

annual report 2006

Growing our advantage



In times of change

..... Globe and Mail, November 1, 2006

“Income trust crackdown:
investment analysis. This is going to be ugly”

..... The Toronto Star, May 10, 2006

“Dollar jumps to 28-year high”

..... Canadian Press, August 31, 2006

“Dow Chemical to shut down plants
in Ontario and Alberta”

..... Toronto Star, April 25, 2006

“[Superior Plus] problems are concentrated
in its Erco Worldwide division, which
produces chemicals used in pulp and
paper manufacturing...”

It is not enough
to stand still.

But rather to thrive in
any market condition.

Today's environment of competitor plant shutdowns, tightening supply/demand fundamentals, and regulatory upheaval regarding income trust structures has taught us that the way to survive is to thrive. At Canexus, we are growing our competitive advantage to new heights. We're adding more low-cost capacity to our already stable and profitable business, resulting in economies of scale that are simply unbeatable.

We are Canexus and we're powered for success.



Our management team has the demonstrated ability, determination and vision to grow our advantage for the benefit of all unitholders.

Canexus Management Team:

Front row - l to r - Gary Kubera; Rich McLellan

Middle row - Mike Christian; Hazel Kreuz, Diane Pettie

Back row - Glenn Pomeroy; David Gosse; Keith McLeod; Karen Bost; Scott Tuttle; Brian Bourgeois

Not present: Pericles dos Santos; Tom Jackson

Leading our growth

Conversation with Gary Kubera, President & CEO

In our first full year as a public entity, our performance and results in 2006 clearly demonstrated our ability and determination to use our advantages in growing our business. Our growth momentum is supported by favourable market dynamics.

One of our key targets in 2006 was to maintain our monthly distributions to unitholders at a payout ratio of 90 per cent. We hit this target despite the fact that the Canadian dollar was higher than anticipated for most of the year. The external currency challenge was managed by increasing prices and cost efficiencies across our business. I was particularly pleased that each of our three business units made solid contributions to our success.

Results and Opportunities

In our core North American sodium chlorate business, we accurately predicted pulp and paper mill operating rates would strengthen during the year and we are benefiting from this positive dynamic. Robust operating rates and consolidation in the pulp sector have elevated North American pulp prices to a 10-year high, which in turn continues to support stronger pricing for sodium chlorate. The supply side of the sodium chlorate market also shifted in 2006, as a competitor closed two production facilities. We anticipate higher customer operating rates which, combined with a weaker Canadian dollar and recent price increases, should lead to stronger margins in 2007.

Canexus has proactively prepared to capitalize on today's strong sodium chlorate market conditions. Our \$50-million Brandon plant expansion is on schedule and on budget. The project, scheduled to begin operating in early 2008, will boost plant capacity by approximately 12% or 33,000 tonnes per year. Extending our low-cost hydroelectricity advantage at Brandon will also be immediately accretive to our annual distributable cash. We will closely assess North American sodium chlorate market conditions as the expansion proceeds and will be prepared to manage any excess capacity in our system.

2006 was also a good year for our North American chlor-alkali business. Sales volumes and prices remained strong throughout the year, although realized prices were impacted by the stronger Canadian dollar. There were two notable developments during 2006: a major regional supplier closed a facility, and we continued formal evaluation of a technology conversion at our North Vancouver plant. Closure of The Dow Chemical Company's chlor-alkali plant in Fort Saskatchewan, Alberta, strengthened the market dynamics in favour of conversion. We expect to consider project approval in the months ahead. We are also considering using our existing North Vancouver infrastructure to import caustic soda for regional demand.

We had a record year in South America, which is the fastest growing pulp-producing region in the world. Revenues benefited from increased volumes and realized selling prices, with stronger demand from both our primary customer and the merchant market. Demand for sodium chlorate in the region remains strong and there are several new pulp production expansion projects planned. We believe Canexus is well positioned to take advantage of growth opportunities in South America.

In 2006, our Canexus team did a commendable job of transitioning head office services from Nexen Inc. ahead of schedule. We now have independent systems and processes to support our future growth, along with a firm basis for optimizing the future cost structure of our business as a publicly traded fund.

Thriving in times of change

Looking ahead, all of our businesses are poised to grow their advantages and prosper while adapting to changing market conditions. We are also preparing to adapt to the significant change in the future tax treatment of income funds that was announced by the Canadian government near the end of 2006. This proposed tax plan has negatively affected our unitholders and created some uncertainty in capital markets, but we don't believe it alters the strong fundamentals of our business or limits our ability to pursue our growth strategy. As final legislation emerges, we will ensure our structure enables us to efficiently deliver long-term value to our investors both before and after the proposed changes take effect.

I am encouraged by our position and optimistic about our future. We expect to maintain our current distributions for 2007 at a payout ratio slightly higher than the past year, assuming a Canadian dollar exchange rate of US\$0.85. Along with the completion of the Brandon expansion project, we will continue to deploy our capital on maintaining our network of reliable facilities and on margin-enhancing continuous improvement projects that support our competitive position.

In addition to thanking you, our unitholders, for your past and future support of Canexus, I would like to acknowledge the steady guidance of our board members, the daily dedication of our employees and the long-term relationships we have built with our customers. I believe each of these groups provide Canexus with yet another advantage for achieving success.



Gary Kubera
President and CEO

Ask Gary

Q: How does the government's income trust tax plans affect Canexus?

A: Although the Government's proposed changes have negatively affected our unit price and created some uncertainty in capital markets for income trusts, it has not altered the strong fundamentals of our business or limited our ability to pursue our growth strategy.



Q: What is Canexus' growth strategy?

A: We believe we can double both sales revenue and EBITDA from 2006 levels over the next 5 years. This will be accomplished through a combination of both internal projects like our Brandon expansion, North Vancouver growth opportunities and opportunities in South America, as well as through acquisitions. We believe there are consolidation opportunities in our industry in North America as well as excellent opportunities to grow through complementary asset-based commodity chemicals acquisitions that provide a further platform for growth.

Q: When will Nexen Inc. divest its remaining 61.4% interest in Canexus?

A: We don't know. At the time of the Canexus IPO, Nexen indicated its intent to divest its entire interest in the chemicals business at some point. A lot has changed over the past 20 months since we became a publicly traded income trust. We have completely transitioned all head office functions and infrastructure from Nexen to Canexus. We continue to highly value the guidance we receive from our Board of Directors, including the two senior representatives from Nexen who sit on our Board. However, as an independent company, decisions regarding Nexen's ownership position in Canexus are made by Nexen.

Canexus at a glance

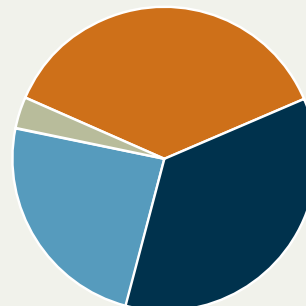
- Sodium Chlorate
 - Chlor-Alkali
 - Corporate Offices
-
- A. Nanaimo, B.C.
 - B. North Vancouver, B.C.
 - C. Bruderheim, Alberta
 - D. Calgary, Alberta
 - E. Brandon, Manitoba
 - F. Beauharnois, Quebec
 - G. Houston, Texas
 - H. Espirito Santo, Brazil

Corporate Profile Canexus produces sodium chlorate and chlor-alkali products largely for the pulp and paper and water treatment industries. Our five plants in Canada and one in Brazil are reliable, low-cost, strategically-located facilities that capitalize on competitive electricity costs and transportation infrastructure to minimize production and delivery costs.

Canexus Income Fund makes monthly cash distributions to unitholders and targets opportunities to maximize unitholder value. The Fund trades on the TSX under the symbol CUS.UN.



2006 EBITDA OF \$98.9 MILLION
(by business unit)



- 36% North American Sodium Chlorate
- 37% North American Chlor-alkali
- 23% South America
- 4% Other

EBITDA is earnings before interest, taxes, depreciation and amortization.

for the years ended December 31
(Cdn\$ thousands)

	2006	2005
Sales Revenues	405,331	397,423
Cost of Goods Sold	285,716	275,211
Gross Margin	119,615	122,212
Gross Margin (%)	30%	31%
EBITDA	98,868	111,332
Average US\$ Exchange Rate	0.88	0.82

Fund's Statement of Distributable Cash

(Cdn\$ thousands) (Unaudited)

year ended December 31, 2006

Canexus Limited Partnership (Canexus LP)

Net Income	47,143
Provision for Income Taxes	789
Depreciation and Amortization	40,223
Interest Expense	10,713
EBITDA	98,868
Unrealized Losses on Currency Translation	184
Change in Fair Value of Foreign Exchange Options, net	6,922
Change in Fair Value of Electricity Contracts	(2,229)
Interest Expense	(10,713)
Maintenance Capital Expenditures	(12,098)
Cash Income Taxes	(644)
Distributable Cash within Canexus LP	80,290

Canexus Income Fund

Weighted Average Share of Canexus LP's Distributable Cash	30,980
Trust Administration Expenses	(131)
Distributable Cash Available to Canexus Income Fund	30,849
Cash Distributions Paid or Declared	27,775
Payout Ratio	90%

Our advantage

It all begins with power

While we have a number of sustainable advantages that set us apart and provide a foundation for growth, it all begins with power.

Because we produce commodity electro-chemicals, electricity is our largest single input cost. Strategically locating our facilities to have access to renewable, low-cost hydroelectric power provides a long-term advantage that is difficult for our competitors to match in a price-driven commodity business. Our facility in Brandon, Manitoba, is the largest sodium chlorate plant in the world, has the lowest-priced electricity in North America and is supported by an excellent rail-based product distribution network.

While our advantage for long-term growth begins with power, it doesn't end there.

We have invested carefully in our assets to create a network of production facilities that are modern, well-capitalized, well-maintained and extremely reliable. We have combined our excellent facilities with manufacturing and logistics expertise which gives us the ability to deliver the price, quality and service our customers demand.

Our customer base is truly world class, including seven of the world's top ten pulp producers. Canexus has established long-term relationships with industry leaders and we are also poised to benefit from our position as an established supplier in South America, the world's fastest growing pulp market.

Combine the depth and diversity of our facilities and customers with an exceptional workforce that is highly skilled and committed to safety, and a strategic low-cost position, and we truly have a powerful advantage.

RELATIVE ELECTRICITY COSTS
(North America)



Notes:
Manitoba = 100 (Market Price)
Monthly billings (excluding taxes)

Strategically located

- 90% of Canexus production capacity is located in regions with low-cost hydroelectricity.
- Our access to renewable hydroelectricity is a sustainable competitive advantage.
- Canexus plants are supported by excellent and efficient distribution infrastructure.
- We're well positioned in South America – the world's fastest growing pulp market.

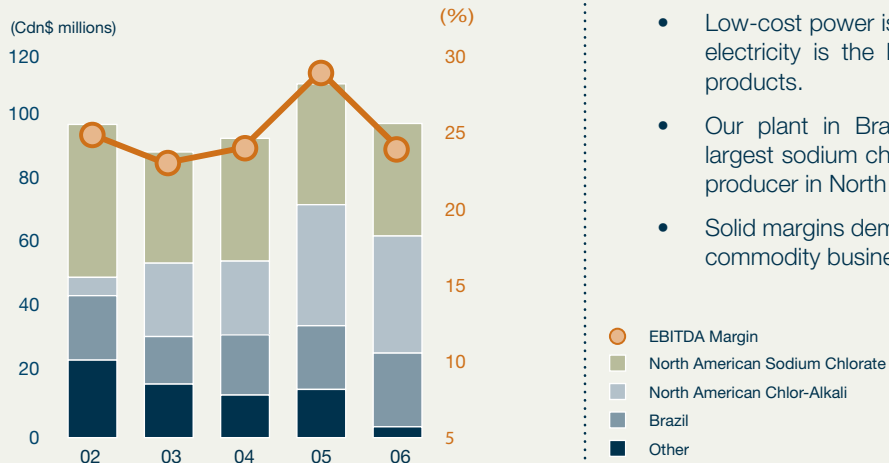
Sources:

US Prices:
Average Retail Price for 2006, Energy Information Administration, (2007, February 16). Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State . Retrieved March 2, 2007, from Energy Information Administration http://www.eia.doe.gov/cneaf/electricity/epm/table5_6_a.html

Canadian Prices:
Rates in Effect April 1, 2006, Hydro Quebec, (2007). Comparison of Electricity Prices in North American Cities. Retrieved March 2, 2007, from Hydro Quebec http://www.hydroquebec.com/publications/en/comparison_prices/2006/index.html

is growing

EBITDA AND EBITDA MARGIN



Low-cost

- Low-cost power is key to our competitive success; electricity is the largest single input cost for our products.
- Our plant in Brandon, Manitoba, is the world's largest sodium chlorate facility and the lowest cost producer in North America.
- Solid margins demonstrate our strength in a mature commodity business.

STABLE MAINTENANCE CAPITAL REQUIREMENTS

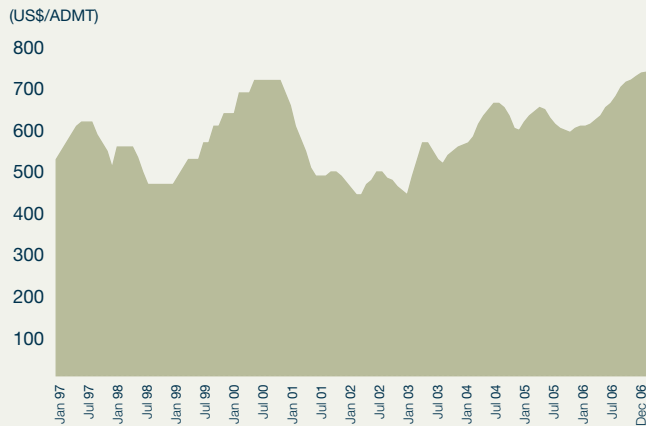


World-class assets

- Our multiple sodium chlorate plants in North America enable us to optimize customer supply for efficiency, reliability and low-cost service.
- We supply Aracruz Celulose, the world's largest producer of bleached eucalyptus pulp, from our facility in Espirito Santo, Brazil. Our plant is the largest sodium chlorate plant in Brazil.
- Our North Vancouver chlor-alkali plant is the largest and lowest cost supplier of chlorine, caustic and hydrochloric acid to the Pacific Northwest.

North American

NORTHERN BLEACHED SOFTWOOD KRAFT PULP



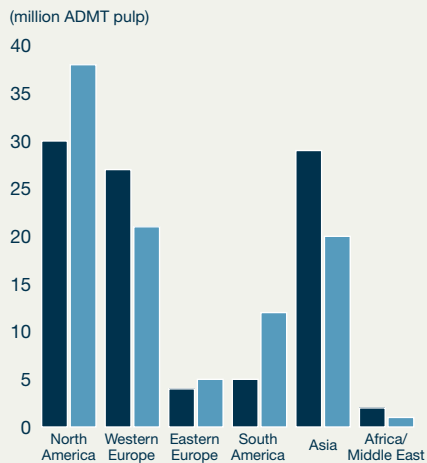
Market Fundamentals: Pulp prices at 10-year high

- Sodium chlorate is essential in producing bleached chemical pulp for paper and packaging.
- Global bleached chemical pulp demand is growing at 2% per year.
- Closure of several pulp mills in the past 2 years and growing pulp demand have pushed pulp prices to 10-year highs, resulting in healthier, more profitable North American pulp mills.
- We see continued upward pulp price momentum and strong forward sodium chlorate demand.

■ Northern bleached softwood kraft pulp, CIF Northern Europe (ADMT – air dried metric tonnes)

Source:
"NLK Pulp Monitor", January, 2007

2006E BLEACHED PULP PRODUCTION AND CONSUMPTION



Global pulp market perspective

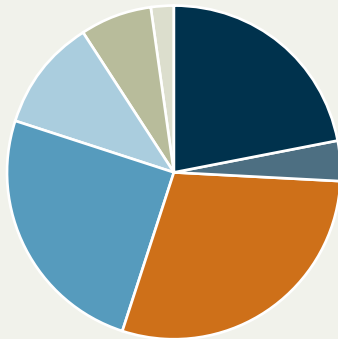
- North America is the world's largest bleached pulp producing and consuming region.
- North America is the world's largest sodium chlorate production region. In addition to supplying North American pulp mills, sodium chlorate is exported in increasing amounts to Asian bleached pulp mills.
- Bleached pulp production growth in South America is expected to supply global growth needs without eroding production in other world regions.

■ 2006 Estimated bleached chemical pulp consumption
■ 2006 Estimated bleached chemical pulp production

Source:
"World Pulp and Paper Recovered Paper Forecast", November, 2006

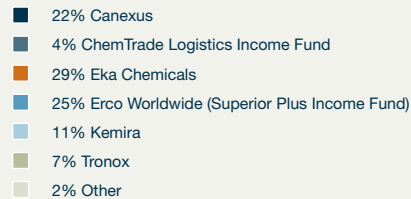
sodium chlorate

SODIUM CHLORATE CAPACITY SHARE IN NORTH AMERICA (%)



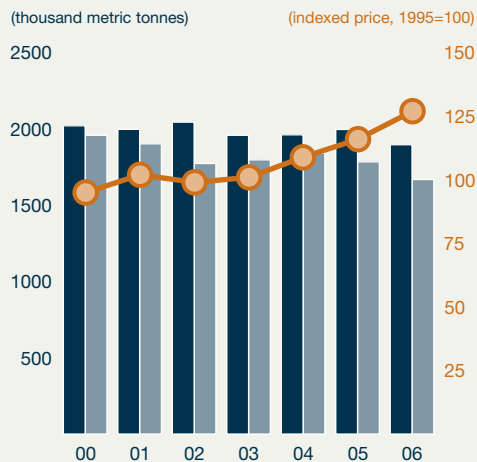
Competitive landscape

- In 2006, we had the third largest installed sodium chlorate capacity share in North America. Following the Brandon expansion in early 2008, we expect our share to increase to 28%.
- Consolidation opportunities may exist in the market.



