

Third Quarter



canexus income fund third quarter results

Highlights

- *Distributable cash of \$21.1 million reflects strong performance from all three business units. Strong product pricing, robust sales volumes and lower realized electricity costs in Alberta contributed to a successful quarter. The Fund declared \$6.9 million in cash distributions for the third quarter at a payout ratio of 86 per cent (90 per cent normalized for the timing of maintenance capital spending); estimated payout ratio for the year remains at 122 per cent as a result of the strong Canadian dollar and the timing of maintenance capital spending;*
- *Canadian dollar foreign exchange call options on US\$5 million per month purchased in August entitle Canexus to sell US dollars at a price of US\$0.9497 per Canadian dollar (to receive \$5.3 million Canadian per month) from September 5, 2007, to February 27, 2008;*
- *North American sodium chlorate sales revenue increased two per cent from the comparable quarter last year with higher prices offsetting the strong Canadian dollar and slightly lower volumes; Brandon plant expansion project remains on schedule for commissioning in early January 2008, boosting capacity of the low-cost facility by 12 per cent and adding an estimated \$10.0 million in EBITDA annually based on current business conditions;*
- *Strong demand in Brazil is expected to continue due in part to a recently completed debottleneck and yield improvement project at our primary customer's mill and ongoing merchant demand;*
- *Chlor-alkali market fundamentals continue to support strong caustic soda pricing, with increases announced for the fourth quarter; the technology conversion project at the North Vancouver plant is expected to be considered by the Board of Directors in December, and will provide significant cost savings and expand capacity if approved.*

Dear Unitholders,

Canexus had a strong third quarter. All three of our business units performed well and our results were consistent with expectations. Strong product pricing, robust sales volumes and lower realized electricity costs in Alberta contributed to a successful quarter.

Canexus is positioned to continue to deliver solid results due to high operating rates, pricing strength and the foreign exchange options in place. The expansion of our Brandon plant continues on schedule for completion in mid-February 2008. We anticipate an announcement on our technology conversion project in December 2007 after it has been considered for approval by our Board. At that time, we will be in a position to discuss our financing plans and distribution policy. Both of these projects will significantly lower unit costs, leaving us more competitive and better positioned in a stronger currency environment.

We plan to continue our solid performance based on strong market fundamentals and high operating rates. With the exception of the stronger Canadian dollar, we are encouraged by current dynamics and activity. We continue to manage the high Canadian dollar through increasing prices, reducing costs and borrowing in US dollars. Price increases for caustic soda are being implemented in the fourth quarter.

On behalf of the Board and the management team of Canexus Income Fund, I would like to thank Unitholders for their support.

Gary Kubera
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of November 9, 2007. This MD&A should be read in conjunction with the audited consolidated financial statements of Canexus Income Fund (the "Fund") and Canexus Limited Partnership ("Canexus LP") for the year ended December 31, 2006 and the notes thereto available on the System for Electronic Data Analysis and Retrieval's ("SEDAR") website at www.sedar.com. The audited consolidated financial statements of the Fund and Canexus LP have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Canexus Income Fund earns income from its 38.6 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, unaudited interim consolidated financial statements with accompanying notes thereon have been presented for both the Fund and Canexus LP for the three and nine months ended September 30, 2007. In addition, the following MD&A presents a discussion of the financial condition and results of operations for both the Fund and Canexus LP.

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 are unlikely to 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

Canexus Income Fund holds a 38.6 per cent indirect interest, through its wholly owned subsidiary Canexus Commercial Trust, in Canexus LP and Nexen Inc. 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 head office and principal business office of the Fund is located in Calgary, Alberta.

The Fund is administered by Canexus Limited, a wholly-owned subsidiary of the Fund. The Fund owns 100 per cent of the shares of Canexus Limited but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

Highlights and Selected Financial Information (see also "Highlights" of Canexus LP)

- Distributions to Unitholders of \$6.9 million (\$0.2187 per Unit) declared for the three months ended September 30, 2007.
- Payout ratio of 86 per cent (90 per cent when normalized for the timing of maintenance capital expenditures).

CAD thousands, except per unit amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Equity Income from Investment in Canexus LP	8,242	4,261	19,422	16,726
Net Income	6,228	3,932	5,528	15,799
Earnings (\$/Unit)	0.20	0.13	0.17	0.50
Diluted Earnings (\$/Unit)	0.20	0.13	0.17	0.50
Cash Distributions Declared	6,943	6,944	20,831	20,831
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.6561	0.6561
	September 30, 2007		December 31, 2006	
Total Assets		310,012		311,450
Total Long-Term Liabilities		11,821		-

Results of Operations

Investments

At September 30, 2007 the Fund had an indirect investment in 31,750,000 ordinary limited partnership units (38.6 per cent) of Canexus LP at a cost of \$317.5 million. The Fund accounts for this investment using the equity method.

For the three and nine months ended September 30, 2007, the Fund's earnings from Canexus LP were \$8.2 million and \$19.4 million respectively. The carrying value of the Fund's investment in Canexus LP at September 30, 2007 was \$307.7 million (December 31, 2006 - \$309.1 million).

Expenses

Trust administration expenses include directors' fees, directors' travel, directors and officers ("D&O") liability insurance, professional fees, office rent and public issuer reporting costs. The increase in trust administration expenses for the three and nine month periods ended September 30, 2007 as compared to the three and nine month periods ended September 30, 2006 is due to higher corporate and other administrative costs which were previously provided by Nexen Inc. under the transition services agreement which was concluded in December 2006.

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

Statement of Distributable Cash

CAD thousands, except as noted	Three Months Ended September 30		Nine Months Ended September 30	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
Canexus LP				
Net Income	21,361	11,043	50,337	43,349
Charges and Credits to Income Not Involving Cash:				
Future Income Taxes	1,220	517	2,814	1,605
Amortization	11,034	10,001	32,804	29,904
Unrealized (Gains) Losses on Currency Translation	(12,070)	10	(30,032)	(6,463)
Change in Fair Value of Foreign Exchange Options	(670)	2,893	(688)	6,311
Change in Fair Value of Electricity Forward Swaps	2,908	313	1,429	313
Other	(1,192)	1,463	552	3,005
	1,230	15,197	6,879	34,675
Contributions to Defined Benefit Pension Plan	(590)	(536)	(1,776)	(2,399)
Expenditures on Asset Retirement Obligations	(32)	(16)	(536)	(494)
Purchase of Foreign Exchange Options	(360)	-	(360)	(805)
Changes in Non-Cash Operating Working Capital and Due to Affiliates, Net	1,126	(1,462)	(2,228)	(18,315)
Cash From Operating Activities	22,735	24,226	52,316	56,011
Changes in Non-Cash Operating Working Capital and Due to Affiliates, Net	(1,126)	1,462	2,228	18,315
Maintenance Capital Expenditures	(2,518)	(2,908)	(8,987)	(8,284)
Amortization of the Purchase Cost of Foreign Exchange Options	(60)	(161)	(640)	(161)
Operating Non-Cash Items	2,088	(911)	2,116	972
Distributable Cash within Canexus LP	21,119	21,708	47,033	66,853
Canexus Income Fund				
Share of Canexus LP's Distributable Cash	8,149	8,376	18,148	25,795
Trust Administration Expenses	(85)	(50)	(217)	(96)
Distributable Cash available to Canexus Income Fund⁽¹⁾	8,064	8,326	17,931	25,699
Cash Distributions Declared	6,943	6,944	20,831	20,831
Payout Ratio ⁽¹⁾	86%	83%	116%	81%
Payout Ratio ⁽¹⁾ Normalized for Timing of Maintenance Capital Expenditures of \$14.0 million for 2007	90%	85%	120%	84%

Notes:

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

Distributable cash within Canexus LP represents cash from operating activities adjusted for temporary changes in non-cash operating working capital and other operating 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, the Fund's method of calculating distributable cash is unlikely to be comparable to methods used by other trusts.

The changes in non-cash operating working capital and due to affiliates for the three and nine months ended September 30, 2007 were due to timing differences.

The changes in non-cash operating working capital and due to affiliates for the three months ended September 30, 2006 were due to timing differences. The changes in non-cash operating working capital and due to affiliates for the nine months ended September 30, 2006 were due to timing differences in the amount of accounts receivable, prepaid expenses and inventories and operating supplies and to changes in amounts accrued for bonuses and costs incurred to establish Canexus as a stand alone entity which were funded by Nexen Inc. on August 18, 2005. The increase in the amount due to affiliates was due to adjustments to reflect the terms of the purchase and sale agreement with Nexen Inc.

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.

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

The Fund made monthly distributions of \$0.0729 per Unit for the period from January 1, 2007 to September 30, 2007 for total distributions declared of \$6.9 million (\$0.2187 per Unit) for the three month period ended September 30, 2007 and \$20.8 million (\$0.6561 per Unit) for the nine month period ended September 30, 2007.

At September 30, 2007, the Fund had a distribution receivable from Canexus LP. Upon receipt of this distribution in October 2007 the Fund paid distributions payable of \$2.3 million outstanding at September 30, 2007.

Income Taxes

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

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts, received Royal Assent. As a result, the Fund has recognized a \$11.8 million future income tax liability as at September 30, 2007 on temporary differences in reported amounts for financial statement and tax purposes in the capital assets underlying its investment in Canexus LP.

Commencing in 2011, a 31.5 per cent tax will be applied to distributions from publicly traded income trusts resulting in reduced cash available for distributions. (On October 30, 2007, the Government communicated a proposal to decrease the distribution tax to 29.5 per cent in 2011 and 28 per cent in 2012). Under the legislation, existing trusts must limit their expansion to "normal growth" until 2011. 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.

The legislation could have some or all of the following impacts, and the Fund could take some or all of the following actions:

- A portion of the Fund's cash flow could be allocated to the payment of cash distribution taxes and would not be available for distribution.
- If organizational structural changes are not made, the after-tax distributions in 2011 to taxable Canadian investors will remain approximately the same (under current business conditions), however, tax-deferred investors and foreign investors will see a significant reduction in their after tax realizations.

At the current time the legislation is not expected to limit the Fund's near term growth opportunities. The Fund will carefully review its alternatives to most effectively achieve its business strategy and optimize value for the Unitholders.

Summary of Quarterly Results

	Three Months Ended			
	September 2007 ⁽¹⁾	June 2007 ⁽¹⁾	March 2007	Dec 2006 ⁽²⁾
CAD thousands, except per unit amounts				
Equity Income from Investment in Canexus LP	8,242	6,739	4,441	1,464
Net Income (Loss)	6,228	(4,423)	3,723	323
Earnings (Loss) Per Unit (\$/Unit)	0.20	(0.14)	0.12	0.01
Diluted Earnings (Loss) Per Unit (\$/Unit)	0.20	(0.14)	0.12	0.01
Cash Distributions Declared	6,943	6,944	6,944	6,944
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.2187	0.2187

	Three Months Ended			
	Sept 2006	June 2006	March 2006	Dec 2005
CAD thousands, except per unit amounts				
Equity Income from Investment in Canexus LP	4,261	8,405	4,060	4,312
Net Income	3,932	8,097	3,770	4,048
Earnings Per Unit (\$/Unit)	0.13	0.25	0.12	0.12
Diluted Earnings Per Unit (\$/Unit)	0.13	0.25	0.12	0.12
Cash Distributions Declared	6,944	6,944	6,944	6,944
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.2187	0.2187

Notes:

- ⁽¹⁾ On June 22, 2007, previously announced legislation providing for the income taxation of specified investment flow through entities received Royal Assent. As a result of the new legislation, the Fund recognized a \$10.5 million future income tax liability in the three month period ended June 30, 2007 and a further \$1.3 million future income tax liability in the three month period ended September 30, 2007 on temporary differences in reported amounts for financial statement and tax purposes in the capital assets underlying its investment in Canexus LP, which are expected to reverse subsequent to 2010.
- ⁽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 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 2006, June 2006 or September 2006. The impact for the period from August 18, 2005 to December 31, 2005 was not material and was not adjusted.

The increase in equity income for the three months ended September 30, 2007 as compared to the three months ended June 30, 2007 and increase in equity income as compared to the three months ended September 30, 2006 are due to corresponding increases in the net income of Canexus LP for those periods (See "Summary of Quarterly Results" discussion relating to Canexus LP).

