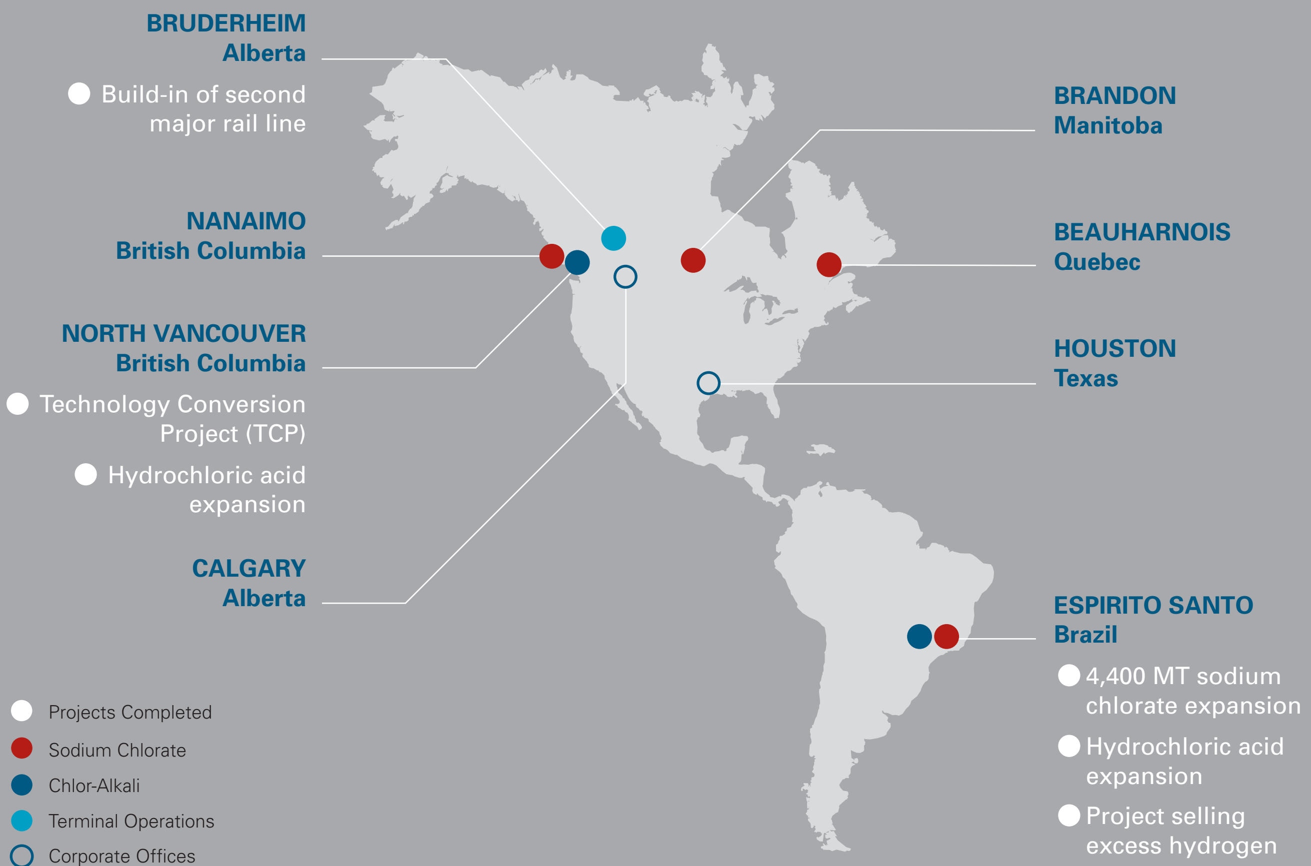
canexus

Positioned for Strong Performance

2010 Annual Report

In 2010, Canexus completed six growth projects expected to add $50 million in incremental annual operating cash flow. These projects, along with improving markets in our three main business units, position us for strong performance beginning in 2011.



About Canexus Canexus produces sodium chlorate and chlor-alkali products largely for the pulp and paper and water treatment industries. Our four plants in Canada and two at one site in Brazil are reliable, low-cost, strategically-located facilities that capitalize on competitive electricity costs and transportation infrastructure to minimize production and delivery costs. We also provide fee-for-service hydrocarbon transloading services to the oil and gas industry from our terminal at Bruderheim, Alberta.

Why Now is the Time to Invest

We are Positioned to Benefit from Improving Markets

North American Sodium Chlorate

Given strength in global pulp, our North American sodium chlorate plants, including Brandon, are running at capacity and will benefit from pricing momentum underway.

North American Chlor-Alkali

North American chlor-alkali markets are improving and we are beginning to realize the benefits from our TCP investment, which positions us as the low-cost regional leader.

South America

Pulp demand in Brazil is expected to grow an average 10% per year over the next nine years. Our Brazil plant services a leading pulp producer with a 27-year fixed-margin contract.

Our Foundation is Solid

Low-Cost Advantage

Recent investments strengthen our leadership as a low-cost producer of high-quality products, an advantage in commodity markets that can't be trumped.

Growth Focus

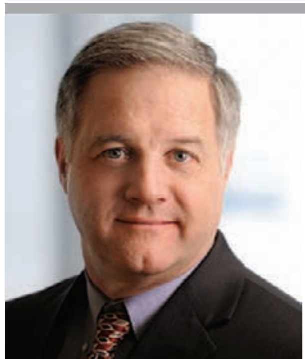
We will continue to pursue strategic growth, constantly assessing opportunities and pursuing those that leverage our strengths and enhance our long-term sustainability.

Financial Strength

We will maintain our financial strength and de-lever our balance sheet so that we can prosper throughout market cycles and fund future growth.

Solid Distributions

We will maintain our distribution going forward as we convert to a corporation. Our focus will be on delivering solid returns to investors in the form of both distributions and growth.



> **Markets are improving, we are beginning to realize the benefits from our completed capital projects, and we have new growth opportunities to pursue.**

Gary Kubera
President & CEO

2010 – Invested in Our Future

The past year marked the completion of six growth projects for Canexus which are expected to add $50 million in incremental operating cash flow annually. Among these investments is the largest we have ever undertaken, a technology conversion project (TCP) at our North Vancouver chlor-alkali facility. Despite start-up challenges, this is a major milestone. The plant began producing in late June 2010 and is now operating between 90% and 100% of practical capacity.

Our financial and operating performance for 2010 was in line with our expectations. We are benefitting significantly from strength in global pulp. North American sodium chlorate had a solid year, with sales volumes up 10% from 2009. In fact, Brandon set a record producing more than 300,000 tonnes.

Despite strong volumes, both North American sodium chlorate and chlor-alkali markets experienced a trough in pricing in the first half of 2010, which impacted results.

In South America, demand for Brazilian pulp and resulting demand for sodium chlorate and chlor-alkali from our Brazil facility remained strong. We encountered some minor operating difficulties in our chlor-alkali plant but expect reliable operations for 2011.

In total, we delivered operating cash flow of $69 million. Distributable cash was $61 million during 2010, resulting in a payout ratio of 95%, consistent with guidance. We also closed a $60 million convertible debenture offering in September, the net proceeds of which were used to pay down debt. We are focussed on continuing to de-lever our balance sheet moving forward.

2011 – Realizing the Benefits

In 2011 and, in particular, 2012, we begin realizing the full benefits from our growth projects and improving markets.

Just as we experienced a delayed effect to the global economic downturn (2009 was a record year), we are seeing a delayed recovery, particularly in pricing. North American sodium chlorate is operating at near capacity, yet prices have only started to move in 2011. We expect continued price momentum going forward.

North American chlor-alkali is beginning to pick up and MECU prices will firm as we pass the seasonally-weak first quarter for chlorine demand. Brazil is on track for a solid year, building off the capacity expansions there and strong demand for Brazilian pulp. And NATO, while currently not yet a significant cash flow contributor, offers attractive growth potential in servicing the oil sands, which we are actively pursuing.

Our 2011 payout ratio is expected to range between 85% and 90%. In 2012, it drops to approximately 70% with continued improvement in our markets, slightly lower maintenance capital and marginally higher chlor-alkali volumes.

In February 2011, Nexen sold its entire interest in Canexus through a secondary offering on a bought deal basis. Thank you to Nexen for their ongoing support during our critical growth period.

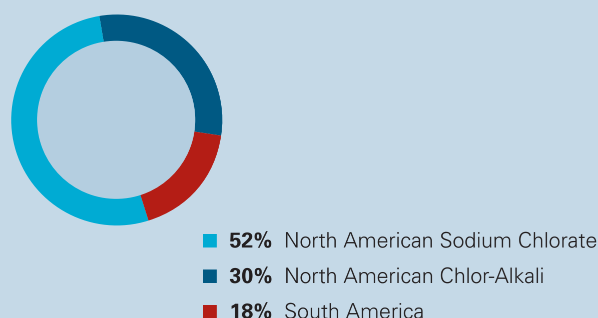
I'd also like to thank our Board and all employees for their commitment. We are positioned for strong performance, with high-quality assets that will sustain our advantages.

Financial Information

(CAD$ millions)	**2011F***	2010	2009
Sales Revenues	**520.0**	457.4	458.4
Gross Margin (%)	**31**	22	32
Distributable Cash	**69**	61	82.9
Payout Ratio (%)	**85-90**	95	64
Year-end Debt to EBITDA	**<3.0**	3.4	2.52
CAD to US dollar F/X	**US $0.97**	US $0.97	US $0.87

* Forecast

2011 Expected Operating Cash Flow (by business unit)



Questions

Unitholders are asking

When is Canexus converting to a corporation?

We expect to seek unitholder approval for the conversion at our Annual and Special Unitholder Meeting on May 5, 2011. Once approved, the conversion will be effective July 1, 2011.

What will happen to our distributions?

Distributions are expected to remain at $0.5472 per unit annually. We are focussed on delivering solid returns through a combination of distributions and growth. So while we are committed to a distribution/dividend through our conversion to a corporation, we don't intend to have a 'payout ratio percentage' mentality. That is, the dividend is not expected to increase while we de-lever and have solid growth opportunities to invest in. We will revisit the level of dividends as our excess distributable cash increases.

What does it mean now that Nexen is not involved?

Nexen has been a strong and consistent support for us through significant growth. However, it is important to remember that Canexus has been operating independently since 2006, and we are well-prepared to continue. With Nexen selling its 66% ownership interest, we expect enhanced market liquidity and a broader investor base. Our business strategy remains the same; so does our commitment to transparent communication.

Your financial results forecast for 2011 is less than you projected a year ago. What is impacting your results?

In addition to the slower-than-expected pricing momentum already mentioned, certain specific costs will impact our 2011 results. Maintenance capital will be higher in both 2011 and 2012 due to maintenance at Brandon and Brazil to recoat electrolytic cells, which occurs on a 7 to 8 year cycle. We will incur additional funding costs for our defined benefit pension plan and severance costs related to TCP. We are also managing our way through a stronger Canadian dollar. Some of this foreign exchange impact is expected to be recovered through increased pricing in our North American sodium chlorate business.

On a positive note, one of the benefits from significant capital investment over the past few years is the accumulation of large tax pools to shelter future taxable income. We do not expect to pay cash taxes in Canada until 2016.

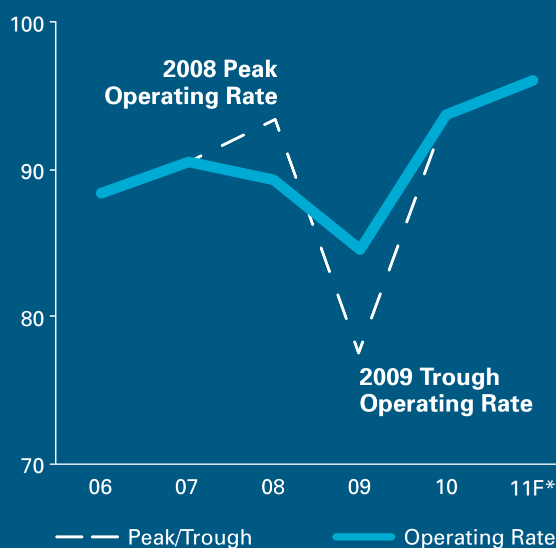
North American **Sodium Chlorate**

Strength in global pulp benefits North America

Global Pulp Markets Strong

Global pulp demand is expected to grow consistent with global economic growth. With little new capacity anticipated in the next two years, pulp operating rates and therefore prices are expected to remain high through at least 2012. This is positive for North American sodium chlorate where industry operating rates are currently 95% to 96%.

As the chart shows, North American sodium chlorate operating rates reached a peak in 2008 and then dropped substantially with the global recession. They are now returning to the mid-90's like they were in 2008 when prices were very strong. We expect continued price momentum in 2011 and 2012 as contract restrictions come off. Our three plants in North America are expected to operate at capacity in 2011.



How We Benefit

Unrivalled Brandon Advantage

Our flagship Brandon facility is ideally poised to benefit from this global pulp strength. It is the world's largest and North America's lowest cost sodium chlorate plant. It is also Canexus' single largest cash flow contributor and accounts for 82% of our North American sodium chlorate capacity. Its economies of scale and unmatched low-cost hydroelectricity rates result in a significant cash cost advantage over its peers. As the shaded areas on the map show, Brandon can deliver to more than 50% of North American pulp producers cheaper than anyone else.

Brandon's low-cost advantage gives us tremendous flexibility in both up and down markets. Our cost position protects us in down markets, and our ability to expand to benefit from up markets is enviable. Currently Brandon produces just less than 20% of North America's sodium chlorate supply. We are upgrading the power line capacity at Brandon by mid-2012, which sets the stage for further potential debottleneck expansions in 2013.

North American **Chlor-Alkali**

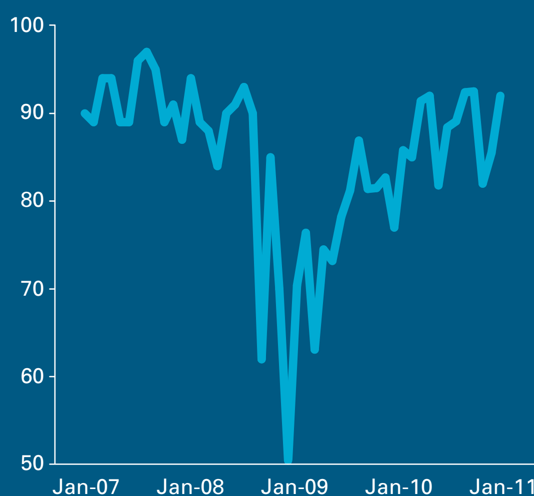
Economic recovery fueling fundamentals

Improving Markets

After MECU netback prices troughed in the first quarter of 2010, North American chlor-alkali industry fundamentals have continued to improve, with economic improvement in chlorine and caustic soda end-use markets. Chlorine derivative exports from the US Gulf Coast increased significantly in 2010 assisted by a weak US dollar and low natural gas prices. This resulted in favorable industry operating rates which are expected to continue.

Moderate natural gas prices in North America favorably position North American chlorine chain petrochemicals for export to Asia in comparison to naphtha-based production in Asia for the near to mid-term. MECU netback prices troughed in Q1 2010 and, consistent with historical price behavior, have been rising since. Forward market dynamics support further price improvement in 2011.

US Chlorine Operating Rate (%)



Source: CMAI

How We Benefit

60%

of TCP benefits come from cost savings

TCP Works Beautifully

With TCP, we transformed our more than 50-year-old North Vancouver plant and made it modern, cost-effective and environmentally superior. We are the regional low-cost producer. TCP's expected incremental annual benefits of $35 to $43 million are being realized with improved electrical efficiency, manpower reductions, lower natural gas consumption, lower maintenance costs and expanded capacity. We are confident the plant can run at the high operating rates expected in the second and third quarters of 2011 when demand for chlorine is highest.

With our new hydrochloric acid burner running at high rates, further acid expansion will be evaluated with a long-term goal of selling 50% of chlorine capacity as acid. We are also looking at producing other chlorine derivatives at North Vancouver, including calcium chloride, which is currently in short supply. Additionally, we have identified several other projects for calcium chloride production that could position us as a meaningful supplier to this market.

South America

10% average annual growth in pulp capacity

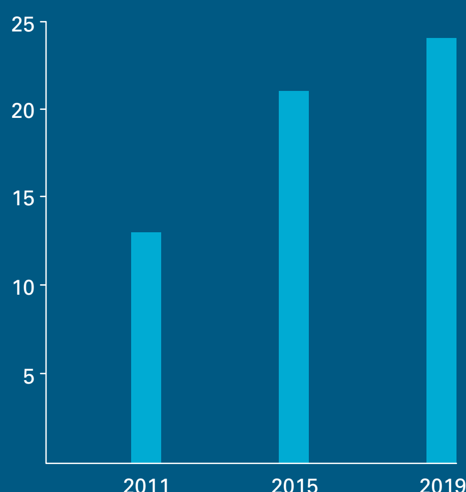
Brazil Benefits from Pulp Strength

As mentioned with the North American sodium chlorate story, pulp has been a strong commodity coming out of this global recession. Growth in Asia, particularly China and the Far East are driving demand. Brazil is poised to benefit with new capacity starting in late 2012.

Demand for Brazilian pulp has been strong over the past year and is expected to remain robust into 2011 and beyond. In fact, Brazilian pulp production is expected to grow at an average annual rate of 10% for the next nine years.

This momentum creates strong sodium chlorate, caustic soda and hydrochloric acid demand, supporting higher operating rates and margins.

Expected Brazilian Pulp Capacity
(million tonnes per year)



Source: RISI / Canexus Management

How We Benefit

27-year
fixed-margin contract provides stability

Sustainable, Stable Operations

Our 27-year, fixed US-dollar margin contract is with a world leading pulp producer. This contract provides stability and an excellent platform to grow in this attractive South American market. Since entering the region in 1999, we have continued to strengthen our plant, improve efficiencies and increase capacity. In 2010, we further expanded our operations with three growth projects: a sodium chlorate expansion, a hydrochloric acid expansion and a project to sell excess hydrogen.

Our sodium chlorate plant is operating at full capacity which is projected to continue through 2011. Strength in chlorine markets combined with flexibility created from completing our hydrochloric acid expansion should result in high chlor-alkali operating rates for the foreseeable future. Overall, we are expecting strong performance from Brazil in 2011, with operating cash flow expected to increase 10% over 2010. We are also always on the look-out for strategic growth opportunities in Brazil.

North American **Terminal Operations**

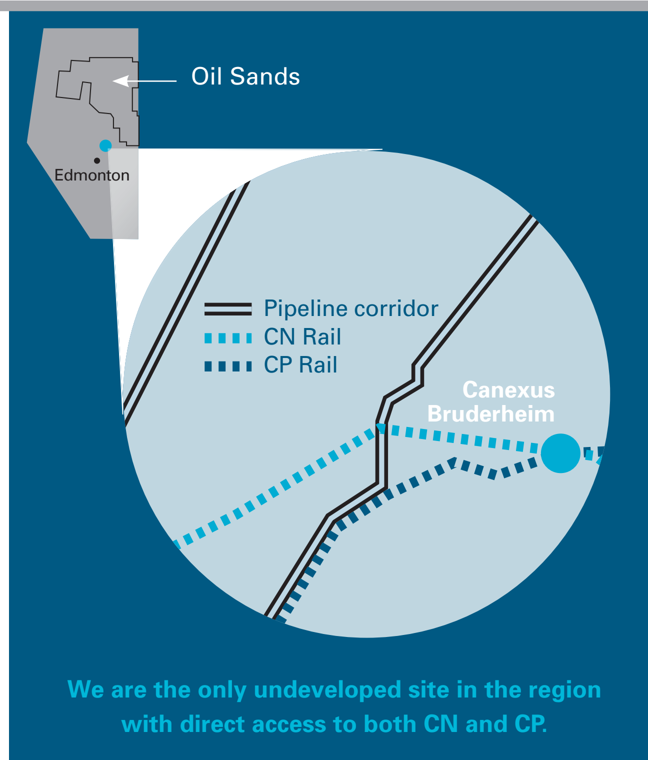
Huge potential to service the oil sands

Transforming a Strategic Location

Our North American Terminal Operations (NATO) reflects our ability to pursue creative growth opportunities. Recognizing its strategic location, we transformed the site of our former sodium chlorate plant at Bruderheim, Alberta to efficiently service the vast oil and gas and oil sands sectors in Alberta.