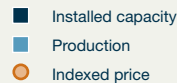
Source:
Publicly available information; management

SODIUM CHLORATE CAPACITY IN NORTH AMERICA



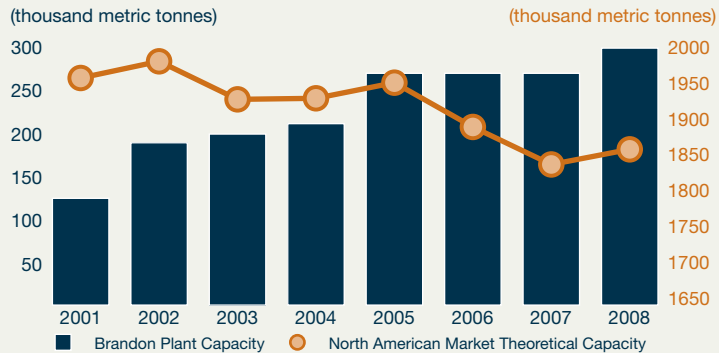
Sodium chlorate industry fundamentals

- Recent North American plant closures reduced capacity by 10%.
- 60% of sodium chlorate produced in Canada is exported to the US.
- In 2006, strong demand and reduced capacity lowered inventories and increased operating rates. Higher rates, a strong Canadian dollar and significant Canadian exports to the US increased sodium chlorate prices.



Sources:
Indexed price: Chemical Market Associate, Inc. (CMAI); March 2007; US\$/short ton, delivered United States
Production: Statistics Canada and U.S. Department of Commerce, 2000-3Q 2006; 4Q 2006 is a management estimate

North American Sodium Chlorate Brandon advantage



Our \$50-million expansion will boost capacity by 12% in 2008 to 299,000 tonnes.

North America is the world's largest market for pulp and paper and, as a result, sodium chlorate. The Canexus facility in Brandon, Manitoba, is the largest sodium chlorate plant in the world. And we are expanding our advantage in North America by expanding the Brandon facility.

We supply North America from our four plants across Canada. Most notably, our Brandon facility is the lowest-cost supplier to approximately two-thirds of the pulp mills in North America. That means we can incur higher distribution expenses than competitors throughout Canada and the United States and still more profitably deliver our product to mills in their backyard. Here's why – Brandon has:

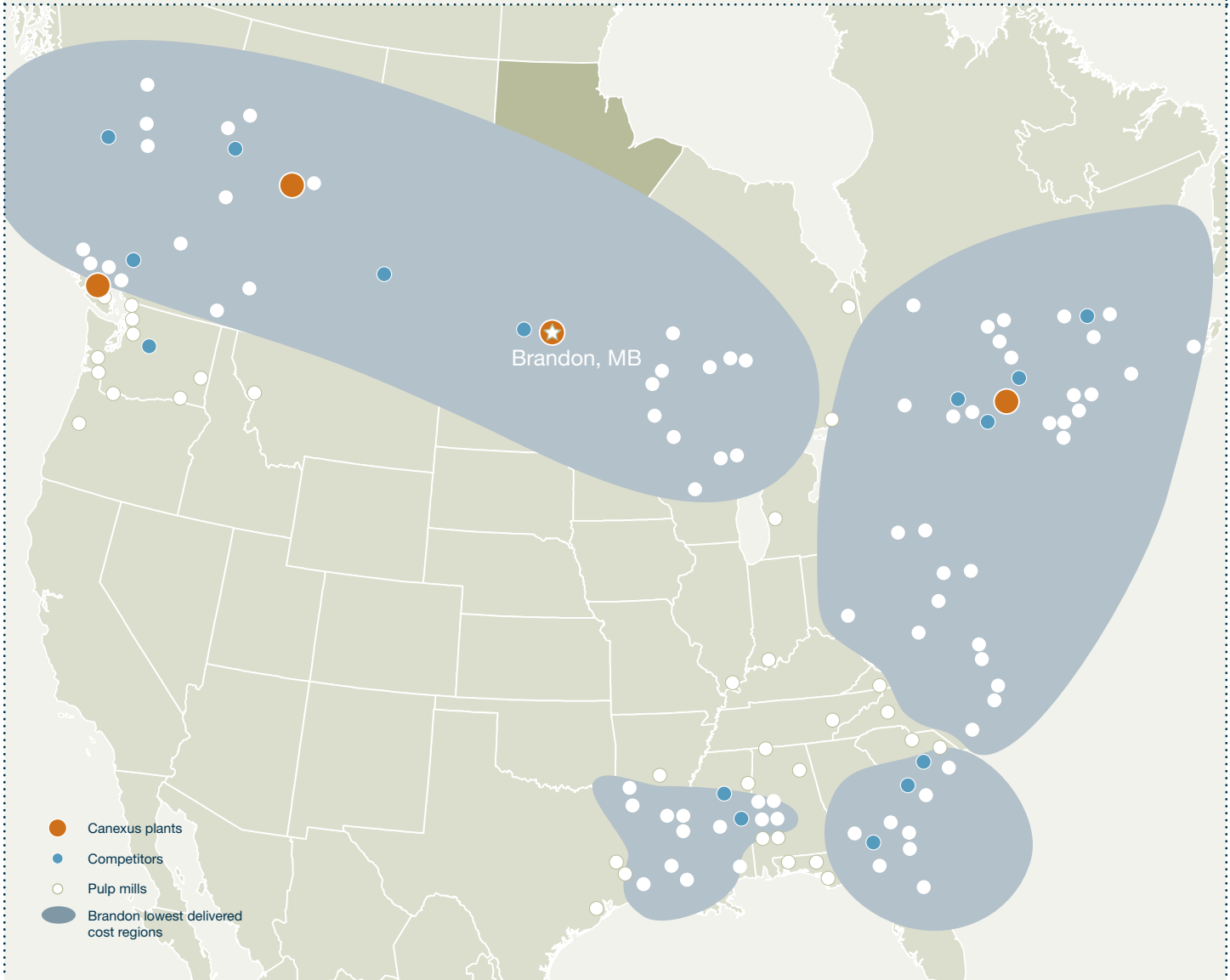
- the lowest-cost electricity in North America;
- an efficient distribution system; and
- significant economies of scale.

Our advantage is only growing. We are investing \$50 million to increase the annual production capacity of the Brandon facility by 12%, or 33,000 tonnes, to 299,000 tonnes. We are installing a new chlorate cell line that improves both energy and production efficiency, while also providing for further, cost-effective capacity increases if market justified.

Increasing our advantage in Brandon supports further production flexibility in our supply network. It also provides a strong position to assess evolving North American sodium chlorate market conditions and adjust any higher cost excess capacity if required.

Currently on budget and on schedule for completion in early 2008, this expansion will grow our advantage and benefit our investors by immediately increasing our revenues and distributable cash.

creates opportunities

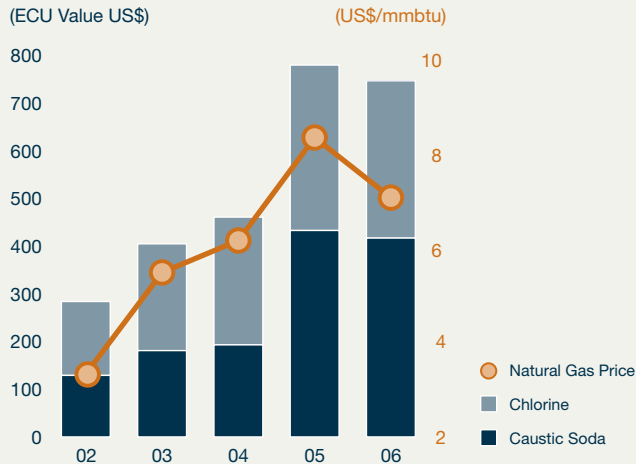


North American

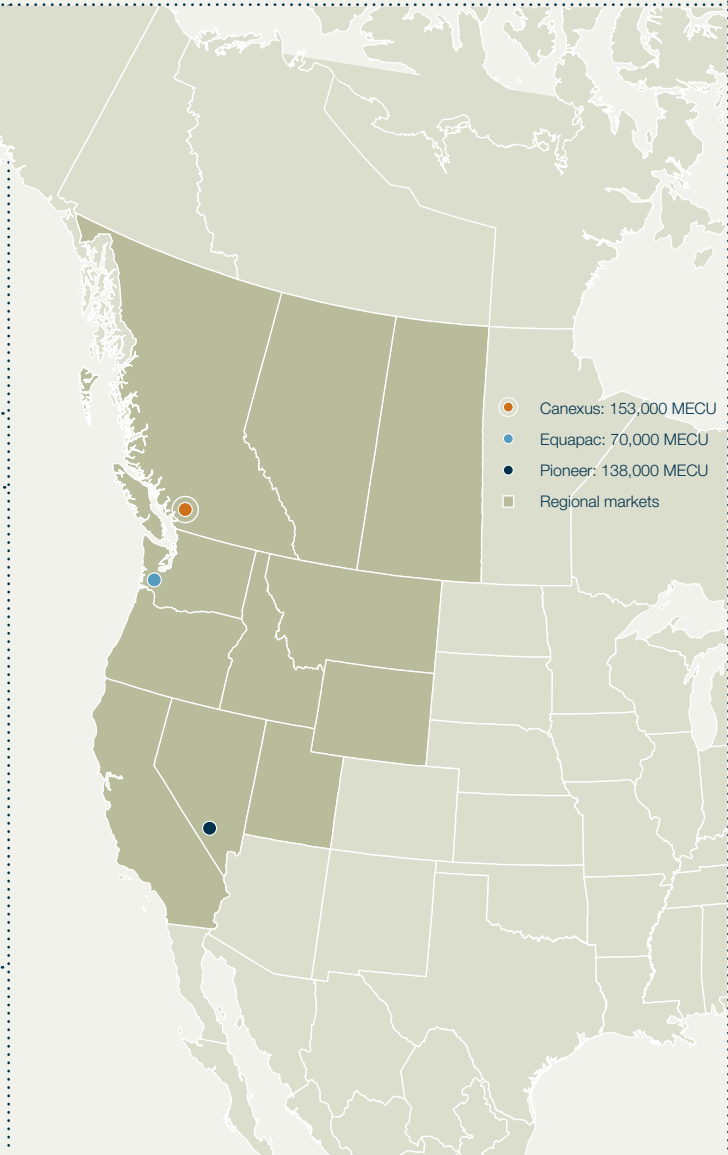
Opportunities in North Vancouver

- Recent closure of a large competitor facility in Alberta creates an opportunity to import caustic soda for resale to fill unmet regional requirements.
- We continue to study potential conversion of our North Vancouver plant to membrane cell technology.
- Conversion would reduce operating & maintenance costs at the facility, already the region's lowest cost supplier.
- Conversion could also increase production capacity up to 25%.

CHLOR-ALKALI OUTLOOK
(North America ECU and Natural Gas pricing)



- Our North Vancouver plant has operated at capacity for the past several years.
- Import requirements continue to support strong caustic soda prices.
- We see a continued tight supply-demand outlook.



chlor-alkali

Canexus is the leading supplier of chlor-alkali products to the Pacific Northwest region.

In 2006, our chlor-alkali facility at North Vancouver became the leading regional supplier following the closure of Dow's chlor-alkali plant near year end. Our chlor-alkali co-products include caustic soda, chlorine and hydrochloric acid which are used in the pulp and paper, water treatment, chemical production, mining and oil and gas industries.

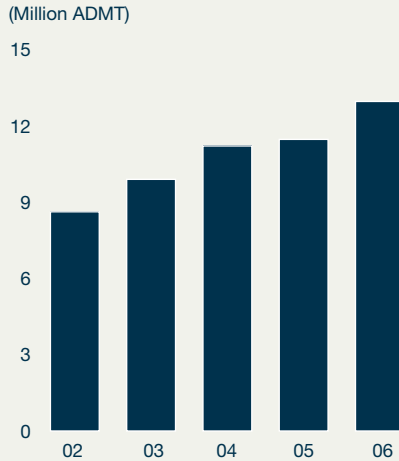
In addition to a diverse customer base, our chlor-alkali business has the advantage of using low-cost, renewable hydroelectric power. In contrast, the majority of North American competitors are dependent on electricity generated from natural gas, which creates exposure to high and volatile gas prices. Additionally, the higher freight cost incurred by suppliers who import into our region adds to the Canexus advantage.

Annual sales volumes for our chlor-alkali business increased by 1% in 2006 from the previous year, though revenues decreased by 3% to \$133.2 million due primarily to the impact of the strengthening Canadian dollar on realized selling prices. Gross margins remained steady at 34% as higher volumes and lower input costs were offset by the decline in realized selling prices.

The formal evaluation of converting our North Vancouver plant to membrane technology continued in 2006. Benefits of the conversion project include significantly reduced costs, increased capacity, reduced greenhouse gas emissions and improved product quality. It is anticipated the Board of Directors will consider project approval in 2007. Reduced regional supply has strengthened market dynamics supporting the conversion project and has also created an opportunity to enhance existing North Vancouver infrastructure to facilitate the import of caustic soda to meet customer demand.

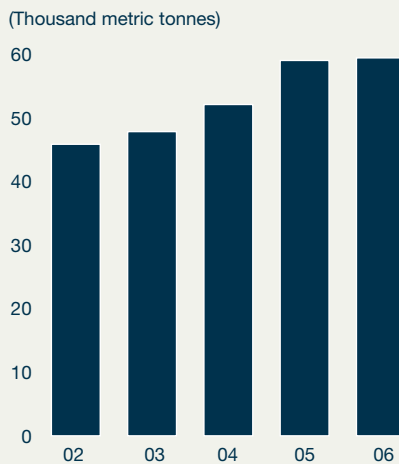
South America

SOUTH AMERICAN PULP GROWTH
(Bleached chemical pulp capacity)

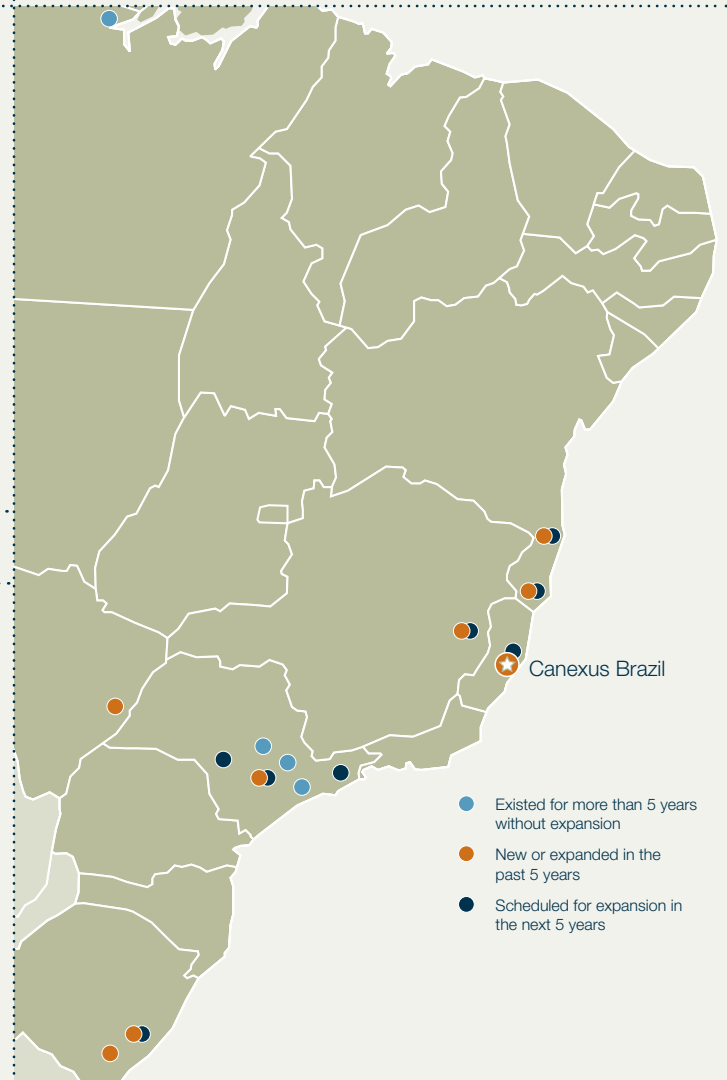


Source:
RISI, "World Pulp and Recovered Paper 15-year Forecast", November, 2006

CANEXUS SODIUM CHLORATE GROWTH
(Canexus production)



BLEACHED CHEMICAL PULP MILLS IN BRAZIL





We continue to achieve our business objectives in the fast-growing South America market, which has significant access to low-cost renewable wood fibre and a number of planned world-scale investments in new pulp plant facilities and infrastructure.

2006 was a record year for our facility at Espirito Santo, Brazil, where we produce sodium chlorate and chlor-alkali products for our major customer Aracruz Celulose S.A. and the merchant market. Aracruz is the world's leading producer of bleached eucalyptus pulp and we have a long-term, exclusive supply contract that ensures fixed US-dollar margins.

Annual sales revenue increased 22% to \$82.5 million for 2006 as a result of higher sales volumes and higher average realized selling prices. There was strong demand from both Aracruz and the merchant market. The increase in average realized selling prices reflect the pass-through nature of our key contract which contributes to higher sales revenues as costs increase. Gross margin percentages decreased to 30% in 2006 from 32% the prior year as the increased cost of electricity and the purchase of caustic soda on the open market to meet demand are passed to our customer.

We continue to enhance production capacity and reliability at Espirito Santo, significantly increasing output since we purchased the facility in 1999. We will continue to leverage our Brazilian presence to meet increasing demand and as a foundation for pursuing growth projects in the region.



What begins with power continues with passion. As we continue making Canexus a great place to work, our employees reward us with loyalty, high-performance and an advantage for growth.

Passion for success

The power of people

At Canexus, we know the power of people who are respected, recognized and rewarded. Their passion for success is what drives our growth and creates the competitive advantage we have to thrive in any market condition.

As we achieved operational independence from Nexen Inc. in 2006, we were fortunate to inherit its best-in-class people practices – the same practices which allowed Nexen to be recognized as a Top 50 Employer in Canada five of the past six years. And now we've made the practices our own.

Canexus employees share a vision and determination to prove our abilities as an independent company. Virtually all Canexus employees own Fund units, which aligns our interests directly with those of our investors. Our business strategy and our people strategy are linked to support our overall objectives for profitability, growth and corporate responsibility.

Supporting passion

At Canexus, we give employees the tools and support they need to be successful. We embrace the principles of diversity and integrity and seek to provide a safe, challenging and rewarding work experience to each employee. We competitively position our compensation and benefits programs and emphasize health, wellness and Responsible Care® within our culture. Our employees are recognized formally and informally through our recognition and service awards programs. As an international business with 450 employees in eight locations on two continents, we understand the challenges and benefits of decentralization. We promote regular, two-way communication with our employees, who work in English, French and Portuguese. Quarterly conference calls and town hall meetings provide forums for senior management and employees to interact, share ideas and plan together. Our emerging intranet, The Core, keeps employees updated on company news and events. And every year we measure our success with annual employee engagement surveys. An integrated career and succession system is helping us ensure we are prepared for tomorrow's growth, and is positively changing the work experience for our people. Workforce and succession planning are critical to our long-term success, and require us to move from traditional reactive recruitment and promotion practices to proactive people planning for our future needs. They offer our employees significant opportunities for personal growth and development within the organization.