Liquidity and Capital Structure

Outstanding Securities of the Fund

At September 30, 2007 and November 9, 2007 the Fund had 31,750,000 Units outstanding.

Nexen Inc. 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 Inc., and each of which carries a special voting right that entitles the holder to receive notice of, and to 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 is filed on the Fund's profile on the SEDAR website at www.sedar.com.

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 unaudited interim 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

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") holds an indirect 38.6 per cent interest (through its wholly owned subsidiary Canexus Commercial Trust) and Nexen Inc. holds a 61.4 per cent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 per cent interest in Canexus LP. The Fund owns 100 per cent of the shares of Canexus Limited, but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust (a wholly owned subsidiary of Canexus Income Fund) 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.

Executive Summary

Canexus LP's financial performance for the third quarter met expectations with Distributable Cash of \$21.1 million, despite the significant strengthening of the Canadian dollar against the US dollar during the quarter. Strong product pricing, robust sales volumes and lower realized electricity costs in Alberta contributed to a successful quarter. Electricity cost savings in Alberta were achieved through both the sale of our fixed-cost supply of electricity for September due to a planned maintenance shutdown at our Bruderheim, Alberta sodium chlorate facility and to spot sell-back opportunities, in periods of peak electricity prices, of some of our fixed-cost electricity supply in July 2007.

We are still anticipating lower sodium chlorate sales volumes for the year by approximately 15,000 MT (approximately 4 per cent of 2007 planned sales volumes) due to various customer factors including lower export volumes to Asia, mill shutdowns, process changes and operational issues but are continuing to pursue other opportunities to minimize the impact of these reduced sales. We announced price increases for caustic soda during the fourth quarter which will partially offset expected fourth quarter weakening in chlorine demand.

In Brazil, demand for sodium chlorate and caustic soda from our primary customer remains strong and is anticipated to remain so for the balance of the year. The strengthening of the Brazilian Real against the US dollar has resulted

in the erosion of accumulated unrealized foreign exchange losses for tax purposes that Canexus intended to trigger to defer the payment of cash taxes in Brazil. As a result of this erosion it is now expected that Canexus will become cash taxable in Brazil in 2007.

Our business continues to be impacted by the strong Canadian dollar. To assist in managing our US dollar exposure, in August 2007 Canexus LP purchased Canadian dollar foreign exchange call options on US \$5 million per month which entitle Canexus LP to sell US dollars at a price of US \$0.9497 per Canadian dollar from September 5, 2007 to February 27, 2008. Canexus LP also had Canadian dollar foreign exchange call options on US \$5 million per month which entitled Canexus LP to sell US dollars at a price of US \$0.85 per Canadian dollar until July 11, 2007 when they expired. In addition, all of our long-term debt is denominated in US dollars to further mitigate currency risk.

The start up of our Brandon expansion project is expected in the first quarter of 2008. With total expected costs now over 90 per cent committed we expect a final project cost of \$53.0 million. This expansion project will boost plant capacity by approximately 12 per cent and is estimated to add \$10 million of EBITDA annually based on current business conditions. We are seeing some indications of increased demand for sodium chlorate in the US that could impact any decision to rationalize higher cost capacity, with our Brandon expansion scheduled for commissioning in early January 2008. We continue to be committed to reviewing the balance of our North American sodium chlorate capacity consistent with the impact of the Brandon expansion on the supply to demand balance.

We continue to work on developing the technology upgrade project for the North Vancouver chlor-alkali facility in preparation for consideration for approval by the Board of Directors in the fourth quarter of 2007. A lease extension to July 1, 2032 and a permit for the project were granted by the Vancouver Port Authority during the second quarter. The project, if approved, will provide significant cost savings from reduced fixed costs and will also eliminate over 75 per cent of our natural gas and 12 per cent of our electricity consumption per unit and will expand capacity by 33 per cent.

Highlights

- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder were \$0.2187 per Unit for total distributions of \$18.0 million for the three months ended September 30, 2007.
- Canadian dollar foreign exchange call options on US \$5 million per month purchased in August entitle Canexus to sell US dollars at a price of US \$0.9497 per Canadian dollar from September 5, 2007 to February 27, 2008.
- North American sodium chlorate sales revenue increased as compared to the third quarter of 2006 on lower volumes as a result of price increases implemented at the start of 2007 and further price increases implemented in the third quarter, despite the significant strengthening of the Canadian dollar against the US dollar during the quarter.
- North American chlor-alkali sales revenue increased as compared to the third quarter of 2006 primarily as a result of an increase in sales volumes. Price increases for caustic soda have been announced for the fourth quarter which will partially offset expected weakening in chlorine demand in the fourth quarter.
- Our Brandon plant expansion project remains on schedule with anticipated start-up in the first quarter of 2008. With total expected costs over 90 per cent committed we expect a final project cost of \$53.0 million, approximately 6 per cent above our original cost estimate of \$50.0 million.
- Strong demand in Brazil is expected to continue for the remainder of 2007 due in part to a recently completed debottleneck and yield improvement project at our primary customer's mill and ongoing merchant demand.
- We continue to make solid progress on our technology conversion project at our North Vancouver chlor-alkali plant. During the second quarter, a lease extension and permit for the project were granted by the Vancouver Port Authority. This project is expected to be considered for approval by the Board of Directors in December and will provide significant cost savings and expand capacity if approved.

Summary of Quarterly Results

CAD thousands, except as noted	Three Months Ended			
	September 2007	June 2007	March 2007	December 2006
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	108	101	110	115
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	53	43	48	44
Sales Revenues	104,990	99,207	106,079	100,862
Cost of Goods Sold	68,872	75,064	75,320	73,013
Gross Margin ⁽¹⁾	36,118	24,143	30,759	27,849
Gross Margin (%) ⁽¹⁾	34%	24%	29%	28%
Net Income	21,361	17,466	11,510	3,794
Plus: Provision for Income Taxes	2,623	1,379	642	(1,335)
Plus: Amortization	11,034	10,897	10,873	10,319
Plus: Interest Expense	3,091	2,878	3,034	2,827
EBITDA ⁽¹⁾	38,109	32,620	26,059	15,605
Capital Expenditures				
Maintenance	2,518	4,195	2,274	3,814
Continuous Improvement	218	569	108	842
Infrastructure and IT	-	-	395	874
Expansion	10,874	9,546	8,332	6,414
Total Capital Expenditures	13,610	14,310	11,109	11,944
Average Foreign Exchange Rate (CAD \$ to US \$)	0.95	0.88	0.86	0.88

Note:

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

CAD thousands, except as noted	Three Months Ended			
	September 2006	June 2006	March 2006	December 2005
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	111	105	113	113
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	51	52	47	50
Sales Revenues	100,805	97,055	106,609	101,904
Cost of Goods Sold	70,413	67,230	75,060	71,948
Gross Margin ⁽¹⁾	30,392	29,825	31,549	29,956
Gross Margin (%) ⁽¹⁾	30%	31%	30%	29%
Net Income	11,043	21,784	10,522	10,844
Plus: Provision for Income Taxes	592	873	659	(742)
Plus: Amortization	10,001	9,942	9,961	9,129
Plus: Interest Expense	2,807	2,634	2,445	2,167
EBITDA ⁽¹⁾	24,443	35,233	23,587	21,398
Capital Expenditures				
Maintenance	2,908	3,382	1,994	5,298
Continuous Improvement	98	302	-	-
Infrastructure and IT	-	2,534	1,807	-
Expansion	2,083	94	208	-
Total Capital Expenditures	5,089	6,312	4,009	5,298
Average Foreign Exchange Rate (CAD \$ to US \$)	0.89	0.88	0.87	0.85

Note:

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

Results of Operations

Changes in Net Income Third Quarter 2007 versus Third Quarter 2006

Net Income for Third Quarter 2006	11,043
Items Increasing (Decreasing) Net Income	
Sales Revenues	4,185
Cost of Goods Sold	1,541
Amortization	(1,033)
General and Administrative Expenses	(1,181)
Interest Expense	(284)
Change in Fair Value and Realized Gains on Foreign Exchange	
Options	1,758
Change in Fair Value of Electricity Forward Swaps	(2,595)
Currency Translation Gains	10,896
Income Taxes	(2,031)
Other	(938)
Net Income for Third Quarter 2007	21,361

Net income for the three month period ended September 30, 2007 increased by \$10.3 million or 93 per cent over the three month period ended September 30, 2006. EBITDA for the three month period ended September 30, 2007 increased by \$13.7 million or 56 per cent over the three month period ended September 30, 2006.

An increase in gross margin of \$5.7 million increased net income

Three Months Ended September 30, 2007	North America			Total
	Sodium Chlorate	Chlor-alkali	Brazil	
Sales Revenues	48,302	34,928	21,760	104,990
Cost of Goods Sold	32,131	21,761	14,980	68,872
Gross Margin ⁽¹⁾	16,171	13,167	6,780	36,118
Gross Margin (%) ⁽¹⁾	33%	38%	31%	34%

Three Months Ended September 30, 2006	North America			Total
	Sodium Chlorate	Chlor-alkali	Brazil	
Sales Revenues	47,162	33,534	20,109	100,805
Cost of Goods Sold	33,980	21,887	14,546	70,413
Gross Margin ⁽¹⁾	13,182	11,647	5,563	30,392
Gross Margin (%) ⁽¹⁾	28%	35%	28%	30%

Note:

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

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased 2 per cent from \$47.2 million in 2006 to \$48.3 million in 2007. Lower sales volumes of 2 per cent were offset by higher realized selling prices. Gross margins increased from 28 per cent for the three months ended September 30, 2006 to 33 per cent for the three months ended September 30, 2007 as a result of higher realized selling prices, lower realized electricity costs in Alberta and lower fixed costs per unit of production as a result of 3 per cent higher production volumes. Electricity cost savings in Alberta were achieved through both the sale of our fixed-cost supply of electricity for September due to a planned maintenance shutdown at our Bruderheim, Alberta sodium chlorate facility and to spot sell-back opportunities, in periods of peak electricity prices, of some of our fixed-cost electricity supply in July 2007.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment increased 4 per cent from \$33.5 million in 2006 to \$34.9 million in 2007. This increase was primarily the result of higher sales volumes. Gross margins for the North America chlor-alkali business increased from 35 per cent for the three months ended September 30, 2006 to 38 per cent for the three months ended September 30, 2007 as a result of increased sales of caustic soda and slightly lower electricity, natural gas and salt costs in the third quarter of 2007 as compared to the third quarter of 2006.

Brazil

Sales revenue in Brazil increased 8 per cent from \$20.1 million for the third quarter of 2006 to \$21.8 million for the third quarter of 2007. A decline in sodium chlorate sales volumes was offset by an increase in chlor-alkali sales volumes and increases in realized selling prices for both sodium chlorate and chlor-alkali. The decline in sodium chlorate sales volumes was primarily the result of lower sales into the merchant market. Gross margins increased to 31 per cent from 28 per cent the prior year due to lower sodium chlorate sales into the merchant market which provide lower gross margins.

Higher amortization expense decreased net income by \$1.0 million

Amortization expense increased for the three month period ended September 30, 2007 as compared to the three month period ended September 30, 2006 due to investments made in IT and other corporate infrastructure throughout 2006 as Canexus transitioned to a stand-alone entity.

Higher general and administrative costs decreased net income by \$1.2 million

General and administrative costs were higher for the three month period ended September 30, 2007 as a result of higher costs associated with operating our stand-alone Information Technology environment and in performing other finance and administrative functions previously provided by Nexen Inc. under the transition services agreement which was concluded in December 2006.

Higher interest expense decreased net income by \$0.3 million

The increase in interest expense for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 was due to higher debt levels offset by the significant strengthening of the Canadian dollar against the US dollar during the third quarter of 2007. Outstanding long-term debt at September 30, 2007 was \$189,000,000 USD as compared to \$167,098,337 USD at September 30, 2006. Capitalized interest on major projects in the third quarter was \$378,849 (Quarter 3, 2006 - \$17,880).

Changes in foreign exchange options increased net income by \$1.8 million

During the third quarter of 2007, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.87 which expired on July 11, 2007. In August 2007, Canexus LP purchased Canadian dollar foreign exchange options that entitle Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to February 27, 2008. Realized gains on these foreign exchange options for the third quarter of 2007 were \$0.6 million and mark-to-market gains in fair value were \$0.7 million for a total gain of \$1.3 million. During the three months ended September 30, 2006, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$9.5 million per month and acquire Canadian dollars at a price of US \$0.813 per Canadian dollar which expired on August 9, 2006 and Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.85 from August 16, 2006 to January 10, 2007. Realized gains on these foreign exchange options for the third quarter of 2006 were \$2.4 million offset by mark-to-market losses in fair value of \$2.9 million for a total loss of \$0.5 million.