While still in its infancy, NATO holds tremendous potential. The two 650,000-barrel caverns on the site are expected to be suitable for storing diluents, diluted bitumen and other hydrocarbons. Demand for C5+ diluent alone is expected to almost double by 2015.

We also currently use the site for transloading caustic soda and hydrochloric acid from our North Vancouver facility for use in both the oil and gas and oil sands sectors and the pulp sector in Alberta.



We are the only undeveloped site in the region with direct access to both CN and CP.

How We Benefit

Demand for C5+ diluent is expected to increase from 260,000 bbls/d today to 500,000 bbls/d by 2015.

Progress and Next Steps

At NATO, we have grown our volumes and customer base and validated the many site advantages. One clear advantage is that we are the only site in the region with direct access to both major rail lines, and we are seeing increased interest since building in the second major rail line to the site in 2010.

A $2 million project to construct renewable fuels trans-loading infrastructure is underway in support of a recently awarded contract that commences in the second quarter of 2011.

In addition, mechanical integrity re-verification of our two 650,000-barrel salt caverns is expected to be completed in the second quarter of 2011. This will support the potential large-scale development to service the oil sands region.

Continued Growth: Beyond 2010

Extending a proven track record

Growth Focus

Canexus has a proven track record of growth and a strong portfolio of opportunities. In addition to the six projects completed in 2010, we expanded capacity at Brandon by over 12% in 2008 and over the years have almost doubled our chlorate capacity in Brazil. Looking ahead, we have opportunity for multi-phase expansion at NATO, a power line upgrade and potential further expansion at Brandon, a hydrochloric acid expansion at North Vancouver as well as other opportunities to derivatize more of our chlorine production, and continued investments in Brazil.

Longer term, our goal is to stick to things we know how to do well and selectively expand into new products and markets that offer the following critieria:

- Sustainability
- Critical mass
- Higher growth potential

As we find new projects to invest in, we have the project and portfolio management skills to implement them well. Our track record of success demonstrates that.

Multi-phase NATO expansion

Brandon power line upgrade and potential expansion in 2012/2013

North Vancouver hydrochloric acid expansion in 2013

Continued Brazil investment

Financial Strength

Maintaining a strong balance sheet to support our growth is a top priority. In the last few years, we took on debt to fund our recently completed capital projects as it made good financial sense to do so. Now, as we begin realizing the benefits from those investments, we are focussing on de-levering our balance sheet to bring our debt to EBITDA ratio within our target range of 2.0 to 2.5 times. We will continue to be smart with how we capitalize growth going forward.

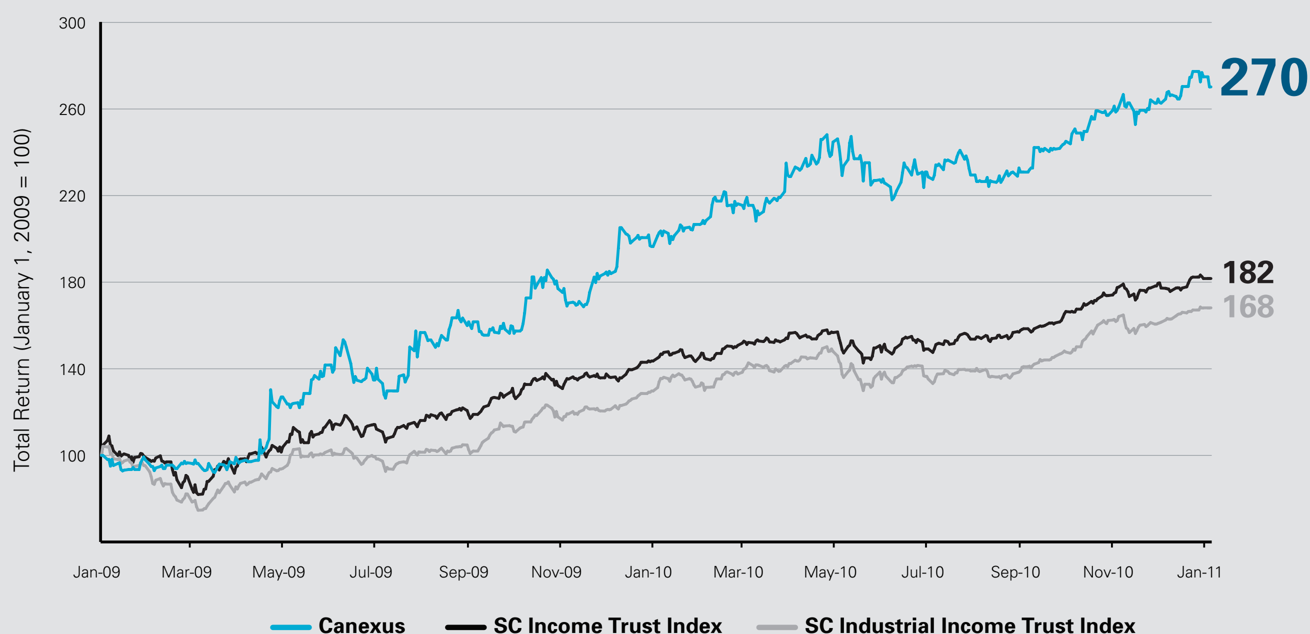
At December 31, 2010, total borrowings under our committed credit facilities were $332.8 million with remaining available undrawn capacity of approximately $107 million. We have no debt maturing before May 2013.

We expect our debt to EBITDA ratio to fall below 3.0 by year-end 2011.

Solid Returns to Investors

A combination of distributions and growth

Total Return: January 1, 2009 to December 31, 2010



Source: Scotia Waterous

Forward-Looking Statements This report contains forward-looking statements and information relating to expected future events and financial and operating results of Canexus Income Fund, Canexus LP and its subsidiaries, including with respect to pricing for sodium chlorate and chlor-alkali products, expected volumes of and demand for sodium chlorate or chlor-alkali products and industry operating rates, expected currency exchange rates, the Fund's expected payout ratio, global caustic soda demand, expectations for MECU netbacks, expectations regarding facility operations, the timing of completion and contribution to operating cash flow of growth projects, including a power line capacity upgrade at Brandon, expectations regarding the integrity of storage caverns at NATO, expected demand for C5+ diluent, the timing and occurrence of the conversion from the current income trust structure to a corporation, the anticipated benefits associated therewith and the expectation to maintain the current distributions following conversion and available tax deductions. 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 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. Financial outlook information contained in this report about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Such financial outlook information should not be used for purposes other than those for which it is disclosed herein.

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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 March 15, 2011. 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") as at and for the year ended December 31, 2010 and the notes thereto included in this report; and
- the audited consolidated financial statements of the Fund and Canexus LP as at and for the year ended December 31, 2009 and the notes thereto available on the 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").

The Fund earns income from its interest in Canexus LP and interest revenue on unsecured subordinated debentures of Canexus LP. The Fund accounts for its investment in Canexus LP using the equity method, and therefore does not consolidate the results of operations of Canexus LP. As a result, audited consolidated financial statements with accompanying notes thereto have been presented for both the Fund and Canexus LP. The following MD&A presents a discussion of the financial condition and results of operations for both the Fund and Canexus LP.

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, including the Fund's annual information form, is available on the Fund's profile on the SEDAR website at www.sedar.com.

References herein to "Canexus" mean, collectively, the Fund and its direct and indirect subsidiaries (including, for purposes of this MD&A, Canexus LP and its direct and indirect subsidiaries).

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. EBITDA is calculated as Net Income (Loss) (a GAAP measure) plus/minus the provision for income taxes, depreciation and amortization and interest expense. A reconciliation of EBITDA to Net Income (Loss) for Canexus LP for each financial period covered by this MD&A is provided on page 12 under "Selected Annual Financial Information".

Gross Margin is a non-GAAP measure that represents the contribution of product sales and service revenues after taking into consideration the direct costs to produce products and deliver services. 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 is calculated as Sales Revenue less Cost of Goods Sold (both GAAP measures). Gross Margin Percentage is calculated as Gross Margin divided by Sales Revenue. The calculation of Gross Margin and Gross Margin Percentage for each financial period covered by this MD&A is provided on page 12 under "Selected Annual Financial Information".

Operating Cash Flow is a non-GAAP measure that represents the contribution of operating activities to earnings. Operating Cash Flow is calculated as Gross Margin less general and administrative expenses.

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 the holders ("Unitholders") of trust units of the Fund ("Fund Units", "Fund Unit", "Units", or "Unit"). The Payout Ratio is calculated as Cash Distributions Declared divided by Distributable Cash available to the Fund.

Distributable Cash within Canexus LP represents Cash Flow from Operating Activities (a GAAP measure) adjusted for temporary changes in non-cash operating working capital and due from/to affiliates and other non-cash impacting expenses less maintenance capital expenditures. Maintenance capital expenditures are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels. Distributable Cash is not a recognized measure under Canadian GAAP, and therefore the Fund's and Canexus LP's method of calculating Distributable Cash is unlikely to be comparable to methods used by other trusts. A reconciliation of Distributable Cash to Cash Flow from Operating Activities for Canexus LP for each financial period covered by this MD&A is provided on page 5 under "Statement of Distributable Cash".

General Description of the Fund and Canexus LP

At December 31, 2010, the Fund held a 36.7 percent (December 31, 2009 – 34.2 percent) interest in Canexus LP and Nexen Inc. ("Nexen") held a 63.3 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP. On February 7, 2011, Nexen disposed of its entire interest in Canexus. See "Highlights" below.

Canexus LP, through its various direct and indirect subsidiaries, produces sodium chlorate and chlor-alkali products in four plants located in North America and one in South America, largely for the pulp and paper and water treatment industries. Canexus LP also operates two distribution terminals in North America.

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 "Tax Act"). The head office and principal business office of the Fund is located in Calgary, Alberta.

The Fund is administered by Canexus Limited (the "Corporation"), a wholly owned subsidiary of the Fund. The Fund owns 100 percent of the shares of the Corporation but has not historically accounted for its investment on a consolidated basis due to Nexen having the ability to appoint the majority of the board positions. As a result of Nexen disposing of its entire interest in Canexus on February 7, 2011, the Fund will account for its interest in the Corporation on a consolidated basis in future periods. See "Highlights" below.

Highlights (See also "Highlights" of Canexus LP)

- Distributions to Unitholders of $20.3 million ($0.5472 per Unit) declared for the year ended December 31, 2010. The average participation rate by Unitholders in the Distribution Reinvestment Program ("DRIP") for the year ended December 31, 2010 was approximately 15 percent with approximately $3 million of distributions being reinvested in 2010.
- 2010 Distributable Cash available to the Fund of $21.4 million resulting in a payout ratio of 95 percent consistent with previous guidance.
- On September 28, 2010, the Fund issued $60 million of 5.75 percent convertible unsecured subordinated series III debentures (the "Series III Convertible Debentures") at a price of $1,000 per Series III Convertible Debenture. Proceeds from the issue of the Series III Convertible Debentures were used to purchase $60 million of unsecured subordinated series III debentures of Canexus LP (the "Series III Debentures").
- On January 27, 2011, Nexen converted $40 million aggregate principal amount of unsecured subordinated convertible series II debentures (the "Series II Convertible Debentures") into 7,843,137 Exchangeable Limited Partnership Units of Canexus LP ("Exchangeable LP Units"). The Exchangeable LP Units were transferred to Nexen by the Fund, which acquired the 7,843,137 Exchangeable LP Units from Canexus LP upon the conversion of the Series II Convertible Debentures.
- On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units of Canexus LP (including the 7,843,137 Exchangeable LP Units obtained on the conversion of the Series II Convertible Debentures) for 74,539,604 Units pursuant to the terms of the Exchange, Voting and Registrations Rights Agreement (See "Liquidity and Capital Structure – Outstanding Securities of the Fund" on page 7). Also on February 7, 2011, Nexen disposed of its entire interest in Canexus through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of $6.40 per Fund Unit (the "Nexen Disposition"). After giving effect to the Nexen Disposition, Nexen no longer owns any Fund Units or securities convertible into Fund Units as the sale of the 74,539,604 Fund Units by Nexen pursuant to the offering represented Nexen's entire interest in Canexus. In accordance with the Governance Agreement between the Fund, Canexus Commercial Trust, Canexus LP, the Corporation and Nexen dated August 18, 2005 (the "Governance Agreement"), upon closing of the Nexen Disposition on February 7, 2011, the Governance Agreement was amended to, among other things, remove Nexen as a party to the Governance Agreement. At the same time, the three Nexen appointees to the board of directors of the Corporation resigned.

- We expect to seek Unitholder approval at the May 2011 Annual and Special Unitholder Meeting to convert to a corporate structure effective July 1, 2011. No change is expected in the amount of our distribution of $0.5472 per Fund Unit annually. At December 31, 2010, Canexus LP had $424 million of major tax pools to shelter future taxable income in Canada. Distributions paid to Unitholders in 2011 prior to converting to a corporate structure are expected to be a return of capital.

Selected Annual Financial Information

CAD thousands, except per unit amounts	2010	2009	2008
Equity Income (Loss) from Investment in Canexus LP	3,280	25,474	(2,141)
Net Income (Loss)	1,202	27,525	(2,587)
Net Income (Loss) ($/Unit)	0.03	0.83	(0.08)
Diluted Net Income (Loss) ($/Unit)	0.03	0.78	(0.08)
Cash Distributions Declared	20,270	18,225	19,048
Cash Distributions Declared ($/Unit)	0.5472	0.5472	0.5928
Distributable Cash available to the Fund [1]	21,427	28,630	31,165

	2010	2009	2008
Total Assets	435,227	383,367	287,519
Total Long-Term Financial Liabilities	112,350	78,516	-

Note:

(1) See non-GAAP Measures on pages 1 and 2.

Results of Operations

Investment in Canexus LP

At December 31, 2010, the Fund had an investment in 38,368,048 Ordinary Limited Partnership Units ("Ordinary LP Units") (36.7 percent) of Canexus LP at a cost of $354 million. At December 31, 2009, the Fund had an investment in 33,701,807 Ordinary LP Units (34.2 percent) of Canexus LP at a cost of $324.7 million. The Fund accounts for this investment using the equity method.

For the year ended December 31, 2010, the Fund's income from Canexus LP was $3.3 million (December 31, 2009 – $25.5 million) and the carrying value of this investment at December 31, 2010 was $307.7 million (December 31, 2009 – $295.6 million).

Investment in Debentures of Canexus LP

At December 31, 2010, the Fund held the following unsecured subordinated debentures (collectively, the "Debentures") of Canexus LP:

- $24.6 million of unsecured subordinated series I debentures (the "Series I Debentures") (December 31, 2009 – $45.8 million) which bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2014;
- $40 million of unsecured subordinated series II debentures (the "Series II Debentures") (December 31, 2009 – $40 million) which bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2014; and
- $60 million of Series III Debentures (December 31, 2009 – NIL) which bear interest at 5.75 percent payable semi-annually on December 31 and June 30 of each year, commencing on June 30, 2011, and mature on December 31, 2015.

On January 27, 2011, Nexen converted the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP. On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units of Canexus LP into an equivalent number of Fund Units pursuant to the terms of the Exchange, Voting and Registration Rights Agreement. See "Liquidity and Capital Structure – Outstanding Securities of the Fund" on page 7.

The Series II Debentures were subsequently redeemed in their entirety in conjunction with the conversion by Nexen of the Series II Convertible Debentures on January 27, 2011 (See "Highlights" on page 2).

Expenses

Trust administration expenses include an allocation of costs including directors' fees, directors' travel, directors and officers liability insurance, professional fees, office rent and public issuer reporting costs.

The Fund recognized $6.8 million and $2.3 million of interest expense and $1.3 million and $0.4 million of accretion expense on the Convertible Debentures for the years ended December 31, 2010 and 2009 respectively. See Note 4 Convertible Debentures and Note 5 Amounts Due to/from Affiliates and Related Party Transactions to the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

The Fund provides unit based compensation in the form of options and corresponding bonus rights under the Trust Unit Incentive Plan ("TUIP") and sponsors the granting of unit appreciation rights ("UARs") and corresponding bonus rights under the Unit Appreciation Rights Plan ("UARP") to officers and employees. Deferred trust units ("DTUs") and notional reinvestments are provided to directors under the Directors' Deferred Trust Unit Compensation Plan ("DTUCP"). Management uses the fair value method to recognize compensation expense associated with unit based compensation at the time of grant.

On March 3, 2010, the Board of Directors of the Corporation approved an amendment to the TUIP to allow recipients of options awarded in 2005 ("2005 TUIP") the choice to receive cash or Units upon exercise of their options. As a result of this amendment, the fair value of these awards at the date of amendment ($0.4 million) was transferred from contributed surplus to a liability. There are no 2005 TUIP options remaining at December 31, 2010. The liability was remeasured at each subsequent reporting period end to its fair value. As the expense related to 2005 TUIP exercises was related to employees of Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus U.S. Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovered this expense at the time of exercise from CCCLP, CUI or Canexus Brazil as applicable.

Under the TUIP (excluding 2005 TUIP), expense is recognized over the vesting period or other expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash.

Under the UARP and for 2005 TUIP, expense is/was recognized over the vesting period or other expected term of service with a corresponding increase in liabilities as these instruments are settled in or may be settled in cash. As the expense for the UARP is related to employees who provide services to CCCLP, CUI or Canexus Brazil, it is recovered at the time of grant from CCCLP, CUI or Canexus Brazil, as applicable.

Under the DTUCP, expense is recognized at the time of grant with a corresponding increase to contributed surplus. These instruments vest at the time of grant and are settled by issuing Units.

Statement of Distributable Cash

CAD thousands, except as noted	2010	2009
Canexus LP		
Net Income	9,372	73,652
Realized Currency Translation (Gains) Losses on Cash	(948)	1,240
Charges and Credits to Income Not Involving Cash		
Provision for Future Income Taxes	489	6,939
Amortization	57,030	46,321
Unrealized (Gains) Losses on Currency Translation	10,214	(46,323)
Change in Fair Value of Foreign Exchange Options	2,100	8,905
Change in Fair Value of Foreign Exchange Forward	-	3,796
Change in Fair Value of Interest Rate Swaps	866	(696)
Accrual for Future TCP Severance Costs	-	(981)
Impairment of Sodium Chlorate Assets	-	17,227
Other	4,380	4,246
Total Charges and Credits to Income Not Involving Cash	75,079	39,434
Contributions to / Payments for Defined Benefit Plans	(2,397)	(2,989)
Interest Income on Long-Term Investments	(4)	(262)
Purchase of Foreign Exchange Options	(972)	(1,798)
Expenditures on Asset Retirement Obligations	(980)	(869)
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net, and Interest Payable to Affiliates	7,014	8,855
Cash Flow From Operating Activities	86,164	117,263
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net, and Interest Payable to Affiliates	(7,014)	(8,855)
Maintenance Capital Expenditures	(14,146)	(20,102)
Amortization of the Purchase Cost of Foreign Exchange Options	(2,559)	(5,015)
Realized Currency Translation Gains (Losses) on Cash	948	(1,240)
Operating Non-Cash Items	(2,371)	833
Distributable Cash within Canexus LP (1)	61,022	82,884
The Fund		
Share of Canexus LP's Distributable Cash	21,886	28,978
Trust Administration Expenses	(459)	(348)
Distributable Cash available to the Fund (1)	21,427	28,630
Distributions Declared	20,270	18,225
Payout Ratio (1)	95%	64%

Note:

(1) See Non-GAAP Measures on pages 1 and 2.