Seeing the rewards

Our efforts to promote and support our employees' passions have their rewards. In a competitive labour market, we are maintaining our position as an employer of choice and raising our ability to attract quality people when required. Our focus on employee retention is highlighted by an annual voluntary turnover rate of less than 4% over the past five years and a current average term of employment of more than 11 years. As we continue making Canexus a great place to work, our employees reward us with loyalty, high performance and an advantage for growth.



When we employ the best people, we empower them to succeed. Part of this is aligning personal and company values. It's rewarding to know that our people can bring their values to work.

Our values at work

Building our sustainable
competitive advantage

Reputation

Our **reputation** is our most important asset. It is based upon our unwavering commitment to integrity, Responsible Care® and quality.

Results

We all take responsibility for our **results**. We maximize our performance through innovation, continuous improvement, prudent risk-taking and fact-based decision-making.

Resources

Our **resources** drive success. People excellence is achieved by embracing continuous learning, empowerment, teamwork, recognition and diversity.

Relationships

We value long-term mutually beneficial **relationships** with stakeholders. Relationships are founded upon respect, trust and open communication.

Growing responsibly

Responsible Care®

The way we see it, it's the only way to grow long term.

Responsible Care® is a global chemical industry management system of best practices for world-class performance in health, safety and environmental protection. Canexus was a pioneer of Responsible Care®. In 1994 we became one of the first companies in the world to successfully complete the Responsible Care® verification process. Our commitment to Responsible Care® is just as strong today. In 2006 our South American plant was verified, and all of our operations in North America were re-verified.

We maintain and refine Responsible Care® systems through sustained initiatives and activities such as:

- operating our facilities in a manner that protects the environment and health and safety of our employees and the public;
- ongoing commitment to responsible development, manufacturing, transportation, handling, distribution, use and ultimate disposal of chemicals;
- obtaining and incorporating public input regarding our products and operations; and
- providing information on health or environmental risks and applying protective measures for employees, the public and other key stakeholders.

Canexus acts with Responsible Care® not because we have to, but because it is the right way to run a business. Responsible Care® is good business.

www.responsiblecare.org



Canexus acts with Responsible Care[®]
not because we have to, but because
it is the right way to run a business.
Responsible Care[®] is good business.



The Board believes that effective corporate governance improves Fund performance and benefits all unitholders.

Canexus Board members:

Front row - l to r - Hugh A. Fergusson; Dennis G. Flanagan; Gary L. Kubera; Marvin F. Romanow

Middle row - Douglas P. Hayhurst; Nicholas G. Kirton; Stephanie L. Felesky

Back row - Thomas A. Sugalski; Lyall C. Work; Kevin J. Reinhart

Corporate Governance

Our Board of Directors is responsible for stewarding the Fund and its strategy and providing independent, effective leadership for management. It also ensures we operate with honesty and integrity each day.

Our Board has ten members, five of whom are independent as set out in National Policy 58-201 and six of whom are independent of management. The Board complies with the rules outlined in Multilateral Instrument 52-101 and has substantially adopted all of the recommendations of National Policy 58-201 and National Instrument 58-101. The Board has adopted a code of ethics for its directors, officers and employees and also implemented a number of policies, including an external communications policy. The Board meets without management and without non-independent directors at every regularly scheduled meeting. Visit www.canexus.ca for terms of reference and policies of the Board and its committees.

Committees

There are three Board Committees: (i) Audit (ii) Corporate Governance and Compensation, and (iii) Responsible Care[®] and Public Policy. All members of the Corporate Governance and Compensation Committee and the Audit Committee are independent and the majority of the Responsible Care[®] and Public Policy Committee members are independent. All members of the Audit Committee are financially literate.

Board Member	Audit	Corporate Governance and Compensation	Responsible Care [®] and Public Policy
Stephanie L. Felesky, C.M.		•	•
Hugh A. Fergusson		•	Chair
Dennis G. Flanagan (Board Chair)			
Douglas P. Hayhurst	Chair	•	
Nicholas G. Kirton	•	•	
Gary L. Kubera			
Kevin J. Reinhart			
Marvin F. Romanow			
Thomas A. Sugalski			•
Lyll C. Work	•	Chair	

Committees

Audit Committee

Its primary purpose is to assist directors in overseeing and supervising, among other things:

- the integrity of annual and quarterly financial statements and management's discussion and analysis of the Fund to be provided to Unitholders and regulatory bodies;
- compliance with accounting and finance-based legal and regulatory requirements;
- the audit of the consolidated financial statements of the Fund, the recommendation and performance of the Fund's independent auditors and meeting with the auditors as required in connection with the audit services provided by the Fund's independent auditors;
- the accounting and financial reporting practices and procedures of the Fund and its subsidiaries;
- the system of internal controls and accounting procedures of the Fund and its subsidiaries;
- implementation and effectiveness of the Fund's ethics policy and compliance programs under the ethics policy;
- financial policies and strategies, including capital structure, and financial risk management practices; and
- transactions or circumstances that could materially affect the financial profile of the Fund.

Corporate Governance and Compensation Committee

Its primary purpose is to assist directors in, among other things:

- developing and implementing principles and systems for managing corporate governance;
- identifying qualified candidates and recommending nominees for director and board committee appointments;
- evaluating the board of directors, its committees, the individual directors and board and committee chairs;
- key compensation and human resources policies, including making recommendations to the board of directors for consideration;
- compensation of the Chief Executive Officer and other executive officers and management, as well as director compensation, and in the committee's discretion, making recommendations to the board for consideration; and
- management succession planning.

Responsible Care® and Public Policy Committee

Its primary purpose is to assist directors in, among other things:

- developing, monitoring and effectively implementing systems, programs and initiatives for managing health, safety, security, environment and public policy issues;
- monitoring compliance with applicable law related to safety, environment, health, security and public policy issues; and
- encouraging, assisting and counseling Management in maintaining, improving and dealing with current and emerging issues in health, safety, security, environment and public policy.

Directors

Stephanie L. Felesky, C.M.,

Stephanie Felesky is a member of the Calgary Police Commission and a member of the Board of Governors of the University of Calgary where she is the Chair of the Investment Committee. She is also the Co-Chair of the Calgary Children's Initiative and a director of the Calgary Homeless Foundation. She is a past director of the Canada Lands Company (a Crown Corporation involved in real estate development) and of Star Choice Communications Ltd. (a communications company wholly-owned by Shaw Communications Inc. and previously TSX-V-listed) and several charitable and community based organizations including the United Way, Calgary Inc. and the Calgary Convention Authority. Ms. Felesky received her Bachelor of Education with distinction from the University of Calgary, and in 2005 received the designation of ICD.D from the Institute of Corporate Directors.

Hugh A. Fergusson

Hugh Fergusson is an independent businessman and corporate director. He is a retired executive who had over 25 years of service with The Dow Chemical Company, an international chemicals company listed on numerous stock exchanges. In 2004, he retired as the Vice President, Hydrocarbons and Energy, after holding several positions within the organization from his original position as Staff Lawyer. Mr. Fergusson is currently the President of Argyle Resources Inc. (a private energy consulting organization) and a senior affiliate of the Implementation & Advisory Group Ltd. (a government relations and project management firm). He is a director of Provident Energy Trust (a TSX- and NYSE-listed oil and gas trust), Taylor Gas Liquids Ltd. (the general partner of Taylor NGL Limited Partnership, a TSX-listed issuer), the Canadian Energy Research Institute and Galileo Educational Network. He is a past board member of Dow Chemical Canada Inc., Union Carbide Canada Inc., Petromont Inc., the Gas Processors Association of America and the Petrochemical Feedstock Association of the Americas. Mr. Fergusson received a Bachelor of Arts in Political Science in 1970 from McMaster University; a Bachelor of Laws from the University of Windsor in 1973. In 2006 he received the designation of ICD.D. from the Institute of Corporate Directors.

Dennis G. Flanagan

Dennis Flanagan is a director of Nexen (a TSX- and NYSE-listed oil and gas company) and is a retired oil executive who worked in the oil and gas industry for more than 40 years, including with Ranger Oil Ltd. (a former international oil and gas company listed on numerous stock exchanges) and ELAN Energy Inc. (a former TSX-listed oil and gas company). Most recently, he was Executive Chairman of ELAN until it was acquired by Ranger in 1997. With these entities, Mr. Flanagan was involved in all phases of oil and gas exploration and development in Canada, the U.S. and the U.K. sector of the North Sea. Mr. Flanagan is also a director of NAL Oil & Gas Trust (a TSX-listed oil and gas trust). He is also founding Chair of STARS (Shock Trauma Air Rescue) Foundation. Mr. Flanagan completed the Registered Industrial and Cost Accountant program, the predecessor to the Certified Management Accountant program, in 1967.

Douglas P. Hayhurst

Douglas Hayhurst, as an executive with IBM Business Consulting Services and PricewaterhouseCoopers, has been involved globally in business consulting for many industries, including chemicals, forest, paper and packaging, aerospace and defense, metals and other heavy manufacturing industries. Mr. Hayhurst previously held various senior executive management roles with Price Waterhouse including National Deputy Managing Partner and Managing Partner for British Columbia. He serves on many boards including Northgate Minerals Corporation, the Advisory Board of The Layfield Group, The British Columbia Chapter of the Institute of Corporate Directors (Chair), The BC Regional Board of the Nature Conservancy of Canada (Vice Chair) and The BC Transplant Foundation. Mr. Hayhurst received a Bachelor of Arts in Business Administration from the Richard Ivey School of Business at the University of Western Ontario. He is a Fellow of the Institute of Chartered Accountants of British Columbia and in 2006, received the designation of ICD.D from the Institute of Corporate Directors.

Nicholas G. Kirton

Nicholas Kirton is a retired Chartered Accountant who had 38 years of service with KPMG LLP, where he was the Client Service Partner from 1976 to 2004 and an associate from 1966 to 1976. Mr. Kirton has served on many boards including KPMG and the Canadian Institute of Chartered Accountants (CICA), including as Chair of the Qualifications Committee of the CICA. Mr. Kirton is also a director of Builders Energy Services Trust (a TSX-listed energy services income trust), Result Energy Inc. (a TSX-V-listed oil and gas exploration and production company) and MacLeod Resources Limited. (a private industrial company). He received a Bachelor of Science (Mathematics and Physics) in 1966 from Bishop's University, his Chartered Accountant designation in Quebec in 1969 and was named a Fellow of the Institute of Chartered Accountants in Alberta in 1996. In 2006, he received the designation of ICD.D from the Institute of Corporate Directors.

Gary L. Kubera

Gary Kubera was appointed President of Nexen Chemicals in March 2005. Mr. Kubera joined Nexen Chemicals in 2002, first as the Director of Sales and subsequently was appointed as the Vice President, Marketing and Business Development. Prior to his employment with Nexen Chemicals, Mr. Kubera worked in sales, marketing, business development and regional and global general management for a number of chemicals related enterprises, including as Vice President for Global Core Business of SC Johnson's Polymer division from 2000 to 2001 and a variety of positions with McWhorter Technologies Inc. Mr. Kubera received his Bachelor of Arts in Chemistry from Ithaca College in 1982 and his Masters of Business Administration from the University of Chicago in 1988, majoring in Finance.

Kevin J. Reinhart

Kevin Reinhart is the Vice President, Corporate Planning and Business Development of Nexen. He has held this position since July 2002. Previously, Mr. Reinhart was Nexen's Treasurer since October 1998 and Corporate Controller since July 1994. Prior to his employment with Nexen, Mr. Reinhart worked for 13 years in progressively senior roles with KPMG Canada including a two-year term in the firm's National Office Department of Professional Standards. Mr. Reinhart has a Bachelor of Commerce from Saint Mary's University and is a Chartered Accountant.

Marvin F. Romanow

Marvin Romanow is the Executive Vice President and Chief Financial Officer of Nexen – a position he has held since June 2001. Previously, Mr. Romanow was Nexen's Chief Financial Officer from February 1998 and Vice President, Finance from June 1997. Mr. Romanow has 25 years of oil and gas experience, and has held senior positions in engineering, operations, finance and planning with Wascana Energy Inc., Amoco Canada Petroleum Company Ltd., and Dome Petroleum Ltd. He also currently serves on the Management Committee of Syncrude Canada Ltd., Canada's largest oil sands venture. Mr. Romanow holds a Masters of Business Administration and a Bachelor of Engineering, with Great Distinction, from the University of Saskatchewan.

Thomas A. Sugalski

Thomas Sugalski retired as the President of Nexen Chemicals in March 2005, after 10 years in the position and retired as Senior Vice President, Chemicals of Nexen in August 2005, after 17 years with the company. Mr. Sugalski has 39 years experience in the chemicals industry and has held a variety of managerial positions in marketing, employee relations and general management. Before joining Nexen, he served as both Western New York Group Executive and Vice President and General Manager of the Detergent and Specialty Products Division of Occidental Chemical Corporation, a division of Occidental Petroleum Corp. (a NYSE listed energy and chemicals company). He was a member of the American Chemistry Council and on the Board of Directors of the Chlorine Chemistry Council and the Alliance for Environmental Technology, where he served as Chair for three years. Mr. Sugalski received his Bachelor of Arts in English and Chemistry from Marquette University in 1965.

Lyall C. Work

Lyall Work began his career with Cominco Ltd. (a public metals and mining company) in 1961. He joined Albright & Wilson (Albright) in 1967 where he held various positions, including President of Albright Americas, President of Albright Asia Pacific and President, Specialty Phosphates of Rhodia from April 2000 until his retirement in 2001. Mr. Work served on 20 boards of wholly owned subsidiaries of Albright and joint ventures and on one public company board in India which was 40% owned by Albright. He received his Bachelor of Science in Chemical Engineering from the University of Alberta in 1961.

MD&A

The following management's discussion and analysis of financial condition and results of operations (MD&A) is prepared as of March 6, 2007. This MD&A should be read in conjunction with (i) the audited consolidated financial statements of Canexus Income Fund (the "Fund") and Canexus Limited Partnership ("Canexus LP") included in this report; (ii) the audited consolidated balance sheet of the Fund as at December 31, 2005 and the audited consolidated statements of income and cash flows of the Fund for the period from June 28, 2005 to December 31, 2005 and the notes thereto available on the System for Electronic Data Analysis and Retrieval's ("SEDAR") website at www.sedar.com; (iii) the audited consolidated financial statements of Canexus LP as at and for the year ended December 31, 2005 and the notes thereto available on the SEDAR website at www.sedar.com; (vi) the audited financial statements and notes thereto of the chemicals business of Nexen Inc. ("Nexen") (as predecessor to Canexus LP prior to its acquisition by Canexus LP on August 18, 2005 – "Chemicals Business") for the year ended December 31, 2004 as contained in the Fund's Business Acquisition Report dated November 1, 2005 and available on the SEDAR website at www.sedar.com. The audited consolidated financial statements of the Fund, Canexus LP and the Chemicals Business have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Canexus Income Fund earns income from its 38.6 per cent 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, audited consolidated financial statements with accompanying notes thereto have been presented for both the Fund and Canexus LP. The following MD&A presents a discussion of the financial condition and results of operations for both the Fund and Canexus LP.

Information for the year ended December 31, 2006 is that of Canexus LP. Information for the year ended December 31, 2005 includes information from Canexus LP and its predecessor, the Chemicals Business, not all of the operations of which were acquired from Nexen.

This MD&A contains forward-looking statements and information. Please see "Forward-Looking Statements and Information" for a discussion of the risks, uncertainties and assumptions relating to these statements.

Unless otherwise noted, all dollar amounts are in Canadian dollars and all 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 SEDAR website at www.sedar.com.

Non-GAAP Measures

The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These “non-GAAP measures” such as “earnings before interest, income taxes, depreciation and amortization” (“EBITDA”), “Gross Margin”, “Gross Margin Percentage”, “Distributable Cash” 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.

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.

Distributable Cash and Payout Ratio are non-GAAP measures generally used by Canadian income trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distribution to Unitholders. The Payout Ratio is calculated as Cash Distributions Declared divided by Distributable Cash available to Canexus Income Fund.

Payout Ratio Normalized for Timing of Maintenance Capital Expenditures is calculated as Cash Distributions Declared divided by Distributable Cash available to Canexus Income Fund recalculated for Estimated Annual Maintenance Capital Expenditures.

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. Gross Margin Percentage is calculated as Gross Margin divided by Sales Revenues.

General Description of the Fund and Canexus LP

Pursuant to an underwriting agreement dated August 10, 2005 and initial public offering (“IPO”) completed on August 18, 2005, 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 per cent interest in Canexus LP. Canexus LP then acquired the Chemicals Business from Nexen through the payment of \$285 million of cash received from the Fund’s IPO proceeds, \$200 million of cash drawn by Canexus LP from its credit facility and the issuance to Nexen of 52,285,714 exchangeable limited partnership units (“Exchangeable LP Units”) of Canexus LP, each of which is exchangeable into a Fund Unit at any time at the option of Nexen. 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 per cent 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 per cent interest in Canexus LP and Nexen holds a 61.4 per cent controlling interest in Canexus LP.

Canexus LP, through its various direct and indirect 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.

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.

Highlights and Selected Financial Information (also see Canexus LP highlights)

- Distributions to Unitholders of \$27.8 million (\$0.8748 per Unit) declared for the year ended December 31, 2006 for a payout ratio of 90 per cent despite the stronger Canadian dollar in 2006 as compared to 2005.

CAD thousands, except per unit amounts	2006	2005 ⁽¹⁾
Equity Income from Investment in Canexus LP	18,190	11,518
Net Income	16,122	11,025
Net Income (\$/Unit)	0.51	0.35
Diluted Net Income (\$/Unit)	0.51	0.35
Cash Distributions Declared	27,775	10,325
Cash Distributions Declared (\$/Unit)	0.8748	0.3252
	2006	2005
Total Assets	311,450	321,007
Total Long-Term Liabilities	–	–

Note:

⁽¹⁾ For the period August 18, 2005 to December 31, 2005.

Results of Operations

Investment

At December 31, 2006 the Fund had an indirect investment in 31,750,000 ordinary limited partnership units (38.6%) of Canexus LP at a cost of \$317.5 million. The Fund accounts for this investment using the equity method.

For the year ended December 31, 2006 the Fund's earnings from Canexus LP were \$18.2 million and the carrying value of this investment at December 31, 2006 was \$309.1 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 accompanying 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, eligible retirement date or other expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing Fund Units and are not settled in cash.