Changes in fair value of electricity forward swaps decreased net income by \$2.6 million

Canexus uses forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. In the third quarter of 2007 we recorded a mark-to-market loss of \$2.9 million versus \$0.3 million in the third quarter of 2006.

Changes in currency translation gains increased net income by \$10.9 million

During the three month period ended September 30, 2007, fluctuations in exchange rates resulted in unrealized and realized gains totaling \$11.1 million versus a gain of \$0.2 million for the same period in 2006, on the translation of our US dollar denominated debt (unrealized gain of \$12.6 million for the three month period ended September 30, 2007 versus an unrealized loss of \$0.1 million for the three month period ended September 30, 2006) and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies.

Higher income taxes decreased net income by \$2.0 million

Income taxes increased for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 due to the reduction of income tax benefits in foreign subsidiaries resulting from foreign exchange fluctuations.

Other decreased net income by \$0.9 million

During the three months ended September 30, 2006, Canexus LP realized a gain of \$0.5 million on the sale of excess electricity supply during a planned maintenance shutdown at our Brazil plant in September 2006. During the three months ended September 30, 2007, Canexus LP recorded a provision for doubtful accounts of \$0.3 million versus \$0.8 million in the three months ended September 30, 2006. The remaining change in other is the result of miscellaneous other income and expense items.

Capital Expenditures

Capital expenditures for the three month period ended September 30, 2007 were \$13.6 million compared to \$5.1 million for the three month period ended September 30, 2006. This increase was due primarily to expenditures on our Brandon expansion project (\$9.0 million for the three months ended September 30, 2007) and the North Vancouver technology conversion project (\$1.9 million for the three months ended September 30, 2007).

Changes in Net Income Nine Months Ended September 30, 2007 versus Nine Months Ended September 30, 2006

Net Income for Nine Months Ended September 30, 2006	43,349
Items Increasing (Decreasing) Net Income	
Sales Revenues	5,807
Cost of Goods Sold	(6,553)
Amortization	(2,900)
General and Administrative Expenses	(3,524)
Interest Expense	(1,117)
Change in Fair Value and Realized Gains on Foreign Exchange Options	(813)
Change in Fair Value of Electricity Forward Swaps	(1,116)
Currency Translation Gains	20,136
Income Taxes	(2,520)
Other	(412)
Net Income for Nine Months Ended September 30, 2007	50,337

Net income for the nine month period ended September 30, 2007 increased by \$7.0 million or 16 per cent over the nine month period ended September 30, 2006. EBITDA for the nine month period ended September 30, 2007 increased by \$13.5 million or 16 per cent over the nine month period ended September 30, 2006.

Net income decreased due to a decrease in gross margin of \$0.8 million

	North America			
	Sodium Chlorate	Chlor-alkali	Brazil	Total
Nine Months Ended September 30, 2007				
Sales Revenues	144,390	98,537	67,349	310,276
Cost of Goods Sold	101,702	70,273	47,281	219,256
Gross Margin ⁽¹⁾	42,688	28,264	20,068	91,020
Gross Margin (%) ⁽¹⁾	30%	29%	30%	29%

	North America			
	Sodium Chlorate	Chlor-alkali	Brazil	Total
Nine Months Ended September 30, 2006				
Sales Revenues	139,997	103,314	61,158	304,469
Cost of Goods Sold	103,177	66,783	42,743	212,703
Gross Margin ⁽¹⁾	36,820	36,531	18,415	91,766
Gross Margin (%) ⁽¹⁾	26%	35%	30%	30%

Note:

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

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased 3 per cent from \$140.0 million for the nine months ended September 30, 2006 to \$144.4 million for the nine months ended September 30, 2007. Lower sales volumes were offset by higher realized selling prices, despite the significant strengthening in the Canadian dollar, resulting from the implementation of price increases in both the first and third quarters. Gross margins increased from 26 per cent to 30 per cent as a result of higher realized selling prices and lower realized electricity costs in Alberta, offset by higher fixed costs per unit of production due to lower production volumes for the nine months ended September 30, 2007.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment decreased 5 per cent from \$103.3 million for the nine months ended September 30, 2006 to \$98.5 million for the nine months ended September 30, 2007. A decrease in sales volumes of 7 per cent (as a result of operational issues in the second quarter of 2007 that have been resolved) and lower realized selling prices contributed to this decrease. Gross margins for the North America chlor-alkali business declined from 35 per cent for the nine months ended September 30, 2006 to 29 per cent for the nine months ended September 30, 2007. Both sales volumes and gross margins declined due to reduced operating rates and increased costs (\$1.4 million) in May 2007 as a result of a regularly scheduled plant maintenance turnaround and to unplanned circuit outages as a consequence of an interruption in water supply to the plant with a corresponding production loss and repair costs of \$0.75 million.

Brazil

Sales revenue in Brazil increased 10 per cent from \$61.2 million to \$67.3 million. Declines in sodium chlorate sales volumes were offset by slightly higher sales volumes of chlor-alkali products and increases in realized selling prices for both sodium chlorate and chlor-alkali products. Gross margins remained consistent at 30 per cent for each of the nine month periods.

Higher amortization expense decreased net income by \$2.9 million

Amortization expense increased for the nine month period ended September 30, 2007 as compared to the nine month period ended September 30, 2006 due to investments made in IT and other corporate infrastructure throughout 2006 as Canexus transitioned to a stand-alone entity.

Higher general and administrative costs decreased net income by \$3.5 million

General and administrative costs were higher for the nine month period ended September 30, 2007 as a result of costs associated with operating our stand-alone Information Technology environment and in performing other finance and administrative functions previously provided by Nexen Inc. under the transition services agreement which was concluded in December 2006. The second quarter of 2007 was also impacted by \$0.75 million of costs to further streamline our organization.

Higher interest expense decreased net income by \$1.1 million

The increase in interest expense for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 was due to both higher interest rates and borrowings. The average interest rate on our credit facility for the nine months ended September 30, 2007 was 6.24 per cent compared to an average interest rate of 5.80 per cent for the nine months ended September 30, 2006. Outstanding long-term debt at September 30, 2007 was \$189,000,000 USD and \$167,098,337 USD at September 30, 2006. Capitalized interest on major projects for the nine months ended September 30, 2007 was \$643,592 and \$17,880 for the nine months ended September 30, 2006.

Changes in foreign exchange options decreased net income by \$0.8 million

During the nine months ended September 30, 2007, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.87 beginning January 17, 2007 and expiring on July 11, 2007 and Canadian dollar foreign exchange options that entitle Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9497 beginning September 5, 2007 and expiring on February 27, 2008. During the nine months ended September 30, 2006, we had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$9.5 million per month and acquire Canadian dollars at a price of US \$0.813 expiring August 9, 2006 and Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.85 for the period August 16, 2006 to January 10, 2007. For the first nine months of 2007, realized gains of \$1.2 million and mark-to-market fair value gains of \$0.7 million were recorded on these options for a total gain of \$1.9 million. For the first nine months of 2006, a gain of \$2.7 million was recorded comprised of a mark-to-market fair value loss of \$6.3 million and realized gains of \$9.0 million.

Changes in fair value of electricity forward swaps decreased net income by \$1.1 million

Canexus uses forward swap contracts to manage our exposure to the price of electricity in Alberta. For the nine month period ended September 30, 2007, Canexus LP recorded mark-to-market losses of \$1.4 million on these forward swap contracts as compared to losses of \$0.3 million for the nine months ended September 30, 2006.

Changes in currency translation gains increased net income by \$20.1 million

During the nine month period ended September 30, 2007, fluctuations in exchange rates resulted in unrealized gains (\$30.0 million) and realized losses (\$2.2 million) for a net gain of \$27.8 million versus a gain of \$7.7 million for the same period in 2006, primarily on the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. We recorded a \$30.4 million unrealized currency translation gain on our US dollar denominated long-term debt in the nine month period ended September 30, 2007 as compared to a \$7.2 million gain in the nine month period ended September 30, 2006. Canexus LP recorded realized currency translation losses for the nine month period ended September 30, 2007 of \$2.2 million as compared to a gain of \$1.2 million for the same period in 2006.

Higher income taxes decreased net income by \$2.5 million

Income taxes increased for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 due to the reduction of income tax benefits in foreign subsidiaries resulting from foreign exchange fluctuations.

Other decreased net income by \$0.4 million

During the nine months ended September 30, 2007, Canexus LP recorded \$0.4 million of income on an insurance recovery. In addition, an assessment of accruals related to contingent legal claims and of other provisions resulted in the recording of a net \$0.8 million of income. Offsetting this were adjustments related to prior year salt purchases for fuel surcharges of \$0.5 million, the write off of unusable caustic soda inventory for \$0.3 million and the recording of a general provision for doubtful accounts of \$0.3 million.

During the nine months ended September 30, 2006 Canexus LP recorded a general provision for doubtful accounts of \$1.8 million to reflect an increase in the risk associated with accounts receivable with customers in the pulp and paper industry and \$0.5 million of other expense relating to adjustments under the purchase and sale agreement with Nexen Inc. These costs were partially offset by the adjustment of electricity and natural gas assumptions related to accruals resulting in an increase in net income of \$0.8 million and by a gain of \$0.5 million realized on the sale of excess electricity supply during a planned maintenance shutdown at our Brazil plant in September 2006.

The remaining change in other is due to miscellaneous other income and expense items.

Capital Expenditures

Capital expenditures for the nine month period ended September 30, 2007 were \$39.0 million compared to \$15.4 million for the nine month period ended September 30, 2006. Higher expansion capital expenditures related to our Brandon expansion project and North Vancouver technology conversion project were offset by lower infrastructure and IT capital spending.

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: 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

Notes:

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

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 Inc. 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 per cent 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 per cent in 2004 to 30 per cent 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 average 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, between 90 and 100 per cent of which were passed through to our primary customer

under our long-term fixed-margin contract, and the expansion of our merchant business which provides a lower gross margin.

Outlook

Sodium Chlorate

Sodium chlorate demand rebounded in the third quarter as the spring maintenance turnaround season at pulp mills came to a close. The recently resolved British Columbia coastal forestry workers' strike marginally impacted pulp mill operating rates on the West Coast during the quarter. Fundamentally, pulp mill capacity utilization remains high in response to a strong pulp market and high pulp prices. Extended pulp mill strikes and fiber-sourcing difficulties at various bleached pulp mills in Korea, Indonesia, China and Chile have contributed to a tight global bleached pulp market with upward pricing momentum. The weaker US dollar is also supporting higher pulp prices. Based on current pulp industry dynamics, sodium chlorate industry operating rates are projected to remain above 92 per cent through year end. Sodium chlorate supply is expected to remain balanced over the 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.

The surge in the Canadian dollar that occurred over the past 4 or 5 months has reinforced sodium chlorate price momentum, particularly for US customers. US pulp mills have competitively benefited from the weaker US dollar compared to mills in most other regions of the world because global pulp prices are generally denominated in US dollars. Sodium chlorate prices at US mills have risen dramatically through 2007 due to the repositioning of the Canadian dollar versus the US dollar. Continued upward movement in US prices is projected as balanced supply/demand conditions support passing on more of the impact of the stronger Canadian dollar to US customers. Canexus LP's Brandon plant expansion project continues to be projected to be on-stream in the first quarter of 2008. Canexus remains committed to review the balance of its North American sodium chlorate supply capacity consistent with the impact of the Brandon expansion on the supply/demand balance.

Canexus LP's Brazil operations continue to deliver strong results with a positive outlook for the bleached pulp market in the region. A recent sodium chlorate demand increase from Aracruz Celulose S.A., Canexus Brazil's primary customer, is expected to continue through year end. South America remains a key investment region for the sodium chlorate industry given the significant access to low cost, renewable wood fiber 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.

Chlor-alkali

North America chlor-alkali industry operating rates averaged 93.4 per cent through August 2007, 3 per cent higher than the same time period of the prior year and consistent with continued strong demand. Third quarter chlorine demand was very strong in support of the high demand water treating season, and robust PVC, MDI and TDI demand for both the North American and export markets. Chlorine demand is expected to soften moderately in the fourth quarter as seasonal demand for water treating abates and due to a projected softening of PVC demand associated with softer construction demand in the US.