Net income for the year ended December 31, 2010 decreased from the year ended December 31, 2009 primarily as a result of a decrease in Gross Margin, lower currency translation gains, net losses on held-for-trading financial instruments, an increase in amortization and an increase in interest expense, partially offset by lower income taxes, the recording of a gain on settlement with Canexus LP's primary customer in South America of a contract matter for hydrogen supply, and closure and impairment costs recorded in 2009 related to the closure of the Bruderheim, Alberta sodium chlorate plant. See "Canexus Limited Partnership – Results of Operations – Changes in Net Income 2010 versus 2009" on pages 13 through 18 for further discussion.

See "Canexus Limited Partnership – Cash Flow from Operating Activities" on page 30 for a discussion of changes in cash flow from operating activities.

The cost of foreign exchange call option contracts is recognized as a decrease in cash flow 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 contracts.

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 initial public offering of the Fund. It also includes the cost of foreign exchange call option contracts described further in the preceding paragraph.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, prior to 2011 the Fund was only taxable on any amount not paid or made payable to Unitholders. The Fund distributed all of its taxable income to its Unitholders for the 2010 year.

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded trusts received Royal Assent (the "SIFT rules"). As a result, the Fund has recognized a $7.2 million future income tax liability at December 31, 2010 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

Pursuant to the SIFT rules, effective January 1, 2011 distributions from publicly traded trusts such as the Fund, which prior to 2011 were taxed as ordinary income, generally will now be characterized as dividends in addition to being subject to tax at corporate rates at the Fund level (the "SIFT tax"), which could result in reduced cash available for distributions. The rate of SIFT tax will be equal to the prevailing general federal corporate income tax rate (slated to be 16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial SIFT tax rate" which under enacted regulations will be based on the prevailing provincial corporate income tax rates in the provinces where the Specified Investment Flow-Through ("SIFT") has a permanent establishment. Based on current enacted rates it is anticipated that the provincial SIFT tax rate applicable to the Fund will be approximately 11.1 percent in 2011 and 2012. This will result in a combined federal and provincial corporate income tax rate of approximately 27.6 percent for 2011 and 26.1 percent for 2012 and subsequent years.

On March 12, 2009, legislation was enacted to enable the conversion of existing publicly traded trusts into public corporations without immediate tax consequences to the trusts or their investors.

The Fund expects to seek Unitholder approval at the May 2011 Annual and Special Unitholders Meeting to convert to a corporate structure on July 1, 2011. No change is expected in the amount of the Fund's distribution of $0.5472 per Unit annually other than payment will occur on a quarterly basis. Any distributions made in 2011, prior to conversion to a corporate structure, are expected to be a return of capital to Unitholders.

Distributions

The Fund made monthly distributions of $0.0456 per Unit for the period January 1, 2010 to December 31, 2010 for total distributions declared of $20.3 million ($0.5472 per Unit) for the year ended December 31, 2010.

At December 31, 2010, the Fund had a distribution receivable from Canexus LP of $1.8 million. Upon receipt of this distribution in January 2011, the Fund paid a distribution payable of $1.8 million outstanding at December 31, 2010.

Summary of Quarterly Results

The changes in equity income (loss) for each of the three month periods were due to changes in the net income (loss) of Canexus LP for the same periods. The equity loss from the investment in Canexus LP for the three months ended June 30, 2010 was due to lower Gross Margin from Canexus LP's North America sodium chlorate and South American business units, the impact of the delayed startup of the Technology Conversion Project ("TCP") at Canexus LP's North Vancouver chlor-alkali facility, unrealized currency translation losses on Canexus LP's US dollar denominated long-term debt and changes in fair value of Canexus LP's held-for-trading financial instruments, partially offset by a gain recorded on the settlement of a contract matter for hydrogen supply with Canexus LP's primary customer in South America.

	Three Months Ended			
CAD thousands, except per unit amounts	December 31 2010	September 30 2010	June 30 2010	March 31 2010
Equity Income (Loss) from Investment in Canexus LP	1,634	2,611	(6,532)	5,567
Net Income (Loss)	1,709	2,343	(5,756)	2,906
Net Income (Loss) Per Unit ($/Unit)	0.04	0.06	(0.16)	0.09
Diluted Net Income (Loss) Per Unit ($/Unit)	0.05	0.06	(0.16)	0.08
Distributions Declared	5,344	5,201	5,021	4,704
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash available to the Fund (1)	2,337	10,680	2,762	5,648

	Three Months Ended			
CAD thousands, except per unit amounts	December 31 2009	September 30 2009	June 30 2009	March 31 2009
Equity Income from Investment in Canexus LP	4,239	13,179	5,994	2,062
Net Income	6,806	12,835	5,716	2,168
Net Income Per Unit ($/Unit)	0.21	0.38	0.17	0.07
Diluted Net Income Per Unit ($/Unit)	0.18	0.36	0.17	0.07
Distributions Declared	4,611	4,573	4,541	4,500
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash available to the Fund (1)	4,734	7,417	6,742	9,737

Note:

(1) See Non-GAAP Measures on pages 1 and 2.

Liquidity and Capital Structure

Outstanding Securities of the Fund

At December 31, 2010, the Fund had 39,341,055 Units outstanding (March 15, 2011 – 114,637,187).

At December 31, 2010, Nexen held 66,238,563 Exchangeable LP Units of Canexus LP (March 15, 2011 – NIL) each of which was exchangeable into one Fund Unit at no cost at any time at the option of Nexen and each of which carried a special voting right that entitled the holder to receive notice of, and attend and vote at all meetings of Unitholders.

Under the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between the Fund, Canexus Commercial Trust, Canexus LP, the Corporation and Nexen, an exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to the Fund. As a result of the above transactions, the Fund's indirect interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange. Effective February 7, 2011, Nexen exchanged all of the Exchangeable LP Units held by it for Fund Units in the foregoing manner and sold all such Fund Units to the public pursuant to the Nexen Disposition. Immediately following the Nexen Disposition, the Exchange, Voting and Registration Rights Agreement was terminated. See "Highlights".

Convertible Debentures

See Note 4 Convertible Debentures to the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

Business Risks

The Fund is entirely dependent on distributions and interest revenue from Canexus LP to make its own distributions to Unitholders and interest payments to holders of Convertible Debentures. 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 Unitholders.

For a discussion of certain risks related to Canexus LP's operations, see "Canexus Limited Partnership – Liquidity and Capital Resources – Market and Financial Risk Analysis" on pages 35 and 36 and Note 6(b) Financial Instruments and Financial Risk Management – Financial Risk Management to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010. Additional risk factors relating to the Fund and Canexus LP's operations are contained in the Fund's Annual Information Form 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, the Corporation 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 Extendible Revolving Credit Facility, the EDC Extendible Revolving Credit Facility and Senior Secured Notes (each as defined under "Canexus Limited Partnership – Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) in "events of default" as defined in each of the extendible revolving credit facilities agreements and the note indenture governing the Senior Secured Notes filed on the Fund's SEDAR profile at www.sedar.com.

Transactions With Related Parties

See Note 5 Amounts Due to/from Affiliates and Related Party Transactions to the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

Critical Accounting Estimates

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

Canexus Limited Partnership

Canexus Limited Partnership (hereinafter referred to as "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 four plants located in North America and one in South America, largely for the pulp and paper and water treatment industries. Canexus LP also operates two distribution terminals in North America.

We have North American sodium chlorate production facilities located in Beauharnois, Quebec; Brandon, Manitoba and Nanaimo, British Columbia; and a chlor-alkali production facility located in North Vancouver, British Columbia. Canexus LP's terminal at Nanaimo, British Columbia distributes caustic soda and the terminal at Bruderheim, Alberta distributes caustic soda and hydrochloric acid and transloads hydrocarbons from rail to truck on a fee-for-service basis. Our South American sodium chlorate and chlor-alkali production facility is located in Espirito Santo, Brazil. Canexus LP's head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

At December 31, 2010, Canexus Income Fund (the "Fund") held a 36.7 percent (December 31, 2009 – 34.2 percent) interest in Canexus LP through ordinary limited partnership units ("Ordinary LP Units") and Nexen Inc. ("Nexen") held a 63.3 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP through exchangeable limited partnership units ("Exchangeable LP Units" and, together with Ordinary LP Units, collectively "LP Units"). Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP. On February 7, 2011, Nexen disposed of its entire interest in Canexus. See below under "Highlights" for further information.

Pursuant to the Limited Partnership Agreement between the General Partner, Canexus Commercial Trust (a wholly owned subsidiary of the Fund) and Nexen dated August 9, 2005 (the "LP Agreement"), Canexus Limited, as General Partner, has full power and exclusive authority to employ all persons necessary for the conduct of the business of Canexus LP, to enter into any agreement and to incur any obligation related to the affairs of Canexus LP and is entitled to full reimbursement of all costs and expenses incurred on behalf of Canexus LP. As general and administrative costs incurred by the General Partner and pension obligations entered into by the General Partner are on behalf of Canexus LP, these costs and obligations have been reflected in the financial statements and notes thereto of Canexus LP. Effective February 7, 2011, following the Nexen Disposition (as defined below under "Executive Summary"), the LP Agreement was amended and restated to remove Nexen as a partner and to eliminate Exchangeable LP Units as a class of security of Canexus LP.

Executive Summary

Canexus LP's financial and operating performance in 2010 was consistent with our guidance which reflected the startup challenges with the technology conversion project ("TCP") and the trough of sodium chlorate and chlor-alkali pricing in the first half of 2010 brought on by the 2008/2009 financial and economic crisis. With six strategic growth projects completed in 2010, the most significant being the TCP at our North Vancouver chlor-alkali facility, we are well positioned to deliver solid results in 2011. Going forward, we are firmly committed to the Fund's dual objectives of building future growth and sustaining current distribution levels for the benefit of our Unitholders.

Distributable Cash within Canexus LP was $61 million for the year ended December 31, 2010; 26 percent lower than Distributable Cash within Canexus LP for the year ended December 31, 2009. Distributable cash within Canexus LP was impacted by the delay in completing the startup of the TCP at our North Vancouver chlor-alkali facility resulting in lower Gross Margin in 2010, lower realized gains on held-for-trading financial instruments and higher interest expense, and was partially offset by realized currency translation gains on temporary repayments of our Extendible Revolving Credit Facility and a gain on settlement with our primary customer in South America of a contract matter related to hydrogen supply.

Our North America sodium chlorate business unit benefited from improving pulp markets through 2010 with sales volumes increasing by 10 percent over the prior year. The impact of the increase in sales volumes was however, more than offset by a decrease in realized selling prices as compared to the prior year, resulting primarily from the stronger Canadian dollar in 2010 which more than offset price increases implemented in the second through fourth quarters. We expect sodium chlorate prices in local currencies to trend upwards in 2011. Gross Margin declined year over year as a result of the lower realized selling prices, partially offset by lower fixed costs. The project to upgrade power line capacity at our low-cost Brandon, Manitoba facility is expected to be completed in the first half of 2012 and will set the stage for additional expansion opportunities at this facility.

The 2010 performance of our North Vancouver chlor-alkali facility was impacted as a result of the delay in completing the startup of the TCP and significantly lower realized metric electrochemical unit ("MECU") netback selling prices. Improved market fundamentals in 2010 however, enabled sales revenue of $147 million for 2010 to be consistent with sales revenue for 2009 as a result of high volumes of product purchases (in particular caustic soda) for resale. Gross Margin declined from the prior year primarily as a result of having almost no production for three months during the startup of the TCP and higher costs to source chlor-alkali products for our customers during this time. Following a six-day shutdown in November to address minor debottleneck modifications, our North Vancouver chlor-alkali facility has been capable of operating at design capacity and the expected benefits of the TCP are beginning to be realized. We are confident in the ability of the plant to be able to run at high operating rates expected in the second and third quarters of 2011 when demand for chlorine for water treatment is at its highest. The 70,000 wet metric tonne ("MT") hydrochloric acid expansion project at this facility, completed in 2010, significantly enhances our chlor-alkali production flexibility going forward. We are also studying the production of other chlorine derivatives at our North Vancouver facility and are currently evaluating the production of calcium chloride which is currently in short supply.

Despite reduced demand from our primary customer in the first half of 2010, sales revenue of our South America business unit increased year over year as a result of higher realized selling prices for both sodium chlorate and caustic soda (reflecting our fixed US dollar margin contract with our primary customer). Gross Margin was negatively impacted by the stronger Canadian dollar in 2010, as well as higher maintenance costs in 2010 resulting from both a planned chlor-alkali maintenance shutdown in July and an unplanned chlor-alkali plant shutdown in October. We also completed a 4,400 MT sodium chlorate expansion, a hydrochloric acid expansion and a project to enable the sale of excess hydrogen at this facility in 2010. All three projects have demonstrated design capacity operating rates. The hydrochloric acid expansion and hydrogen projects are both supported by long-term take-or-pay contacts.

We continue to pursue opportunities to expand our North American Terminal Operations ("NATO") at Bruderheim, Alberta and are seeing increased interest following completion of the build-in of the second major rail line to this site completed in 2010. A $2 million project to construct renewable fuels transloading infrastructure is underway in support of a recently awarded contract that commences in the second quarter of 2011. In addition, mechanical integrity re-verification of our two 650,000 barrel salt caverns at the site is expected to be completed in the second quarter of 2011 in support of the potential large scale development of the site to service the oilsands region.

On February 7, 2011, Nexen disposed of its remaining interest in Canexus through a secondary offering on a bought deal basis of 74,539,604 Fund Units at a price of $6.40 per Fund Unit. See below under "Highlights" for further information.

Our payout ratio guidance for 2011 continues to be in the 85 to 90 percent range assuming an exchange rate of 1 $US = $0.97 CAD. This implies an operating cash flow target of approximately $128 million; up from $69 million in 2010. Our payout ratio is expected to improve to 70 percent in 2012 with continued improvement in our markets, slightly lower maintenance capital expenditures and marginally higher chlor-alkali sales volumes.

Highlights

- Distributable Cash within Canexus LP of $61 million for the year ended December 31, 2010 resulting in a payout ratio of 95 percent for the Fund (inclusive of realized foreign exchange gains and the settlement of a contract matter related to hydrogen supply in Brazil), consistent with guidance.
- Distributions to Ordinary LP Unitholders and Nexen, as the sole holder of the Exchangeable LP Units, were $0.5472 per LP Unit for total distributions declared of $55.9 million for the year ended December 31, 2010.
- Successfully completed six strategic growth projects in 2010, the most significant of which was the TCP at the North Vancouver chlor-alkali facility. Other projects completed in 2010 include the build-in of the second major rail line at our NATO site, the 4,400 MT sodium chlorate expansion and hydrogen projects in Brazil and the hydrochloric acid capacity expansions at both our North Vancouver and Brazil facilities.
- North America sodium chlorate sales volumes for 2010 increased 10 percent over the prior year benefiting from improving pulp markets. Realized selling prices were negatively affected by the stronger Canadian dollar relative to the US dollar compared to 2009 and by lower delivered prices to US customers in 2010. Price increases took effect in the first quarter of 2011 and a price increase announcement of $50/MT was made for the second quarter of 2011 where contracts allow. North America sodium chlorate industry operating rates are currently estimated to be 96 percent, which should allow for continued pricing momentum in 2011 and 2012.

- Our low-cost Brandon, Manitoba plant achieved record production in 2010 of approximately 301,500 MT. The power line capacity upgrade to the Brandon plant is expected to be completed mid-2012, setting the stage for further possible expansion opportunities.
- Sales revenue for our North America chlor-alkali business unit was consistent with the prior year resulting from higher sales volumes of caustic soda (including significant volumes purchased for resale) offset by 18 percent lower realized MECU netback selling prices. Caustic soda prices increased in the first quarter of 2011 and price increases for both caustic soda and chlorine have been announced for the second quarter of 2011 as contracts allow. Following a six-day shutdown in early November for minor debottleneck modifications, our North Vancouver chlor-alkali facility operated reliably at design capacity. The expected incremental annual benefits of the TCP of $35 to $43 million are being realized with improved electrical efficiency, manpower reductions, reduction in natural gas consumption, lower maintenance costs and expanded capacity.
- Higher sales revenue in our South America business unit resulted from higher realized selling prices for sodium chlorate and caustic soda (reflecting our fixed US dollar margin contract) on lower sales volumes. Gross Margin declined from the prior year due to the impact of the stronger Canadian dollar compared to the US dollar and to higher maintenance costs arising from both planned (July) and unplanned (October) chlor-alkali plant shutdowns in 2010. The chlor-alkali plant is expected to run reliably in 2011.
- We have Canadian dollar foreign exchange call option contracts in place to protect US $5 million per month at US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011. All long-term debt is borrowed in US dollars to further manage our US dollar currency exposure.
- Effective February 22, 2011, maturity of Canexus LP's senior secured revolving credit facilities was extended to June 30, 2014, resulting in lower borrowing costs of 50 bps and revised financial covenants with relaxation modified and extended through September 30, 2011. At December 31, 2010, total borrowings under committed credit facilities were $332.8 million with remaining available undrawn capacity of approximately $107 million. We have no debt maturing before May 2013; the maturity date of the Senior Secured Notes (as defined under "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33).
- On September 28, 2010, the Fund issued $60 million of 5.75 percent convertible unsecured subordinated series III debentures (the "Series III Convertible Debentures") at a price of $1,000 per Series III Convertible Debenture.
- On September 28, 2010, Canexus LP issued $60 million of 5.75 percent unsecured subordinated series III debentures to the Fund (the "Series III Debentures"). Net proceeds were used by Canexus LP to repay existing long-term debt.
- On January 27, 2011, Nexen converted $40 million aggregate principal amount of unsecured subordinated convertible series II debentures (the "Series II Convertible Debentures") into 7,843,137 Exchangeable Limited Partnership Units of Canexus LP ("Exchangeable LP Units"). The Exchangeable LP Units were transferred to Nexen by the Fund, which acquired the 7,843,137 Exchangeable LP Units from Canexus LP upon the conversion of the Series II Convertible Debentures.
- On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units of Canexus LP (including the 7,843,137 Exchangeable LP Units obtained on the conversion of the Series II Convertible Debentures) for 74,539,604 Units pursuant to the terms of the Exchange, Voting and Registrations Rights Agreement (See "Liquidity and Capital Structure – Outstanding Securities of the Fund" on page 7). Also on February 7, 2011, Nexen disposed of its entire interest in Canexus through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of $6.40 per Fund Unit (the "Nexen Disposition"). After giving effect to the Nexen Disposition, Nexen no longer owns any Fund Units or securities convertible into Fund Units as the sale of the 74,539,604 Fund Units by Nexen pursuant to the Nexen Disposition represented Nexen's entire interest in Canexus. In accordance with the Governance Agreement between the Fund, Canexus Commercial Trust, Canexus LP, the General Partner and Nexen dated August 18, 2005 (the "Governance Agreement"), upon closing of the Nexen Disposition on February 7, 2011, the Governance Agreement was amended to, among other things, remove Nexen as a party to the Governance Agreement. At the same time, the three Nexen appointees to the board of directors of the Corporation resigned.

Selected Annual Financial Information

CAD thousands, except as noted	For the Years Ended December 31 2010	2009	2008
Sales Volumes			
Sodium Chlorate (000s MT)	434	400	449
Chlor-alkali (000s MECU)	173 [3]	181	187
Sales Revenue	457,357	458,447	474,357
Cost of Goods Sold	356,035	312,280	339,060
Gross Margin [1]	101,322	146,167	135,297
Gross Margin Percentage [1]	22%	32%	29%
Net Income (Loss)	9,372	73,652	(6,035)
Plus: Provision for (Recovery of) Income Taxes	5,204	9,840	(3,776)
Plus: Amortization	57,030	46,321	43,408
Plus: Interest Expense	16,540	7,661	11,658
EBITDA [1]	88,146	137,474	45,255
Distributions Declared	55,883	52,476	51,218
Distributions Declared ($/Unit)	0.5472	0.5472	0.5928
Distributable Cash within Canexus LP [1]	61,022	82,884	83,289
Capital Expenditures			
Maintenance	14,146	20,102	15,100
Remediation [2]	3,188	5,158	1,638
Continuous Improvement	6,808	8,706	4,540
Expansion	110,230	180,318	67,213
Total Capital Expenditures	134,372	214,284	88,491
Average Foreign Exchange Rate (CAD $ to US $)	US $0.97	US $0.87	US $0.96

	At December 31 2010	2009	2008
Total Assets	753,818	683,940	582,354
Total Long-Term Financial Liabilities	445,071	370,414	291,034

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) These expenditures were funded by restricted investments. During the fourth quarter of 2010 restricted investments were fully utilized.