Distributable Cash and Cash Distributions

CAD thousands, except as noted	2006	2005 ⁽¹⁾
Canexus LP		
Net Income	47,143	30,206
Provision for Income Taxes	789	(113)
Depreciation and Amortization	40,223	13,482
Interest Expense	10,713	3,242
EBITDA ⁽²⁾	98,868	46,817
Unrealized Losses (Gains) on Currency Translation	184	(5,029)
Change in Fair Value of Foreign Exchange Options, Net	6,922	(1,277)
Change in Fair Value of Electricity Contracts	(2,229)	–
Interest Expense	(10,713)	(3,242)
Maintenance Capital Expenditures	(12,098)	(7,327)
Cash Income Taxes	(644)	–
Distributable Cash within Canexus LP ⁽²⁾	80,290	29,942
Canexus Income Fund		
Weighted Average Share of Canexus LP's Distributable Cash	30,980	11,408
Trust Administration Expenses	(131)	(100)
Distributable Cash available to Canexus Income Fund ⁽²⁾	30,849	11,308
Cash Distributions Declared	27,775	10,325
Payout Ratio ⁽²⁾	90%	91%
Payout Ratio Normalized for Timing of Maintenance Capital Expenditures ⁽²⁾	N/A	85%

Notes:

⁽¹⁾ For the period August 18, 2005 to December 31, 2005.

⁽²⁾ See comments concerning non-GAAP Measures on page 31.

Distributable cash within Canexus LP represents cash from operating activities adjusted for temporary changes in non-cash working capital and other non-cash impacting expenses less maintenance capital expenditures. Maintenance capital expenditures are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels. Distributable cash (see "non-GAAP Measures" on page 1) is not a recognized measure under Canadian GAAP and therefore, Canexus LP's method of calculating distributable cash may differ from methods used by other trusts.

A reconciliation of cash from operating activities to distributable cash within Canexus LP for the year ended December 31, 2006 and the period from August 18, 2005 to December 31, 2005 is as follows:

CAD thousands, except as noted	2006	2005 ⁽¹⁾
Cash from Operating Activities	81,302	42,926
Add Back (Deduct):		
Changes in Non-Cash Working Capital and Due to Affiliates, Net	10,791	(6,141)
Maintenance Capital Expenditures	(12,098)	(7,327)
Allowance for Doubtful Accounts	(1,750)	–
Operating Non-Cash Items	2,849	484
Amortization of the Purchase Cost of Foreign Exchange Options	(804)	–
Distributable Cash within Canexus LP	80,290	29,942

Note:

⁽¹⁾ For the period August 18, 2005 to December 31, 2005.

The change in non-cash working capital for the year ended December 31, 2006 was due to timing differences in the amount of accounts receivable and prepaid expenses and to changes in accounts payable and amounts owing to affiliates. The decrease in accounts payable was due to a reduction in amounts accrued for bonuses, IPO related costs and costs to establish Canexus as a stand alone entity, which were funded by Nexen Inc. on August 18, 2005. The increase in the net amount due to affiliates was due to the settlement of adjustments recorded in 2005 to reflect the terms of the purchase and sale agreement with Nexen Inc. and amounts owing to Nexen Inc. for transitional services which were terminated in December 2006.

Operating non-cash items represent items such as pension expense in excess of pension funding and expenditures on asset retirement obligations financed by restricted investments established at the time of the IPO. It also includes the cost of foreign exchange call option contracts described further in the succeeding paragraph.

The cost of foreign exchange call options is recognized as a decrease in cash from operating activities in the period purchased. For distributable cash purposes the cost is being recognized as a decrease in cash over the period of the foreign exchange call option contract.

Distributions

Distributions for the year ended December 31, 2006 and period from August 18, 2005 to December 31, 2005 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Amount
January 31, 2006	February 15, 2006	0.0729	2,314.6
February 28, 2006	March 15, 2006	0.0729	2,314.6
March 31, 2006	April 17, 2006	0.0729	2,314.6
April 28, 2006	May 15, 2006	0.0729	2,314.6
May 31, 2006	June 15, 2006	0.0729	2,314.6
June 30, 2006	July 17, 2006	0.0729	2,314.6
July 31, 2006	August 15, 2006	0.0729	2,314.6
August 31, 2006	September 15, 2006	0.0729	2,314.6
September 29, 2006	October 13, 2006	0.0729	2,314.6
October 31, 2006	November 15, 2006	0.0729	2,314.6
November 30, 2006	December 15, 2006	0.0729	2,314.6
December 29, 2006	January 15, 2007	0.0729	2,314.6
	Total 2006	0.8748	27,774.9
September 30, 2005 ⁽¹⁾	October 17, 2005	0.1065	3,381.4
October 31, 2005	November 15, 2005	0.0729	2,314.6
November 30, 2005	December 15, 2005	0.0729	2,314.6
December 29, 2005	January 16, 2006	0.0729	2,314.6
	Total 2005	0.3252	10,325.1

Note:

⁽¹⁾ For the period August 18, 2005 to September 30, 2005.

At December 31, 2006, the Fund had a distribution receivable from Canexus LP. Upon receipt of this distribution in January 2007 the Fund paid distributions payable of \$2.3 million outstanding at December 31, 2006.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any taxable income not paid or payable 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, among other items, the deduction of distributions to Unitholders from the Fund's taxable income.

On October 31, 2006 the Federal Finance Minister announced a proposal (“the October 31 Proposal”) to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and treat such distributions as dividends to the unitholders. Under the October 31 Proposal existing trusts would have a four year transition period and would not be subject to the new rules until 2011 provided they limit their expansion to “normal growth” during that time period. On December 15, 2006 the Government issued guidelines with respect to what it would consider “normal growth” for existing income trusts. Under these guidelines, the amount of equity units that an income trust can issue may not exceed the value of its publicly traded equity units on October 31, 2006 (subject to annual limits) prior to 2011. In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

On December 21, 2006 the Government released draft legislation for comment. Uncertainty still exists as the draft legislation does not fully address all aspects of the tax regime introduced in the October 31 Proposal or the December 15, 2006 guidelines. The proposed legislation is now subject to review by a Parliamentary committee through an expedited public hearing process. Timing for enactment of the legislation by Parliament remains uncertain.

If enacted, the proposed changes are expected to apply to the Fund’s distributions, and in all likelihood will have a material adverse impact on the cash available for distributions to Unitholders commencing in 2011. As defined in the proposed legislation, distributions of “non-portfolio” earnings would not be deductible to the Fund and would be taxable at the rate of 31.5 per cent resulting in reduced cash available for distributions. Distributions of non-portfolio earnings would be considered dividends under the new rules and eligible for the dividend tax credit, similar to the tax treatment on corporate dividends. As such, the after tax impact of these changes on Canadian resident Unitholders who hold the Fund’s Units in taxable accounts is expected to be relatively neutral. However, Unitholders that hold the Fund’s Units in tax-deferred accounts or who are non-residents of Canada will likely see a significant reduction in their after tax realizations.

The proposed changes are not expected to limit the Fund’s near term growth opportunities, although until final legislation is enacted the Fund will continue to monitor the legislative process and carefully review its alternatives to most effectively achieve its business strategy and optimize value for the Unitholders.

Summary of Quarterly Results

CAD thousands, except per unit amounts

Three Months Ended

	Dec 2006 ⁽²⁾	Sept 2006	June 2006	March 2006	Dec 2005	Sept 2005 ⁽¹⁾
Equity Income from Investment in Canexus LP	1,464	4,261	8,405	4,060	4,312	7,206
Net Income	323	3,932	8,097	3,770	4,048	6,977
Net Income (\$/Unit)	0.01	0.13	0.25	0.12	0.12	0.23
Diluted Net Income (\$/Unit)	0.01	0.13	0.25	0.12	0.12	0.23
Cash Distributions Declared	6,944	6,944	6,944	6,944	6,944	3,381
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.2187	0.2187	0.2187	0.1065

Notes:

- (1) For the period August 18, 2005 to September 30, 2005. The Fund effectively commenced operations on August 18, 2005 through its indirect investment in Canexus LP.
- (2) In the fourth quarter of 2006, we adopted EIC (Emerging Issues Committee) 162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date. EIC-162 provides that if an employee is eligible to retire on the grant date of a stock-based award, related compensation expense is recognized in full at that date as there is no ongoing service requirement to earn that award. In addition, if an employee becomes eligible to retire during the vesting period, related compensation expense is recognized over the period from the grant date to the retirement eligibility date on a graded vesting basis. Prior to the adoption of EIC-162, we did not consider the retirement dates of our employees in the determination of our stock-based compensation expense. EIC-162 is effective for interim and annual periods ending on or after December 31, 2006 and is to be adopted on a retroactive basis. The impact of adopting EIC-162 for the year ended December 31, 2006 was an increase in compensation expense and a decrease in net income of \$75,360. As this amount was not material, we did not restate the three month periods ended March 31, 2006, June 30, 2006 or September 30, 2006. The impact for the period from August 18, 2005 to December 31, 2005 was not material and was not adjusted.

The changes in equity income for each of the three month periods and the period ended September 30, 2005 were due to changes in the net income of Canexus LP for the same periods (See "Summary of Quarterly Results" discussion relating to Canexus LP).

Liquidity and Capital Structure

Outstanding Securities of the Fund

At December 31, 2006 and March 6, 2007 the Fund had 31,750,000 Units outstanding.

Nexen holds 50,535,714 Exchangeable LP 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.

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. Additional risk factors relating to the Fund and Canexus LP's operations are contained in the Fund's Annual Information Form for the year ended December 31, 2006, which will be filed on the Fund's profile on the SEDAR website at www.sedar.com prior to March 31, 2007.

Guarantees

The Fund and each of its wholly-owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, 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.

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 Audited Consolidated Financial Statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis, including those related to litigation, unit based compensation and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Canexus Limited Partnership

Basis of Presentation

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' assets and liabilities on August 17, 2005 and the equity of Canexus LP represents the equity of the Chemicals Business at that date.

The consolidated statements of income and cash flows for the year ended December 31, 2006 reflect the activities of Canexus LP. The consolidated statements of income and cash flows for the year ended December 31, 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 December 31, 2005.

Executive Summary

Our first full year of operation as a stand-alone business saw the successful achievement of our key financial and operating objectives. Given the significant negative impact of the change in the Canadian/US dollar exchange rate from the prior year, the volatility of energy prices and the slowdown in the United States economy on our financial results, this achievement is indicative of the ability of the business to adapt to changing conditions.

While the mid year slowdown in the US economy resulted in reduced construction and a subsequent downturn in the chlor-alkali industry, we were able to maintain very high operating rates in our chlor-alkali business until December which is a key

factor in our ability to optimize our return from this business segment. On the sodium chlorate side, tight sodium chlorate supply/demand conditions and strengthening pulp prices resulted in improved sodium chlorate market prices. We were able to take advantage of the volatility in energy costs in our deregulated electricity regions to reduce our costs through the management of electricity purchase and sale agreements. In Brazil we enjoyed another outstanding year, with demand for all our products remaining very solid from both our primary customer and the merchant side of our business.

We identified and are actively working on a number of opportunities that will provide growth for the business. The most active of these is the expansion of our sodium chlorate facility at Brandon, Manitoba. This expansion is due to come on stream early in the first quarter of 2008, increasing our capacity in Brandon by 33,000 tonnes, further strengthening our competitive cost position. Further opportunities associated with our North Vancouver chlor-alkali facility are currently being assessed. These include a technology conversion project as well as an opportunity to expand our presence in the caustic soda market in the Pacific Northwest in light of Dow Chemicals' decision to close their chlor-alkali production facility in Fort Saskatchewan, Alberta in late 2006.

A significant milestone completed in late 2006 was the successful conversion of our IT systems from Nexen to Canexus. This was the last support area to be transitioned from Nexen to Canexus which now operates as a completely stand-alone entity from Nexen.

On December 6, 2006, Canexus acquired foreign exchange call options on US \$5.0 million per month which entitles us to sell US dollars and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar from January 17, 2007 through to July 11, 2007 at a cost of \$632,000. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. This new call option program protects more than half of our net US dollar cash flow per month through July 11, 2007. All long-term debt is denominated in US dollars and we continue to take advantage of opportunities to purchase materials and equipment for our Brandon expansion in US dollars to further manage currency risk.

Highlights

- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder, Nexen Inc. were \$0.8748 per Unit for total distributions of \$72.0 million.
- The Brandon plant expansion project is on schedule and on budget with over 75 per cent of total estimated project costs committed. This expansion project will boost plant capacity by approximately 12 per cent when completed early in the first quarter of 2008.
- Record operating results and sales revenue in South American business unit contributed strong cash flow.
- Transition of all head office services from Nexen Inc. to Canexus completed in late 2006 on budget and ahead of schedule.

Selected Annual Financial Information for the Years Ended December 31

CAD thousands, except as noted	2006	2005	2004
Sales Volumes			
Sodium Chlorate (000s MT)	443	447	458
Chlor-alkali (000s MECU)	195	195	199
Sales Revenues	405,331	397,423	377,933
Cost of Goods Sold	285,716	275,211	273,248
Gross Margin ⁽¹⁾	119,615	122,212	104,685
Gross Margin (%) ⁽¹⁾	30%	31%	28%
Net Income	47,143	54,345	57,162
Plus: Provision for Income Taxes	789	3,006	(69)
Plus: Depreciation and Amortization	40,223	50,739	37,100
Plus: Interest Expense	10,713	3,242	–
EBITDA ⁽¹⁾	98,868	111,332	94,193
Cash Distributions Declared (\$/Unit)	0.8748	0.3252	n/a
Capital Expenditures			
Maintenance	12,098	14,161	10,957
Continuous Improvement	1,242	–	–
Infrastructure and IT	5,215	–	–
Expansion	8,799	218	46,673
Total Capital Expenditures	27,354	14,379	57,630
Average Foreign Exchange Rate (CAD \$ to US \$)	0.88	0.82	0.77
at December 31	2006	2005	2004
Total Assets	474,098	485,127	606,325
Total Long-Term Liabilities	221,584	216,451	45,302

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

The operations of Canexus LP currently includes sodium chlorate production facilities at Beauharnois, Quebec, Brandon, Manitoba, Bruderheim, Alberta, and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in Brazil. The Chemicals Business acquired by Canexus LP on August 18, 2005 does not include the Amherstburg, Ontario facility, which was retained by Nexen and shut down on July 31, 2005. However, the historical financial information in this MD&A includes the results of the

Amherstburg facility prior to August 18, 2005.

In October 2004, the Brandon sodium chlorate plant completed a significant expansion which increased practical production capacity by approximately 33% to 263,300 MT per year making it the largest capacity sodium chlorate plant in the world and one of the lowest cost sodium chlorate facilities in North America. The expansion was primarily completed by relocating to Brandon the production capacity that was idled in 2002 at the Taft, Louisiana production facility. Further optimization has increased Brandon's practical capacity to 266,700 MT per year. Another major expansion is being implemented to increase the capacity to 299,000 MT per year. The latest Brandon expansion is scheduled to be complete in early 2008 at an estimated cost of \$50 million.

Gross margin increased from 28% in 2004 to 30% in 2006. The expansion of our Brandon sodium chlorate plant positively impacted gross margins as noted above. In addition, increased gross margins in our chlor-alkali business, resulting from higher realized selling prices, were partially offset by decreases in our gross margin percentages in Brazil. The decrease in our gross margin percentages in Brazil were the result of increases in electricity rates in the country, about 80 per cent of which are passed through to our primary customer under our long-term fixed-margin contract, and the expansion of our merchant business which attracts a lower gross margin.

Results of Operations

Changes in Net Income 2006 versus 2005

Net Income at December 31, 2005	54,345
Items Increasing (Decreasing) Net Income	
Sales Revenues	7,908
Cost of Goods Sold	(10,505)
General and Administrative Expenses	(451)
Interest Expense	(7,471)
Interest on Loans to Affiliates	(696)
Depreciation and Amortization	10,516
Foreign Exchange Options	(2,330)
Currency Translation Gains	(8,081)
Change in Fair Value of Electricity Forward Swaps	2,229
Income Taxes	2,217
Other	(538)
Net Income at December 31, 2006	47,143

Net income for the year ended December 31, 2006 decreased by \$7.2 million or 13 per cent over the year ended December 31, 2005. EBITDA for the year ended December 31, 2006 decreased by \$12.5 million or 11% over the year ended December 31, 2005.

Net income decrease due to a decrease in gross margin of \$2.6 million

	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Total
2006				
Sales Revenues	189,607	133,248	82,476	405,331
Cost of Goods Sold	140,335	87,579	57,802	285,716
Gross Margin ⁽¹⁾	49,272	45,669	24,674	119,615
Gross Margin (%) ⁽¹⁾	26%	34%	30%	30%
	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Total
2005				
Sales Revenues	192,920	136,709	67,794	397,423
Cost of Goods Sold	139,326	89,869	46,016	275,211
Gross Margin ⁽¹⁾	53,594	46,840	21,778	122,212
Gross Margin (%) ⁽¹⁾	28%	34%	32%	31%

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment decreased 2 per cent from \$192.9 million in 2005 to \$189.6 million in 2006 due to lower realized selling prices (in spite of higher market prices) resulting from the significant strengthening of the Canadian dollar and a decline in sales volumes of 2 per cent, reducing gross margins from 28 per cent to 26 per cent.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment decreased 3 per cent from \$136.7 million in 2005 to \$133.2 million in 2006 due to a 4 per cent decline in realized selling prices partially offset by a 1 per cent increase in sales volumes. The decline in realized selling prices was due to the strengthening of the Canadian dollar, a late-year downturn in the water treatment segment of our business and a modest expected cyclical downturn in the chlor-alkali industry in general. Gross margins for the North American chlor-alkali business remained flat at 34 per cent as increased sales volumes combined with lower natural gas and salt costs were offset by the decline in realized selling prices.

Brazil

Sales revenue in Brazil increased 22 per cent from \$67.8 million for 2005 to \$82.5 million for 2006. This increase was the result of higher sodium chlorate sales volumes and higher average realized selling prices for both sodium chlorate and chlor-alkali in 2006. Sodium chlorate sales volumes increased by 6 per cent setting a new record and reflecting strong demand by both our primary customer and the merchant market. The increases in average realized selling prices for both sodium chlorate and chlor-alkali were due to the pass through nature of the contract with our primary customer which contributes to higher sales revenues as costs increase. Electricity costs and the purchase of caustic soda on the open market to supply our primary customer's increased demand contributed to this increase in costs resulting in gross margin percentages decreasing to 30 per cent from 32 per cent the prior year.

Higher general and administrative costs decrease net income by \$0.5 million

The increase in general and administrative costs for 2006 was primarily due to higher costs incurred as a stand-alone entity including public entity related and personnel costs.