Forward caustic soda supply and demand fundamentals remain strong in Western Canada and the US Pacific Northwest, which are Canexus LP's focus markets. The region is a net importing region; consequently, the caustic supply to demand balance depends on imports from Asia and the US Gulf Coast which are subject to higher transportation cost than locally produced product. Regional caustic soda demand is strong.

The seasonal chlorine demand slowdown projected in the fourth quarter is projected to result in a modest slowdown in chlor-alkali industry operating rates. Consequently, the caustic supply/demand balance is projected to be tighter in the chlorine off-season, supporting further upward caustic soda price momentum into early 2008.

Market dynamics suggest that the MECU (metric electrochemical unit) will remain well above historic values through 2008 based on continued healthy global demand and generally robust energy prices. Modest price softening may occur during 2008 associated with a potential slowdown in US and global economic growth rates.

Liquidity and Capital Structure

Excess (Shortfall) of Cash Flows From Operating Activities and Excess (Shortfall) of Net Income, Over Distributions Declared

The following table presents the excess (shortfall) of cash flows from operating activities and excess (shortfall) of net income, over cash distributions declared for the three and nine month periods ended September 30, 2007, the year ended December 31, 2006 and the period August 18, 2005 to December 31, 2005.

	Three Months Ended September 30 2007	Nine Months Ended September 30 2007	Year Ended December 31 2006	2005 ⁽¹⁾
Cash flows from operating activities	22,735	52,316	81,302	42,926
Net income	21,361	50,337	47,143	30,206
Cash distributions declared ⁽²⁾	17,996	53,988	71,984	26,759
Excess (shortfall) of cash flows from operating activities over cash distributions declared	<u>4,739</u>	<u>(1,672)</u>	<u>9,318</u>	<u>16,167</u>
Excess (shortfall) of net income over cash distributions declared	<u>3,365</u>	<u>(3,651)</u>	<u>(24,841)</u>	<u>3,447</u>

⁽¹⁾ For the period August 18, 2005 to December 31, 2005. The Fund effectively commenced operations on August 18, 2005 through its indirect investment in Canexus LP.

⁽²⁾ Distributions declared payable to Ordinary and Exchangeable LP Unitholders.

Canexus LP considers the amount of cash generated by the business in determining the level of distributions to Ordinary and Exchangeable LP Unitholders. We do not take into account changes in non-cash working capital as they are considered to be temporary in nature. We do not consider net income to be a cash flow measure and do not consider it in the determination of the level of cash distributions. Net income includes significant non-cash items including amortization and unrealized foreign exchange gains and losses.

Distributions declared exceeded cash flows from operating activities and net income for the nine months ended September 30, 2007 as a result of operational issues experienced during the second quarter of 2007 which have been resolved.

Distributions declared exceeded net income for the year ended December 31, 2006 due to non-cash expenses including amortization and losses in fair value on foreign exchange options. For the three and nine months ended September 30, 2007 amortization expense is offset by unrealized foreign exchange gains recorded on our US dollar denominated debt.

Net Debt and Total Equity

	September 30 2007	December 31 2006
Net Debt ⁽¹⁾		
Bank Debt	188,301	173,630
Less: Cash and Cash Equivalents	(4,564)	(3,979)
Less: Non-Cash Working Capital	<u>(41,477)</u>	<u>(37,575)</u>
Total Net Debt	<u>142,260</u>	<u>132,076</u>
Total Equity ⁽²⁾	<u>182,763</u>	<u>200,398</u>

Notes:

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

- (2) At September 30, 2007 and December 31, 2006, 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 maintenance capital expenditures and remaining excess cash after distributions (if any) was used to fund expansion capital expenditures and repay debt.

The following table provides an overview of Canexus LP's cash flows each period:

	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	Change	2007	2006	Change
Cash Flow from Operating Activities	22,735	24,226	(1,491)	52,316	56,011	(3,695)
Cash Flow used in Financing Activities	(10,170)	(19,660)	9,490	(10,064)	(43,001)	32,937
Cash Flow used in Investing Activities	(12,309)	(3,908)	(8,401)	(41,044)	(14,449)	(26,595)

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 gross margins and a decrease in operating working capital between periods offset by an increase in general and administrative expenditures and current income taxes have resulted in a decrease in cash generated from operating activities in the three month period ended September 30, 2007. A decrease in gross margins and an increase in general and administrative expenditures, interest expense and current income taxes offset by a lower increase in operating working capital has resulted in a decrease in cash generated from operating activities for the nine month period ended September 30, 2007.

Cash Flow used in Financing Activities

The change in cash used in financing activities is comprised of:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Proceeds from (Repayments of) Short-Term Borrowings, Net	3,450	(3,094)
Proceeds from Long-Term Debt	6,087	37,229
Repayments of Long-Term Debt	-	3,409
Funding of Asset Retirement Expenditures from Restricted Investments	9	83
Repayments to Nexen Inc. and Affiliates	(59)	(4,692)
Distributions Paid to Ordinary LP Unitholders	3	2
	<u>9,490</u>	<u>32,937</u>

Cash Flow used in Investing Activities

The change in cash used in investing activities is comprised of:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Increase in Capital Expenditures	(8,521)	(23,619)
Changes in Non-Cash Working Capital	120	(2,936)
Other	-	(40)
	<u>(8,401)</u>	<u>(26,595)</u>

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 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 September 30, 2007 Canexus LP was compliant with all debt covenants contained in its credit facility agreement.

Capital Expenditures

Canexus LP has commitments of \$23.2 million as at September 30, 2007 and \$16.5 million as at November 9, 2007, in addition to project inception-to-date expenditures of \$37.6 million incurred up to September 30, 2007, related to the \$53 million expansion to our Brandon, Manitoba sodium chlorate plant and the North Vancouver chlor-alkali facility technology conversion project. These projects are 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 and acquisitions, 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.

Canexus LP has a \$350 million, four year revolving credit facility which matures 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. 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 earnings before interest, income taxes, depreciation and amortization (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. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. At September 30, 2007 we have \$188,300,700 (US \$189,000,000) outstanding on this 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 Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. As at September 30, 2007 there were \$8.8 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 September 30, 2007 these obligations and commitments were as follows:

Payments	Total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases ⁽¹⁾	76,243	16,178	26,831	20,379	12,855
Purchase Obligations ⁽²⁾	162,175	17,813	43,842	47,963	52,557
Expansion Capital Expenditures ⁽³⁾	28,062	21,577	6,485	-	-
Asset Retirement Obligations ⁽⁴⁾	72,758	980	2,899	381	68,498
Long-Term Debt ⁽⁵⁾	188,301	-	-	188,301	-
Total	527,539	56,548	80,057	257,024	133,910

Notes:

- ⁽¹⁾ Payments for operating leases are included in cash flow from operating activities. Operating leases include minimum lease payment obligations associated with leases for office space, rail cars, vehicles and software licenses and maintenance.

- (2) Purchase obligations include the contractual commitment for the purchase of electricity in Brazil, approximately 90 to 100 per cent of which is passed through to our primary customer.
- (3) Expansion of the Brandon sodium chlorate facility and the North Vancouver chlor-alkali facility technology conversion project.
- (4) As at September 30, 2007, undiscounted asset retirement obligations are \$73 million. The estimated fair value (\$42.5 million) of these obligations has been provided for in Canexus LP's unaudited interim 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 \$13.6 million of restricted investments to be used for future site remediation and asset retirement obligations. Approximately \$4.1 million of restricted investments are invested in non-bank sponsored ("third party") asset backed commercial paper that was due to be received on September 28, 2007 and was not repaid. The third-party asset backed commercial paper market is currently illiquid and is in the process of being restructured. Canexus LP has no near-term requirement for these funds and believes no significant impairment in value has occurred at this time.
- (5) Long-Term Debt amounts are included in Canexus LP's September 30, 2007 unaudited 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.

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 September 30, 2007 unaudited consolidated balance sheet. 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 operation.

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 might increase Canexus LP's tax liability. While the results of any existing and future audits cannot be ascertained at this time, management believes that Canexus LP has an adequate provision for income taxes based on available information. Canexus LP is indemnified by Nexen Inc. for any claims for such income tax re-assessments for periods prior to August 18, 2005.

Guarantees

Canexus LP's \$350 million revolving credit facility (See "Capital Expenditures") 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 is filed on the Fund's SEDAR profile at www.sedar.com.

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 America 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 September 30, 2007 we had forward swap contracts under which we pay a fixed weighted average price of \$66.12 per MWh and receive a floating price on 66,270 MWh for the period October 1, 2007 to December 31, 2007. At November 9, 2007 we had forward swap contracts under which we pay a fixed weighted average price of \$66.12 per MWh and receive a floating price on 43,920 MWh for the period November 1, 2007 to December 31, 2007.

In the quarter ending September 30, 2007, Canexus LP was able to take advantage of the volatility of electricity prices in Alberta by selling a significant amount of its fixed-rate power back into the grid and by purchasing power at lower off-peak rates. As a result, Canexus LP was able to reduce its power costs at its Alberta sodium chlorate plant significantly. This opportunity may not exist in the future.

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 \$0.95 during the three months ended September 30, 2007 with a high of US \$1.01 and a low of US \$0.92. During the three month period ended September 30, 2006 the rate averaged US \$0.89 with a high of US \$0.90 and a low of US \$0.89. Before the impact of hedging instruments, every US\$0.01 change in the Canadian/US dollar exchange rate inversely affects income before taxes by \$1.2 million Canadian per year.

To manage the exposure to the Canadian/US exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenses in US dollars. In August 2007, Canexus LP purchased Canadian dollar foreign exchange call options on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 per Canadian dollar for the period September 5, 2007 through to February 27, 2008. We also had Canadian dollar foreign exchange call options on US \$5.0 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.87 which expired on 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.

With two-thirds of North American sodium chlorate production located in Canada and two-thirds of consumption in the United States, we anticipate that some of the impact of the stronger Canadian dollar can be passed on to US customers through higher prices.

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

Credit Risk

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

- the financial strength of counterparties is assessed through a rigorous credit process;

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

The majority of Canexus LP's Brazilian production is sold to Aracruz Celulose S.A. under a long-term sales agreement. Amounts receivable from Aracruz Celulose S.A. represent approximately 14 per cent of Canexus LP's total trade accounts receivable at September 30, 2007 (December 31, 2006 - 12 per cent).

On October 29, 2007 Pope and Talbot applied for protection under the Companies' Creditors Arrangement Act (CCAA). They also announced that they expect to fund current operating needs with cash generated from daily operations while under CCAA protection. Pope and Talbot has been a long-standing, important customer to Canexus LP and currently takes most of the production from our Nanaimo sodium chlorate plant. In addition, we supply 2 other Pope and Talbot mills. Our accounts receivable exposure is relatively modest and we expect to continue to supply their ongoing chemical needs while under CCAA protection.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

As at September 30, 2007, Canexus LP had foreign currency call option contracts in place on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 per Canadian dollar from September 5, 2007 to February 27, 2008. 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.

From time to time Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At September 30, 2007 we had forward swap contracts under which we pay a fixed weighted average price of \$66.12 per MWh and receive a floating price on 66,270 MWh for the period October 1, 2007 to December 31, 2007. At November 9, 2007 we had forward swap contracts under which we pay a fixed weighted average price of \$66.12 per MWh and receive a floating price on 43,920 MWh for the period November 1, 2007 to December 31, 2007.

Transactions with Related Parties

Due from/to affiliates at September 30, 2007 and September 30, 2006 relate to amounts owing in the normal course of operations as discussed below.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus LP has also entered into separate forward swap contracts with a Nexen Inc. affiliate to manage our exposure to the price of electricity in Alberta. Under these contracts, Canexus LP pays a fixed rate and receives a floating rate per MWh.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Electricity Purchases and Retail Service Fees	1,250	2,542	11,298	11,895
Natural Gas Purchases and Retail Service Fees	1,529	1,651	6,032	6,094
Forward Swap Receipts	(3,068)	(1,623)	(1,817)	(1,336)
Total	(289)	2,570	15,513	16,653

Canexus LP incurred \$1,197,994 and \$4,031,814, respectively for the three and nine month periods ended September 30, 2006 under a Transition Services Agreement entered into with Nexen Inc. on August 18, 2005. Under this agreement Nexen Inc. provided certain requested administrative, operating and financial services to Canexus LP for up to an 18 month period or until transition of the subject services to Canexus LP. These services were provided by Nexen Inc. in the same manner as were provided for the 12 month period prior to August 18, 2005 and 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 LP.