(3) Excludes volumes purchased for resale.

The operations of Canexus LP currently include sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; a sodium chlorate and chlor-alkali production facility in Espirito Santo, Brazil; and two distribution terminals located in Nanaimo, British Columbia and Bruderheim, Alberta.

Sales revenue for the year ended December 31, 2010 was consistent with sales revenue for the year ended December 31, 2009. Lower North America sodium chlorate sales revenue was mostly offset by higher sales revenue in South America. North America chlor-alkali sales revenue was consistent for the years ended December 31, 2010 and 2009.

The Gross Margin Percentage of 22 percent for the year ended December 31, 2010 decreased from 32 percent for the year ended December 31, 2009 as a result of lower realized selling prices for sodium chlorate and chlor-alkali products, the delay in completing the startup of the TCP resulting in almost no production for three months, higher electricity costs in North America and higher fixed costs in South America, partially offset by lower fixed costs in North America and higher production volumes in North America sodium chlorate and South America. See "Results of Operations – Changes in Net Income 2010 versus 2009" below for further discussion.

See also "Capital Expenditures" on page 18.

Results of Operations

Changes in Net Income 2010 versus 2009

Net Income for the Year Ended December 31, 2009	73,652
Items Increasing (Decreasing) Net Income	
Sales Revenue	(1,090)
Cost of Goods Sold	(43,755)
Amortization Expense	(10,709)
General and Administrative Expense	2,647
Interest Expense	(8,879)
Change in Fair Value and Realized Gains on Foreign Exchange Options	(1,387)
Change in Fair Value and Realized Losses on Interest Rate Swaps	(1,780)
Change in Fair Value and Realized Gain on Foreign Exchange Forward	1,303
Change in Currency Translation Gains	(30,790)
Income Taxes	4,636
Reversal of Accrual for Future TCP Severance Costs	(582)
Allowance for Doubtful Accounts	650
Hydrogen Supply Contract Settlement	6,556
Sodium Chlorate Plant Closure Costs	3,192
Impairment of Sodium Chlorate Assets	17,227
Other	(1,519)
Net Income for the Year Ended December 31, 2010	9,372

Net income for the year ended December 31, 2010 decreased by $64.3 million from the year ended December 31, 2009. Lower Gross Margin from our North America sodium chlorate business unit, the impact of the delayed startup of the TCP at our North Vancouver chlor-alkali facility (including losses incurred on product purchased to provide to customers), lower realized MECU netback selling prices, higher amortization, higher interest expense and lower currency translation gains, partially offset by lower income taxes, a gain recorded on the settlement with Canexus LP's primary customer in South America of a contract matter related to hydrogen supply, and impairment and other closure related costs recorded in the second quarter of 2009 related to the closure of the Bruderheim, Alberta sodium chlorate plant contributed to this decrease.

A decrease in Gross Margin of $44.8 million decreased net income

CAD thousands, except as noted	North America			
	Sodium		South	
Year Ended December 31, 2010	Chlorate [2]	Chlor-alkali	America	Total
Sales Revenue	212,234	146,976	98,147	457,357
Cost of Goods Sold	147,734	133,820	74,481	356,035
Gross Margin [1]	64,500	13,156	23,666	101,322
Gross Margin Percentage [1]	30%	9%	24%	22%

CAD thousands, except as noted	North America			
	Sodium		South	
Year Ended December 31, 2009	Chlorate [2]	Chlor-alkali	America	Total
Sales Revenue	216,613	147,669	94,165	458,447
Cost of Goods Sold	138,748	104,814	68,718	312,280
Gross Margin [1]	77,865	42,855	25,447	146,167
Gross Margin Percentage [1]	36%	29%	27%	32%

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) Revenues and costs for NATO for the years ended December 31, 2010 and 2009 are included in North America Sodium Chlorate.

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment decreased two percent to $212.2 million in 2010 from $216.6 million in 2009 due to a 12 percent decrease in realized selling prices, partially offset by a 10 percent increase in sales volumes. The decrease in realized selling prices was primarily due to the stronger Canadian dollar relative to the US dollar for the year ended December 31, 2010 (US $0.97) as compared to the year ended December 31, 2009 (US $0.87) and lower delivered prices to US customers in 2010 despite price increases implemented in the second through fourth quarters. The increase in sales volumes was due to increased customer demand as the economy recovered and to new contracted sales volumes. The decrease in the Gross Margin Percentage to 30 percent for 2010 from 36 percent for 2009 was primarily due to the decrease in realized selling prices and slightly higher electricity costs, partially offset by lower fixed costs and higher production volumes.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment of $147 million in 2010 was consistent with sales revenue of $147.7 million in 2009. Higher sales volumes of caustic soda, including significant volumes of caustic soda purchased for resale, more than offset lower caustic soda and hydrochloric acid realized selling prices and lower chlorine and hydrochloric acid sales volumes. The Gross Margin Percentage decreased from 29 percent in 2009 to nine percent in 2010 as a result of the delay in completing the startup of the TCP, lower MECU realized selling prices, higher electricity prices and lower production volumes, partially offset by lower fixed costs. The decrease in production volumes was due to the delay in completing the startup of the TCP to late July following almost three months of no production and to a six-day shutdown in early November to perform additional debottlenecking to achieve design capacity. Forward market dynamics support price improvement in 2011.

South America

Sales revenue in South America increased four percent to $98.1 million for 2010 from $94.2 million for 2009 primarily as a result of higher realized selling prices for sodium chlorate and caustic soda, partially offset by lower sales volumes of sodium chlorate and caustic soda. The increase in realized selling prices for sodium chlorate and caustic soda was due to the pass-through nature of the contract with our primary customer which contributes to higher sales revenue as costs increase. The decrease in sales volumes of sodium chlorate and caustic soda was due to reduced demand from our primary customer in January and February. The Gross Margin Percentage decreased to 24 percent from 27 percent primarily due to the impact of the stronger Canadian dollar on our fixed US dollar margins and higher fixed costs, partially offset by higher production volumes. Fixed costs were higher as a result of both a planned chlor-alkali plant maintenance shutdown in July and an unplanned chlor-alkali plant shutdown in October, partially offset by the purchase of caustic soda up to our chlor-alkali plant's operating capacity volume in early 2009 at market prices which were higher than the price we could bill our primary customer.

Higher amortization expense decreased net income by $10.7 million

Amortization expense increased for the year ended December 31, 2010, as compared to the year ended December 31, 2009, primarily due to the amortization of growth projects completed during the year including the TCP, the build-in of the second major rail line into our NATO site at Bruderheim, Alberta, the 4,400 MT sodium chlorate expansion and hydrogen projects in Brazil and the hydrochloric acid expansions at our North Vancouver and Brazil facilities.

Lower general and administrative expense increased net income by $2.6 million

General and administrative expense was lower for the year ended December 31, 2010 as a result of lower costs associated with preparation for the conversion to International Financial Reporting Standards ("IFRS") in 2011, lower spending on business development activities, a lower bonus accrual for 2010 and costs incurred in 2009 for the review and implementation of SAP chemicals best practice processes.

Higher interest expense decreased net income by $8.9 million

The increase in interest expense for the year ended December 31, 2010 was due to higher interest rates due to higher credit spreads, higher borrowings and interest on the Series III Debentures, partially offset by higher interest capitalized on major projects.

The amount outstanding on our Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) at December 31, 2010 was US $264 million as compared to US $203.5 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 4.10 percent, excluding the impact of interest rate swaps, for 2010 as compared to 2.09 percent, excluding the impact of interest rate swaps, for 2009.

Effective April 15, 2010, the Senior Secured Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) was repaid and cancelled. The weighted average interest rate on borrowings from this credit facility was 1.55 percent for the period January 1, 2010 to April 15, 2010. The amount outstanding on our Senior Secured Revolving Credit Facility at December 31, 2009 was US $11 million. The weighted average interest rate on borrowings from this credit facility was 2.09 percent for the year ended December 31, 2009.

At December 31, 2010, the amount outstanding on Canexus Quimica Brasil Ltda.'s ("Canexus Brazil") EDC Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) was US $10 million. At December 31, 2009, the amount outstanding on the EDC Extendible Revolving Credit Facility was US $8 million. The weighted average interest rate on borrowings from this credit facility was 3.74 percent for the year ended December 31, 2010 and 2.10 percent for the year ended December 31, 2009.

On September 28, 2010, Canexus LP issued $60 million of Series III Debentures to the Fund which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing June 30, 2011. The Series III Debentures mature December 31, 2015.

On August 31, 2009, Canexus LP issued $46 million of Series I Debentures and $40 million of Series II Debentures to the Fund. The Series I Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. During the year ended December 31, 2010, $21.2 million of the Series I Debentures were redeemed. The Series II Debentures bore interest at 8 percent which was payable semi-annually on December 31 and June 30 of each year. On January 27, 2011, the $40 million of Series II Debentures were redeemed in conjunction with the Nexen Disposition.

Interest capitalized on major projects was $7.2 million in 2010 as compared to $4.9 million in 2009.

Changes in foreign exchange options decreased net income by $1.4 million

During the year ended December 31, 2010, Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $10 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9479 (US $5 million) and US $0.9302 (US $5 million) for the period January 1, 2010 to March 31, 2010;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9302 for the period April 1, 2010 to June 30, 2010;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 for the period July 1, 2010 to September 30, 2010; and
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9434 per Canadian dollar from October 1, 2010 to December 31, 2010.

On December 20, 2010, Canexus LP purchased Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011.

Realized gains of $2.3 million and mark-to-market fair value losses of $2.1 million were recorded on these foreign exchange call option contracts for a net gain of $0.2 million in 2010. Realized gains resulted from the value of the Canadian dollar relative to the US dollar being above the average price of the foreign exchange call option contracts outstanding during 2010 during all or part of 2010. Mark-to-market fair value losses resulted from the value of the Canadian dollar relative to the US dollar, market expectations of the future value of the Canadian dollar relative to the US dollar and to the expiry of these foreign exchange call option contracts during 2010.

During the year ended December 31, 2009, Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8200 for the period January 1, 2009 to December 31, 2009; and
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8170 for the period January 1, 2009 to December 31, 2009.

Realized gains of $10.5 million and mark-to-market fair value losses of $8.9 million were recorded on these foreign exchange call option contracts for a net gain of $1.6 million in 2009. Realized gains resulted from the value of the Canadian dollar relative to the US dollar being above the average price of US $0.8085 of the foreign exchange call option contracts during all or part of 2009. Mark-to-market fair value losses resulted from the value of the Canadian dollar relative to the US dollar, market expectations of the future value of the Canadian dollar relative to the US dollar during 2009 and to the expiry of these foreign exchange call option contracts on December 31, 2009.

Changes in interest rate swaps decreased net income by $1.8 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. Mark-to-market fair value losses of $0.9 million and realized losses of $1.5 million were recorded on these interest rate swaps for a total loss of $2.4 million in 2010. Mark-to-market fair value losses resulted from market expectations of future three month US LIBOR floating rates and the shorter remaining term of these interest rate swap agreements. Realized losses resulted from US LIBOR floating rates being below the fixed rate of interest of 3.2 percent during all of 2010. Mark-to-market fair value gains of $0.7 million and realized losses of $1.3 million were recorded on these interest rate swaps for a net loss of $0.6 million in 2009.

Increase in net income of $1.3 million resulting from a foreign exchange forward contract outstanding in 2009

Canexus LP had a foreign exchange forward contract to buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant which was settled on May 20, 2009. A realized gain of $2.5 million and mark-to-market fair value losses of $3.8 million were recorded on this foreign exchange forward contract for a net loss of $1.3 million during the year ended December 31, 2009 resulting from the expiry and settlement of this foreign exchange forward.

Changes in currency translation gains decreased net income by $30.8 million

Currency translation gains (losses) result from the translation of our US dollar denominated long-term debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies.

During the year ended December 31, 2010, fluctuations in exchange rates resulted in unrealized currency translation losses of $10.2 million and realized currency translation gains of $25.2 million for a net currency translation gain of $15 million as compared to unrealized currency translation gains of $46.3 million and realized currency translation losses of $0.5 million for a net currency translation gain of $45.8 million for the year ended December 31, 2009.

During the year ended December 31, 2010, we recorded realized currency translation gains of $24.8 million on repayments of the Extendible Revolving Credit Facility and repayment in full of the Senior Secured Revolving Credit Facility that were previously recorded as unrealized currency translation gains, resulting in unrealized currency translation losses of $9.8 million on our US dollar denominated long-term debt for a net currency translation gain of $15 million. We intentionally triggered $19.4 million of realized currency translation gains on temporary repayments of the Extendible Revolving Credit Facility during the three months ended September 30, 2010 to minimize borrowing costs. During the year ended December 31, 2009, we recorded an unrealized currency translation gain of $45.9 million on our US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar relative to the US dollar during 2009 as compared to year end 2008.

A substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar. We also borrow in US dollars which acts as a natural hedge of our US dollar revenue stream.

Lower income taxes increased net income by $4.6 million

Income taxes decreased for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due to lower future income taxes resulting from foreign exchange fluctuations, partially offset by higher current income taxes as a result of higher taxable earnings in Brazil as a result of the hydrogen suppy contract settlement.

Changes in the accrual for estimated future TCP severance costs payable decreased net income by $0.6 million

During the year ended December 31, 2010, we reversed $0.4 million of the short-term accrual for severance costs payable to employees following startup of the TCP at our North Vancouver facility. During the year ended December 31, 2009, we revised the estimate of long-term severance costs payable down by $1 million as a result of an assessment of expected total costs at that time. We initially accrued estimated costs of $7.3 million in 2008 for severance payable to employees following startup of the TCP. These costs and other terms and conditions governing the treatment of employees impacted by the TCP were negotiated and agreed to with the collective bargaining units in 2007. At December 31, 2010, our workforce had been reduced by 31 employees following startup of the TCP with remaining reductions of 9 employees to occur by the end of the second quarter of 2011.

Increase in net income of $0.7 million as a result of an allowance for doubtful accounts recorded in 2009

During the year ended December 31, 2009, Canexus LP recorded an increase of $0.7 million in its general allowance for doubtful accounts to cover potential credit risk loss exposure to existing customers. During the year ended December 31, 2010, no additional allowance for doubtful accounts was recorded.

Hydrogen supply contract settlement increased net income by $6.6 million

During the year ended December 31, 2010, we recorded a gain of $6.6 million related to the settlement with Canexus LP's primary customer in South America of a contract matter for hydrogen supply.

Increase in net income of $20.4 million resulting from the closure of sodium chlorate production in 2009 at our Bruderheim, Alberta site

On April 22, 2009, we announced the closure of our Bruderheim sodium chlorate plant. During the year ended December 31, 2010, we incurred $0.1 million of other closure related costs. During the year ended December 31, 2009, we recorded impairment of $17.2 million on sodium chlorate assets and incurred $3.3 million of severance and other closure related costs.

Other income and expense items decreased net income by $1.5 million

During the year ended December 31, 2010, we recorded $0.6 million of losses on the disposal of assets replaced during the performance of plant maintenance and a $0.5 million provision for the impairment of materials and supplies which became obsolete following the startup of the TCP at our North Vancouver chlor-alkali facility. During the year ended December 31, 2009, there were no individually significant other income (expense) items recorded.

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

Capital Expenditures

Capital expenditures for the year ended December 31, 2010 were $134.4 million as compared to the year ended December 31, 2009 of $214.3 million. The decrease in capital expenditures was due to decreases in expansion capital expenditures of $70.1 million, maintenance capital expenditures of $6 million, remediation capital expenditures of $2 million and continuous improvement capital expenditures of $1.9 million. Remediation capital expenditures were incurred to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver chlor-alkali facility to comply with regulations enacted in British Columbia regarding the use of ozone depleting substances. The decrease in expansion capital expenditures was primarily due to the completion of the startup of the TCP in late July 2010, as well as other expansion capital projects completed during the year.

Income Taxes

Canexus LP, as a flow through entity, calculates taxable income and allocates such income to its partners. Included in the computation of taxable income are deductions for income tax purposes that differ from accounting income. To the extent that deductions are different for income tax purposes a future income tax liability or asset will arise. At December 31, 2010, the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately $82 million (December 31, 2009 – $114 million) which is comprised of the following:

	December 31, 2010	December 31, 2009
Unrealized Foreign Exchange Gains	(16,668)	(23,758)
Property, Plant and Equipment, Net	(77,482)	(97,478)
Other	11,925	7,199
	(82,225)	(114,037)

At December 31, 2010 and 2009 Canexus LP's major tax pools were as follows:

	December 31, 2010	December 31, 2009
Undepreciated Capital Cost	406,000	107,000
Assets Under Construction	18,000	246,000
	424,000	353,000

Summary of Quarterly Results

	Three Months Ended			
	December 31	September 30	June 30	March 31
CAD thousands, except as noted	2010	2010	2010	2010
Sodium Chlorate Sales Volume (000s MT)	108	115	103	108
Chlor-alkali Sales Volume (000s MECU)	44	46	42	41
Sales Revenue	120,278	119,040	104,324	113,715
Cost of Goods Sold	92,272	92,390	89,568	81,805
Gross Margin [1]	28,006	26,650	14,756	31,910
Gross Margin Percentage [1]	23%	22%	14%	28%
Net Income (Loss)	4,384	7,098	(18,251)	16,141
Plus: Provision for Income Taxes	464	1,655	2,635	450
Plus: Amortization	18,384	14,222	12,881	11,543
Plus: Interest Expense	7,238	5,297	2,434	1,571
EBITDA [1]	30,470	28,272	(301)	29,705
Distributions Declared	14,343	14,072	13,894	13,574
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP [1]	6,698	29,442	7,970	16,912
Capital Expenditures				
Maintenance	5,073	2,185	4,448	2,440
Remediation [2]	22	859	1,430	877
Continuous Improvement	4,085	547	1,968	208
Expansion	4,381	14,605	46,198	45,046
Total Capital Expenditures	13,561	18,196	54,044	48,571
Average Foreign Exchange Rate (CAD $ to US $)	US $0.98	US $0.96	US $0.98	US $0.95

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) These expenditures were funded by restricted investments. During the fourth quarter of 2010 restricted investments were fully utilized.

CAD thousands, except as noted	Three Months Ended December 31 2009	September 30 2009	June 30 2009	March 31 2009
Sodium Chlorate Sales Volume (000s MT)	103	106	92	99
Chlor-alkali Sales Volume (000s MECU)	44	50	46	41
Sales Revenue	110,508	114,883	109,237	123,819
Cost of Goods Sold	81,657	78,239	74,583	77,801
Gross Margin [1]	28,851	36,644	34,654	46,018
Gross Margin Percentage [1]	26%	32%	32%	37%
Net Income	12,407	38,364	17,132 [3]	5,749
Plus: Provision for Income Taxes	1,481	2,546	3,619	2,194
Plus: Amortization	11,159	11,775	11,644	11,743
Plus: Interest Expense	2,037	1,864	1,552	2,208
EBITDA [1]	27,084	54,549	33,947 [3]	21,894
Distributions Declared	13,482	13,352	13,025	12,617
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP [1]	14,066	21,854	19,489	27,475
Capital Expenditures				
Maintenance	6,747	6,244	4,000	3,111
Remediation [2]	1,033	2,469	1,159	497
Continuous Improvement	5,326	437	1,258	1,685
Expansion	40,073	44,321	64,975	30,949
Total Capital Expenditures	53,179	53,471	71,392	36,242
Average Foreign Exchange Rate (CAD $ to US $)	US $0.94	US $0.90	US $0.82	US $0.81

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) These expenditures were funded by restricted investments. During the fourth quarter of 2010 restricted investments were fully utilized.