Interest expense decreases net income by \$7.5 million

The increase in interest expense was primarily due to credit facility borrowings outstanding for the full year in 2006 versus the period August 18 to December 31 in 2005 and to higher interest rates in 2006. The credit facility was established and borrowings drawn to partially fund the acquisition of the Chemicals Business on August 18, 2005.

Lower interest revenue from affiliates decreases net income by \$0.7 million

Interest on loans to Nexen affiliates decreased in 2006 as all interest-bearing borrowings were repaid and the facilities cancelled in early 2005.

Lower depreciation expense increased net income by \$10.5 million

Depreciation expense declined for the year ended December 31, 2006 as compared to the year ended December 31, 2005 primarily due to the \$12.1 million impairment charge recorded in June 2005 for the Amherstburg, Ontario plant closed by Nexen in July 2005.

Foreign exchange options decrease net income by \$2.3 million

Realized gains of \$9.7 million were offset by a \$7.7 million mark-to-market fair value loss resulting in a net gain of \$2.0 million for the year ended December 31, 2006. This compares to a realized gain of \$3.0 million and a \$1.3 million mark-to-market fair value gain for a total gain of \$4.3 million for the year ended December 31, 2005. Canadian dollar foreign exchange call options on US \$9.5 million expired on August 9, 2006. These options entitled Canexus to sell US \$9.5 million per month and acquire Canadian dollars at a price of US \$0.813 per Canadian dollar. Additional Canadian dollar foreign exchange call options were purchased in April 2006, which entitled Canexus to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.85 per Canadian dollar from August 16, 2006 until January 10, 2007, and in December 2006, which entitle Canexus to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar from January 17, 2007 to July 11, 2007.

Currency translation gains decrease net income by \$8.1 million

During the year ended December 31, 2006, fluctuations in exchange rates resulted in unrealized losses (\$0.2 million) and realized gains (\$1.5 million) for a net gain of \$1.3 million. This compares to the year ended December 31, 2005 with unrealized gains of \$7.9 million and realized gains of \$1.5 million for a total gain of \$9.4 million. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the year ended December 31, 2006 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$0.4 million as compared to a realized currency translation gain of \$6.9 million for the year ended December 31, 2005.

Approximately two thirds of our North American sales revenue is denominated in US dollars and approximately 80 per cent of our Brazilian sales revenue is sold under a long-term fixed US dollar margin contract. Our US dollar denominated debt is a natural hedge of this exposure to the US dollar, however we do not designate our US dollar debt or foreign exchange options contracts as hedges for accounting purposes.

The change in fair value of electricity forward swaps increases net income by \$2.2 million

Canexus uses forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. At December 31, 2006 and March 6, 2007, 262,800 Megawatt-hours (MWh) had been contracted for 2007 at a weighted average price of \$66.12 per MWh.

The fair value of these swap contracts was \$2.2 million as at December 31, 2006. At December 31, 2005 the financial impact of mark-to-market adjustments on electricity forward swap contracts was not material.

Lower income taxes increase net income by \$2.2 million

Income taxes decreased for the year ended December 31, 2006 compared to the year ended December 31, 2005 due to the recognition of previously unrecognized tax benefits in our Brazilian subsidiary.

Other decreases net income by \$0.5 million

The decrease in other for the year ended December 31, 2006 was due primarily to recognizing a provision for doubtful accounts receivable of \$1.8 million partially offset by an increase in interest income earned on our restricted investments.

Capital Expenditures

Capital expenditures for the year ended December 31, 2006 were \$27.4 million compared to the year ended December 31, 2005 of \$14.4 million. This increase was due primarily to \$5.2 million of IT and Infrastructure capital spent and to increased expansion capital expenditures of \$8.6 million. The increase in expansion capital expenditures was related to the expansion of our Brandon plant (\$7.5 million) and to the potential technology conversion project at our North Vancouver plant (\$1.3 million). The IT and Infrastructure capital is related to the transition of Canexus to a stand-alone entity and was funded by Nexen Inc. on August 18, 2005.

Summary of Quarterly Results

Information for the three months ended December 31, 2006, September 30, 2006, June 30, 2006, March 31, 2006 and December 31, 2005 is that of Canexus LP. Information for the three months ended September 30, 2005 includes information from both Canexus LP and its predecessor, the Chemicals Business of Nexen, not all of the operations of which were acquired from Nexen. Information for the three months ended prior to September 30, 2005 is for the Chemicals Business of Nexen, Canexus LP's predecessor.

Three Months Ended	2006			
	Dec	Sept	June	Mar
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	115	111	105	113
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	44	51	52	47
Sales Revenues	100,862	100,805	97,055	106,609
Cost of Goods Sold	73,013	70,413	67,230	75,060
Gross Margin ⁽¹⁾	27,849	30,392	29,825	31,549
Gross Margin (%) ⁽¹⁾	28%	30%	31%	30%
Net Income	3,794	11,043	21,784	10,522
Plus: Provision for Income Taxes	(1,335)	592	873	659
Plus: Depreciation and Amortization	10,319	10,001	9,942	9,961
Plus: Interest Expense	2,827	2,807	2,634	2,445
EBITDA ⁽¹⁾	15,605	24,443	35,233	23,587
Maintenance	3,814	2,908	3,382	1,994
Continuous Improvement	842	98	302	–
Infrastructure and IT	874	–	2,534	1,807
Expansion	6,414	2,083	94	208
Total Capital Expenditures	11,944	5,089	6,312	4,009
Average Foreign Exchange Rate (CAD \$ to US \$)	0.88	0.89	0.88	0.87

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

2005

Three Months Ended	Dec	Sept	June	Mar
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	113	114	108	113
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	50	46	52	45
Sales Revenues	101,904	99,524	99,462	96,533
Cost of Goods Sold	71,948	71,779	66,410	65,074
Gross Margin ⁽¹⁾	29,956	27,745	33,052	31,459
Gross Margin (%) ⁽¹⁾	29%	28%	33%	33%
Net Income	10,844	23,802	4,454	15,245
Plus: Provision for Income Taxes	(742)	937	1,991	820
Plus: Depreciation and Amortization	9,129	9,265	22,303	10,042
Plus: Interest Expense	2,167	1,075	–	–
EBITDA ⁽¹⁾	21,398	35,079	28,748	26,107
Maintenance	5,298	4,946	3,045	872
Expansion	–	–	218	–
Total Capital Expenditures	5,298	4,946	3,263	872
Average Foreign Exchange Rate (CAD \$ to US \$)	0.85	0.82	0.81	0.81

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

Fourth Quarter 2006

Changes in Net Income Fourth Quarter 2006 versus Third Quarter 2006

Net Income for Third Quarter 2006	11,043
Items Increasing (Decreasing) Net Income	
Sales Revenues	57
Cost of Goods Sold	(2,600)
General and Administrative Expenses	(1,510)
Interest Expense	(20)
Interest on Loans to Affiliates	–
Depreciation and Amortization	(318)
Foreign Exchange Options	(229)
Currency Translation Gains	(6,498)
Change in Fair Value of Electricity Forward Swaps	2,855
Income Taxes	1,927
Other	(913)
Net Income for Fourth Quarter 2006	3,794

Net income for the fourth quarter of 2006 decreased by \$7.2 million or 66%, from the third quarter of 2006.

Net income decrease due to a decrease in gross margin of \$2.5 million

Fourth Quarter 2006	North America		Brazil	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	48,276	29,934	22,652	100,862
Cost of Goods Sold	37,158	20,796	15,059	73,013
Gross Margin ⁽¹⁾	11,118	9,138	7,593	27,849
Gross Margin (%) ⁽¹⁾	23%	31%	34%	28%

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

Third Quarter 2006	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Total
Sales Revenues	47,829	33,534	19,442	100,805
Cost of Goods Sold	33,980	21,887	14,546	70,413
Gross Margin ⁽¹⁾	13,849	11,647	4,896	30,392
Gross Margin (%) ⁽¹⁾	29%	35%	25%	30%

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 1 per cent from \$47.8 million for the third quarter of 2006 to \$48.3 million in the fourth quarter 2006 due to a three per cent increase in sales volumes as we resumed shipping to a Canadian pulp mill that had been shut down for most of 2006. Gross margins declined from 29 per cent to 23 per cent as a result of the timing of period expenses and to an increase in electricity costs in Alberta.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment decreased 11 per cent from \$33.5 million for the third quarter of 2006 to \$29.9 million for the fourth quarter of 2006 due to an 18 per cent decline in sales volumes. The operating rate of the North Vancouver chlor-alkali facility was reduced to approximately 85 per cent in late November 2006 as seasonal slowdowns in the water treatment and construction markets reduced chlorine demand. The plant returned to full operating rates in late January 2007. Gross margins declined from 35 per cent to 31 per cent as a result of a 3 per cent decline in realized sales prices and higher fixed costs per MECU of production due to lower volumes.

Brazil

Sales revenue in Brazil increased 17 per cent from \$19.4 million for the third quarter of 2006 to \$22.7 million for the fourth quarter of 2006 primarily as a result of higher sales volumes for both sodium chlorate and chlor-alkali to meet an increase in demand by both our primary customer and the merchant market. Gross margin percentages increased to 34 per cent from 25 per cent as the third quarter was impacted both by a shut down of our primary customer's facilities for maintenance in August 2006 and a shut down of our own facilities for maintenance in September 2006.

Higher general and administrative costs decrease net income by \$1.5 million

The increase in general and administrative costs for the fourth quarter of 2006 from the third quarter of 2006 was due to costs associated with the design of new internal controls over financial reporting related to processes transitioned from Nexen, to higher general and administrative costs associated with operating our stand-alone Information Technology environment following transition from Nexen in November and to the timing of certain other expenditures.

Currency translation gains decrease net income by \$6.5 million

During the quarter ended December 31, 2006, fluctuations in exchange rates resulted in unrealized losses (\$6.6 million) and realized gains (\$0.3 million) for a net loss of \$6.3 million. This compares to the quarter ended September 30, 2006 with realized gains of \$0.2 million. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the quarter ended December 31, 2006 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$7.7 million as compared to a \$0.1 million loss for the quarter ended September 30, 2006.

The change in fair value of electricity forward swaps increases net income by \$2.9 million

Canexus uses forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. At December 31, 2006 and March 6, 2007, 262,800 MWh had been contracted for 2007 at a weighted average price of \$66.12 per MWh.

The fair value of these swap contracts was \$2.2 million as at December 31, 2006. At September 30, 2006 the fair value of these contracts was negative \$0.3 million.

Lower income taxes increase net income by \$1.9 million

Income taxes decreased for the quarter ended December 31, 2006 compared to the quarter ended September 30, 2006 due to the recognition of previously unrecognized tax benefits in our Brazilian subsidiary.

Changes in Net Income Fourth Quarter 2006 versus Fourth Quarter 2005**Net Income for Fourth Quarter 2005**

Items Increasing (Decreasing) Net Income	10,844
Sales Revenues	(1,042)
Cost of Goods Sold	(1,065)
General and Administrative Expenses	(1,140)
Interest Expense	(660)
Interest on Loans to Affiliates	–
Depreciation and Amortization	(1,190)
Foreign Exchange Options	246
Currency Translation Gains	(5,896)
Change in Fair Value of Electricity Forward Swaps	2,542
Income Taxes	593
Other	562
Net Income for Fourth Quarter 2006	3,794

Net income for the fourth quarter of 2006 decreased by \$7.1 million or 65%, over the fourth quarter of 2005.

Net income decrease due to a decrease in gross margin of \$2.1 million

Fourth Quarter 2006	North America	North America	Brazil	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	48,276	29,934	22,652	100,862
Cost of Goods Sold	37,158	20,796	15,059	73,013
Gross Margin ⁽¹⁾	11,118	9,138	7,593	27,849
Gross Margin (%) ⁽¹⁾	23%	31%	34%	28%

Fourth Quarter 2005	North America	North America	Brazil	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	47,819	35,273	18,812	101,904
Cost of Goods Sold	34,814	24,170	12,964	71,948
Gross Margin ⁽¹⁾	13,005	11,103	5,848	29,956
Gross Margin (%) ⁽¹⁾	27%	31%	31%	29%

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 31.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 1 per cent from \$47.8 million for the fourth quarter of 2005 to \$48.3 million in the fourth quarter 2006 due to a 1 per cent increase in sales volumes. Realized selling prices were flat despite a stronger Canadian dollar in the fourth quarter of 2006 versus the fourth quarter of 2005. Gross margins declined from 27 per cent to 23 per cent as a result of timing of period expenses offset somewhat by lower electricity costs in Alberta.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment decreased 15 per cent from \$35.3 million for the fourth quarter of 2005 to \$29.9 million for the fourth quarter of 2006 due to declines in both sales volumes and realized selling prices. The operating rate of the North Vancouver chlor-alkali facility was reduced to approximately 85 per cent in late November 2006 in response to lower chlorine demand resulting primarily from a seasonal downturn in the water treatment sector. The decline in price is the result of a modest expected cyclical downturn in the chlor-alkali industry. Gross margins for the North American chlor-alkali business remained flat at 31 per cent as a result of the reduction in the operating rate and lower realized selling prices being offset by lower natural gas and salt costs as well as lower maintenance expenses in the fourth quarter of 2006.

Brazil

Sales revenue in Brazil increased 20 per cent, from \$18.8 million for the fourth quarter of 2005 to \$22.7 million for the fourth quarter of 2006 as a result of the pass through nature of the contract with our major customer resulting in higher revenues as costs increase and to increased selling prices in the merchant market. Gross margins improved from 31 per cent to 34 per cent due to improved margins in the merchant market.

Higher general and administrative costs decrease net income by \$1.1 million

The increase in general and administrative costs for the fourth quarter of 2006 from the fourth quarter of 2005 was due to costs associated with the design of new internal controls over financial reporting related to processes transitioned from Nexen, to higher general and administrative costs associated with operating our stand-alone Information Technology environment following transition from Nexen in November and to the timing of certain other expenditures.

Higher depreciation and amortization decreases net income by \$1.2 million

Depreciation and amortization increased in the fourth quarter of 2006 as compared to the fourth quarter of 2005 primarily as a result of maintenance capital spending and IT and Infrastructure investments related to the transition of Canexus to a stand-alone entity.

Currency translation gains decrease net income by \$5.9 million

During the quarter ended December 31, 2006, fluctuations in exchange rates resulted in unrealized losses (\$6.6 million) and realized gains (\$0.3 million) for a net loss of \$6.3 million. This compares to the quarter ended December 31, 2005 with unrealized losses of \$2.3 million and realized gains of \$1.9 million for a net loss of \$0.4 million. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the quarter ended December 31, 2006 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$7.7 million as compared to a \$0.8 million loss for the quarter ended December 31, 2005.

The change in fair value of electricity forward swaps increases net income by \$2.5 million

Canexus uses forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. At December 31, 2006 and March 6, 2007, 262,800 MWh had been contracted for 2007 at a weighted average price of \$66.12 per MWh.

The change in fair value of these swap contracts was \$2.5 million for the quarter ended December 31, 2006. For the quarter ended December 31, 2005 the financial impact of mark-to-market adjustments on these contracts was not material.

Lower income taxes increase net income by \$0.6 million

Income taxes decreased for the quarter ended December 31, 2006 compared to the quarter ended December 31, 2005 due to lower earnings in certain subsidiary companies and to the recognition of previously unrecognized tax benefits in our Brazilian subsidiary.

Outlook

Sodium Chlorate

The North America sodium chlorate supply/demand balance shifted from balanced to tight in 2006 due to the closure of two production facilities operated by a competitor. Operating rates in 2007 are projected to be the highest in 6 years, averaging 95 per cent. Sodium chlorate supply is expected to remain tight over the immediately foreseeable future, with the possibility of periodic shortages, particularly during periods when incremental industry production is curtailed due to electricity price spikes or maintenance outages. Canexus' Brandon plant expansion project is on schedule; the expanded capacity continues to be projected to be on-stream in the first quarter of 2008. Canexus management will continue to assess the North American sodium chlorate market conditions as the expansion project proceeds, and are committed to rationalizing higher cost excess capacity as appropriate. Decreased chlorate demand resulting from pulp mill shutdowns in the first half of 2006 was largely offset by increased demand from other mills, higher exports and by the restart of one pulp mill that was idled in the second and third quarters of 2006 due to a strike. Increased chlorate demand at North American mills is driven by a number of factors including higher paper brightness standards, modifications to pulp mill operating conditions to increase throughput and improve manufacturing cost efficiency and increased production to off-set shuttered capacity. Market pulp prices continue to trend upward, with Northern Bleached Softwood Kraft (NBSK) prices currently at their highest level since early 1996. The tight supply in the sodium chlorate market fundamentals, coupled with the continued strength of the Canadian dollar, enabled price increase announcements effective in the third and fourth quarters of 2006 and the first quarter of 2007 by North American chlorate producers.

Canexus operations in Brazil are well-poised to deliver strong results for 2007. Demand for sodium chlorate continues to be strong in the region. Canexus Brazil set new sodium chlorate production and sales records in 2006. South America remains 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. Although a strong performance is expected in 2007 for Brazil it is anticipated that current income taxes will be nominal due to the recognition of previously accumulated foreign exchange losses for income tax purposes.

Chlor-alkali

North American chlor-alkali industry operating rates averaged 90 per cent in 2006, consistent with strong demand. Chlorine demand eased in the fourth quarter of 2006, consistent with seasonal water treatment demand cycles and a slowdown in construction markets which consume chlorine derivative products. Chlorine consumption in the water treatment market is projected to rebound in the second quarter of 2007; chlorine derivative markets are also expected to recover. The combined impact is expected to restore chlorine demand to 2006 levels in the second quarter of 2007.

Caustic soda supply/demand fundamentals improved in Western Canada and the US Pacific Northwest (Canexus' focus markets), due in part to the closure of The Dow Chemical Company's Fort Saskatchewan, Alberta plant in October 2006. Following that facility closure, Canexus' North Vancouver facility is one of only two remaining chlor-alkali plants in the region and accounts for 69% of the caustic manufacturing capacity in Western Canada and the US Pacific Northwest. The region is now a net importing region; consequently, the caustic supply/demand balance will depend more on imports which are subject to higher transportation cost than locally produced product. No further changes are expected in caustic supply/demand balance over the near term.

North American chlor-alkali industry operating rates moderated in the fourth quarter of 2006 with the seasonal downturn in chlorine demand. Consequently, caustic supply was reduced which has biased caustic prices to rise. Electrochemical Unit prices are expected to remain relatively stable in the near term with some potential for moderation later in 2007.