Critical Accounting Estimates

There are a number of critical estimates underlying the accounting policies applied in the preparation of the unaudited 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 property, plant and equipment. 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.

Changes in Accounting Policies

Effective January 1, 2007, the Fund and Canexus LP adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: 1530, Comprehensive Income; 3251, Equity; 3855, Financial Instruments – Recognition and Measurement; 3861, Financial Instruments – Disclosure and Presentation; and 3865, Hedges; which are effective for fiscal years beginning on or after October 1, 2006. These standards were adopted prospectively and accordingly, the comparative interim consolidated financial statements of the Fund and Canexus LP have not been restated except for other comprehensive income arising from the translation of foreign subsidiaries.

(a) Financial Instruments

Under Section 3855 all financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in income. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in other comprehensive income until the instrument is de-recognized or impaired. The other categories of financial instruments are recognized at amortized cost using the effective interest method.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held-for-trading. The Fund and Canexus LP have not elected to classify any financial assets or financial liabilities as held-for-trading unless they meet the held-for-trading criteria.

As a result of the adoption of these new standards, the Fund classified Cash as held-for-trading, Distribution Receivable as loans and receivables and Accounts Payable and Accrued Liabilities, Distribution Payable and Due to Affiliates as other liabilities. Prior to the adoption of these standards, the Fund accounted for these financial instruments on the same basis and accordingly, there is no impact as a result of the adoption of these standards on the results of operations or financial position of the Fund as at September 30, 2007.

As a result of the adoption of these new standards, Canexus LP classified Cash and Cash Equivalents as held-for-trading, Accounts Receivable as loans and receivables, Restricted Investments as held-to-maturity and Short Term Borrowings, Accounts Payable and Other Accrued Liabilities, Distribution Payable, Accrued Interest Payable, Due to Affiliates and Long-Term Debt as other liabilities. Prior to the adoption of these standards, Canexus LP accounted for these financial instruments on the same basis and accordingly, there is no impact as a result of the adoption of these standards on the results of operations or financial position of Canexus LP as at September 30, 2007.

(b) Derivatives and Hedging

The Fund currently does not utilize derivatives or follow hedge accounting.

Canexus LP currently uses derivatives to manage market risk against the volatility in electricity prices and foreign exchange rates. All free standing derivative instruments are classified as held-for-trading and recorded on the balance sheet at fair value in derivative financial instruments. Gains and losses on these instruments are recorded in other income in the consolidated statements of net income and comprehensive income in the period they occur. Fair values of the derivatives are based on quoted market prices where available or estimated by reference to published values for similar instruments.

Canexus LP does not follow hedge accounting.

(c) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. Section 3855 requires such items to be recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not classified as held-for-trading. The Fund and Canexus LP have selected January 1, 2003 as its transition date for accounting for any potential derivatives.

(d) Comprehensive Income

Comprehensive income consists of net income and other comprehensive income ("OCI"). The new standards require the effective portion of changes in fair value of derivatives used in a cash flow hedge, changes in fair value of available-for-sale financial instruments and foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations to be included in OCI.

The Fund does not have any comprehensive income and accordingly, has not presented statements of OCI and accumulated other comprehensive income.

OCI and accumulated other comprehensive income for Canexus LP consists of foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations.

Effective January 1, 2007, Canexus LP adopted the revised recommendations of CICA Handbook Section 1506, Accounting Changes. The new recommendations provide that:

- Voluntary changes in accounting policy are allowed only if they result in financial statements which provide more reliable and relevant information;
- Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change;
- Corrections of prior period errors are applied retrospectively; and
- Changes in accounting estimates are applied prospectively by including these changes in earnings.

These recommendations are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

When we have not applied a new primary source of GAAP that has been issued but is not effective, we must disclose that fact along with information relevant to assessing the possible impact the application of the new primary source of GAAP will have on the financial statements in the period of initial application.

New Accounting Pronouncements

Two new Handbook Sections, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, have been issued by the Canadian Institute of Chartered Accountants ("CICA"). Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861, Financial Instruments – Disclosures and Presentation. Both sections become effective October 1, 2007 and will require expanded disclosure in the financial instruments note in Canexus LP's consolidated financial statements.

In December 2006, the CICA issued Section 1535, Capital Disclosures, requiring disclosure of information about an entity's capital and the objectives, policies and processes for managing capital. This standard is effective for annual periods beginning on or after October 1, 2007 and will result in expanded disclosure in Canexus LP's consolidated financial statements.

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value. The new requirements are effective for fiscal years beginning on or after January 1, 2008. We do not expect the adoption of this section to have a material impact on the Fund's or Canexus LP's results of operations or financial position.

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, CICA Handbook Section 1400, General Standards of Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Management is not aware of factors which would raise concern over the Fund's or Canexus LP's ability to continue as a going concern, and therefore does not anticipate any additional disclosure will be required.

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 is filed on the Fund's SEDAR profile at www.sedar.com. 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.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified and that such information is accumulated and communicated to our management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

On August 18, 2005, Canexus Limited Partnership acquired the Chemicals Business from Nexen Inc. and through its General Partner, Canexus Limited ("Canexus"), 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 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 of 2006) 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 did 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 currently underway and is expected to be completed in the fourth quarter of 2007.

CANEXUS INCOME FUND
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2007 AND SEPTEMBER 30, 2006

Canexus Income Fund

Unaudited Consolidated Statements of Income

For the Three and Nine Months Ended September 30

CAD thousands, except per unit amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenues				
Equity Income from Investment in Canexus Limited Partnership	8,242	4,261	19,422	16,726
Expenses				
Trust Administration Expenses	85	50	217	96
Unit Based Compensation (Note 8)	590	279	1,856	831
	675	329	2,073	927
Income before Future Income Taxes	7,567	3,932	17,349	15,799
Provision for Future Income Taxes (Note 9)	1,339	-	11,821	-
Net Income	6,228	3,932	5,528	15,799
Earnings Per Unit (Note 5)	0.20	0.13	0.17	0.50
Diluted Earnings Per Unit (Note 5)	0.20	0.13	0.17	0.50

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Income Fund

Unaudited Consolidated Statements of Unitholders' Equity

For the Three and Nine Months Ended September 30

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Beginning of Period	291,959	316,179	306,547	318,200
Net Income	6,228	3,932	5,528	15,799
Distributions Paid	(4,628)	(4,628)	(18,516)	(18,516)
Distribution Payable	(2,315)	(2,315)	(2,315)	(2,315)
End of Period	291,244	313,168	291,244	313,168

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Income Fund
Unaudited Consolidated Balance Sheets

CAD thousands	September 30 2007	December 31 2006
ASSETS		
Current Assets		
Cash	-	-
Distribution Receivable from Canexus Limited Partnership	2,315	2,315
Prepaid Expenses	3	32
Total Current Assets	<u>2,318</u>	<u>2,347</u>
Investment in Canexus Limited Partnership (Note 6)	<u>307,694</u>	<u>309,103</u>
Total Assets	<u><u>310,012</u></u>	<u><u>311,450</u></u>
LIABILITIES AND EQUITY		
Current Liabilities		
Due to Affiliates	446	258
Distribution Payable to Unitholders (Note 7)	2,315	2,315
Total Current Liabilities	<u>2,761</u>	<u>2,573</u>
Future Income Tax Liabilities (Note 9)	<u>11,821</u>	-
Equity		
Unitholders' Equity (31,750,000 Fund Units outstanding) (Note 4)	291,244	306,547
Contributed Surplus (Note 8)	4,186	2,330
Total Equity	<u>295,430</u>	<u>308,877</u>
Total Liabilities and Equity	<u><u>310,012</u></u>	<u><u>311,450</u></u>

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Income Fund
Unaudited Consolidated Statements of Cash Flows

For the Three and Nine Months Ended September 30

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Operating Activities				
Net Income	6,228	3,932	5,528	15,799
Charges and Credits to Income Not Involving Cash				
Equity Income from Investment in Canexus Limited Partnership	(8,242)	(4,261)	(19,422)	(16,726)
Unit Based Compensation (Note 8)	590	279	1,856	831
Future Income Taxes (Note 9)	1,339	-	11,821	-
Distributions Received from Canexus Limited Partnership	6,943	6,944	20,831	20,831
Change in Non-Cash Operating Working Capital	85	50	217	94
	<u>6,943</u>	<u>6,944</u>	<u>20,831</u>	<u>20,829</u>
Financing Activities				
Distributions Paid	<u>(6,943)</u>	<u>(6,944)</u>	<u>(20,831)</u>	<u>(20,831)</u>
Increase (Decrease) in Cash	-	-	-	(2)
Cash – Beginning of Period	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
Cash – End of Period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Income Fund

Notes to Unaudited Interim Consolidated Financial Statements

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 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. Canexus Limited is the administrator of the Fund and the general partner ("General Partner") of Canexus Limited Partnership ("Canexus LP") in which it holds a 0.01 per cent interest.

The Fund holds an indirect 38.6 per cent interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP. Nexen Inc. holds a 61.4 per cent controlling interest in Canexus LP.

The Fund owns 100 per cent of the shares of Canexus Limited, but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

2. Summary of Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") has been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2006.

In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at September 30, 2007 and the results of its operations and cash flows for the three and nine months ended September 30, 2007 and September 30, 2006. The unaudited interim consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2006, except for the adoption of accounting standards as described in Note 3.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim 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.

3. Changes in Accounting Policies

Effective January 1, 2007, we adopted CICA Handbook Sections: 1530, Comprehensive Income; 3251, Equity; 3855, Financial Instruments – Recognition and Measurement; 3861, Financial Instruments – Disclosure and Presentation; and 3865, Hedges; which are effective for fiscal years beginning on or after October 1, 2006. We have adopted these standards prospectively and accordingly, the comparative unaudited interim consolidated financial statements have not been restated.

(a) Financial Instruments

Under Section 3855 all financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in income. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in other comprehensive income until the instrument is de-recognized or impaired. The other categories of financial instruments are recognized at amortized cost using the effective interest method.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held-for-trading. We have not elected to classify any financial assets or financial liabilities as held-for-trading unless they meet the held-for-trading criteria. As a result of the adoption of these new standards, we have classified Cash as held-for-trading. Distribution Receivable is classified as loans and receivables. Accounts Payable and Accrued Liabilities, Distribution Payable, and Due to Affiliates are classified as other liabilities. Prior to the adoption of these standards, the Fund accounted for these financial

instruments on the same basis and accordingly, there is no impact as a result of the adoption of these standards on the results of operations or financial position of the Fund as at September 30, 2007.

(b) Derivatives and Hedging

The Fund currently does not utilize derivatives or follow hedge accounting.

(c) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. Section 3855 requires such items to be recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not classified as held-for-trading or designated at fair value. The Fund has selected January 1, 2003 as its transition date for accounting for any potential derivatives.

(d) Comprehensive Income

Comprehensive income consists of net income and other comprehensive income ("OCI"). The new standards require the effective portion of changes in fair value of derivatives used in a cash flow hedge, changes in fair value of available-for-sale financial instruments and foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations to be included in OCI. The Fund does not have any comprehensive income and accordingly, has not presented statements of other comprehensive income and accumulated other comprehensive income.

Effective January 1, 2007, the Fund adopted the revised recommendations of CICA Handbook Section 1506, Accounting Changes. The new recommendations provide that:

- Voluntary changes in accounting policy are allowed only if they result in financial statements which provide more reliable and relevant information;
- Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change;
- Corrections of prior period errors are applied retrospectively; and
- Changes in accounting estimates are applied prospectively by including these changes in earnings.

These recommendations are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

When the Fund has not applied a new primary source of GAAP that has been issued but is not effective, the Fund must disclose that fact along with information relevant to assessing the possible impact the application of the new primary source of GAAP will have on the financial statements in the period of initial application.

(a) Financial Instruments

The Fund will be required to adopt two new CICA Handbook Sections, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which will replace current Section 3861. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861, Financial Instruments – Disclosure and Presentation. Both sections become effective October 1, 2007 and are not expected to result in expanded disclosure in the Fund's consolidated financial statements.