(3) Includes impairment of $17.2 million on Bruderheim, Alberta sodium chlorate assets.

Seasonality

Demand for chlorine used in water treatment is related to the ambient temperature of the water which results in a seasonal market with the highest demand in May through September and the lowest demand in December through February.

Fourth Quarter

Changes in Net Income Fourth Quarter 2010 versus Third Quarter 2010

Net Income for the Third Quarter 2010	7,098
Items Increasing (Decreasing) Net Income	
Sales Revenue	1,238
Cost of Goods Sold	118
Amortization Expense	(4,162)
General and Administrative Expense	235
Interest Expense	(1,941)
Change in Fair Value and Realized Gains on Foreign Exchange Options	137
Change in Fair Value and Realized Losses on Interest Rate Swaps	1,011
Currency Translation Gains	(781)
Income Taxes	1,191
Hydrogen Supply Contract Settlement	711
Other	(471)
Net Income for the Fourth Quarter 2010	4,384

Net income for the fourth quarter of 2010 decreased from the third quarter of 2010 by $2.7 million primarily due to higher amortization and higher interest expense, partially offset by higher sales revenue, lower income taxes and changes in fair value of interest rate swaps.

Net income increased due to an increase in Gross Margin of $1.4 million

CAD thousands, except as noted	North America			
Fourth Quarter 2010	Sodium Chlorate [2]	Chlor-alkali	South America	Total
Sales Revenue	53,497	40,999	25,782	120,278
Cost of Goods Sold	37,311	33,190	21,771	92,272
Gross Margin [1]	16,186	7,809	4,011	28,006
Gross Margin Percentage [1]	30%	19%	16%	23%

CAD thousands, except as noted	North America			
Third Quarter 2010	Sodium Chlorate [2]	Chlor-alkali	South America	Total
Sales Revenue	56,319	36,315	26,406	119,040
Cost of Goods Sold	38,604	33,390	20,396	92,390
Gross Margin [1]	17,715	2,925	6,010	26,650
Gross Margin Percentage [1]	31%	8%	23%	22%

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) Revenues and costs for NATO for the third and fourth quarters of 2010 are included in North America Sodium Chlorate.

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment decreased five percent to $53.5 million for the fourth quarter from $56.3 million for the third quarter due to a six percent decrease in sales volumes, partially offset by a two percent increase in realized selling prices. The decline in sales volumes was due to the timing of shipments to customers in the fourth quarter as compared to the third quarter. The increase in realized selling prices was due to price increases implemented in the fourth quarter, partially offset by the stronger Canadian dollar during the fourth quarter. The Gross Margin Percentage decreased from 31 percent to 30 percent as a result of higher salt costs and slightly higher electricity costs, partially offset by higher realized selling prices, lower fixed costs and higher production volumes.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment increased 13 percent to $41 million for the fourth quarter from $36.3 million for the third quarter primarily due to a 24 percent increase in caustic soda sales volumes and a 27 percent increase in hydrochloric acid sales volumes, partially offset by 16 percent lower chlorine sales volumes. The increase in caustic soda sales volumes was due to lower sales volumes in the third quarter which resulted from lower production volumes due to the ramp-up of production following completion of the startup of the TCP at the end of July. The increase in hydrochloric acid sales volumes was due to an increase in customer demand which Canexus LP was able to satisfy as a result of an increase in production volumes following completion of the hydrochloric acid expansion. The decline in chlorine sales volume was due to normal seasonal softening in chlorine demand used in water treatment. See "Summary of Quarterly Results – Seasonality". The Gross Margin Percentage increased to 19 percent for the fourth quarter from eight percent for the third quarter as a result of the TCP ramp-up commencing in late July and the expected benefits beginning to be realized during the fourth quarter, including improved electrical efficiency and reductions in natural gas consumption and manpower combined with higher production volumes.

South America

Sales revenue in South America decreased two percent to $25.8 million for the fourth quarter from $26.4 million for the third quarter. Lower sales volumes of sodium chlorate were partially offset by higher sodium chlorate and caustic soda realized selling prices. The decrease in sales volumes of sodium chlorate was due to reduced demand by our primary customer. The increase in sodium chlorate and caustic soda realized selling prices was due to the pass-through nature of the contract with our primary customer which contributes to higher sales revenue as costs increase. The Gross Margin Percentage declined to 16 percent for the fourth quarter from 23 percent for the third quarter as a result of higher fixed costs and the impact of the stronger Canadian dollar on our fixed US-dollar margins, partially offset by higher sodium chlorate production volumes. The increase in fixed costs was due to higher maintenance costs and costs incurred to purchase product for customers resulting from an unplanned shutdown of the chlor-alkali plant in October.

Higher amortization expense decreased net income by $4.2 million

The increase in amortization expense in the fourth quarter of 2010, as compared to the third quarter of 2010, was due to the completion of growth projects in the third quarter of 2010, including the TCP and the hydrochloric acid expansion projects at our North Vancouver and Brazil facilities.

Higher interest expense decreased net income by $1.9 million

The increase in interest expense for the fourth quarter, as compared to the third quarter, was due to interest on the Series III Debentures which were issued on September 28, 2010, lower interest capitalized on major projects and slightly higher interest rates, partially offset by lower borrowings and lower interest on the Series I Debentures resulting from redemptions during the fourth quarter. During the fourth quarter, $2.6 million of the Series I Debentures were redeemed.

On September 28, 2010, Canexus LP issued $60 million of Series III Debentures to the Fund which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing June 30, 2011. The Debentures mature December 31, 2015.

Interest capitalized on major projects during the fourth quarter was $66,000 as compared to $1.4 million during the third quarter.

The amount outstanding on our Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) at December 31, 2010 was US $264 million as compared to US $275 million at September 30, 2010. The weighted average interest rate on borrowings from this credit facility was 4.76 percent, excluding the impact of interest rate swaps, for the fourth quarter as compared to 4.32 percent, excluding the impact of interest rate swaps, for the third quarter.

At December 31, 2010 and September 30, 2010, the amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) was US $10 million. The weighted average interest rate on borrowings from this credit facility was 4.68 percent for the fourth quarter as compared to 4.31 percent for the third quarter.

Changes in foreign exchange options increased net income by $0.1 million

During the fourth quarter of 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9434 per Canadian dollar from October 1, 2010 to December 31, 2010. On December 20, 2010, Canexus LP purchased Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011.

Mark-to-market fair value losses of $0.4 million and realized gains of $0.7 million were recorded on these foreign exchange call option contracts for a net gain of $0.3 million for the fourth quarter. Mark-to-market fair value losses resulted from the value of the Canadian dollar relative to the US dollar and to the expiry of these foreign exchange call option contracts on December 31, 2010. Realized gains resulted from the value of the Canadian dollar relative to the US dollar being above the price of US $0.9434 of the foreign exchange call option contracts outstanding during the fourth quarter.

During the third quarter of 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 for the period July 1, 2010 to September 30, 2010. During the third quarter, realized gains of $0.2 million were recorded on these foreign exchange call option contracts.

Changes in interest rate swaps increased net income by $1 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. We recorded mark-to-market fair value gains of $0.6 million and realized losses of $0.4 million for a net gain of $0.2 million during the fourth quarter. Mark-to-market fair value gains resulted from an increase in the three month US LIBOR floating rate and market expectations for the three month US LIBOR floating rate during the fourth quarter, partially offset by the shorter remaining term of these interest rate swap agreements. Realized losses resulted from the three month US LIBOR floating rate being below the fixed rate of interest of 3.2 percent on the interest rate swaps during the fourth quarter. During the third quarter, we recorded mark-to-market fair value losses of $0.4 million and realized losses of $0.4 million for a total loss of $0.8 million on these interest rate swap agreements.

Changes in currency translation gains decreased net income by $0.8 million

Currency translation gains (losses) result from the translation of our US dollar denominated long-term debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies.

During the fourth quarter, fluctuations in exchange rates resulted in unrealized currency translation gains of $10 million and realized currency translation gains of $0.3 million for a total currency translation gain of $10.3 million as compared to unrealized currency translation losses of $10.9 million and realized currency translation gains of $21.9 million for a net currency translation gain of $11 million during the third quarter.

During the fourth quarter, we recorded an unrealized currency translation gain of $10.7 million on our US dollar denominated long-term debt and realized currency translation gains of $0.7 million on repayments of our Extendible Revolving Credit Facility. During the third quarter, we recorded realized currency translation gains of $20.5 million on repayments of the Extendible Revolving Credit Facility that were previously recorded as unrealized currency translation gains, resulting in unrealized currency translation losses of $10.7 million for a net currency translation gain of $9.8 million. We intentionally triggered $19.4 million of realized currency translation gains on temporary repayments of the Extendible Revolving Credit Facility during the third quarter to minimize borrowing costs.

A substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar. We also borrow in US dollars which acts as a natural hedge of our US dollar revenue stream.

Lower income taxes increased net income by $1.2 million

Income taxes were lower in the fourth quarter, as compared to the third quarter, primarily due to lower earnings in a foreign subsidiary.

Increase in net income of $0.7 million resulting from hydrogen supply contract settlement recorded in the second and third quarters

During the third quarter, we recorded sales taxes of $0.7 million payable on a $7.3 million settlement with Canexus LP's primary customer in South America of a contract matter for hydrogen supply recorded in the second quarter of 2010 for a net gain on settlement of $6.6 million.

Other income and expense items decreased net income by $0.5 million

During the fourth quarter, Canexus LP recorded a loss of $0.2 million on the disposal of assets replaced during the performance of plant maintenance and $0.1 million of other closure related costs associated with the shutdown in 2009 of the Bruderheim, Alberta sodium chlorate plant. A $0.2 million reversal of impairment on Canexus LP's investment in the restructured notes, which replaced the asset backed commercial paper ("ABCP"), recorded during the third quarter resulted in a $0.2 million decrease in net income quarter over quarter.

Changes in Net Income Fourth Quarter 2010 versus Fourth Quarter 2009

Net Income for the Fourth Quarter 2009	12,407
Items Increasing (Decreasing) Net Income	
Sales Revenue	9,770
Cost of Goods Sold	(10,615)
Amortization Expense	(7,225)
General and Administrative Expense	295
Interest Expense	(5,201)
Change in Fair Value and Realized Gains on Foreign Exchange Options	144
Change in Fair Value and Realized Gains (Losses) on Interest Rate Swaps	294
Currency Translation Gains	4,241
Allowance for Impairment in Value of ABCP	(464)
Income Taxes	1,017
Other	(279)
Net Income for the Fourth Quarter 2010	4,384

Net income for the fourth quarter of 2010 decreased from the fourth quarter of 2009 by $8 million primarily due to higher amortization and higher interest expense, partially offset by higher currency translation gains and lower income taxes.

Net income decreased due to a decrease in Gross Margin of $0.8 million

CAD thousands, except as noted	North America			
Fourth Quarter 2010	Sodium Chlorate [2]	Chlor-alkali	South America	Total
Sales Revenue	53,497	40,999	25,782	120,278
Cost of Goods Sold	37,311	33,190	21,771	92,272
Gross Margin [1]	16,186	7,809	4,011	28,006
Gross Margin Percentage [1]	30%	19%	16%	23%

CAD thousands, except as noted	North America			
Fourth Quarter 2009	Sodium Chlorate [2]	Chlor-alkali	South America	Total
Sales Revenue	52,532	34,263	23,713	110,508
Cost of Goods Sold	37,322	27,574	16,761	81,657
Gross Margin [1]	15,210	6,689	6,952	28,851
Gross Margin Percentage [1]	29%	20%	29%	26%

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) Revenues and costs for NATO for the fourth quarters of 2010 and 2009 are included in North America Sodium Chlorate.

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased two percent to $53.5 million for the fourth quarter of 2010 from $52.5 million for the fourth quarter of 2009 due to a three percent increase in sales volumes, partially offset by a one percent decrease in realized selling prices. The increase in sales volumes was due to increased customer demand as the economy began to recover and to new contracted sales volumes. The decrease in realized selling prices was primarily due to the stronger Canadian dollar relative to the US dollar in the fourth quarter of 2010 (US $0.98) as compared to the fourth quarter of 2009 (US $0.94) which more than offset price increases implemented in the second through fourth quarters of 2010. The Gross Margin Percentage increased to 30 percent from 29 percent due to lower fixed costs and higher production volumes, partially offset by slightly higher electricity costs. Fixed costs were lower as a result of planned maintenance shutdowns at all three of our North America sodium chlorate facilities in the fourth quarter of 2009.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment increased 20 percent to $41 million for the fourth quarter of 2010 from $34.3 million for the fourth quarter of 2009 as a result of a 30 percent increase in caustic soda sales volumes, including caustic soda purchased for resale, and a 10 percent increase in caustic soda realized selling prices, partially offset by slightly lower chlorine sales volumes and lower chlorine and hydrochloric acid realized selling prices. The increase in caustic soda sales volumes was due to an increase in customer demand as the economy began to recover, which Canexus LP was able to satisfy as a result of an increase in caustic soda production following the startup of the TCP combined with product purchased for resale. The increase in caustic soda realized selling prices was due to the increase in demand. The decrease in chlorine and hydrochloric acid realized selling prices was due to the impact of excess chlorine supply as a result of the high demand for caustic soda, greater availability of byproduct hydrochloric acid, as well as a stronger Canadian dollar in the fourth quarter of 2010 versus the fourth quarter of 2009. The Gross Margin Percentage decreased to 19 percent from 20 percent primarily as a result of higher fixed costs and lower realized MECU netback selling prices as a result of lower chlorine and hydrochloric acid realized selling prices, partially offset by higher production volumes. Fixed costs were higher as a result of costs incurred in 2010 for tank cleaning and associated treatment and disposal of waste, and inventory impairment charges recorded on the write down of obsolete Freon inventory, and salt inventory resulting from the performance of a physical survey.

South America

Sales revenue in South America increased nine percent to $25.8 million for the fourth quarter of 2010 from $23.7 million for the fourth quarter of 2009 primarily due to higher sodium chlorate sales volumes as a result of higher demand from our primary customer and higher sodium chlorate and caustic soda realized selling prices (reflecting the cost pass-through nature of our contract with our primary customer). The Gross Margin Percentage decreased to 16 percent from 29 percent due to higher fixed costs and the impact of the stronger Canadian dollar on our fixed US dollar margins, partially offset by higher production volumes. The increase in fixed costs was due to higher maintenance costs and costs incurred to purchase product to supply customers resulting from an unplanned shutdown of the chlor-alkali plant in October.

Higher amortization expense decreased net income by $7.2 million

The increase in amortization expense in the fourth quarter of 2010, as compared to the fourth quarter of 2009, was primarily due to the completion of growth projects in 2010 including the TCP, the build-in of the second major rail line into our NATO site at Bruderheim, Alberta, the 4,400 MT sodium chlorate expansion and hydrogen projects in Brazil and the hydrochloric acid expansions at our North Vancouver and Brazil facilities.

Lower general and administrative expense increased net income by $0.3 million

The decrease in general and administrative expense for the fourth quarter of 2010, as compared to the fourth quarter of 2009, was due to costs incurred in 2009 for the review and implementation of SAP chemicals best practice processes and to a lower bonus accrual in 2010.

Higher interest expense decreased net income by $5.2 million

The increase in interest expense for the fourth quarter of 2010, as compared to the fourth quarter of 2009, was due to higher borrowings, higher interest rates, interest on the Series III Debentures and lower interest capitalized on major projects.

The amount outstanding on our Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) at December 31, 2010 was US $264 million as compared to US $203.5 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 4.76 percent, excluding the impact of interest rate swaps, during the fourth quarter of 2010 as compared to 1.99 percent, excluding the impact of interest rate swaps, during the fourth quarter of 2009.

The amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility (See "Liquidity and Capital Resources – Capital Resources" on pages 32 and 33) at December 31, 2010 was US $10 million as compared to US $8 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 4.68 percent for the fourth quarter of 2010 as compared to 1.99 percent for the fourth quarter of 2009.

On September 28, 2010, Canexus LP issued $60 million of Series III Debentures to the Fund which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing June 30, 2011. The Series III Debentures mature December 31, 2015.

Interest capitalized on major projects during the fourth quarter of 2010 was $66,000 as compared to $2.1 million during the fourth quarter of 2009.

Changes in foreign exchange options increased net income by $0.1 million

During the fourth quarter of 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9434 per Canadian dollar from October 1, 2010 to December 31, 2010. On December 20, 2010, Canexus LP purchased Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011.

Mark-to-market fair value losses of $0.4 million and realized gains of $0.7 million were recorded on these foreign exchange call option contracts for a net gain of $0.3 million for the fourth quarter of 2010. Mark-to-market fair value losses resulted from the value of the Canadian dollar relative to the US dollar during the fourth quarter of 2010 and to the expiry of these foreign exchange call option contracts on December 31, 2010. Realized gains resulted from the value of the Canadian dollar relative to the US dollar being above the price of US $0.9434 of the foreign exchange call option contracts outstanding during the fourth quarter.

During the fourth quarter of 2009, Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8200 for the period January 1, 2009 to December 31, 2009; and
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8170 for the period January 1, 2009 to December 31, 2009.

Mark-to-market fair value losses of $4.9 million and realized gains of $5.1 million were recorded on these foreign exchange call option contracts for a net gain of $0.2 million for the fourth quarter of 2009. Mark-to-market fair value losses resulted from the value of the Canadian dollar relative to the US dollar during the fourth quarter of 2009 and to the expiry of these foreign exchange call option contracts on December 31, 2009. Realized gains resulted from the value of the Canadian dollar relative to the US dollar being above the average price of US $0.8085 of the foreign exchange call option contracts during the fourth quarter of 2009.

Changes in interest rate swaps increased net income by $0.3 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. We recorded mark-to-market fair value gains of $0.6 million and realized losses of $0.4 million for a net gain of $0.2 million during the fourth quarter of 2010. Mark-to-market fair value gains resulted from an increase in the three month US LIBOR floating rate and market expectations for the three month US LIBOR floating rate during the fourth quarter of 2010, partially offset by the shorter remaining term of these interest rate swap agreements. Realized losses resulted from the three month US LIBOR floating rate being below the fixed rate of interest of 3.2 percent on the interest rate swaps during the fourth quarter of 2010. Mark-to-market fair value gains of $0.3 million and realized losses of $0.4 million for a net loss of $0.1 million were recorded on these interest rate swap agreements during the fourth quarter of 2009.

Changes in currency translation gains increased net income by $4.2 million

Currency translation gains (losses) result from the translation of our US dollar denominated long-term debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies.

During the fourth quarter of 2010, fluctuations in exchange rates resulted in unrealized currency translation gains of $10 million and realized currency translation gains of $0.3 million for a total currency translation gain of $10.3 million, as compared to unrealized currency translation gains of $6 million and realized currency translation gains of $0.1 million for a total currency translation gain of $6.1 million during the fourth quarter of 2009.

During the fourth quarter of 2010, we recorded an unrealized currency translation gain of $10.7 million on our US dollar denominated long-term debt and realized currency translation gains of $0.7 million on repayments of the Extendible Revolving Credit Facility for a total currency translation gain of $11.4 million. During the fourth quarter of 2009, we recorded an unrealized currency translation gain of $6.8 million on our US dollar denominated long-term debt.

A substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar. We also borrow in US dollars which acts as a natural hedge of our US dollar revenue stream.