Liquidity and Capital Structure

	2006	2005
Net Debt ⁽¹⁾		
Bank Debt	173,630	171,387
Less: Cash and Short-Term Investments	(3,979)	(4,549)
Less: Non-Cash Working Capital	(37,575)	(47,322)
Total Net Debt	132,076	119,516
Total Equity ⁽²⁾	200,398	225,378

Notes:

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

⁽²⁾ At December 31, 2006 and December 31, 2005, there were 31,750,000 Ordinary LP Units (held indirectly by the Fund) 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 Fund Units at the option of Nexen Inc. at any time.

Liquidity

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 (after distributions), if any, 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 each period:

	2006	2005	Change
Cash Flow from Operating Activities	81,302	96,434	(15,132)
Cash Flow from (used in) Financing Activities	(54,404)	401,467	(455,871)
Cash Flow used in Investing Activities	(27,451)	(493,990)	466,539

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. An increase in contributions to the defined benefit pension plans established following the purchase of the Chemicals Business from Nexen Inc., interest costs and a temporary net increase in non-cash working capital relating to operating activities have resulted in a decrease in cash generated from operating activities.

Cash Flow from (used in) Financing Activities

The change in cash used in financing activities from the same period in the prior year is comprised of:

Issuance of Ordinary LP Units, Net	(301,750)
Repurchase of Exchangeable LP Units	17,500
Proceeds from Short-Term Borrowings, Net	11,883
Proceeds from Long-Term Debt, Net	(178,027)
Distributions to Unitholders	(51,229)
Funding of Asset Retirement Expenditures from Restricted Investments	518
Withdrawals from Divisional Equity	34,790
Due to Affiliates, Net	10,444
	(455,871)

Cash Flow used in Investing Activities

The change in cash used in investing activities from the same period in the prior year is comprised of:

Acquisition of Chemicals Business from Nexen Inc.	484,250
Increase in Capital Expenditures	(12,975)
Changes in Non-Cash Working Capital	(4,697)
Other	(39)
	466,539

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, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in volumes and 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.

Debt Covenants

As at December 31, 2006 Canexus LP was compliant with all debt covenants contained in its credit facility agreement.

Capital Resources

Canexus LP has commitments of \$33.6 million as at December 31, 2006 and \$38.1 million as at March 6, 2007 related to the Board approved \$50 million expansion to our Brandon, Manitoba sodium chlorate plant. This expansion is being financed through our existing revolving credit facility. Management anticipates ongoing annual maintenance capital expenditures of approximately \$14 million, which will be financed primarily out of cash flows from operating activities. Additional growth opportunities, including production de-bottlenecking opportunities or technology conversion opportunities, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Fund 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 \$203 million, \$200 million of which was used to fund a portion of the purchase price for the Chemicals Business. The Credit Facility is available for draw down during the revolving period, which currently extends to August 18, 2010 and which may be extended each year, at the option of the lenders, for an additional year to provide for an ongoing four year term. At December 31, 2006, \$173.6 million was outstanding (classified as long-term debt) on the credit facility. The credit facility may also be used to fund future acquisitions and capital expenditures. Short-term Swing Line Loans of up to \$20 million are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million. As at December 31, 2006, there were \$11.9 million of Swing Line Loans outstanding.

Canexus is the applicant on two standby Letters of Credit totaling \$1,507,000 in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations and in favour of the Independent System Operator for power curtailment obligations. The CIBC Mellon Letter of Credit expires on January 1, 2008. The Independent System Operator Letter of Credit expires on December 1, 2007 and is automatically renewed for one year periods unless otherwise advised.

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 December 31, 2006 these obligations and commitments were as follows:

	Total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases ^{(1) (2)}	74,455	17,200	26,525	19,182	11,548
Purchase Obligations ⁽⁵⁾	163,389	17,947	44,170	48,321	52,951
Expansion Capital Expenditures ⁽⁶⁾	42,500	37,000	5,500	–	–
Asset Retirement Obligations ⁽³⁾	72,758	990	950	1,375	69,443
Long-Term Debt ⁽⁴⁾	173,630	–	–	173,630	–
Total	526,732	73,137	77,145	242,508	133,942

Notes:

- (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, vehicles, software maintenance contracts and other property and equipment leases.
- (3) As at December 31, 2006, undiscounted asset retirement obligations are \$73 million. The estimated fair value (\$41.0 million) of these obligations has been provided for in Canexus LP's Audited Consolidated Financial Statements. The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates. Canexus LP has \$13.7 million of restricted investments to be used for future site remediation and asset retirement obligations.
- (4) Long-Term Debt amounts are included in Canexus LP's December 31, 2006 Audited Consolidated Balance Sheet. These balances will fluctuate and do not have fixed repayment terms. Interest is payable on outstanding balances at rates which vary 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 obligations include the contractual commitment for the purchase of electricity in Brazil, 80 per cent of the cost of which is passed through to our primary customer.
- (6) Expansion of the Brandon sodium chlorate plant.

Purchase arrangements made in the ordinary course of business have been excluded as they are discretionary.

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.

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the December 31, 2006 Audited Consolidated Balance Sheet however, these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

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 Canexus LP's liquidity, consolidated financial position or results of operations.

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, consolidated 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 recorded an adequate provision for income taxes based on available information. Canexus LP is indemnified by Nexen for any claims for income tax re-assessments for periods prior to August 18, 2005.

Guarantees

We entered into a credit facility with a syndicate of financial institutions in 2005. The credit facility consists of a \$350 million, revolving facility maturing on August 18, 2010, 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 draw down 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 draw down the credit facility in either Canadian or US dollars. Short-term Swing Line Loans of up to \$20 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests, and subordination agreements.

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 Canexus Income Fund's Annual Information Form for the year ended December 31, 2006, which will be filed on the Fund's SEDAR profile at www.sedar.com prior to March 31, 2007.

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 \$3.8 million per year. For every \$10 change in the price per MECU of chlor-alkali products produced in North America, sales revenue would change by \$1.5 million per year.

These sensitivities to changes in prices assume annual North American sodium chlorate sales of 380,000 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 per cent 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.

From time to time Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At December 31, 2006 and March 6, 2007, 262,800 MWh had been contracted for 2007 at a weighted average price of \$66.12 per MWh. We recorded a mark-to-market gain of \$2.2 million on these electricity forward swap contracts at December 31, 2006.

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market as well as the majority of sales margins 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 \$0.88 for 2006 with a high of US \$0.91 and a low of US \$0.85. For 2005 the rate averaged US \$0.82 with a high of US \$0.88 and a low of US \$0.79. For every US \$0.01 increase in the Canadian/US dollar exchange rate, net income before taxes would decrease by \$1.5 million per year, before the impact of hedging instruments.

To manage the exposure to the Canadian/US exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenditures in US dollars. In addition, Canexus LP has secured foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to (1) sell US dollars and acquire Canadian dollars at a price of US \$0.85 per Canadian dollar from August 16, 2006 through to January 10, 2007 and (2) sell US dollars and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar from January 17, 2007 to July 11, 2007. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar.

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 from 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 Brazilian production is sold to Aracruz Celulose S.A. under a long-term sales agreement. Amounts receivable from Aracruz Celulose S.A. represent approximately 12 per cent of Canexus LP's total accounts receivable at December 31, 2006 and 2005.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

As at December 31, 2006, Canexus had foreign currency call option contracts in place on US \$5.0 million per month which entitle Canexus LP (1) to sell US dollars and acquire Canadian dollars at a price of US \$0.85 per Canadian dollar from August 16, 2006 through to January 10, 2007 and (2) sell US dollars and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar from January 17, 2007 to July 11, 2007. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar. Foreign currency call options on US \$9.5 million per month, which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.813 per Canadian dollar, expired in August 2006.

From time to time Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At December 31, 2006 and March 6, 2007, 262,800 MWh had been contracted for 2007 at a weighted average price of \$66.12 per MWh.

Transactions with Related Parties

In preparing the financial statements, all material inter-company accounts and transactions within the operations of Canexus LP have been eliminated.

On August 18, 2005 we entered into a Transition Services Agreement with Nexen Inc. whereby they provided certain services to assist in the transition of our business to a stand-alone entity. This agreement provided that, for a period of up to 18 months, Nexen Inc. would provide Canexus with certain requested administrative, operating and financial services in the same manner provided by Nexen Inc. for the 12 month period prior to August 18, 2005. These services were provided by Nexen Inc. on a cost-reimbursement basis including reimbursement of Nexen Inc. internal costs. We 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. As at December 31, 2006 all

services had been successfully transitioned. We incurred \$4,376,446 of costs under this Transition Services Agreement for the year ended December 31, 2006 and \$2,472,203 for the period August 18, 2005 to December 31, 2005.

Canexus LP purchases some of its electricity and natural gas requirements through a Nexen affiliate who acts as Canexus LP's agent. Canexus LP pays market rates for the electricity and natural gas and a marketing fee to the Nexen affiliate. The cost of the electricity and natural gas purchased in 2006 under these contracts was \$19,702,681 and \$8,187,603, respectively and marketing fees paid were \$28,894. In addition, Canexus LP entered into forward swap contracts with a Nexen affiliate to manage our exposure to the price of electricity in deregulated jurisdictions. Net proceeds from these forward swaps were \$4,084,072 for the year ended December 31, 2006. The cost of the electricity and natural gas purchased in 2005 under these contracts was \$14,257,652 and \$11,062,629 respectively and marketing fees paid were \$30,627. In addition, Canexus LP had entered into forward swap contracts with a Nexen affiliate to manage our exposure to the price of electricity in deregulated jurisdictions. Net payments on these forward swaps were \$50,273 for the year ended December 31, 2005.

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 would then be written down to their fair value.

Canexus LP's assets were assessed for impairment at the end of 2006 and no impairment was found based on future cash flow estimates used.

Cash flow estimates used for purposes of impairment assessments require assumptions about three primary elements — future sales prices, sales volumes and operating costs. Estimates of future sales prices require significant judgements about highly uncertain future events. 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 its operating sites by dismantling and removing production facilities and to remediate any damage caused at the end of plant operating life. 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, to the present value, the estimated retirement obligations associated with its chemical plants using a credit-adjusted risk free rate of 5.4 per cent. 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 which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

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.

Controls and Procedures

As of December 31, 2006, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

On August 18, 2005, Canexus Limited Partnership acquired the Chemicals Business from Nexen Inc. (see "General Description of The Fund and Canexus LP") and through its General Partner, Canexus Limited, also entered into a Transition Services Agreement whereby Nexen Inc. provided certain services to assist in the transition of our business to a stand-alone entity. This agreement provided that, for a period of up to 18 months, Nexen Inc. would provide Canexus with 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. Canexus agreed to take all reasonable steps to become self-sufficient with respect to the subject services as soon as possible. Canexus began to transition services provided by Nexen Inc. in 2005 and in December 2006 Canexus successfully completed the transition.

New internal controls over financial reporting were designed in 2005 and throughout 2006 (including in the fourth quarter) for business processes that were created or significantly modified as these business processes/services were transitioned from Nexen Inc. to Canexus. Due to the timing of the transition of information systems from Nexen Inc. to Canexus which occurred in November 2006, the SAP information systems security roles inherited do not meet the business segregation of duties requirements of Canexus. Remediation activities/controls have been implemented to ensure there are no material weaknesses in the design of internal controls over financial reporting resulting from this issue. A detailed review and amendment as necessary of SAP information systems security roles is being undertaken in 2007.

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 standards.

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.

Forward Looking Statements and Information

This MD&A contains forward-looking statements and information 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 Annual Information Form for the year ended December 31, 2006, which will be filed on the Fund’s SEDAR profile at www.sedar.com prior to March 31, 2007. 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.

Financial Statements

Management's Report

February 12, 2007

To the Unitholders of Canexus Income Fund:

We are responsible for the preparation and fair presentation of the consolidated financial statements, as well as the financial reporting process that gives rise to such consolidated financial statements. This responsibility requires us to make accounting judgments and estimates which are made after consideration of the information available. Fulfilling this responsibility requires the preparation and presentation of our consolidated financial statements in accordance with generally accepted accounting principles in Canada.

We also have responsibility for the preparation and fair presentation of other financial information in this report and to ensure the consistency of this information with the financial statements. We are responsible for the development and implementation of internal controls over the financial reporting process. These controls are designed to provide reasonable assurance that relevant and reliable financial information is produced. We believe that our internal controls over financial reporting provide reasonable assurance that our assets are safeguarded against loss from unauthorized use or disposition, that receipts and expenditures of Canexus Income Fund are made only in accordance with authorization of management and directors of Canexus Limited, administrator of Canexus Income Fund, and that our records are reliable for preparing our consolidated financial statements and other financial information in accordance with applicable generally accepted accounting principles and in accordance with applicable securities rules and regulations. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors of Canexus Limited, administrator of Canexus Income Fund, is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting responsibilities. Their financial statement related responsibilities are fulfilled mainly through an Audit Committee. The Audit Committee is composed entirely of independent directors, and includes 3 directors with financial expertise. The Audit Committee meets regularly with management and the independent auditors, to review accounting policies, financial reporting and internal control issues and to ensure each party is properly discharging its responsibilities. The Audit Committee is responsible for the appointment and compensation of the independent auditors and also considers their independence, reviews their fees and (subject to applicable securities laws), pre-approves their retention for any permitted non-audit services and their fee for such services. The independent auditors have full and unlimited access to the Audit Committee, with or without the presence of management.



Gary Kubera
President and Chief Executive Officer



Richard McLellan
Senior Vice President, Finance
and Chief Financial Officer

Auditors' Report

To the Unitholders of Canexus Income Fund:

We have audited the consolidated balance sheets of Canexus Income Fund (the "Fund") as at December 31, 2006 and December 31, 2005 and the consolidated statements of income, cash flows and unitholders' equity for the year ended December 31, 2006 and the period from June 28, 2005 to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from June 28, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 12, 2007



DELOITTE & TOUCHE LLP
Chartered Accountants

Consolidated Statements of Income

Canexus Income Fund

for the year ended December 31, 2006 and the period from June 28, 2005 to December 31, 2005

CAD thousands, except per unit amounts	2006	2005
		(Note 1)
Revenues		
Equity Income from Investment in Canexus Limited Partnership	18,190	11,518
Expenses		
Trust Administration Expenses	131	100
Unit Based Compensation (Notes 2(a) and 7)	1,937	393
	2,068	493
Net Income	16,122	11,025
Earnings Per Unit (Note 4)	0.51	0.35
Diluted Earnings Per Unit (Note 4)	0.51	0.35

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Canexus Income Fund

as at December 31, 2006 and December 31, 2005

CAD thousands	2006	2005
Assets		
Current Assets		
Cash	–	2
Distribution Receivable from Canexus Limited Partnership	2,315	2,315
Other	32	–
Total Current Assets	2,347	2,317
Investment in Canexus Limited Partnership (Note 5)	309,103	318,690
Total Assets	311,450	321,007
Liabilities and Equity		
Current Liabilities		
Accounts Payable and Accrued Liabilities	–	75
Due to Affiliates	258	25
Distribution Payable to Unitholders (Note 6)	2,315	2,314
Total Current Liabilities	2,573	2,414
Equity		
Unitholders' Equity (31,750,000 Fund Units outstanding)	306,547	318,200
Contributed Surplus (Notes 2(a) and 7)	2,330	393
Total Equity	308,877	318,593
Total Liabilities and Equity	311,450	321,007

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Canexus Limited, Administrator of Canexus Income Fund:



Gary L. Kubera
Director



Douglas P. Hayhurst
Director

Consolidated Statements of Cash Flows

Canexus Income Fund

for the year ended December 31, 2006 and the period June 28, 2005 to December 31, 2005

CAD thousands	2006	2005
		(Note 1)
Operating Activities		
Net Income	16,122	11,025
Charges and Credits to Income Not Involving Cash		
Equity Income from Investment in Canexus Limited Partnership	(18,190)	(11,518)
Unit Based Compensation (Notes 2(a) and 7)	1,937	393
Distributions Received from Canexus Limited Partnership	27,777	8,013
Change in Non-Cash Working Capital	127	100
	27,773	8,013
Financing Activities		
Issuance of Fund Units (Note 1)	–	317,500
Distributions Paid	(27,775)	(8,011)
	(27,775)	309,489
Investing Activities		
Investment in Canexus Limited Partnership	–	(317,500)
Increase (Decrease) in Cash	(2)	2
Cash – Beginning of Period	2	–
Cash – End of Period	–	2

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Unitholders' Equity

Canexus Income Fund

for the year ended December 31, 2006 and the period June 28, 2005 to December 31, 2005

CAD thousands	2006	2005
Beginning of Period	318,200	(Note 1) –
Units Issued Pursuant to Initial Public Offering	–	300,000
Units Issued Pursuant to Over-Allotment Option	–	17,500
Net Income	16,122	11,025
Distributions Paid	(25,460)	(8,011)
Distributions Payable	(2,315)	(2,314)
End of Period	306,547	318,200

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Income Fund

for the year ended December 31, 2006 and the period June 28, 2005 to December 31, 2005

Tabular amounts in CAD thousands, except unit and per unit amounts

1. Organization and Business of the Fund

Canexus Income Fund (the “Fund”, “we” or “our”) is an unincorporated open-ended trust established by the Fund Trust Indenture dated June 28, 2005, as amended and restated August 18, 2005, under the laws of Alberta. The Fund issued one initial unit on June 28, 2005 for cash proceeds of \$10. The Fund effectively commenced operations through its indirect investment in Canexus Limited Partnership (“Canexus LP”) on August 18, 2005. 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 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 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 (“General Partner”), which holds a 0.01% interest in Canexus LP. The Fund owns 100% of the shares of Canexus Limited, the 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 Unitholder 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.

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 December 31, 2006 and December 31, 2005 and the results of its operations and cash flows for the year ended December 31, 2006 and the period from June 28, 2005 to December 31, 2005.

(a) Changes in Accounting Principles

In the fourth quarter of 2006, we adopted EIC (Emerging Issues Committee) 162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date. EIC-162 provides that if an employee is eligible to retire on the grant date of a stock-based award, related compensation expense is recognized in full at that date as there is no ongoing service requirement to earn that award. In addition, if an employee becomes eligible to retire during the vesting period, related compensation expense is recognized over the period from the grant date to the retirement eligibility date on a graded vesting basis. Prior to the adoption of EIC-162, we did not consider the retirement dates of our employees in the determination of our stock-based compensation expense. EIC-162 is effective for interim and annual periods ending on or after December 31, 2006 and is to be adopted on a retroactive basis. The impact of adopting EIC-162 for the year ended December 31, 2006 was an increase in unit based compensation expense and a decrease in net income of \$75,360. As this amount was not material, we did not restate the three month periods ended March 31, 2006, June 30, 2006 or September 30, 2006. The impact for the period from August 18, 2005 to December 31, 2005 was not material and was not adjusted.

