canexus LP.

On August 18, 2005, Canexus LP recorded their pro-rata share of Nexen's book value of the pension assets and liabilities related to the Canexus LP employees. At September 30, 2005, Other Assets includes a \$1,294,000 pension asset and Other Deferred Credits includes a \$287,000 pension liability.

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