Net income decreased by $0.5 million as a result of a reversal of impairment on ABCP in the fourth quarter of 2009
During the fourth quarter of 2009, we reversed $0.5 million of the $2.2 million estimated impairment loss on our investment in non-bank sponsored ABCP recorded in prior years. During the fourth quarter of 2010, further impairment charges of $11,000 were recorded on the ABCP. The impact of the quarter over quarter change was a decrease in net income of $0.5 million.

Lower income taxes increased net income by $1 million
Income taxes were lower in the fourth quarter of 2010, as compared to the fourth quarter of 2009, due to lower earnings in foreign subsidiaries.

Other income and expense items decreased net income by $0.3 million
During the fourth quarter, Canexus LP recorded a loss of $0.2 million on the disposal of assets replaced during the performance of plant maintenance and $0.1 million of other closure related costs associated with the shutdown in 2009 of the Bruderheim, Alberta sodium chlorate plant.

Outlook
North America Sodium Chlorate
Global pulp markets stabilized and began to improve during the fourth quarter following a period of market softening during the third quarter. The market, which had experienced a period of extreme demand tightness early in 2010, had shifted to conditions of rising inventories and price reductions during the third quarter due to re-starts of previously idled pulp mills concurrent with slower demand from China. A substantial fourth quarter rebound in China demand rejuvenated market conditions, returning the market to a more balanced state. Consistent with stronger market conditions, global producer inventories fell by 10 percent to 30 days in December (softwood decreased from 26 to 25 days and hardwood decreased from 42 to 36 days inventory), a level generally regarded as balanced in the pulp industry, albeit slightly higher than the same month of 2009. The inventory reduction prompted producers to resume announcing price increases following a period of modest price decline. Looking ahead, global pulp demand is expected to continue to grow consistent with global economic growth. With little new global pulp capacity projected to become operational over the next two years, we continue to anticipate a healthy pulp market in the medium-term.

North America bleached pulp production was consistently strong during the fourth quarter; consequently, demand for sodium chlorate was very strong. Sodium chlorate fourth quarter shipment volumes exceeded shipments for the fourth quarter of 2009 by approximately five percent due to higher operating rates at customer facilities. Export demand also increased substantially in 2010 versus 2009. Sodium chlorate exports from North America increased by 28 percent from the third quarter of 2009 to the third quarter of 2010 adding an estimated 40,000 MT of annualized demand on North American producers. With pulp mills running at high rates and export shipments increasing, North America sodium chlorate operating rates increased in the fourth quarter of 2010, reaching an estimated 96 percent of nameplate capacity. As a result, further price improvement was realized during the fourth quarter. Sustained high operating rates are expected to support further upward price momentum during 2011.

North America Chlor-alkali
The North America chlor-alkali industry operated at an estimated 82 percent of capacity in the fourth quarter of 2010, compared with 91 percent in the prior quarter and 79 percent in the fourth quarter of 2009. The decline from the prior quarter was attributable to scheduled plant maintenance outages and slower seasonal demand. Year-over-year operating rates improved by 11 percent from 76 percent in 2009 to an estimated 87 percent in 2010. The improvement was principally due to an increase in PVC chain exports to Asia. Over the near to mid-term, North American chlorine derivative exports to Asia are projected to remain strong. Moderate ethylene feedstock prices in North America, supported by the supply and pricing of the lighter feedstock's resulting from increased shale-based natural gas production development, favorably position North American chlorine derivative production economics in comparison to naphtha (oil) based production in Asia.

North America chlor-alkali operating rates were limited as expected in the fourth quarter of 2010 by seasonally soft chlorine demand. Accordingly, North America caustic soda production decreased in the fourth quarter due to chlor-alkali operating rate reductions necessary to control chlorine inventory. In contrast to reduced supply during the quarter, domestic caustic soda demand was stable and export demand increased. As a result, fourth quarter caustic supply was balanced to snug which resulted in conditions that supported upward price movement. Overall, North America MECU prices increased in the fourth quarter as caustic soda price improvement more than offset the weaker chlorine molecule. Caustic soda price momentum is projected to continue through the first quarter of 2011, with MECU prices increasing moderately accordingly.

Minor debottleneck modifications to the Canexus membrane technology chlor-alkali plant at North Vancouver, British Columbia were completed during the fourth quarter of 2010. Full design production capacity was achieved following completion of the modifications.

South America

Total Brazilian pulp production in 2010 is projected to be 14 million MT, an increase of more than five percent from 2009, according to the Brazilian Pulp and Paper Association. Consistent with the strong pulp market in Brazil, the Canexus Brazil sodium chlorate plant operated at full capacity during the fourth quarter. Robust demand for Brazilian pulp is expected to continue through 2011, with associated strong sodium chlorate demand. Accordingly, the Canexus Brazil sodium chlorate plant is projected to operate at capacity through 2011.

Merchant chlorine demand in Brazil also continues to be healthy. Chlorine merchant sales in the Brazilian market were one percent higher in the first three quarters of 2010 than in the same period of 2009, according to ABICLOR (Brazilian Chlorine Producers Association). During the same period, Brazilian chlorine industry capacity utilization was 87 percent, one percent higher than 2009. The Canexus Brazil chlor-alkali plant operated at 86 percent of capacity in 2010, lower than expected due to unexpected maintenance issues in October. Both chlorine demand and market prices are expected to remain at fourth quarter 2010 levels into 2011.

During the second half of 2010, three expansion projects commenced operation at the Canexus Brazil plant: a new hydrochloric acid burner, modifications to enable hydrogen sales, and a sodium chlorate expansion. All three projects have demonstrated design capacity operating rates.

Liquidity and Capital Resources

Excess of Cash Flow from Operating Activities and Excess (Shortfall) of Net Income (Loss), Over Distributions Declared

The table below presents the excess of cash flow from operating activities and the excess (shortfall) of net income (loss), over cash distributions declared for the fourth quarter of 2010, the fourth quarter of 2009 and the years ended December 31, 2008 through December 31, 2010.

Canexus LP considers the amount of cash flow from operating activities and Distributable Cash within Canexus LP generated by the business, as well as any required funding of expansion projects, in determining the level of distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder on an annual basis. We do not take into account changes in non-cash operating working capital that are considered to be temporary in nature. Distributable Cash within Canexus LP (See "Statement of Distributable Cash" on page 5 for a reconciliation of cash flow from operating activities to Distributable Cash within Canexus LP) is reduced by both maintenance expense (through a reduction in net income) and maintenance capital expenditures (through a reduction in Distributable Cash within Canexus LP). Maintenance expenditures (both expense and capital) are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels.

We do not consider net income (loss) to be a cash flow measure and do not consider it in the determination of the level of distributions. Net income (loss) includes significant non-cash items including amortization and unrealized foreign exchange gains (losses).

The ability of Canexus LP to pay distributions and to fund expansion projects is primarily dependent upon future levels of cash flow from operating activities and Distributable Cash within Canexus LP. Cash flow from operating activities is sensitive to sales volumes, selling prices, electricity prices and foreign currency exchange rates. For a discussion of these risks and their potential impact on Canexus LP's cash flow from operating activities see "Market and Financial Risk Analysis" on pages 35 and 36 and Note 6(b) Financial Instruments and Financial Risk Management – Financial Risk Management to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010.

Distributable Cash within Canexus LP exceeded distributions declared for the year ended December 31, 2010 primarily due to the intentional triggering of $19.4 million of realized currency translation gains on temporary repayments of the Extendible Revolving Credit Facility during the third quarter to minimize borrowing costs. Distributable Cash within Canexus LP exceeded distributions declared for the year ended December 31, 2009 as Distributable Cash within Canexus LP was retained to partially fund the TCP and other expansion projects.

	Three Months Ended December 31		Years Ended December 31		
	2010	2009	2010	2009	2008
Cash Flow from Operating Activities	16,083	32,478	86,164	117,263	72,140
Net Income (Loss)	4,384	12,407	9,372	73,652	(6,035)
Cash Distributions Declared [(1)]	14,343	13,482	55,883	52,476	51,218
Excess of Cash Flow from Operating Activities over Cash Distributions	1,740	18,996	30,281	64,787	20,922
Excess (Shortfall) of Net Income (Loss) over Cash Distributions Declared	(9,959)	(1,075)	(46,511)	21,176	(57,253)

Note:

(1) Distributions declared payable to Ordinary LP Unitholders and the Exchangeable LP Unitholder. On December 11, 2008, the Board of Directors of the General Partner declared a special distribution of $0.0456 per LP Unit payable by Canexus LP to LP Unitholders of record December 31, 2008. In addition, on December 11, 2008, the Board of Directors of the General Partner declared an additional distribution of $540,000 payable by Canexus LP to Canexus Commercial Trust and Canexus Commercial Trust in turn declared an additional distribution payable to the Fund. The proceeds from the additional distribution were used by the Fund to repay amounts owing to affiliates for trust administration expenses incurred in 2008.

Three Months Ended December 31, 2010

Cash flow from operating activities exceeded distributions declared for the three months ended December 31, 2010 as cash flow from operating activities was increased by temporary changes in non-cash operating working capital and due from/to affiliates, net.

Distributions declared exceeded net income for the three months ended December 31, 2010 as net income was reduced by non-cash expenses including amortization and pension and post retirement benefit expense in excess of funding, partially offset by unrealized currency translation gains.

Three Months Ended December 31, 2009

Cash flow from operating activities exceeded distributions declared for the three months ended December 31, 2009 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects. The TCP was being financed from cash on hand, excess distributable cash (the excess of distributable cash generated by the business less distributions paid), the DRIP and our committed credit facilities.

Distributions declared exceeded net income for the three months ended December 31, 2009 as net income was reduced by non-cash expenses including amortization and changes in fair value of held-for-trading financial instruments, partially offset by unrealized currency translation gains.

Years Ended December 31, 2008 through December 31, 2010

Cash flow from operating activities exceeded distributions declared for the year ended December 31, 2010 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects and cash flow from operating activities was increased by temporary changes in non-cash operating working capital. Distributions declared exceeded net income as net income was reduced by non-cash expenses including amortization, unrealized currency translation losses, changes in fair value of held-for-trading financial instruments and pension and post retirement benefit expense in excess of funding.

Cash flow from operating activities exceeded distributions declared for the year ended December 31, 2009 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects. Net income exceeded distributions declared as cash was retained to partially finance expansion projects as noted in the preceding sentence. Non-cash expenses including amortization, changes in fair value of held-for-trading financial instruments, future income taxes and the impairment of sodium chlorate assets reduced net income, partially offset by unrealized currency translation gains.

Cash flow from operating activities exceeded distributions declared for the year ended December 31, 2008 as cash was retained to partially finance the expansion of our Brandon, Manitoba sodium chlorate plant, the TCP at our North Vancouver chlor-alkali facility and other expansion projects. Distributions declared exceeded net income (loss) for the year ended December 31, 2008 as net income (loss) was reduced by non-cash expenses including amortization, unrealized currency translation losses, the recording of estimated severance costs payable to employees in 2010 following the start-up of the TCP at our North Vancouver chlor-alkali facility and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP, partially offset by changes in fair value of held-for-trading financial instruments.

Net Debt and Total Equity

	2010	2009
Long-Term Debt (excluding Senior Secured Notes Transaction Costs)	322,250	285,199
Debentures (excluding Convertible Debenture Transaction Costs Reimbursed to the Fund)	124,609	85,780
Less: Cash and Cash Equivalents	(3,223)	(13,200)
Less: Non-Cash Working Capital	(26,255)	(24,427)
Total Net Debt [(1)]	417,381	333,352
Total Equity [(2)]	185,039	197,045

Notes:

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

(2) At December 31, 2010 there were 38,368,048 Ordinary LP Units (held by the Fund) and 66,238,563 Exchangeable LP Units (held by Nexen) outstanding. At December 31, 2009 there were 33,701,807 Ordinary LP Units (held by the Fund) and 64,835,420 Exchangeable LP Units (held by Nexen) outstanding. On February 7, 2011, Nexen exchanged all of its Exchangeable LP Units for Fund Units on a one-for-one basis and subsequently disposed of its Fund Units through the Nexen Disposition. See "Highlights" for further information.

Liquidity

Canexus LP generated positive cash flows from operating activities for the years ended December 31, 2010 and December 31, 2009. Cash flow from operating activities was used to fund distributions and remaining excess cash, if any, was used to fund expansion capital projects, including the TCP at our North Vancouver chlor-alkali facility.

The following table provides an overview of Canexus LP's cash flows for the years ended December 31, 2010 and December 31, 2009:

	2010	2009	Change
Cash Flow from Operating Activities	86,164	117,263	(31,099)
Cash Flow from Financing Activities	48,319	102,037	(53,718)
Cash Flow used in Investing Activities	(145,314)	(207,662)	62,348

Cash Flow from Operating Activities

Cash flow 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 expenses.

Cash flow from operating activities decreased for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due to lower Gross Margin, higher interest expense, lower realized gains on held-for-trading financial instruments, higher current income taxes and a lower net decrease in operating working capital, partially offset by realized gains on repayments of the Extendible Revolving Credit Facility and repayment in full of the Senior Secured Revolving Credit Facility, a gain recorded on the settlement with Canexus LP's primary customer in South America of a contract matter related to hydrogen supply and lower general and administrative expenses. We intentionally triggered $19.4 million of realized currency translation gains on temporary repayments of our Extendible Revolving Credit Facility to minimize borrowing costs. The decrease in Gross Margin was primarily due to lower Gross Margin from our North America sodium chlorate business unit, the impact of the delayed startup of the TCP and lower realized MECU netback selling prices. See "Results of Operations – Changes in Net Income 2010 versus 2009".

The change in non-cash operating working capital and due from affiliates, net, for the year ended December 31, 2010 increased cash flow from operating activities due to lower accounts receivable, partially offset by higher inventories and operating supplies. Accounts receivable were lower due to the payment by Canexus LP's primary customer in South America in December of the current receivable of $3.8 million related to the contract settlement for hydrogen supply which was outstanding at September 30, 2010. Finished goods inventories were higher due to an increase in chlorine inventory as a result of the normal seasonal softening in chlorine demand used in water treatment and material and operating supplies inventory was higher due to an increase in materials and supplies inventory at our expanded North Vancouver membrane chlor-alkali facility.

The change in non-cash operating working capital and due to affiliates, net, for the year ended December 31, 2009 increased cash flow from operating activities due to lower accounts receivable and inventories and operating supplies, partially offset by lower accounts payable and accrued liabilities related to operating activities. Accounts receivable were lower primarily due to lower North American sodium chlorate sales volumes and to no longer purchasing caustic soda for resale to our primary customer in South America. Finished goods inventories were lower due to improved customer demand across all of our business units beginning in the third quarter of 2009 and to lower production volumes. Raw materials and work-in-progress inventories were lower due to lower production volumes.

Cash Flow from Financing Activities

Changes in cash flow from financing activities for the year ended December 31, 2010 compared to the year ended December 31, 2009 were comprised of:

	2010	2009	Change
Proceeds from (Repayments of) Short-Term Borrowings, Net	10,512	(10,870)	21,382
Proceeds from Extendible Revolving Credit Facility	457,946	50,313	407,633
Proceeds from Senior Secured Revolving Credit Facility	1,068	16,292	(15,224)
Proceeds from EDC Extendible Revolving Credit Facility	4,056	2,250	1,806
Proceeds from Debentures	60,000	86,000	(26,000)
Repayments of Extendible Revolving Credit Facility	(419,130)	(17,545)	(401,585)
Repayments of Senior Secured Revolving Credit Facility	(14,211)	(3,148)	(11,063)
Repayments of EDC Extendible Revolving Credit Facility	(2,114)	-	(2,114)
Credit Facility Transaction Costs	(4,256)	(691)	(3,565)
Reimbursement of Fund Convertible Debenture Transaction Costs	(2,798)	(2,436)	(362)
Cash Distributions Paid to Ordinary and Exchangeable LP Unitholders	(43,584)	(24,649)	(18,935)
Funding of Asset Retirement Expenditures from Restricted Investments	830	6,521	(5,691)
	48,319	102,037	(53,718)

Cash flow from financing activities was used to partially fund expansion capital projects and other expenditures on property, plant and equipment. See "Cash Flow from Operating Activities" on page 30 and "Cash Flow used in Investing Activities" below.

We intentionally triggered $19.4 million of realized currency translation gains on temporary repayments of the Extendible Revolving Credit Facility during the third quarter to minimize borrowing costs.

Cash Flow used in Investing Activities

Changes in cash flow used in investing activities for the year ended December 31, 2010 compared to the year ended December 31, 2009 were comprised of:

	2010	2009	Change
Expenditures on Property, Plant and Equipment	(134,372)	(214,284)	79,912
Changes in Non-Cash Investing Working Capital	(10,942)	6,622	(17,564)
	(145,314)	(207,662)	62,348

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, expansion capital expenditures, distributions to Unitholders and normal course financial commitments.

Cash flows are sensitive to changes in sales volumes and prices, electricity costs and foreign currency exchange rates and any changes in these will impact future liquidity. See "Market and Financial Risk Analysis" on pages 35 and 36 and Note 6(b) Financial Instruments and Financial Risk Management – Financial Risk Management to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010. 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. In addition, Canexus LP has committed credit facilities which can be used for general corporate purposes and to fund capital expenditures. See "Capital Resources" on pages 32 and 33.

Debt Covenants

At December 31, 2010, Canexus LP was in compliance with all ongoing covenants (financial and non-financial) and conditions contained in its extendible revolving credit facilities agreements and the note indenture governing the Senior Secured Notes. Our debt covenants specifically exclude the Convertible Debentures issued by the Fund (See Note 4 Convertible Debentures to the audited consolidated financial statements of the Fund for the year ended December 31, 2010), as well as the Debentures issued by Canexus LP to the Fund (See Note 13 Amounts Due from/to Affiliates and Related Party Transactions to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010).

	Twelve Months Ended	
	December 31, 2010	December 31, 2009
Net Income	9,372	73,652
Interest (including Realized Losses on Interest Rate Swaps and Interest on Convertible Debentures) [2]	18,028	7,661
Income Taxes	5,204	9,840
Amortization	57,030	46,321
Non-Cash (Income) Expense Items	8,570	(23,926)
Fund Administration Expenses	(459)	(348)
Consolidated EBITDA [1]	97,745	113,200
Short-Term Borrowings	10,512	-
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	322,250	285,199
Consolidated Senior Debt [1]	332,762	285,199
Consolidated Total Debt [1]	332,762	285,199
Interest (including Realized Losses on Interest Rate Swaps) [2]	11,223	7,661
Capitalized Interest and Letter of Credit Fees	7,140	5,070
Consolidated Interest Expense	18,363	12,731
Consolidated Senior Debt to EBITDA Ratio [1]	3.40:1	2.52:1
Consolidated Total Debt to EBITDA Ratio [1]	3.40:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio [1]	5.32:1	8.89:1

Notes:

(1) See Non-GAAP Measures on pages 1 and 2.

(2) Realized losses on interest rate swaps included in the twelve months ended December 31, 2010.

Capital Resources

Canexus LP had commitments of $8.3 million at December 31, 2010 and $10 million at March 15, 2011 related to expanding the railyard and enhancing the reliability of the North Vancouver chlor-alkali facility and upgrading the power line capacity at our Brandon, Manitoba sodium chlorate facility. Management anticipates ongoing annual maintenance capital expenditures of approximately $15 to $20 million which will be financed primarily out of cash flows from operating activities. Maintenance capital expenditures are expected to be $20 million in 2011 and $18 million in 2012 as a result of accelerating our electrolyzer recoating programs at our Brandon, Manitoba and Brazil sodium chlorate plants. 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.

Effective April 15, 2010, Canexus LP's extendible revolving credit facility (the "Extendible Revolving Credit Facility") was increased from $420 million to $440 million and its US $20 million senior secured revolving credit facility (the "Senior Secured Revolving Credit Facility") was repaid and cancelled. The Extendible Revolving Credit Facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. This credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down this credit facility in either Canadian or US dollars. At December 31, 2010, Canexus LP had $262.6 million (US $264 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet at December 31, 2010. Short-term swing line loans of up to $35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed $440 million. At December 31, 2010, Canexus LP had $10.5 million of swing line loans outstanding.