(b) 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.

(c) 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, unit based compensation and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

(d) 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.

(e) **Unit Based Compensation**

The Fund provides unit based compensation in the form of options, deferred trust units and accompanying 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, eligible retirement date or other expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing Fund Units and are not settled in cash.

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 December 31, 2006, 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 aggregate redemption price payable in cash in respect of any Fund Units tendered for redemption is limited to \$150,000 per year unless such limitation is waived by the administrator of the Fund. Redemptions in excess of this limit are, subject to all necessary regulatory approvals, payable by way of distributions of redemption notes or other assets held by the Fund.

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 as the denominator.

	2006	2005
		(Note 1)
Weighted average number of Fund Units outstanding	31,750,000	31,376,838
Units issuable pursuant to deferred trust units and bonus rights	41,572	19,261
Units issuable pursuant to options and bonus rights	27,250	16,387
Notional units to be purchased from proceeds of options, deferred trust units and bonus rights	(33,276)	(15,063)
Weighted average number of diluted Fund Units outstanding	31,785,546	31,397,423

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 year ended December 31, 2006, 39,792 weighted average deferred trust units and 1,780 corresponding weighted average notional bonus units and 25,087 weighted average unit options and 2,163 corresponding weighted average notional bonus units were included. We excluded 1,412,300 unit options and 126,473 corresponding notional bonus units as their exercise price was greater than the average Unit trading price and corresponding distributions declared.

In calculating the weighted average number of diluted Fund Units outstanding for the period June 28, 2005 to December 31, 2005, 19,000 weighted average deferred trust units and 261 corresponding weighted average notional bonus units and 16,367 weighted average unit options and 20 corresponding weighted average notional bonus units were included. We excluded 570,000 unit options and 20,550 corresponding notional bonus units as their exercise price was greater than the average Unit trading price and corresponding distributions declared.

5. Investment in Canexus LP

	Year Ended		Period Ended	
	December 31, 2006		December 31, 2005	
	Number of Ordinary LP Units	Investment	Number of Ordinary LP Units	Investment
Balance at Beginning of Period	31,750,000	318,690	–	–
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	–	18,190	–	11,518
Distributions Received from Canexus LP	–	(25,462)	–	(8,013)
Distributions Receivable from Canexus LP	–	(2,315)	–	(2,315)
Balance at End of Period	31,750,000	309,103	31,750,000	318,690

6. Cash Distributions

The Fund pays 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 table below shows the cumulative distributions declared:

Period Covered	Per Unit	Total
August 18, 2005 to September 30, 2005	0.1065	3,381
October 1, 2005 to December 31, 2005	0.2187	6,944
January 1, 2006 to March 31, 2006	0.2187	6,944
April 1, 2006 to June 30, 2006	0.2187	6,944
July 1, 2006 to September 30, 2006	0.2187	6,944
October 1, 2006 to December 31, 2006	0.2187	6,944
Total Distributions	1.2000	38,101

On December 8, 2006, the Fund declared a distribution of \$0.0729 per Unit payable to Unitholders of record December 29, 2006 to be paid on or about January 15, 2007.

7. Unit Based Compensation

The Fund has unit based compensation in the form of options, deferred trust units and corresponding bonus rights. 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

The Fund has granted options and corresponding bonus rights to officers and employees under the Trust Unit Incentive Plan.

Each option permits the holder to purchase one Fund Unit at a stated exercise price. The options granted 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 ("notional bonus units") 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 per cent of the issued and outstanding Units (on a non-diluted basis, but including the number of Exchangeable LP Units – see Note 1) are reserved and available for issuance upon the exercise of options and exercise of bonus rights (December 31, 2006 – 4,114,286 units).

As at December 31, 2006, a total of 1,453,300 unit options have been granted with a weighted average exercise price of \$8.68. Accumulated notional bonus units on these unit options were 129,583 Units as at December 31, 2006. There are 215,730 unit options and 33,860 corresponding notional bonus units exercisable at December 31, 2006.

The estimated weighted average fair value of unit options issued is \$1.18 per unit option using the Generalized Black-Scholes option pricing model under the following weighted average assumptions:

	2006
Risk-Free Interest Rate (%)	4.03
Estimated Hold Period Prior to Exercise (years)	5
Expected Volatility in the Price of Canexus Income Fund Units (%)	29.8
Expected Annual Distributions per Fund Unit (\$/unit)	0.8748

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

As at December 31, 2006, 49,000 Deferred Trust Units and 3,176 corresponding bonus rights have been granted to directors under the Deferred Trust Unit Compensation Plan.

An aggregate of 200,000 Units are 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.

9. Economic Dependence

For the purposes of declaring distributions, the Fund is entirely dependent on cash distributions received from Canexus LP.

Auditors' Report

To the Partners of Canexus Limited Partnership:

We have audited the consolidated balance sheets of Canexus Limited Partnership (the "Partnership") as at December 31, 2006 and December 31, 2005 and the consolidated statements of income, cash flows and equity for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 12, 2007



DELOITTE & TOUCHE LLP
Chartered Accountants

Consolidated Statements of Income

Canexus Limited Partnership

for the years ended December 31, 2006 and December 31, 2005

CAD thousands	2006	2005
		(Note 2(a))
Revenues		
Sales	405,331	397,423
Interest on Loans to Affiliates (Note 14)	–	696
	405,331	398,119
Expenses		
Cost of Goods Sold	285,716	275,211
Depreciation and Amortization	40,223	50,739
General and Administrative	26,942	26,491
Interest	10,713	3,242
	363,594	355,683
Income before Other Income and Income Taxes	41,737	42,436
Other Income (Note 11)	6,195	14,915
Income before Income Taxes	47,932	57,351
Provision for Income Taxes (Note 15(b))		
Current	634	(50)
Future	155	3,056
	789	3,006
Net Income	47,143	54,345

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Canexus Limited Partnership

as at December 31, 2006 and December 31, 2005

CAD thousands, except unit amounts

2006

2005

Assets

(Note 2(a))

Current Assets

Cash and Short-Term Investments

3,979

4,549

Accounts Receivable

52,299

47,141

Inventories and Operating Supplies (Note 3)

31,437

32,468

Due from Affiliates (Note 14)

–

1,395

Other (Note 4)

5,955

9,616

Total Current Assets

93,670

95,169

Property, Plant and Equipment, Net (Note 5)

361,113

371,076

Restricted Investments (Note 6)

13,736

13,686

Future Income Tax Assets (Note 15(a))

5,579

5,093

Other Assets

–

103

Total Assets

474,098

485,127

See accompanying notes to the Consolidated Financial Statements

Continued page 78

Consolidated Balance Sheets (continued)
Canexus Limited Partnership
as at December 31, 2006 and December 31, 2005

CAD thousands, except unit amounts	2006	2005
Liabilities and Equity		(Note 2(a))
Current Liabilities		
Short-Term Borrowings	11,859	–
Accounts Payable and Accrued Liabilities	32,719	36,943
Distributions Payable to Ordinary LP Unitholders	2,315	2,316
Distributions Payable to Nexen Inc., Exchangeable LP Unitholder	3,684	3,684
Accrued Interest Payable	493	355
Due to Affiliates (Note 14)	1,046	–
Total Current Liabilities	52,116	43,298
Long-Term Debt (Note 8)	173,630	171,387
Future Income Tax Liabilities (Note 15(a))	5,830	5,432
Asset Retirement Obligations (Note 9)	40,677	38,777
Other Deferred Credits	1,447	855
Total Liabilities	273,700	259,749
Equity		
Ordinary LP Units (31,750,000 outstanding) (Note 10)	301,750	301,750
Exchangeable LP Units (50,535,714 outstanding) (Note 10)	(63,085)	(63,085)
Retained Earnings (Deficit)	(21,405)	3,444
Cumulative Foreign Currency Translation Adjustment	(16,862)	(16,731)
Total Equity	200,398	225,378
Commitments, Contingencies and Guarantees (Note 12)		
Total Liabilities and Equity	474,098	485,127

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Canexus Limited, General Partner of Canexus Limited Partnership:



Gary L. Kubera
 Director



Douglas P. Hayhurst
 Director

Consolidated Statements of Cash Flows

Canexus Limited Partnership

for the years ended December 31, 2006 and December 31, 2005

CAD thousands	2006	2005
Operating Activities		(Note 2(a))
Net Income	47,143	54,345
Charges and Credits to Income Not Involving Cash (Note 16(a))	49,903	44,945
Contributions to Defined Benefit Pension Plan	(2,935)	–
Expenditures on Asset Retirement Obligations (Note 9)	(581)	(608)
Due to Affiliates, Net	(1,584)	–
Purchase of Foreign Exchange Options	(1,437)	(4,217)
Changes in Non-Cash Working Capital (Note 16(b))	(9,207)	1,969
	81,302	96,434
Financing Activities		
Proceeds from (Repayments of) Short-Term Borrowings, Net	11,871	(12)
Proceeds from Long-Term Debt, Net	2,208	180,235
Distributions Paid to Ordinary LP Unitholders	(27,784)	(8,013)
Distributions Paid to Exchangeable LP Unitholder	(44,209)	(12,751)
Withdrawals from Divisional Equity, Net (Note 10)	–	(34,790)
Issuance of Ordinary LP Units, Net (Note 1)	–	301,750
Repurchase of Exchangeable LP Units (Note 1)	–	(17,500)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 6)	518	–
Due from (to) Affiliates, Net	2,992	(7,452)
	(54,404)	401,467
Investing Activities		
Acquisition of Chemicals Business from Nexen Inc. (Note 1)	–	(484,250)
Capital Expenditures	(27,354)	(14,379)
Changes in Non-Cash Working Capital (Note 16(b))	(137)	4,560
Other	40	79
	(27,451)	(493,990)
Effect of Exchange Rate Changes on Cash and Short-Term Investments	(17)	(225)
Increase (Decrease) in Cash and Short-Term Investments	(570)	3,686
Cash and Short-Term Investments – Beginning of Year	4,549	863
Cash and Short-Term Investments – End of Year	3,979	4,549
Supplemental Cash Flow Information (Note 16(c))		
See accompanying notes to the Consolidated Financial Statements		

Consolidated Statements of Equity

Canexus Limited Partnership

for the years ended December 31, 2006 and December 31, 2005

CAD thousands	2006	2005
		(Note 2(a))
Ordinary LP Units		
Beginning of Year	301,750	–
Issued during the Year (Note 10)	–	301,750
End of Year	301,750	301,750
Exchangeable LP Units		
Beginning of Year	(63,085)	–
Issued during the Year, Net (Note 10)	–	(63,085)
End of Year	(63,085)	(63,085)
Retained Earnings (Deficit)		
Beginning of Year	3,444	–
Net Income	47,143	30,206
Distributions Declared	(71,992)	(26,762)
End of Year	(21,405)	3,444
Cumulative Foreign Currency Translation Adjustment		
Beginning of Year	(16,731)	(33,216)
Translation Adjustment, Net of Income Taxes	(131)	(2,232)
Applicable to Predecessor Corporations not Acquired by Canexus LP	–	18,717
End of Year	(16,862)	(16,731)
Divisional Equity – Net Investment		
Beginning of Year	–	468,033
Withdrawals During the Year	–	(34,790)
Net Income	–	24,139
Paid to Nexen Inc. on Acquisition of Chemicals Business (Note 1)	–	(484,250)
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units Upon Acquisition of Chemicals Business (Note 2(a))	–	45,585
Cumulative Foreign Currency Translation Adjustment Applicable to Predecessor Corporations not Acquired by Canexus LP	–	(18,717)
End of Year	–	–

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Limited Partnership

for the years ended December 31, 2006 and December 31, 2005

Tabular amounts in CAD thousands, except unit and per unit amounts

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, Texas.

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 per cent 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 per cent 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 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 per cent 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 per cent interest in Canexus LP and Nexen Inc. holds a 61.4 per cent controlling interest in Canexus LP.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust and Nexen Inc. dated August 9, 2005, Canexus Limited as general partner, has full power and exclusive authority to employ all persons necessary for the conduct of the partnership, to enter into any agreement and to incur any obligation related to the affairs of the partnership and is entitled to full reimbursement of all costs and expenses incurred on behalf of the partnership. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of the partnership, these costs and obligations have been reflected in the financial statements and notes thereto of Canexus LP.

2. Accounting Policies

The Consolidated 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 December 31, 2006 and December 31, 2005 and the results of its operations and cash flows for the years ended December 31, 2006 and December 31, 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 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.

(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’ assets and liabilities on August 17, 2005 and the equity of Canexus LP represented the equity of the Chemicals Business at that date.

The statements of income and cash flows for the year ended December 31, 2006 reflect the activities of Canexus LP. The statements of income and cash flows for the year ended December 31, 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 December 31, 2005. Included in the combined results of the Chemicals Business and Canexus LP for the year ended December 31, 2005 are amounts related to the Amherstburg, Ontario sodium chlorate production facility which was closed on July 31, 2005. Under the terms of the PSA, 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.

Included in the combined results of the Chemicals Business and Canexus LP for the year ended December 31, 2005, 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.

(b) Accounts Receivable

Accounts receivable are recorded based on our revenue recognition policy (see Note 2 (g)). An allowance for doubtful accounts is made for 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, 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 their functional currency using exchange rates at the balance sheet dates. Gains and losses arising from translation are included in income.

The accounts of our international subsidiaries that 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.

The accounts of our international subsidiaries that are not considered financially and operationally independent 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 Short-Term Investments

Cash and short-term investments 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 chemical 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 per cent 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 measure the plan assets and the accrued benefit obligation on October 31 each year.

3. Inventories and Operating Supplies

	2006	2005
Raw Materials and Work-in-Progress	4,711	4,419
Finished Goods	13,708	15,182
Operating Supplies	13,018	12,867
	31,437	32,468

4. Other Current Assets

	2006	2005
Fair Value of Foreign Exchange Options (Note 7)	395	6,239
Fair Value of Electricity Forward Swap Contracts (Note 7)	2,229	–
Prepaid Insurance	1,942	2,273
Prepaid Freight	358	465
Prepaid Property Tax	–	–
Other	1,031	639
	5,955	9,616

5. Property, Plant and Equipment

2006	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate	512,975	273,779	239,196
North America Chlor-alkali	144,257	111,060	33,197
Brazil	117,036	33,785	83,251
Other	10,779	5,310	5,469
	785,047	423,934	361,113

2005	Cost	Accumulated D&A	Net Book Value
North America Sodium Chlorate	500,334	249,360	250,974
North America Chlor-alkali	139,249	104,203	35,046
Brazil	112,330	27,638	84,692
Other	5,287	4,923	364
	757,200	386,124	371,076

The balances at December 31, 2006 include capitalized costs of \$13 million (December 31, 2005 – \$3 million) relating primarily to our Brandon plant expansion (\$7.5 million including capitalized interest of \$65,877) and North Vancouver technology conversion project (\$1.3 million) as well as other projects under construction or development. These costs are not being depreciated or amortized.

6. Restricted Investments

Restricted investments represent funds segregated for specific use. 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.

	2006	2005
Balance Beginning of Year	13,686	14,000
Interest Earned	568	127
Funding of Asset Retirement Obligation Expenditures ⁽¹⁾	(518)	(441)
Balance End of Year	13,736	13,686

Note:

- (1) Reimbursement of the remaining balance of expenditures incurred in 2006 will occur prior to March 31, 2007. Total expenditures incurred in 2006 were \$581,000 and \$518,000 of the expenditures were reimbursed in 2006. Funding of the expenditures incurred from August 18, 2005 to December 31, 2005 of \$441,000 occurred in early 2006.

7. Derivative Instruments and Financial Risk Management

(a) Carrying Value and Estimated Fair Value of Derivative and Financial Instruments

	2006			2005		
	Carrying Value	Fair Value	Unrecognized Gain/(Loss)	Carrying Value	Fair Value	Unrecognized Gain/(Loss)
Non-Trading Activities						
Electricity Rate Risk						
Forward Swap Contracts	2,229	2,229	–	–	(51)	(51)
Foreign Currency Risk						
Foreign Exchange Options	395	395	–	6,239	6,239	–
Total Derivatives	2,624	2,624	–	6,239	6,188	(51)

The carrying value of cash and short-term investments, accounts receivable, due from affiliates and current liabilities approximated their fair value because the instruments are near maturity. Restricted investments approximate their fair value due to the nature of the investments. Long-term debt bears interest at floating rates and the carrying value approximated the fair value.

(b) Electricity Rate Risk Management

We use forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. At December 31, 2006, 262,800 Megawatt-hours (MWh) had been contracted for 2007 at a weighted average price of \$66.12 per MWh.

The fair value of these swap contracts are included in other current assets at December 31, 2006 with changes in their fair value included in other income (Note 11). At December 31, 2005 the financial impact of mark-to-market adjustments on these contracts was not material to the consolidated financial statements.

(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 margin in Brazil is under a US dollar based fixed margin contract. As at December 31, 2006, Canexus LP has Canadian dollar foreign exchange call options on US \$5 million per month which entitle it to sell US dollars and acquire Canadian dollars at a price of US \$0.85 per Canadian dollar for the period August 16, 2006 to January 10, 2007 and Canadian dollar foreign exchange call options on US \$5 million per month which entitle it to sell US dollars and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar for the period January 17, 2007 to July 11, 2007.

The fair value of these foreign exchange call options are included in other current assets with changes in their fair value included in other income (Note 11).

(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 12 per cent of total accounts receivable at December 31, 2006 and 2005.

8. Long-Term Debt and Short-Term Borrowings

During 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 draw down during the revolving period which currently extends to August 18, 2010. The credit facility bears interest at rates that vary depending on the ratio of consolidated debt to earnings before interest, income taxes, depreciation and amortization (EBITDA) 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 draw down the credit facility in either Canadian or US dollars. Short-term Swing Line Loans of up to \$20 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. The credit facility also contains covenants with respect to certain financial ratios. At December 31, 2006 we were in compliance with all covenants.

On August 18, 2005, \$203,559,195 (US \$167,098,337) was drawn on the credit facility and \$200,000,000 was used to partially fund the acquisition of the Chemicals Business from Nexen Inc. At December 31, 2006, we have \$173,629,700 (US \$149,000,000) outstanding on this credit facility. The weighted average interest rate for the year ended December 31, 2006 was 5.89 per cent and the total interest and standby fees incurred were \$10,547,306. The weighted average interest rate for the period August 18, 2005 to December 31, 2005 was 4.80 per cent and the total interest and standby fees incurred were \$3,228,061.