(b) Capital

In December 2006, the CICA issued Section 1535, Capital Disclosures, requiring disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The standard is effective for annual periods beginning on or after October 1, 2007 and is not expected to require expanded disclosure in the Fund's consolidated financial statements.

(c) Inventory

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value. The new requirements are effective for fiscal years beginning on or after January 1, 2008. We do not expect the adoption of this section to have any impact on the results of operations or financial position of the Fund.

(d) Financial Statement Presentation

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, CICA Handbook Section 1400, General Standards of Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Management is not aware of factors which would raise concern over the Fund's ability to continue as a going concern, and therefore does not anticipate any additional disclosure will be required.

4. Unitholders' Equity

	September 30, 2007	December 31, 2006
Fund Units		
Beginning of Period	317,500	317,500
Issued During the Period	-	-
End of Period	<u>317,500</u>	<u>317,500</u>
Retained Earnings (Deficit)		
Beginning of Period	(10,953)	700
Net Income	5,528	16,122
Distributions Declared	(20,831)	(27,775)
End of Period	<u>(26,256)</u>	<u>(10,953)</u>
Total Unitholders' Equity	<u>291,244</u>	<u>306,547</u>

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.

Upon exchange of all or part of the Exchangeable LP Units outstanding, an equivalent number of Ordinary LP Units of Canexus LP will be issued to Canexus Commercial Trust, a wholly owned subsidiary of the Fund, resulting in a corresponding increase in the Fund's indirect interest in Canexus LP.

5. 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.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Weighted average number of Fund Units outstanding	31,750,000	31,750,000	31,750,000	31,750,000
Units issuable pursuant to deferred trust units (DTUs) and notional reinvestments (Note 8(b))	56,708	22,062	55,202	21,268
Units issuable pursuant to options and corresponding bonus rights (Note 8(a))	-	144,081	59,302	143,417
Notional units to be purchased with proceeds from exercise/redemption of options and corresponding bonus rights	-	(128,469)	(59,320)	(110,921)
Weighted average number of diluted Fund Units outstanding	<u>31,806,708</u>	<u>31,787,674</u>	<u>31,805,184</u>	<u>31,803,764</u>

During the periods presented, outstanding options and corresponding bonus rights and deferred trust units and notional reinvestments were the only potential dilutive instruments.

In calculating the weighted average number of diluted Fund Units outstanding for the three months ended September 30, 2007, 49,000 weighted average deferred trust units and 7,708 corresponding weighted average additional DTUs (from notional reinvestments) were included. We excluded 1,370,800 unit options and 256,764 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Fund Units outstanding for

the three months ended September 30, 2006, 20,000 weighted average deferred trust units and 2,062 corresponding weighted average additional DTUs (from notional reinvestments) and 128,500 weighted average unit options and 15,581 corresponding weighted average notional bonus units were included. We excluded 579,000 unit options and 71,318 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

In calculating the weighted average number of diluted Fund Units outstanding for the nine months ended September 30, 2007, 49,000 weighted average deferred trust units and 6,202 corresponding weighted average additional DTUs (from notional reinvestments) and 54,249 weighted average unit options and 5,053 corresponding weighted average notional bonus units were included. We excluded 1,316,300 unit options and 248,279 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Fund Units outstanding for the nine months ended September 30, 2006, 19,861 weighted average deferred trust units and 1,407 corresponding weighted average additional DTUs (from notional reinvestments) and 128,500 weighted average unit options and 14,917 corresponding weighted average notional bonus units were included. We excluded 579,000 unit options and 71,318 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

6. Investment in Canexus LP

	Nine Months Ended September 30, 2007		Year Ended December 31, 2006	
	Number of Ordinary LP Units	Investment	Number of Ordinary LP Units	Investment
Beginning of Period	31,750,000	309,103	31,750,000	318,690
Equity Income from Investment in Canexus LP	-	19,422	-	18,190
Distributions Received from Canexus LP	-	(18,516)	-	(25,462)
Distribution Receivable from Canexus LP	-	(2,315)	-	(2,315)
End of Period	<u>31,750,000</u>	<u>307,694</u>	<u>31,750,000</u>	<u>309,103</u>

7. 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 Fund declared distributions of \$6.9 million (\$0.2187 per Unit) for the three month period ended September 30, 2007 and \$20.8 million (\$0.6561 per Unit) for the nine month period ended September 30, 2007. Total distributions of \$58.9 million (\$1.8561 per Unit) have been declared from inception of the Fund to September 30, 2007.

8. Unit Based Compensation

The Fund has unit based compensation in the form of options and corresponding bonus rights and deferred trust units and notional reinvestments. 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. Each option's exercise price equals the market price at the time of grant.

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.

The number of Units reserved under the Trust Unit Incentive Plan is equal to 5 per cent of the issued and outstanding Units (September 30, 2007 – 4,114,286), which is the maximum allowable under the Plan (on a non-diluted basis, including the number of Exchangeable LP Units – see Note 4). Of that number, as at September 30,

2007, 1,627,564 Units are reserved and available for issuance upon the exercise of options and redemption of bonus rights.

As at September 30, 2007, a total of 1,370,800 unit options and 1,370,800 corresponding bonus rights have been granted with the Unit options having a weighted average exercise price of \$8.63. Accumulated notional bonus units on these bonus rights were 256,764 as at September 30, 2007. At September 30, 2007 there are 215,730 vested unit options exercisable into 215,730 Units, as well as 215,730 corresponding bonus rights redeemable into 55,590 notional bonus units accumulated thereon. As at September 30, 2006, a total of 707,500 unit options and 707,500 corresponding bonus rights had been granted, with the Unit options having a weighted average exercise price of \$9.61. Accumulated notional bonus units on these bonus rights were 81,349 at September 30, 2006. There were 187,680 exercisable vested unit options and corresponding redeemable bonus rights at September 30, 2006.

The estimated weighted average fair value of unit options issued is \$1.17 per unit option (September 30, 2006 - \$1.74) using the Generalized Black-Scholes option pricing model under the following weighted average assumptions:

	September 30 2007	September 30 2006
Risk-Free Interest Rate (%)	4.04	3.83
Estimated Hold Period Prior to Exercise (years)	5	5
Expected Volatility in the Price of Canexus Income Fund Units (%)	29.8	31.8
Expected Annual Distributions per Fund Unit (\$/unit)	0.8748	0.8748

(b) Deferred Trust Unit Compensation Plan ("DTUCP")

As at September 30, 2007, there were 58,036 Deferred Trust Units (DTUs) outstanding under the DTUCP comprised of 49,000 DTUs granted and 9,036 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. As at September 30, 2006, there were 22,457 DTUs outstanding under the DTUCP comprised of 20,000 DTUs granted and 2,457 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

An aggregate of 200,000 Units are reserved under the DTUCP. As at September 30, 2007, there are 58,036 Units reserved and available for issuance upon the exercise of deferred trust units and redemption of additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

9. Income Taxes

These unaudited interim consolidated financial statements do not reflect any provision for current 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.

On June 22, 2007, previously announced legislation providing for the income taxation of specified investment flow through entities, received Royal Assent. As a result of the new legislation, the Fund has recognized an \$11.8 million future income tax liability as at September 30, 2007 on temporary differences in reported amounts for financial statement and tax purposes in the capital assets underlying its investment in Canexus LP, which are expected to reverse subsequent to 2010.

(a) Temporary Differences

	September 30, 2007		December 31, 2006	
	Future Income Tax Asset	Future Income Tax Liability	Future Income Tax Asset	Future Income Tax Liability
Capital Assets underlying Investment in Canexus LP	-	11,821	-	-

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Income before Future Income Taxes	7,567	3,932	17,349	15,799
Canadian Statutory Rate	0%	0%	0%	0%
Provision for Future Income Taxes Computed at the Canadian Statutory Rate	-	-	-	-
Add the Tax Effect of:				
Temporary differences expected to reverse after 2010	1,339	-	11,821	-
Provision for Future Income Taxes	1,339	-	11,821	-
Effective Tax Rate	18%	-	68%	-

10. 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.

11. Economic Dependence

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

CANEXUS LIMITED PARTNERSHIP
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2007 AND SEPTEMBER 30, 2006

Canexus Limited Partnership

Unaudited Consolidated Statements of Net Income and Comprehensive Income

For the Three and Nine Months Ended September 30

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenues				
Sales	104,990	100,805	310,276	304,469
Expenses				
Cost of Goods Sold	68,872	70,413	219,256	212,703
Amortization	11,034	10,001	32,804	29,904
General and Administrative	7,417	6,236	22,720	19,196
Interest	3,091	2,807	9,003	7,886
	90,414	89,457	283,783	269,689
Income before Other Income and Income Taxes	14,576	11,348	26,493	34,780
Other Income (Note 13)	9,408	287	28,488	10,693
Income before Income Taxes	23,984	11,635	54,981	45,473
Provision for Income Taxes				
Current	1,403	75	1,830	519
Future	1,220	517	2,814	1,605
	2,623	592	4,644	2,124
Net Income	21,361	11,043	50,337	43,349
Other Comprehensive Income (Loss), Net of Tax (Note 3)	(5,624)	9	(13,979)	(4,005)
Comprehensive Income (Note 3)	15,737	11,052	36,358	39,344

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Limited Partnership
Unaudited Consolidated Statements of Equity

For the Three and Nine Months Ended September 30

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Retained Earnings (Deficit)				
Beginning of Period	(28,425)	(245)	(21,405)	3,444
Net Income	21,361	11,043	50,337	43,349
Distributions Declared	(17,997)	(18,000)	(53,993)	(53,995)
End of Period	(25,061)	(7,202)	(25,061)	(7,202)
Accumulated Other Comprehensive Income (Loss) (Note 3)				
Beginning of Period	(25,217)	-	-	-
Adoption of Financial Instruments Accounting Policy	-	(20,745)	(16,862)	(16,731)
Other Comprehensive Income (Loss), Net of Tax	(5,624)	9	(13,979)	(4,005)
End of Period	(30,841)	(20,736)	(30,841)	(20,736)

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Limited Partnership
Unaudited Consolidated Balance Sheets

CAD thousands, except unit amounts	September 30 2007	December 31 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	4,564	3,979
Accounts Receivable (Note 4)	55,116	64,645
Inventories and Operating Supplies (Note 5)	33,166	31,437
Derivative Financial Instruments (Note 6)	2,188	2,564
Prepaid Expenses (Note 7)	4,345	3,331
Total Current Assets	99,379	105,956
Property, Plant and Equipment, Net (Note 8)	357,322	361,113
Restricted Investments (Note 9)	13,562	13,736
Future Income Tax Assets	6,537	5,579
Total Assets	476,800	486,384
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 10)	8,777	11,859
Accounts Payable and Accrued Liabilities	37,566	45,005
Distribution Payable to Ordinary LP Unitholders	2,315	2,315
Distribution Payable to Nexen Inc., Exchangeable LP Unitholder	3,684	3,684
Accrued Interest Payable	591	493
Due to Affiliates (Note 16)	405	1,046
Total Current Liabilities	53,338	64,402
Long-Term Debt (Note 10)	188,301	173,630
Future Income Tax Liabilities	8,668	5,830
Asset Retirement Obligations (Note 11)	41,558	40,677
Other Long-Term Liabilities	2,172	1,447
Total Liabilities	294,037	285,986
Equity		
Ordinary LP Units (31,750,000 outstanding) (Note 12)	301,750	301,750
Exchangeable LP Units (50,535,714 outstanding) (Note 12)	(63,085)	(63,085)
	238,665	238,665
Deficit	(25,061)	(21,405)
Accumulated Other Comprehensive Loss (Note 3)	(30,841)	(16,862)
Total Deficit and Accumulated Other Comprehensive Loss	(55,902)	(38,267)
Total Equity	182,763	200,398
Commitments, Contingencies and Guarantees (Note 14)		
Total Liabilities and Equity	476,800	486,384

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Limited Partnership
Unaudited Consolidated Statements of Cash Flows