Effective February 22, 2011, maturity of Canexus LP's senior secured credit facilities (which now includes the $440 million Extendible Revolving Credit Facility and the US $10 million Export Development Canada extendible revolving credit facility (the "EDC Extendible Revolving Credit Facility") was extended to June 30, 2014. Also effective February 22, 2011, borrowing costs are reduced by 50 basis points at all debt to EBITDA levels and financial covenants on the senior secured revolving credit facilities and the Senior Secured Notes (see below) are revised to provide modified and incremental relaxation through September 30, 2011. See Note 17 Capital Risk Management to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010.

The EDC Extendible Revolving Credit Facility bears interest at a rate based on the US LIBOR rate and matures June 30, 2014. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At December 31, 2010, we had $9.9 million (US $10 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet at December 31, 2010.

Canexus LP has US $50 million of senior secured notes (the "Senior Secured Notes") outstanding which, effective May 1, 2010, bear interest at a fixed interest rate of 7.32 percent (6.57 percent to April 30, 2010) and mature May 1, 2013. The Canadian dollar equivalent of the US $50 million of Senior Secured Notes of $49.7 million is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet at December 31, 2010.

At December 31, 2010, the Fund had $24.6 million of Series I Convertible Debentures, $40 million of Series II Convertible Debentures held by Nexen and $60 million of Series III Convertible Debentures outstanding, before unamortized discount. The Series I Convertible Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. The Series II Convertible Debentures bore interest at 8 percent payable semi-annually on December 31 and June 30 of each year and were to mature December 31, 2014. On January 27, 2011, Nexen converted the entire $40 million aggregate principal amount of the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP. The Series III Convertible Debentures bear interest at 5.75 percent payable semi-annually on December 31 and June 30 of each year, commencing June 30, 2011, and mature on December 31, 2015. See Note 4 Convertible Debentures to the audited consolidated financial statements of the Fund for the year ended December 31, 2010.

At December 31, 2010, Canexus LP had $24.6 million of Series I Debentures, $40 million of Series II Debentures and $60 million of Series III Debentures outstanding, excluding unamortized transaction costs, which are held by the Fund. The Series I Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. The Series II Debentures bore interest at 8 percent payable semi-annually in arrears on December 31 and June 30 of each year and were to mature December 31, 2014. On January 27, 2011, Canexus LP redeemed the Series II Debentures in conjunction with the conversion of the Series II Convertible Debentures by Nexen referred to above. The Series III Debentures bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing June 30, 2011, and mature on December 31, 2015.

Canexus LP is the applicant on one Letter of Credit at December 31, 2010; a standby letter of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations ($1.5 million) which expires January 1, 2012 and fully covers the actuarially determined obligation. This letter of credit 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. At December 31, 2010 these obligations and commitments were as follows:

	Total	2011	2012	2013	2014	2015	Thereafter
Operating Leases [(1)]	102,961	18,078	14,044	12,302	11,476	10,491	36,570
Purchase Obligations [(2)]	130,933	37,022	38,268	39,467	8,088	8,088	-
Expansion Capital Expenditures [(3)]	8,343	6,853	1,490	-	-	-	-
Asset Retirement Obligations [(4)]	139,301	1,330	2,020	1,295	745	270	133,641
Long-Term Debt [(5)]	322,250	-	-	49,730	272,520	-	-
Interest Payments on Senior Secured Notes [(5)]	9,423	3,769	3,769	1,885	-	-	-
Debentures [(6)]	124,609	-	-	-	64,609	60,000	-
Interest Payments on Debentures [(5)]	25,126	5,419	5,419	5,419	5,419	3,450	-
Total	862,946	72,471	65,010	110,098	362,857	82,299	170,211

Notes:

(1) Payments for operating leases reduce cash flow from operating activities. Operating leases include minimum lease payment obligations associated with leases for office space, rail cars, vehicles, software maintenance contracts and other property and equipment leases.

(2) Purchase obligations include the contractual commitment for the purchase of electricity in South America, 90 to 100 percent of the cost of, which is passed through to our primary customer and minimum purchase commitments under some multi-year salt supply contracts.

(3) Capital expenditures committed at December 31, 2010 are primarily related to expanding the railyard and enhancing reliability of the North Vancouver chlor-alkali facility and to upgrading the power line capacity at our Brandon, Manitoba sodium chlorate production facility.

(4) At December 31, 2010, undiscounted asset retirement obligations are $139.3 million. The estimated fair value ($41 million) of these obligations has been provided for in Canexus LP's audited consolidated financial statements (See Note 14 Asset Retirement Obligations to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010). The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates.

(5) Long-Term Debt amounts are included in Canexus LP's December 31, 2010 audited consolidated balance sheet (See Note 12 Long-Term Debt and Short-Term Borrowings to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010). The Extendible Revolving Credit Facility balance will fluctuate and matures June 30, 2014. Interest is payable on the outstanding balance 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. The EDC Extendible Revolving Credit Facility balance will fluctuate and matures June 30, 2014. Interest is payable at a rate based on the US LIBOR rate. Interest payments on the Extendible Revolving Credit Facility and the EDC Extendible Revolving Credit Facility 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. Interest is payable quarterly (May 1, August 1, November 1 and February 1) on the US dollar Senior Secured Notes at a fixed rate of interest of 7.32 percent. Interest payments have been included in the table above at the Canadian dollar equivalent of the US dollar interest payments using the December 31, 2010 Bank of Canada noon day US dollar to Canadian dollar foreign exchange rate. Interest is payable semi-annually on June 30 and December 31 on the Series I Debentures at a fixed rate of interest of 8 percent and at a fixed rate of interest of 5.75 percent on the Series III Debentures. The $40 million principal amount of the Series II Debentures which bore interest at 8 percent per annum were redeemed on January 27, 2011 and accordingly, the interest thereon is no longer included in the above table.

(6) See "Capital Resources" on pages 32 and 33 and "Transactions with Related Parties" on page 36.

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

Future income tax liabilities have been excluded as the amount and timing of any cash payments for income taxes are based primarily on taxable income for each fiscal year in the various operating jurisdictions.

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the December 31, 2010 audited consolidated balance sheet of Canexus LP, however these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

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

Contingent Liabilities

In the normal course of business, Canexus LP is subject to lawsuits and claims. Management believes the resolution of these matters will not have a material adverse effect, individually or in the aggregate, on Canexus LP's liquidity, consolidated financial position or results of operations. Canexus LP records costs as they are incurred or become determinable. Additionally, the income tax filings of taxable legal entities included in the companies comprising Canexus LP are subject to audit by taxation authorities. Management believes that Canexus LP has recorded an adequate provision for income taxes based on available information. Canexus LP is indemnified by Nexen for any claims for income tax re-assessments for periods prior to August 18, 2005.

Guarantees

All of the credit facilities and the Senior Secured Notes (See "Capital Resources" on pages 32 and 33) are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, the General Partner and indirectly, Canexus Holdings Limited, have provided unlimited liability guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's credit facilities and Senior Secured Notes in "events of default" as defined in each of the credit facility agreements and the note indenture governing the Senior Secured Notes filed on the Fund's SEDAR profile at www.sedar.com.

Market and Financial Risk Analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business, as well as financial risks. Included in the risks faced by Canexus LP are product price and volume risk, South American chlor-alkali plant operating rate risk, electricity price risk, foreign currency rate risk, interest rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. See Note 6(b) Financial Instruments and Financial Risk Management – Financial Risk Management to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010 for a discussion of foreign currency rate risk, interest rate risk and credit risk.

Product Price and Volume Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every $75 change in the price per MT of North American produced sodium chlorate, income before income taxes for the year ended December 31, 2010 would have changed by $27.8 million. For every $100 change in the price per MECU of chlor-alkali products produced in North America, income before income taxes for the year ended December 31, 2010 would have changed by $12.9 million. These sensitivities to changes in prices are based on 371,000 MT of North American sodium chlorate sales and 129,000 MECU of North American chlor-alkali sales for the year ended December 31, 2010. Sensitivities of $75 per MT for sodium chlorate and $100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the recent economic uncertainty. A change in sales volumes for North American sodium chlorate of 10,000 MT for the year ended December 31, 2010 would have changed income before income taxes for the year ended December 31, 2010 by $1.8 million. A change in sales volumes for North American chlor-alkali products of 5,000 MECU for the year ended December 31, 2010 would have changed income before income taxes for the year ended December 31, 2010 by $2.1 million. These sales volume changes are considered to be reasonably possible due to recent economic conditions and market expectations for future movement.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). During the year ended December 31, 2010, the price of purchased caustic soda did not exceed the Canexus Price. During the year ended December 31, 2010, we acquired 4,865 MT of caustic soda to make up for our production shortfall below operating capacity.

Electricity Price Risk

The cost of electricity is a key production cost. For every four percent change in the price of electricity in North America, income before income taxes would have changed by $3 million for the year ended December 31, 2010. This sensitivity to changes in electricity prices is based on North American electricity consumption of 2,208,000 MWh. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in the Fund's Annual Information Form filed on the Fund's SEDAR profile at www.sedar.com.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

At December 31, 2010, Canexus LP did not have any material off-balance sheet arrangements.

At December 31, 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011. The fair value of these contracts is included in derivative financial instruments on Canexus LP's audited consolidated balance sheet at December 31, 2010 and changes in their fair value are included in other income (See Note 19 Other Income to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010). See Note 6(b)(iv) Foreign Currency Rate Risk to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010 for a summary of foreign exchange call option contracts that Canexus LP had during the year ended December 31, 2010. 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.

At December 31, 2010, Canexus LP had interest rate swap agreements under which we swap three month US LIBOR floating interest for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. These interest rate swap agreements are settled quarterly. The fair value of these interest rate swap agreements is included in derivative financial instruments on Canexus LP's audited consolidated balance sheet at December 31, 2010 and changes in their fair value are included in other income (See Note 19 Other Income to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010).

The fair value of derivative financial instruments is provided by third-party brokers as they are over-the-counter instruments.

Transactions with Related Parties

See Note 13 Amounts Due from/to Affiliates and Related Party Transactions to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2010.

Critical Accounting Estimates

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

Impairment of Long Lived Assets

Canexus LP evaluates each of its operating segment's assets for impairment if an adverse event or change occurs impacting any or all of the operating segments. 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 arising from the use and eventual disposition of the assets are estimated to determine if the assets are impaired. If the undiscounted future cash flows arising from the use and eventual disposition of 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.

At December 31, 2010, an evaluation of events and changes in circumstances did not lead to any indications of impairment.

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 judgments 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 remediating 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 for Canexus LP's North America sodium chlorate, North America chlor-alkali and South America operating segments, as well as for NATO, are recorded in the audited consolidated financial statements of Canexus LP by discounting the estimated retirement obligations associated with its chemical plants and terminals to the present value using a weighted average credit-adjusted risk-free rate of 7.06 percent. 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 ("PP&E") which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

A change in any one of the assumptions could impact the asset retirement obligations, PP&E 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 that a change in assumptions would have on its financial position or results of operations. However, management of Canexus LP believes that the assumptions it has made are reasonable.

Conversion to International Financial Reporting Standards

The following information is provided solely for the purpose of allowing investors and others to obtain a better understanding of the Fund's and Canexus LP's IFRS transition plan and the resulting expected effects on their respective financial statements. Readers are cautioned that it may not be appropriate to use such information for any other purpose. The accounting policy differences identified in this MD&A should not be considered as complete or final as further changes, or other effects and other policy differences may be identified. In addition, the information provided reflects the Fund's and Canexus LP's current assumptions, estimates and expectations, all of which are subject to change. Circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change these assumptions, estimates or expectations of the information provided.

In February 2008, the Accounting Standards Board ("AcSB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS" or "IFRSs") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Fund and Canexus LP for their year ended December 31, 2010 and of their opening statements of financial position at January 1, 2010 (the "Transition Date").

The Fund and Canexus LP commenced their IFRS conversion project in 2008 with the development of a conversion implementation plan which was reviewed with the Audit Committee. Reporting to the Audit Committee on the status of the conversion implementation and review of the results of the project team's assessment of the impacts of IFRS on the Fund and Canexus LP occurred quarterly commencing in 2008 and continuing through to the fourth quarter of 2010.

The Fund's conversion implementation plan had three phases—Scoping and Project Plan Development, Analysis, and Development and Implementation.

The Scoping and Project Plan Development and Analysis and Development Phases have been completed.

The Implementation phase is currently underway with the following activities completed at December 31, 2010: the development of draft opening IFRS statements of financial position for the Fund and Canexus LP at January 1, 2010; changes to information technology systems to facilitate the dual capture of IFRS and Canadian GAAP financial information in 2010 and IFRS financial information ongoing in 2011 and beyond; design and execution of changes to operational and financial processes; design and implementation of internal controls over financial reporting; approval by management and the Board of Directors of the IFRS 1 First-time Adoption of International Financial Reporting Standards exemptions utilized, accounting policy and disclosure changes required to become IFRS compliant, and opening statement of financial position adjustments arising from the initial adoption of IFRS for each of the Fund and Canexus LP; training of staff and the Board of Directors; and the development and delivery of communication plans regarding the anticipated impacts of the transition to IFRS on the Fund and Canexus LP's financial position and results of operations. IFRS transition activities that will be completed in 2011 include: testing of internal controls over financial reporting (target completion of March 2011), delivery of communications to stakeholders and refinement of IFRS disclosures in the consolidated financial statements of the Fund and Canexus LP.

First-Time Adoption of IFRS Exemptions

The Fund and Canexus LP's adoption of IFRS will require the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRSs effective at the end of its first IFRS reporting period but requires certain mandatory exceptions and permits limited optional exemptions. During 2010, IFRS 1 was amended to allow a first-time adopter to change its accounting policies or its use of the IFRS 1 exemptions during the period covered by its first annual IFRS financial statements. The amendment requires that a first-time adopter explain the changes between its first IFRS interim financial report and its first annual IFRS financial statements and to update the transition reconciliations.

The Fund and Canexus LP have elected to utilize the following IFRS 1 exemptions on initial adoption of IFRS which were approved by the Board of Directors of Canexus Limited on July 29, 2010 and March 3, 2011.

Business Combinations

A first-time adopter can elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition. However, there are some requirements related to past business combinations which IFRS 1 requires that may result in changes to how those business combinations were accounted for under previous GAAP. The Fund and Canexus LP have elected to utilize this exemption and accordingly, prospectively apply IFRS 3 to business combinations occurring on or after their date of transition to IFRS. There was no material change in the amount or type of assets and liabilities recorded by the Fund or Canexus LP on business combinations arising prior to the Transition Date.

Leases

A first-time adopter can apply the transitional provisions in International Financial Reporting Interpretations Committee ("IFRIC") 4 Determining whether an Arrangement contains a Lease to determine whether any existing arrangement contains a lease based on the facts and circumstances existing at the date of transition and if so, to apply IAS 17 Leases from that date. In addition, if a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, a first-time adopter need not reassess that determination when it adopts IFRS. The Fund and Canexus LP have elected to utilize this exemption. There were no material changes in the classification of or accounting for leases which existed at the Transition Date for either the Fund or Canexus LP.

Employee Benefits

A first-time adopter can elect to recognize all cumulative actuarial gains and losses related to defined benefit plans at the date of transition even if it chooses another alternative for recognizing actuarial gains and losses permitted by IAS 19 Employee Benefits for post transition actuarial gains and losses. If a first-time adopter elects to use this exemption it must do so for all defined benefit plans. Canexus LP has elected to use this exemption and recognize all actuarial gains and losses for its defined benefit pension plan, supplementary pension plan and post retirement benefit plans. At December 31, 2009, Canexus LP had a net cumulative actuarial loss of $9.7 million on its defined benefit plans which was recognized in deficit at the Transition Date.

Cumulative Translation Differences

A first-time adopter can elect to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition. An entity electing to use this exemption can deem cumulative translation differences at the date of transition to be zero and therefore, would not recognize any of these cumulative translation differences in net income on a subsequent disposal of a foreign operation. An entity electing to use this exemption must apply it consistently to all cumulative translation differences at the date of transition. Canexus LP has elected to use this exemption. At December 31, 2009, Canexus LP had cumulative translation losses of $27.5 million arising on the past translation of the financial statements of its foreign operations which was recognized in deficit at the Transition Date.

Investments in Subsidiaries, Jointly Controlled Entities and Joint Ventures

A first-time adopter can elect to account for its investments in subsidiaries, jointly controlled entities and associates at either cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If a first-time adopter measures such an investment at cost it shall measure that amount as either cost determined in accordance with IAS 27 or deemed cost which can be either the fair value of the investment at the entity's date of transition to IFRSs or the previous GAAP carrying amount at that date. The Fund has elected to use this exemption to account for its investment in Canexus LP at a deemed cost equal to the carrying amount under Canadian GAAP at January 1, 2010.

Designation of Previously Recognized Financial Instruments

A first-time adopter can elect to designate a financial asset as measured at fair value through profit or loss ("FVTPL") in accordance with IAS 39 Financial Instruments: Recognition and Measurement on the basis of the facts and circumstances that exist at the date of transition to IFRSs. IAS 39 allows for the designation of a financial asset as measured at FVTPL if such designation eliminates or significantly reduces a measurement or recognition inconsistency from measuring assets or liabilities or recognizing gains and losses on them on different bases. The Fund has elected to use this exemption to designate its investment in debentures of Canexus LP as measured at FVTPL at the Transition Date to eliminate the measurement inconsistency which would otherwise arise as a result of measuring the Convertible Debentures at FVTPL. Accordingly changes in fair value of the Convertible Debentures will be offset in the statement of comprehensive income (loss) by changes in fair value of the investment in debentures of Canexus LP.

Decommissioning Liabilities included in the Cost of Property, Plant and Equipment

A first-time adopter electing to use this exemption need not comply with the requirements of IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities which requires that specified changes in a decommissioning, restoration or similar liability be added or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset be depreciated prospectively over its remaining useful life. If a first-time adopter elects to use this exemption it measures the liability at the date of transition; estimates the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical discount rate that would have applied to that liability over the intervening period; and calculates depreciation on that amount, as at the date of transition to IFRS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRS. Canexus LP has elected to use this exemption which resulted in an increase in the cost of the related assets of $12.8 million, a decrease in accumulated depreciation of $2.9 million and an increase in the related liability of $26.5 million at the Transition Date.

Borrowing Costs
A first-time adopter can elect to apply the transitional provisions set out in IAS 23 Borrowing Costs which allow a first-time adopter to select any date prior to its transition date and to capitalize borrowing costs relating to all qualifying assets for which the commencement date for capitalization was on or after that date. Canexus LP has elected to use this exemption and has selected January 1, 2006 as the date after which it will capitalize borrowing costs related to all qualifying assets for which the commencement date for capitalization was on or after January 1, 2006. There was no material change in the amount of borrowing costs capitalized for IFRS as compared to Canadian GAAP as a result of electing to use this exemption.

Other exemptions not used
Available IFRS 1 exemptions which the Fund and Canexus LP did not elect to use were share-based payment transactions; use of fair value as deemed cost on the date of transition to IFRS; assets and liabilities of subsidiaries, associates and joint ventures; and fair value measurement of financial assets or financial liabilities at initial recognition.

Available IFRS 1 exemptions which were not applicable to the Fund or Canexus LP were exemptions related to: insurance contracts; compound financial instruments; financial assets or intangible assets accounted for in accordance with IFRIC 12 Service Concession Arrangements; transfers of assets from customers; extinguishing financial liabilities with equity instruments and the exemption from the requirement to restate comparative information for IFRS 9 Financial Instruments.

Other
The transition to IFRS did not have any impact on the calculation of any of the financial covenants contained in our existing credit facilities agreements or the note indenture governing the Senior Secured Notes.