During the year ended December 31, 2006 drawings on the Swing Line Loan facilities were made. The weighted average interest rate for the year ended December 31, 2006 was 5.96 per cent and total interest and standby fees incurred were \$161,288. During the period August 18, 2005 to December 31, 2005 there were two drawings on the Swing Line facilities. The weighted average interest rate for these drawings was 6.75 per cent and the total interest incurred was \$745.

Canexus is the applicant on two standby Letters of Credit totaling \$1,507,000 in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations and in favour of the Independent System Operator for power curtailment obligations. The CIBC Mellon Letter of Credit expires on January 1, 2008. The Independent System Operator Letter of Credit expires on December 1, 2007 and is automatically renewed for one year periods unless otherwise advised.

9. Asset Retirement Obligations

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

	2006	2005
Balance Beginning of Year	38,777	43,767
Obligations Retained by Nexen Inc.	–	(5,445)
Expenditures on Asset Retirement Obligations	(581)	(608)
Accretion	2,448	2,456
Effect of Foreign Exchange	6	(376)
Obligations Reclassified to Current Liabilities ⁽¹⁾	27	(1,017)
Balance End of Year	40,677	38,777

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities.

Our total estimated undiscounted asset retirement obligations at December 31, 2006 and 2005 amounted to \$73 million. We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 5.4 per cent. Approximately \$1.9 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.

	2006		2005	
	Number of Units	Amount	Number of Units	Amount
GP Units				
Beginning of Year	1	–	–	–
Issued	–	–	1	–
End of Year	1	–	1	–
Ordinary LP Units				
Beginning of Year	31,750,000	301,750	–	–
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 Year	31,750,000	301,750	31,750,000	301,750
Exchangeable LP Units				
Beginning of Year	50,535,714	(63,085)	–	–
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 2(a)) ⁽¹⁾	–	–	52,285,714	(45,585)
Repurchased upon Exercise of Underwriters Over-Allotment Option (Note 1)	–	–	(1,750,000)	(17,500)
End of Year	50,535,714	(63,085)	50,535,714	(63,085)
Divisional Equity – Net Investment				
Beginning of Year	–	–	–	468,033
Withdrawals During the Year	–	–	–	(34,790)
Net Income	–	–	–	24,139
Paid to Nexen Inc. on Acquisition of Chemicals Business (Note 1)	–	–	–	(484,250)
Transfer of Excess of Purchase Price over Net Book Value to Exchangeable LP Units upon Acquisition of Chemicals Business (Note 2(a)) ⁽¹⁾	–	–	–	45,585
Cumulative Foreign Currency Translation Adjustment Applicable to Predecessor Corporations Not Acquired by Canexus LP	–	–	–	(18,717)
End of Year	–	–	–	–

Note:

- (1) This amount represents the difference between the amount paid to Nexen Inc. for the purchase of the Chemicals Business and the net book value of the Chemicals Business on the purchase date.

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 per cent 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 distributions of \$0.8748 per Unit for the year ended December 31, 2006 to Ordinary and Exchangeable LP Unitholders. On December 8, 2006 a distribution of \$0.0729 was declared payable to Ordinary and Exchangeable LP Unitholders of record December 29, 2006 for payment on or about January 15, 2007.

11. Other Income

	2006	2005
Unrealized Currency Translation Gains (Losses)		
Debt	(445)	6,884
Other	261	995
	(184)	7,879
Realized Currency Translation Gains	1,531	1,549
Change in Fair Value of Foreign Exchange Options	(7,726)	1,277
Realized Gains on Foreign Exchange Options	9,651	2,978
	3,272	13,683
Change in Fair Value of Electricity Forward Swaps	2,229	–
Provision for Doubtful Accounts	(1,750)	–
Other	2,444	1,232
	6,195	14,915

12. Commitments, Contingencies and Guarantees

	2007	2008	2009	2010	2011	Thereafter
Operating Leases	17,200	13,986	12,539	11,100	8,082	11,548
Purchase Obligations ⁽¹⁾	17,947	21,589	22,581	23,618	24,703	52,951
Expansion Capital Expenditures ⁽²⁾	37,000	5,500	–	–	–	–
	72,147	41,075	35,120	34,718	32,785	64,499

Notes:

- (1) Contractual commitment for the purchase of electricity in Brazil, 80 per cent of the cost of which is passed on to our primary customer.
- (2) Expansion of the Brandon, Manitoba sodium chlorate production facility.

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 and therefore have not been included in the table above.

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, consolidated financial position or results of operations. Canexus LP records costs as they are incurred or become determinable.

13. Pension and Other Post Retirement Benefits

(a) Defined Benefit Pension Plans

The cost of pension benefits earned by employees under the Defined Benefit Plan and under the Supplemental Plan are determined using the projected-benefit method prorated on employment services and are expensed as services are rendered. We fund the Defined Benefit Plan according to federal and provincial government regulations by contributing to trust funds administered by an independent trustee. These funds are invested 50 per cent in equities and 50 per cent in bonds.

	2006	2005 ⁽¹⁾
Change in Projected Benefit Obligation (PBO)		
Beginning of Period	49,326	48,686
Service Cost	2,990	1,113
Interest Cost	2,673	899
Plan Participants' Contributions	707	281
Actuarial (Gain) Loss	2,653	(1,653)
Benefits Paid	(539)	–
End of Period ⁽²⁾	57,810	49,326
Change in Fair Value of Plan Assets		
Beginning of Period	40,341	40,140
Expected Return on Plan Assets	2,713	950
Employer's Contribution	2,578	–
Plan Participants' Contributions	707	281
Benefits Paid	(539)	–
Deferred Investment Gain (Loss)	3,661	(1,030)
End of Period	49,461	40,341
Reconciliation of Funded Status		
Funded Status ⁽³⁾	(8,349)	(8,985)
Unamortized Transitional Asset	(3)	(5)
Unamortized Prior Service Costs	38	46
Unamortized Net Actuarial Loss	7,394	8,717
Contributions Between Measurement Date and Year End	357	–
Pension Liability, Net	(563)	(227)

	2006	2005 ⁽¹⁾
Pension Liability Recognized		
Other Assets	–	103
Other Deferred Credits	(563)	(330)
Pension Liability	(563)	(227)
Assumptions (%)		
Accrued Benefit Obligation at December 31		
Discount Rate	5.00	5.25
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Benefit Cost for Year Ended December 31 ⁽⁴⁾		
Discount Rate	5.00	5.25
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Long-Term Annual Rate of Return on Plan Assets ⁽⁵⁾	6.50	6.50

Notes:

- (1) For the period August 18, 2005 to December 31, 2005.
- (2) Canexus' employee pension plan's accumulated benefit obligation (the projected benefit obligation) excluding future salary increases was \$43,910,000 at December 31, 2006 (December 31, 2005 - \$36,244,000). Canexus' supplemental pension plan's accumulated benefit obligation excluding future salary increases was \$588,000 at December 31, 2006 (December 31, 2005 - \$30,000).
- (3) Includes unfunded obligations for supplemental benefits to the extent that the benefit is limited by statutory guidelines. At December 31, 2006, the projected benefit obligation for supplemental benefits was \$784,000 (December 31, 2005 - \$617,000).
- (4) The assumptions have been used to calculate the recognized expense for Canexus. There were no changes to the assumptions between the measurement date and December 31, 2006.
- (5) The long-term annual rate of return on plan assets assumption is based on a mix of historical market returns for debt and equity securities.

(b) Net Pension Expense Recognized Under Our Defined Benefit Pension Plans

	2006	2005 ⁽¹⁾
Cost of Benefits Earned by Employees	2,990	1,113
Interest Cost on Benefits Earned	2,673	899
Actual Return on Plan Assets	(6,374)	80
Actuarial (Gains) Losses	2,653	(1,653)
Amortization of Transitional (Asset) Obligation	(2)	—
Pension Expense Before Adjustments For the Long-Term Nature of Employee Future Benefit Costs	1,940	439
Difference Between Expected and Actual Return	3,661	(1,030)
Difference Between Recognized and Actual Actuarial Gains (Losses)	(2,338)	1,822
Difference Between Recognized and Actual Past Service Costs	8	3
Net Pension Expense	3,271	1,234

Note:

(1) For the period August 18, 2005 to December 31, 2005.

(c) Employer Funding Contributions

Our total funding contributions for 2006 for our defined benefit pension plans are \$2,144,472. In addition, a contribution of \$790,843 was made in January 2006 for the period August 18, 2005 to December 31, 2005.

(d) Contributions Under the Defined Contribution Pension Plans

Under these plans, pension benefits/expense are based on plan contributions. Contributions to the defined contribution pension plans were \$397,788 for the Canadian plan and \$115,781 (\$101,994 USD) for the US plan for the year ended December 31, 2006 and \$126,917 for the Canadian plan and \$45,773 (\$38,365 USD) for the US plan for the period August 18, 2005 to December 31, 2005.

(e) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work however, these future obligations are not funded. The expense recognized for the year ended December 31, 2006 was \$261,997 and for the period August 18, 2005 to December 31, 2005 was \$96,000. As at December 31, 2006 other deferred credits includes a \$799,997 (December 31, 2005 - \$538,000) post retirement benefit liability.

The present value of Canexus Limited Canadian employees' future post retirement benefits as at December 31, 2006 was \$2,069,000 (December 31, 2005 - \$1,671,000).

On December 9, 2006 the Board of Directors of Canexus Limited approved the adoption of a post retirement medical benefit for the existing 10 US employees only. Under this plan, existing US employees with a minimum of 10 years of completed service are entitled to a benefit of \$4,000 USD for every year of completed service. The present value of Canexus Limited US employees' future post retirement medical benefits as at December 31, 2006 was \$216,000. This transitional obligation on the initial adoption of the plan will be amortized over the remaining average service life of the existing US employee group.

14. Amounts Due To / From Affiliates and Related Party Transactions

Due from affiliates at December 31, 2005 includes amounts due from Nexen Inc. Under the terms of the PSA 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. Due to affiliates at December 31, 2006 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. provided certain services to assist in the transition of our business to a stand-alone entity. This agreement provided that, for a period of up to 18 months, Nexen Inc. would provide us certain requested administrative, operating and financial services in the manner provided by Nexen Inc. for the 12 month period prior to August 18, 2005. These services were provided by Nexen Inc. on a cost-reimbursement basis including reimbursement of Nexen Inc.'s internal costs. As at December 31, 2006 all services had been transitioned to Canexus. We incurred \$4,376,446 of costs under this Transition Services Agreement for the year ended December 31, 2006 and \$2,472,203 for the period August 18, 2005 to December 31, 2005.

Canexus LP purchases some of its electricity and natural gas requirements through a Nexen affiliate who acts as Canexus LP's agent. Canexus LP pays market rates for the electricity and natural gas and a marketing fee to the Nexen affiliate. The cost of the electricity and natural gas purchased in 2006 under these contracts was \$19,702,681 and \$8,187,603, respectively and marketing fees paid were \$28,894. In addition, Canexus LP entered into forward swap contracts with a Nexen affiliate to manage our exposure to the price of electricity in deregulated jurisdictions. Net proceeds from these forward swaps were \$4,084,072 for the year ended December 31, 2006. The cost of the electricity and natural gas purchased in 2005 under these contracts was \$14,257,652 and \$11,062,629, respectively and marketing fees paid were \$30,627. In addition, Canexus LP had entered into forward swap contracts with a Nexen affiliate to manage our exposure to the price of electricity in deregulated jurisdictions. Net payments on these forward swaps were \$50,273 for the year ended December 31, 2005.

15. Income Taxes

Canexus LP, as an entity, is not subject to Canadian federal or provincial income tax. Partners are required to report their allocable share of the Partnership's items of taxable income, gain, deduction or loss in their own income tax returns as though each partner had incurred such items directly. Canexus LP's subsidiaries are subject to taxation in their respective jurisdictions. As a result, provisions for income and capital taxes are only required for the subsidiary entities subject to taxation.

(a) Temporary Differences

	2006		2005	
	Future Income Tax		Future Income Tax	
	Asset	Liability	Asset	Liability
Property, Plant and Equipment, Net	2,202	5,830	1,998	5,432
Tax Losses Carried Forward	3,377	–	3,095	–
	5,579	5,830	5,093	5,432

(b) Reconciliation of Effective Tax Rate to the Canadian Federal Tax Rate

	2006	2005
Canadian Statutory Rate	0.00%	0.00%
Income before Income Taxes	47,932	57,351
Provision for Income Taxes Computed at the Canadian Statutory Rate	–	–
Add (Deduct) the Tax Effect of:		
Taxes on Foreign Operations	1,397	2,301
Other	(608)	705
Provision for Income Taxes	789	3,006

(c) Available Unused Tax Losses and Tax Contingencies

At December 31, 2006, various Canexus LP subsidiaries had unused tax losses totalling \$14.5 million (December 31, 2005 – \$7 million).

The income tax filings of taxable entities included in Canexus LP are subject to audit by taxation authorities. The outcome of any audits may change the tax liabilities of these entities. While the outcome of these audits cannot be ascertained at this time, we believe we have an adequate provision for income taxes based on currently available information.

16. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	2006	2005
Depreciation and Amortization	40,223	50,739
Change in Fair Value of Foreign Exchange Options	7,726	(1,277)
Change in Fair Value of Electricity Forward Swaps	(2,229)	–
Unrealized Currency Translation (Gains) Losses	184	(7,879)
Realized Currency Translation Gains	(1,531)	(1,549)
Future Income Taxes	155	3,056
Pension and Post Retirement Benefit Expense	3,533	1,759
Provision for Doubtful Accounts	1,750	–
Other	92	96
	49,903	44,945

(b) Changes in Non-Cash Working Capital

	2006	2005
Accounts Receivable	(6,908)	4,917
Inventories and Operating Supplies	1,031	(1,233)
Other Current Assets	(1,583)	368
Accounts Payable and Accrued Liabilities	(1,882)	4,236
Accrued Interest Payable	138	355
Effect of Foreign Exchange on Non-Cash Working Capital	(140)	(2,114)
Total Change in Non-Cash Working Capital	(9,344)	6,529
Relating to:		
Operating Activities	(9,207)	1,969
Investing Activities	(137)	4,560
Total Change in Non-Cash Working Capital	(9,344)	6,529

(c) Other Cash Flow Information

	2006	2005
Interest Paid	10,851	2,887
Income Taxes Paid	225	455

17. 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.

(a) Operating Segments

Year Ended December 31, 2006	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
Revenues					
Sales	189,607	133,248	82,476	–	405,331
Expenses					
Cost of Goods Sold	140,335	87,579	57,802	–	285,716
Depreciation and Amortization	25,806	7,822	6,266	329	40,223
General and Administrative	13,860	8,815	2,020	2,247	26,942
Interest	–	–	–	10,713	10,713
	180,001	104,216	66,088	13,289	363,594
Income (Loss) before Other Income and Income Taxes	9,606	29,032	16,388	(13,289)	41,737
Other Income	–	–	535	5,660	6,195
Income (Loss) before Income Taxes	9,606	29,032	16,923	(7,629)	47,932
Capital Expenditures	12,558	4,869	4,712	5,215	27,354

Year Ended December 31, 2005	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
Revenues					
Sales	192,920	136,709	67,794	–	397,423
Interest on Loans to Affiliates	–	–	–	696	696
	192,920	136,709	67,794	696	398,119
Expenses					
Cost of Goods Sold	139,326	89,869	46,016	–	275,211
Depreciation and Amortization ⁽¹⁾	39,250	5,079	6,410	–	50,739
General and Administrative	15,578	8,745	1,736	432	26,491
Interest	–	–	–	3,242	3,242
	194,154	103,693	54,162	3,674	355,683
Income (Loss) before Other Income and Income Taxes	(1,234)	33,016	13,632	(2,978)	42,436
Other Income	–	–	–	14,915	14,915
Income (Loss) before Income Taxes	(1,234)	33,016	13,632	11,937	57,351
Capital Expenditures	3,936	6,686	3,757	–	14,379

Note:

- (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.

Identifiable Assets	North America Sodium Chlorate	North America Chlor-alkali	Brazil	Corporate	Total
December 31, 2006	289,680	61,527	101,152	21,739	474,098
December 31, 2005	289,215	67,829	101,956	26,127	485,127

(b) Geographic Segments

Sales	2006	2005
Canada	138,198	131,404
United States	184,657	198,225
Brazil	82,476	67,794
	405,331	397,423
Property, Plant and Equipment, Net	2006	2005
Canada	277,669	286,186
United States	193	198
Brazil	83,251	84,692
	361,113	371,076

Corporate information

Directors

Dennis G. Flanagan
Chairman
Calgary, Alberta

Stephanie L. Felesky
Calgary, Alberta

Hugh A. Fergusson
Calgary, Alberta

Douglas P. Hayhurst
West Vancouver,
British Columbia

Nicholas G. Kirton
Calgary, Alberta

Gary L. Kubera
Houston, Texas

Kevin J. Reinhart
Calgary, Alberta

Marvin F. Romanow
Calgary, Alberta

Thomas A. Sugalski
Longboat Key, Florida

Lyll C. Work
Mississauga, Ontario

Officers and Senior Management

Gary L. Kubera
President and Chief Executive Officer

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

Keith D. McLeod
Senior Vice President, Operations

Pericles dos Santos
Managing Director, South America

Diane J. Pettie
Vice President, General Counsel
and Corporate Secretary

R. Glenn Pomeroy
Vice President, Finance and Planning

A. Scott Tuttle
Vice President, Human Resources

David B. Gosse
Vice President, Technology
and Engineering

Brian P. Bourgeois
Vice President, Sales and Marketing
North America

Hazel A.B. Kreuz
Director, Corporate Planning

Michael B. Christian
Director, Business Development

Thomas A. Jackson
Director, Supply Chain

Karen Bost
Director, Information Technology

The Annual Meeting of Unitholders and Holders of Special Voting Rights of Canexus Income Fund will be held at 11:00 a.m. (Mountain Time) on Tuesday, April 24, 2007 at the Metropolitan Centre, Calgary, Alberta. Unitholders and Holders of Special Voting Rights are encouraged to attend, and those unable to should vote their securities by telephone, via the internet or by completing and returning the Form of Proxy.

The Proxy Circular, Annual Information Form and Annual Report can be found at www.canexus.ca.

Registrar and Transfer Agent

Computershare Trust
Company of Canada
Calgary, Alberta

Stock Exchange Listing

Toronto Stock Exchange: CUS.UN

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and Chief Financial Officer

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