For the Three and Nine Months Ended September 30

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Operating Activities				
Net Income	21,361	11,043	50,337	43,349
Charges and Credits to Income Not Involving Cash (Note 17(a))	1,230	15,197	6,879	34,675
Contributions to Defined Benefit Pension Plan	(590)	(536)	(1,776)	(2,399)
Purchase of Foreign Exchange Options	(360)	-	(360)	(805)
Expenditures on Asset Retirement Obligations (Note 11)	(32)	(16)	(536)	(494)
Due to Affiliates, Net	(1,107)	181	(2,146)	(1,658)
Changes in Non-Cash Operating Working Capital (Note 17(b))	2,233	(1,643)	(82)	(16,657)
	<u>22,735</u>	<u>24,226</u>	<u>52,316</u>	<u>56,011</u>
Financing Activities				
Proceeds from Short-Term Borrowings, Net	(4,760)	(8,210)	(3,082)	12
Proceeds from Long-Term Debt	11,656	5,569	45,118	7,889
Repayments of Long-Term Debt	-	-	-	(3,409)
Distributions Paid to Ordinary LP Unitholders	(6,945)	(6,948)	(20,837)	(20,839)
Distributions Paid to Exchangeable LP Unitholder	(11,052)	(11,052)	(33,156)	(33,156)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 9)	42	33	577	494
Due from Affiliates, Net	889	948	1,316	6,008
	<u>(10,170)</u>	<u>(19,660)</u>	<u>(10,064)</u>	<u>(43,001)</u>
Investing Activities				
Capital Expenditures	(13,610)	(5,089)	(39,029)	(15,410)
Changes in Non-Cash Investing Working Capital (Note 17(b))	1,301	1,181	(2,015)	921
Other	-	-	-	40
	<u>(12,309)</u>	<u>(3,908)</u>	<u>(41,044)</u>	<u>(14,449)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents				
	(267)	140	(623)	(34)
Increase (Decrease) in Cash and Cash Equivalents				
	(11)	798	585	(1,473)
Cash and Cash Equivalents – Beginning of Period				
	4,575	2,278	3,979	4,549
Cash and Cash Equivalents – End of Period				
	<u>4,564</u>	<u>3,076</u>	<u>4,564</u>	<u>3,076</u>

Supplemental Cash Flow Information (Note 17(c))

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Canexus Limited Partnership

Notes to Unaudited Interim Consolidated Financial Statements

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") indirectly holds a 38.6 per cent interest and Nexen Inc. holds a 61.4 per cent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 per cent interest in Canexus LP. The Fund owns 100 per cent of the shares of Canexus Limited, but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust (a wholly owned subsidiary of Canexus Income Fund) 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. Summary of Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") has been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2006.

In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at September 30, 2007 and the results of its operations and cash flows for the three and nine months ended September 30, 2007 and September 30, 2006. The unaudited interim consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2006, except for the adoption of accounting standards as described in Note 3.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim 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.

3. Changes in Accounting Policies

Effective January 1, 2007, we adopted CICA Handbook Sections: 1530, Comprehensive Income; 3251, Equity; 3855, Financial Instruments – Recognition and Measurement; 3861, Financial Instruments – Disclosure and Presentation; and 3865, Hedges; which are effective for fiscal years beginning on or after October 1, 2006. We have adopted these standards prospectively and accordingly, the comparative unaudited interim consolidated financial statements have not been restated except for other comprehensive income (loss) arising from the translation of self-sustaining foreign subsidiaries.

(a) Financial Instruments

Under Section 3855 all financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in income. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in other

comprehensive income until the instrument is de-recognized or impaired. The other categories of financial instruments are recognized at amortized cost using the effective interest method.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held-for-trading. We have not elected to classify any financial assets or financial liabilities as held-for-trading unless they meet the held-for-trading criteria. As a result of the adoption of these new standards, we have classified Cash and Cash Equivalents as held-for-trading. Accounts Receivable are classified as loans and receivables. Restricted Investments are classified as held-to-maturity. Short-Term Borrowings, Accounts Payable and Other Accrued Liabilities, Distribution Payable, Accrued Interest Payable, Due To Affiliates and Long-Term Debt are classified as other liabilities. Prior to the adoption of these standards, Canexus LP accounted for these financial instruments on the same basis and accordingly, there is no impact as a result of the adoption of these standards on the results of operations for the three and nine months ended September 30, 2007 or financial position of Canexus LP as at September 30, 2007.

(b) Derivatives and Hedging

Canexus LP currently uses derivatives to manage market risk against the volatility in electricity prices and foreign exchange rates. All free standing derivative instruments are classified as held-for-trading and recorded on the balance sheet at fair value in derivative financial instruments. Gains and losses on these instruments are recorded in other income in the consolidated statements of income and comprehensive income in the period they occur. Fair values of the derivatives are based on quoted market prices where available or estimated by reference to published values for similar instruments.

Canexus LP does not follow hedge accounting.

(c) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. Section 3855 requires such items to be recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not classified as held-for-trading or designated at fair value. Canexus LP has selected January 1, 2003 as its transition date for accounting for any potential derivatives.

(d) Comprehensive Income

Comprehensive income consists of net income and other comprehensive income ("OCI"). The new standards require the effective portion of changes in fair value of derivatives used in a cash flow hedge, changes in fair value of available-for-sale financial instruments and foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations to be included in OCI. OCI and accumulated other comprehensive income for Canexus LP consists of foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations.

Effective January 1, 2007, Canexus LP adopted the revised recommendations of CICA Handbook Section 1506, Accounting Changes. The new recommendations provide that:

- Voluntary changes in accounting policy are allowed only if they result in financial statements which provide more reliable and relevant information;
- Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change;
- Corrections of prior period errors are applied retrospectively; and
- Changes in accounting estimates are applied prospectively by including these changes in earnings.

These recommendations are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

When Canexus LP has not applied a new primary source of GAAP that has been issued but is not effective, Canexus LP must disclose that fact along with information relevant to assessing the possible impact the application of the new primary source of GAAP will have on the financial statements in the period of initial application.

(a) Financial Instruments

Canexus LP will be required to adopt two new CICA Handbook Sections, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which will replace current Section 3861. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861, Financial Instruments – Disclosure and Presentation. Both sections become effective October 1, 2007 and will require expanded disclosure in the financial instruments note in Canexus LP's consolidated financial statements.

(b) Capital

In December 2006, the CICA issued Section 1535, Capital Disclosures, requiring disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The standard is effective for annual periods beginning on or after October 1, 2007 and will require expanded disclosure in Canexus LP's consolidated financial statements.

(c) Inventory

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value. The new requirements are effective for fiscal years beginning on or after January 1, 2008. We do not expect the adoption of this section to have a material impact on Canexus LP's results of operations or financial position.

(d) Financial Statement Presentation

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, CICA Handbook Section 1400, General Standards of Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Management is not aware of factors which would raise concern over Canexus LP's ability to continue as a going concern, and therefore does not anticipate any additional disclosure will be required.

4. Accounts Receivable

	September 30 2007	December 31 2006
Accounts Receivable – Trade	37,963	53,644
Accounts Receivable – Value Added Taxes and Other	19,153	15,407
Allowance For Doubtful Accounts	(2,000)	(4,406)
	<u>55,116</u>	<u>64,645</u>

5. Inventories and Operating Supplies

	September 30 2007	December 31 2006
Raw Materials and Work-in-Progress	5,672	4,711
Finished Goods	14,065	13,708
Operating Supplies	13,429	13,018
	<u>33,166</u>	<u>31,437</u>

6. Financial Instruments

The carrying value of accounts receivable, due from/to affiliates, short-term borrowings, accounts payable and accrued liabilities, distribution payable and accrued interest payable approximate their fair value as these financial instruments are near maturity. The carrying value of restricted investments approximates fair value as these investments have maturities of less than 3 months (see Note 9). The carrying value of long-term debt approximates its fair value as this debt bears interest at floating rates. See Note 10 – Long-Term Debt and Short-Term Borrowings.

Derivative Financial Instruments	September 30 2007	December 31 2006
Fair Value of Foreign Exchange Options	1,443	395
Fair Value of Electricity Forward Swap Contracts	800	2,229
Fair Value of Foreign Currency Forward	(55)	(60)
	<u>2,188</u>	<u>2,564</u>

(a) Electricity Rate Risk Management

We use forward swap contracts to manage our exposure to the price of electricity in deregulated jurisdictions. At September 30, 2007, we had forward swap contracts under which we pay a fixed weighted average price of \$66.12 per megawatt hour ("MWh") and receive a floating price on 66,270 MWh for the period October 1, 2007 to December 31, 2007.

The fair value of these forward swap contracts are included in derivative financial instruments with changes in their fair value included in other income (Note 13). Fair values have been based on quoted market prices where available or estimated by reference to published values for similar instruments.

(b) 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 America 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 September 30, 2007, Canexus LP had 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 \$0.9497 per Canadian dollar for the period September 5, 2007 to February 27, 2008.

The fair value of these foreign exchange call options are included in derivative financial instruments with changes in their fair value included in other income (Note 13). Fair value has been determined by reference to published fair values for similar contracts.

(c) 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 14% of total trade accounts receivable at September 30, 2007 (December 31, 2006 – 12%).

7. Prepaid Expenses

	September 30 2007	December 31 2006
Prepaid Insurance	2,335	1,942
Prepaid Freight	285	358
Prepaid Property Tax	1,215	-
Other	510	1,031
	<u>4,345</u>	<u>3,331</u>

8. Property, Plant and Equipment

September 30, 2007	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	541,496	292,805	248,691
North America Chlor-alkali	149,921	116,826	33,095
Brazil	102,781	33,052	69,729
Other	12,276	6,469	5,807
	806,474	449,152	357,322

December 31, 2006	Cost	Accumulated Amortization	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

The balances at September 30, 2007 include capitalized costs of \$45.3 million (December 31, 2006 - \$13 million) relating primarily to our Brandon plant expansion (\$31.8 million including capitalized interest of \$670,133) and North Vancouver technology conversion project (\$4.9 million including capitalized interest of \$39,336) as well as other projects under construction or development. These costs are not being amortized.

9. 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.

	September 30, 2007	December 31, 2006
Beginning of Period	13,736	13,686
Interest Earned	403	568
Funding of Asset Retirement Obligation Expenditures	(577) ⁽¹⁾	(518)
End of Period	13,562	13,736

Note:

⁽¹⁾ Includes \$63,000 of 2006 expenditures funded in 2007.

Approximately \$4.1 million of restricted investments are invested in non-bank sponsored ("third party") asset backed commercial paper that was due to be received on September 28, 2007 and was not repaid. The third-party asset backed commercial paper market is currently illiquid and is in the process of being restructured. Canexus LP has no near-term requirement for these funds (see Note 11) and believes no significant impairment in value has occurred at this time.

10. Long-Term Debt and Short-Term Borrowings

Canexus LP has a \$350 million, four year revolving credit facility which matures August 18, 2010. 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 earnings before interest, income taxes, depreciation and amortization (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. The credit facility also contains covenants with respect to certain financial ratios. At September 30, 2007 we were in compliance with all covenants.

At September 30, 2007 we had \$188,300,700 (US \$189,000,000) outstanding on this credit facility. The weighted average interest rate for the three month period ended September 30, 2007 was 6.36% (September 30, 2006 - 6.37%) and the total interest and standby fees incurred were \$3,274,357 (September 30, 2006 - \$2,770,853). The

weighted average interest rate for the nine month period ended September 30, 2007 was 6.24% (September 30, 2006 – 5.80%) and the total interest and standby fees incurred were \$9,205,322 (September 30, 2006 - \$7,788,931).

At September 30, 2007 we had \$8,777,277 of Swing Line Loans outstanding (September 30, 2006 - \$NIL). The weighted average interest rate for the three month period ended September 30, 2007 was 6.25% (September 30, 2006 – 6.92%) and total interest and standby fees incurred were \$188,191 (September 30, 2006 - \$35,393). The weighted average interest rate for the nine month period ended September 30, 2007 was 6.24% (September 30, 2006 – 5.93%) and total interest and standby fees incurred were \$378,942 (September 30, 2006 - \$71,360).

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.

11. Asset Retirement Obligations

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

	September 30 2007	December 31 2006
Beginning of Period	40,677	38,777
Expenditures on Asset Retirement Obligations	(536)	(581)
Accretion Expense	1,931	2,448
Effect of Foreign Exchange	(524)	6
Change In Obligations Reclassified to Current Liabilities ⁽¹⁾	10	27
End of Period	<u>41,558</u>	<u>40,677</u>

Note:

⁽¹⁾ Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At September 30, 2007 \$980,000 was included in accounts payable and accrued liabilities (December 31, 2006 - \$990,000).

Our total estimated undiscounted asset retirement obligations at September 30, 2007 amounted to \$73 million (December 31, 2006 - \$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 \$2.9 million included in our asset retirement obligations are expected to be settled over the next three years.

12. 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.

	September 30, 2007		December 31, 2006	
	Number of Units	Amount	Number of Units	Amount
GP Units				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
Ordinary LP Units				
Beginning of Period	31,750,000	301,750	31,750,000	301,750
Issued	-	-	-	-
End of Period	31,750,000	301,750	31,750,000	301,750
Exchangeable LP Units ⁽¹⁾				
Beginning of Period	50,535,714	(63,085)	50,535,714	(63,085)
Issued	-	-	-	-
End of Period	50,535,714	(63,085)	50,535,714	(63,085)

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 \$0.2187 and \$0.6561 per Unit for the three and nine month periods ended September 30, 2007, respectively to Ordinary and Exchangeable LP Unitholders. On September 5, 2007 a distribution of \$0.0729 was declared payable to Ordinary and Exchangeable LP Unitholders of record on September 28, 2007 for payment on or about October 15, 2007.

13. Other Income

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Unrealized Currency Translation Gains (Losses)				
Debt	12,640	(52)	30,446	7,211
Other	(570)	42	(414)	(748)
	12,070	(10)	30,032	6,463
Realized Currency Translation Gains (Losses)	(1,014)	170	(2,211)	1,222
Change in Fair Value of Foreign Exchange Options	670	(2,893)	688	(6,311)
Realized Gains on Foreign Exchange Options	567	2,372	1,174	8,986
	12,293	(361)	29,683	10,360
Change in Fair Value of Electricity Forward Swaps	(2,908)	(313)	(1,429)	(313)
Change in Fair Value of Foreign Exchange Forward	86	-	5	-
Provision for Doubtful Accounts	(250)	(750)	(250)	(1,750)
Other	187	1,711	479	2,396
	9,408	287	28,488	10,693

14. Commitments, Contingencies and Guarantees

	2007	2008	2009	2010	2011	Thereafter
Operating Leases	16,178	13,749	13,082	11,230	9,149	12,855
Purchase Obligations ⁽¹⁾	17,813	21,429	22,413	23,443	24,520	52,557
Expansion Capital Expenditures ⁽²⁾	21,577	6,485	-	-	-	-
	55,568	41,663	35,495	34,673	33,669	65,412

Notes:

- ⁽¹⁾ Contractual commitment for the purchase of electricity in Brazil, approximately 90% to 100% of the cost of which is passed on to our primary customer.
- ⁽²⁾ Expansion of the Brandon, Manitoba sodium chlorate production facility and the North Vancouver chlor-alkali facility technology conversion project.

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.

15. Pension and Other Post Retirement Benefits

(a) Net Pension Expense Recognized Under Our 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 these plans according to federal and provincial government regulations by contributing to trust funds administered by an independent trustee. These funds are invested primarily in equities and bonds.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Cost of Benefits Earned by Employees	853	748	2,559	2,244
Interest Cost on Benefits Earned	744	668	2,232	2,004
Expected Return on Plan Assets	(823)	(678)	(2,469)	(2,034)
Net Amortization and Deferral	35	80	105	240
Net Pension Expense	809	818	2,427	2,454

(b) Employer Funding Contributions

Our expected total funding contributions for 2007 for our defined benefit pension plans are \$2,371,380.

(c) Contributions under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans for the three month period ended September 30, 2007 were \$127,695 (September 30, 2006 - \$105,893) for the Canadian plan and \$31,144 (September 30, 2006 - \$24,561) for the US plan. Contributions to the defined contribution pension plans for the nine month period ended September 30, 2007 were \$366,717 (September 30, 2006 - \$296,244) for the Canadian plan and \$90,086 (September 30, 2006 - \$90,911) for the US plan.

(d) 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 three month period ended September 30, 2007 was \$81,999 (September 30, 2006 - \$65,500) and for the nine month period ended September 30, 2007 was \$245,997 (September 30, 2006 - \$196,500). At September 30, 2007 other long-term liabilities includes a \$1,045,994 post retirement benefit liability (September 30, 2006 - \$799,997).

On December 9, 2006 the Board of Directors of Canexus Limited approved the adoption of a post retirement medical benefit for the existing 9 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 transitional obligation on the initial adoption of the plan will be amortized over the remaining average service life of the existing US employee group. The expense recognized for the three and nine month periods ended September 30, 2007 was \$14,279 and \$45,350, respectively. On October 30, 2007, the Board of Directors of Canexus Limited approved the adoption of a medical benefits bonus plan, replacing the post retirement medical benefit approved at the December 9, 2006 Board of Directors meeting. Eligibility criteria and benefit amounts remain the same under the bonus plan as they were under the post retirement medical benefit however, under the bonus plan the total amount payable will be paid to employees on the 1st day of the seventh month following the date of retirement and will be grossed up by 40 per cent to reimburse retirees for estimated personal taxes. The amounts paid may be used to offset costs of medical expenses or health insurance but are not required to be used for such purposes. The impact of these changes will be accounted for prospectively.

16. Amounts Due from/to Affiliates and Related Party Transactions

Due to affiliates at September 30, 2007 relate to amounts owing in the normal course of operations as discussed below.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus LP has also entered into separate forward swap contracts with a Nexen Inc. affiliate to manage our exposure to the price of electricity in deregulated jurisdictions. Under these forward swap contracts, Canexus LP pays a fixed rate and receives a floating rate per MWh.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Electricity Purchases and Retail Service Fees	1,250	2,542	11,298	11,895
Natural Gas Purchases and Retail Service Fees	1,529	1,651	6,032	6,094
Forward Swap Receipts	(3,068)	(1,623)	(1,817)	(1,336)
Total	(289)	2,570	15,513	16,653

Canexus LP incurred \$1,197,994 and \$4,031,814, respectively for the three and nine month periods ended September 30, 2006 under a Transition Services Agreement entered into with Nexen Inc. on August 18, 2005. Under this agreement Nexen Inc. provided certain requested administrative, operating and financial services to Canexus LP for up to an 18 month period or until transition of the subject services to Canexus LP. These services were provided by Nexen Inc. in the same manner as were provided for the 12 month period prior to August 18, 2005 and 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 LP.

17. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Amortization	11,034	10,001	32,804	29,904
Change in Fair Value of Foreign Exchange Options	(670)	2,893	(688)	6,311
Change in Fair Value of Electricity Forward Swaps	2,908	313	1,429	313
Change in Fair Value of Foreign Exchange Forward	(86)	-	(5)	-
Unrealized Currency Translation (Gains) Losses	(12,070)	10	(30,032)	(6,463)
Future Income Taxes	1,220	517	2,814	1,605
Pension and Post Retirement Benefit Expense	891	883	2,718	2,649
Provision for Doubtful Accounts	(2,162)	750	(2,162)	1,750
Other	165	(170)	1	(1,394)
	1,230	15,197	6,879	34,675

(b) Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Accounts Receivable	6,183	(19)	10,904	(4,936)
Inventories and Operating Supplies	(1,091)	(813)	(3,398)	(291)
Prepaid Expenses	(841)	(2,182)	(1,168)	(2,617)
Accounts Payable and Accrued Liabilities	(1,221)	2,453	(7,868)	(7,678)
Accrued Interest Payable	151	222	148	352
Effect of Foreign Exchange on Non-Cash Working Capital	353	(123)	(715)	(566)
Total Change in Non-Cash Working Capital	3,534	(462)	(2,097)	(15,736)
Relating to:				
Operating Activities	2,233	(1,643)	(82)	(16,657)
Investing Activities	1,301	1,181	(2,015)	921
Total Change in Non-Cash Working Capital	3,534	(462)	(2,097)	(15,736)

(c) Other Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Interest Paid	2,418	2,585	8,586	7,794
Income Taxes Paid	1,052	1	1,876	63
Cash and Cash Equivalents				
Cash	4,452	2,060	4,452	2,060
Cash Equivalents ⁽¹⁾	112	1,016	112	1,016
Total	4,564	3,076	4,564	3,076

⁽¹⁾ Cash equivalents are comprised of balances in interest bearing deposit accounts.

18. 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.

(a) Operating Segments

Three Months Ended September 30, 2007	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-alkali			
Revenues					
Sales	48,302	34,928	21,760	-	104,990
Expenses					
Cost of Goods Sold	32,131	21,761	14,980	-	68,872
Amortization	7,099	2,371	1,563	1	11,034
General and Administrative	3,742	1,510	690	1,475	7,417
Interest	-	-	-	3,091	3,091
	42,972	25,642	17,233	4,567	90,414
Income (Loss) before Other Income and Income Taxes	5,330	9,286	4,527	(4,567)	14,576
Other Income	-	-	-	9,408	9,408
Income before Income Taxes	5,330	9,286	4,527	4,841	23,984
Capital Expenditures	9,616	2,618	1,226	150	13,610
Three Months Ended September 30, 2006	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor-alkali			
Revenues					
Sales	47,162	33,534	20,109	-	100,805
Expenses					
Cost of Goods Sold	33,980	21,887	14,546	-	70,413
Amortization	6,463	1,992	1,546	-	10,001
General and Administrative	2,973	2,132	513	618	6,236
Interest	-	-	-	2,807	2,807
	43,416	26,011	16,605	3,425	89,457
Income (Loss) before Other Income and Income Taxes	3,746	7,523	3,504	(3,425)	11,348
Other Income (Loss)	-	-	535	(248)	287
Income (Loss) before Income Taxes	3,746	7,523	4,039	(3,673)	11,635
Capital Expenditures	3,170	773	1,146	-	5,089

Nine Months Ended September 30, 2007	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	144,390	98,537	67,349	-	310,276
Expenses					
Cost of Goods Sold	101,702	70,273	47,281	-	219,256
Amortization	21,030	6,873	4,898	3	32,804
General and Administrative	11,632	4,666	1,611	4,811	22,720
Interest	-	-	-	9,003	9,003
	<u>134,364</u>	<u>81,812</u>	<u>53,790</u>	<u>13,817</u>	<u>283,783</u>
Income (Loss) before Other Income and Income Taxes	10,026	16,725	13,559	(13,817)	26,493
Other Income	-	-	-	28,488	28,488
Income before Income Taxes	<u>10,026</u>	<u>16,725</u>	<u>13,559</u>	<u>14,671</u>	<u>54,981</u>
Capital Expenditures	<u>28,895</u>	<u>5,665</u>	<u>3,002</u>	<u>1,467</u>	<u>39,029</u>

Nine Months Ended September 30, 2006	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	139,997	103,314	61,158	-	304,469
Expenses					
Cost of Goods Sold	103,177	66,783	42,743	-	212,703
Amortization	19,332	5,829	4,711	32	29,904
General and Administrative	9,740	6,358	1,388	1,710	19,196
Interest	-	-	-	7,886	7,886
	<u>132,249</u>	<u>78,970</u>	<u>48,842</u>	<u>9,628</u>	<u>269,689</u>
Income (Loss) before Other Income and Income Taxes	7,748	24,344	12,316	(9,628)	34,780
Other Income	-	-	535	10,158	10,693
Income before Income Taxes	<u>7,748</u>	<u>24,344</u>	<u>12,851</u>	<u>530</u>	<u>45,473</u>
Capital Expenditures	<u>5,589</u>	<u>2,644</u>	<u>3,234</u>	<u>3,943</u>	<u>15,410</u>

Identifiable Assets	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
September 30, 2007	291,945	61,738	103,109	20,008	476,800
December 31, 2006	289,680	61,527	113,498	21,679	486,384

(b) Geographic Segments

Sales	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Canada	39,318	34,582	114,016	102,354
United States	43,912	46,114	128,911	140,957
Brazil	21,760	20,109	67,349	61,158
	<u>104,990</u>	<u>100,805</u>	<u>310,276</u>	<u>304,469</u>

Property, Plant & Equipment	September 30, 2007	December 31, 2006
Canada	287,413	277,669
United States	180	193
Brazil	69,729	83,251
	<u>357,322</u>	<u>361,113</u>

Note:

⁽¹⁾ Canada and United States sales for the three and nine month periods ended September 30, 2006 have been restated to ensure consistency with the current period basis of segmentation.