Board of Director approval of disclosure changes arising as a result of the adoption of IFRS will occur in conjunction with the approval of the consolidated financial statements of the Fund and Canexus LP for the three months ended March 31, 2011 prepared in accordance with IFRS, in the second quarter of 2011.

Accounting Policy Choices
The areas in which accounting policy choices were available under IFRS and the policies adopted by Canexus LP were as follows:

IFRS	Alternatives		Choice
IAS 2 – Inventories	Measure cost of inventories using the first-in, first-out (“FIFO”) method	Measure cost of inventories using the weighted average cost method	Weighted average cost method
IAS 16 – Property, Plant and Equipment	Cost Model	Revaluation Model	Cost Model
IAS 19 – Employee Benefits	Recognition of actuarial gains and losses in statement of comprehensive income using the: 1) Corridor method; 2) “Faster method” than the corridor method	Recognition of actuarial gains and losses in other comprehensive income (“OCI”) in the period in which they occur	Recognize in OCI in the period in which they occur
IAS 39 – Financial Instruments: Recognition and Measurement	Separate embedded derivative and account for at FVTPL; account for host debt instrument at amortized cost	Designate convertible debentures at FVTPL	Designate convertible debentures at FVTPL

The above accounting policies adopted by Canexus LP were approved by the Board of Directors of Canexus Limited on December 16, 2010 and March 3, 2011.

Reconciliations between IFRS and Canadian GAAP

The following reconciliations outline the differences between IFRS and Canadian GAAP based on the Fund and Canexus LP's accounting policy choices and the mandatory exceptions and optional IFRS 1 exemptions described above.

Canexus Income Fund
DRAFT Reconciliation of the Consolidated Statement of Financial Position at January 1, 2010

CAD thousands, except unit amounts	Canadian GAAP January 1 2010	Effect of Transition to IFRS	IFRS January 1 2010
ASSETS			
Current Assets			
Cash	394	-	394
Interest Receivable on Debentures of Canexus LP	19	-	19
Due from Affiliates, Net	17	81	98
Distribution Receivable from Canexus LP	1,544	-	1,544
Prepaid Expenses	23	-	23
Total Current Assets	1,997	81	2,078
Investment in Debentures of Canexus LP	85,780	8,150	93,930
Investment in Canexus LP	295,590	-	295,590
Total Assets	383,367	8,231	391,598
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and Other Payables	1	-	1
Distribution Payable to Unitholders	1,544	-	1,544
Interest Payable on Convertible Debentures	19	-	19
Unit Based Compensation	-	4,593	4,593
Total Current Liabilities	1,564	4,593	6,157
Unit Based Compensation	20	306	326
Convertible Debentures, Net	78,496	15,434	93,930
Deferred Tax Liabilities	7,479	408	7,887
Unitholders' Interest in the Net Assets of the Fund	-	172,099	172,099
Total Liabilities	87,559	192,840	280,399
Equity Component of Convertible Debentures	7,634	(7,634)	-
Unitholders' Equity	325,620	(325,620)	-
Contributed Surplus	7,216	(7,216)	-
Retained Earnings (Deficit)	(44,662)	155,861	111,199
Total Equity	295,808	(184,609)	111,199
Total Liabilities and Equity	383,367	8,231	391,598

Due from Affiliates

The increase in due from affiliates, net, on transition was due to an increase in the compensation cost of the UARs which is recovered from CCCLP, CUI or Canexus Brazil. The increase in the compensation cost of the UARs was due to a change in the measurement basis from intrinsic value under Canadian GAAP to fair value under IFRS. See "Unit Based Compensation" below.

Investment in Debentures of Canexus LP

The increase in the investment in debentures of Canexus LP was due to the designation at FVTPL on transition in accordance with IFRS 1 First-time Adoption of IFRS and IAS 39 Financial Instruments: Recognition and Measurement to eliminate a measurement and recognition inconsistency arising as a result of the measurement and recognition of the Convertible Debentures, Net, at FVTPL in accordance with IFRS (See "Convertible Debentures" below).

Unit Based Compensation
As a result of the ability of Unitholders to redeem their Fund Units for cash or other financial assets pursuant to the terms of the Fund's trust indenture, all unit based compensation is accounted for as cash-settled under IFRS 2 Share-based Compensation.

Under Canadian GAAP, the Unit options granted under the TUIP (excluding Unit options granted in 2005) and Units granted under the DTUCP were accounted for as equity-settled. Their fair value, measured at grant date, was recognized over their vesting period with a corresponding increase to contributed surplus. The UARs and Unit options granted in 2005 under the TUIP were accounted for as cash-settled. Their intrinsic value, measured at grant date, was recognized over their vesting period with a corresponding increase in liabilities. Their intrinsic value was remeasured at each reporting period end with changes recognized in net income (loss).

Under IFRS, cash-settled share-based payments are required to be measured at fair value and recognized as compensation cost over their vesting period with a corresponding increase in liabilities. At each reporting period end their fair value is remeasured and changes in fair value are recognized in net income (loss).

IFRS 1 First-time Adoption of IFRS exempts a first-time adopter from applying IFRS 2 Share-based Payments to unit based compensation liabilities that were settled prior to the adoption of IFRS. However, it allows an entity to elect to apply IFRS 2 to such liabilities. The Fund did not elect to utilize this exemption.

At January 1, 2010, the balance of contributed surplus related to the Fund's TUIP and DTUCP recorded under Canadian GAAP was reclassified to unit based compensation liabilities. The fair value of unit based compensation liabilities was measured at January 1, 2010 with the change from carrying value under Canadian GAAP recognized in deficit.

Contributed Surplus Reclassified to Unit Based Compensation Liabilities	(7,216)
Adjustment to Fair Value at Transition	2,317
	4,899
Short-term	4,593
Long-term	306

Convertible Debentures
As a result of the ability of Unitholders to redeem their Fund Units for cash or other financial assets pursuant to the terms of the Fund's trust indenture, the Convertible Debentures are financial liabilities containing an embedded derivative under IFRS. Under Canadian GAAP, the Convertible Debentures were compound instruments with an equity component. Accordingly, the equity component and unamortized deferred transaction costs recorded under Canadian GAAP were derecognized at the Transition Date and charged to deficit. In accordance with IAS 39 Financial Instruments: Recognition and Measurement the Fund classified the Convertible Debentures at FVTPL and will recognize changes in fair value in net income (loss).

Unamortized Deferred Transaction Costs, Net, Charged to Deficit	7,284
Adjustment to Fair Value at Transition	8,150
	15,434

Deferred Tax Liabilities

The increase in deferred tax liabilities arises primarily as a result of transition adjustments related to property, plant and equipment and pension obligations in Canexus LP (See "Canexus Limited Partnership – Reconciliation of the Consolidated Statement of Financial Position at January 1, 2010 – Deferred Tax Assets and Liabilities" on page 45), partially offset by the requirement for the Fund to record deferred tax on temporary differences at a higher tax rate than was required under Canadian GAAP.

Unitholders' Interest in the Net Assets of the Fund

The carrying value of the Fund's Units under Canadian GAAP was reclassified from equity to liabilities at the Transition Date in accordance with IAS 32 Financial Instruments: Presentation as a result of the terms of the Fund's trust indenture which provides a redemption option to Unitholders and which requires the Fund to distribute all of its taxable income annually so that the Fund does not have any liability for tax under the Tax Act. In accordance with IAS 39 Financial Instruments: Recognition and Measurement the Fund classified unitholders' interest in the net assets of the Fund at FVTPL and will recognize changes in fair value in net income (loss). The fair value of Fund Units was measured at the Transition Date with the change from their carrying value under Canadian GAAP recognized in deficit. As a result of the introduction of the SIFT rules (see "Income Taxes" on page 6), effective January 1, 2011 the Fund's Units will be reclassified from liabilities back to equity. The introduction of the SIFT rules results in the Fund not being able to meet the requirement of the trust indenture to distribute all taxable income annually so that the Fund does not have any liability for tax under the Tax Act.

Reclassification of Fund Units from Equity to Liabilities	325,620
Adjustment to Fair Value at Transition	(153,521)
	172,099

Retained Earnings

Due from Affiliates, Net	81
Investment in Debentures of Canexus LP	8,150
Unit Based Compensation	2,317
Convertible Debentures, Net	(15,434)
Equity Component of Convertible Debentures	7,634
Deferred Tax Liabilities	(408)
Unitholders' Interest in the Net Assets of the Fund	153,521
	155,861

Canexus Limited Partnership

DRAFT Reconciliation of the Consolidated Statement of Financial Position at January 1, 2010

CAD thousands	Canadian GAAP January 1, 2010	Effect of Transition to IFRS	IFRS January 1, 2010
ASSETS			
Current Assets			
Cash and Cash Equivalents	13,200	-	13,200
Trade and Other Receivables	53,786	-	53,786
Inventories and Operating Supplies	31,404	-	31,404
Derivative Financial Instruments	1,532	-	1,532
Prepaid Expenses	3,537	-	3,537
Total Current Assets	103,459	-	103,459
Property, Plant and Equipment, Net	559,233	(30,599)	528,634
Intangible Assets, Net	1,522	-	1,522
Restricted Investments	3,137	-	3,137
Deferred Tax Assets	7,941	385	8,326
Other Long-Term Assets	8,648	(1,763)	6,885
Total Assets	683,940	(31,977)	651,963
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and Other Payables	60,119	-	60,119
Distribution Payable to Ordinary LP Unitholders	1,544	-	1,544
Distribution Payable to Exchangeable LP Unitholder	2,957	-	2,957
Interest Payable	1,021	-	1,021
Interest Payable on Debentures	19	-	19
Due to Affiliates, Net	172	81	253
Total Current Liabilities	65,832	81	65,913
Long-Term Debt	284,851	-	284,851
Debentures, Net	83,457	-	83,457
Provisions	33,072	26,483	59,555
Derivative Financial Instruments	2,106	-	2,106
Deferred Tax Liabilities	13,900	(12,121)	1,779
Other Long-Term Liabilities	3,677	10,461	14,138
Total Liabilities	486,895	24,904	511,799
Equity			
Ordinary LP and General Partnership Units	309,152	-	309,152
Exchangeable LP Units	(11,343)	-	(11,343)
Total LP Units	297,809	-	297,809
Deficit	(73,254)	(84,391)	(157,645)
Accumulated Other Comprehensive Income (Loss)	(27,510)	27,510	-
Total Deficit and Accumulated Other Comprehensive Income (Loss)	(100,764)	(56,881)	(157,645)
Total Equity	197,045	(56,881)	140,164
Total Liabilities and Equity	683,940	(31,977)	651,963

Property, Plant and Equipment ("PP&E")

Decrease in Gross Cost	(41,705)
Decrease in Accumulated Depreciation	11,106
	(30,599)

Under Canadian GAAP, we componentized our PP&E for purposes of assigning useful lives and determining related depreciation charges at a more aggregated level than is required under IFRS. IAS 16 Property, Plant and Equipment requires that we estimate useful lives and residual values for individual components of an item of PP&E with a cost that is significant in relation to the total cost of the item, and to depreciate these assets separately. Componentization of our PP&E in accordance with IAS 16 at the Transition Date resulted in an increase in accumulated depreciation resulting from an overall average shorter useful life for our PP&E. In addition, we removed the gross cost and accumulated depreciation of PP&E that was fully depreciated and no longer in use, with no impact on the net carrying value of PP&E.

Canexus LP elected to use the IFRS 1 exemption related to IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities which resulted in an increase in the amount for decommissioning, restoration and similar liabilities included in assets and an associated increase in accumulated depreciation. Depreciation of the amount included in assets was calculated from the date the liabilities first arose to the Transition Date using the useful lives of the related assets.

Deferred Tax Assets and Liabilities

Increase in Deferred Tax Assets	385
Decrease in Deferred Tax Liabilities	(12,121)

The increase in deferred tax assets and liabilities arises predominantly as a result of the transition adjustments related to PP&E discussed above which result in a change in the temporary differences in the reported amounts of PP&E for financial statement and tax purposes.

Other Long-Term Assets

Decrease in Deferred Financing Fees	(3,079)
Decrease in Accumulated Amortization, Deferred Financing Fees	1,316
	(1,763)

Under Canadian GAAP, costs related to establishing our revolving credit facilities were deferred and amortized over the lives of the credit facilities to which they related. Under IFRS, the cost of establishing credit facilities cannot be deferred and amortized as revolving credit facilities do not meet the definition of a financial liability and the costs do not meet the definition of an asset in the IFRS Framework. Accordingly, these costs were derecognized on transition to IFRS.

Due to Affiliates, Net

The increase in due to affiliates, net, on transition was due to an increase in the compensation cost of the UARs which is recovered by the Fund from CCCLP, CUI or Canexus Brazil. See "Canexus Income Fund – Reconciliation of the Consolidated Statement of Financial Position at January 1, 2010 – Due from Affiliates".

Provisions

Increase in plant dismantlement, restoration and other similar liabilities	26,483

We elected to use the IFRS 1 exemption related to IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities which allowed us to measure the liability for plant dismantlement, decommissioning, restoration and other similar liabilities at the Transition Date. This resulted in an increase in the provision primarily due to the use of a lower overall average discount rate. IFRS requires the use of a risk free discount rate, where future cash flow estimates are adjusted for risk, as compared to Canadian GAAP which required the use of a credit-adjusted risk free discount rate.

Other Long-Term Liabilities

Recognition of Cumulative Unamortized Actuarial Losses	9,674
Recognition of Unamortized Past Service Costs on Vested Benefits	157
Derecognition of Unamortized Transitional Obligations	630
	10,461

We elected to apply the IFRS 1 exemption related to employee benefits which allowed us to recognize all cumulative unamortized actuarial losses in deficit at the Transition Date. This exemption, if elected, is required to be applied to all defined benefit plans and accordingly, we applied it to the defined benefit pension plan, the executive benefit pension plan and the Canadian and US post retirement benefit plans. Canexus LP has adopted an accounting policy under IFRS of recording all future actuarial gains and losses on the above plans directly in other comprehensive income (loss) as they arise.

IFRS requires that all vested past service costs be recognized in net income immediately and unvested past service costs be amortized to net income over the average remaining period until they become vested. Under Canadian GAAP all past service costs (vested and unvested) were amortized over the average remaining service life of the employee group. At the Transition Date all past service costs related to Canexus LP's defined benefit plans were vested and accordingly, remaining unamortized costs were recognized in deficit.

Transitional obligations were recorded under Canadian GAAP as a result of the initial application of standards related to employee future benefits. We derecognized such unamortized transitional obligations at the Transition Date as these obligations do not meet the definition of a liability under IFRS. This transitional adjustment relates to the Canadian and US post retirement benefit plans.

Accumulated Other Comprehensive Loss

Recognition of Cumulative Foreign Currency Translation Losses in Deficit	27,510

We elected to utilize the IFRS 1 exemption of recognizing all cumulative translation gains or losses in accumulated other comprehensive income at the Transition Date in deficit. This exemption was applied to all applicable subsidiaries of Canexus LP.

Deficit

PP&E, Net	(30,599)
Deferred Tax Assets	385
Deferred Tax Liabilities	12,121
Other Long-Term Assets	(1,763)
Due to Affiliates, Net	(81)
Provisions	(26,483)
Other Long-Term Liabilities	(10,461)
Accumulated Other Comprehensive Income (Loss)	(27,510)
	(84,391)

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 including the timing of completion of the power line upgrade at the Brandon, Manitoba sodium chlorate plant and the ability of such upgrade to allow for future expansions; the timing of completion of the mechanical integrity reverification of the salt caverns at the Bruderheim, Alberta site; expected benefits from completed growth projects including the TCP, the build-in of the second major rail line at the Bruderheim, Alberta site, the sodium chlorate expansion in Brazil, the hydrogen project in Brazil and the hydrochloric acid expansions at the North Vancouver and Brazil facilities; the stability of, expected level and trend of sodium chlorate and chlor-alkali product selling prices; the expected demand / sales volumes of sodium chlorate and chlor-alkali products; anticipated future operating rates; expected future levels of maintenance capital expenditures; expected levels of global and Brazilian pulp demand; the expected level of Brazilian pulp production; expectations regarding global pulp capacity additions; expectations regarding the overall health of pulp markets; the timing of conversion to a corporate structure including future levels of distributions and the characterization of 2011 distributions prior to such conversion; the expected level of future chlorine derivative exports; the adequacy of the provision for income taxes; the sufficiency of future cash flows from operating activities to meet future obligations and commitments in the normal course of business and the anticipated SIFT tax rate applicable to the Fund. 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. Forward looking 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 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.

Any financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than those for which it is disclosed herein.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities) designed by, or caused to be designed under the supervision of the President and Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance 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 material 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.

As of December 31, 2010, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

Internal Controls over Financial Reporting

We are responsible for establishing and maintaining internal control over financial reporting (as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have designed our internal controls over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

As of December 31, 2010, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal controls over financial reporting. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the internal controls over financial reporting were effective. There were no occurrences of fraud involving management or other employees who have a significant role in our internal controls over financial reporting detected as part of this evaluation and which would have been required to be communicated to the Audit Committee of the Board of Directors or to our auditors. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

There were no changes to internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the year ended December 31, 2010.

Management's Report

Canexus Income Fund

March 15, 2011

To the Unitholders of Canexus Income Fund:

We are responsible for the preparation and fair presentation of the consolidated financial statements (which include the consolidated financial statements of Canexus Income Fund and the consolidated financial statements of Canexus Limited Partnership, herein referred to as "consolidated financial statements"), as well as the financial reporting process that gives rise to such consolidated financial statements. We also have responsibility for the preparation and fair presentation of other financial information in this report and to ensure the consistency of this information with the consolidated financial statements. This responsibility requires us to make accounting judgments and estimates which are made after consideration of the information available. Fulfilling this responsibility requires the preparation and presentation of our consolidated financial statements in accordance with generally accepted accounting principles in Canada.

We are responsible for the design, implementation, and evaluation of the effectiveness of internal controls over the financial reporting process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. These controls are designed to provide reasonable assurance that relevant and reliable financial information is produced and are periodically tested to ensure that they are operating effectively. We believe that our internal controls over financial reporting provide reasonable assurance that our assets are safeguarded against loss from unauthorized use or disposition, that receipts and expenditures of Canexus Income Fund and Canexus Limited Partnership are made only in accordance with authorization of management and directors of Canexus Limited, administrator of Canexus Income Fund and general partner of Canexus Limited Partnership, and that our records are reliable for preparing our consolidated financial statements and other financial information in accordance with applicable generally accepted accounting principles and in accordance with applicable securities rules and regulations. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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

Gary L. Kubera
President and Chief Executive Officer

Richard McLellan
Senior Vice President, Finance
and Chief Financial Officer

Independent Auditor's Report

Canexus Income Fund

To the Unitholders of Canexus Income Fund:

We have audited the accompanying consolidated financial statements of Canexus Income Fund and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of income and comprehensive income, deficit and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

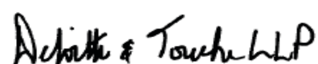
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canexus Income Fund and subsidiaries at December 31, 2010 and 2009 and the results of their operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta
March 3, 2011

Consolidated Statements of Income and Comprehensive Income

Canexus Income Fund

For the Years Ended December 31, 2010 and 2009

CAD thousands, except per unit amounts	2010	2009
Revenues		
Equity Income from Investment in Canexus Limited Partnership ("Canexus LP") (Note 6)	3,280	25,474
Interest Income on Debentures of Canexus LP (Note 5)	6,805	2,318
	10,085	27,792
Expenses		
Trust Administration Expenses	459	368
Accretion of Convertible Debentures (Notes 4 and 5)	1,335	350
Interest on Convertible Debentures (Notes 4 and 5)	6,805	2,318
Unit Based Compensation (Note 12)	555	1,325
	9,154	4,361
Income Before Future Income Taxes	931	23,431
Recovery of Future Income Taxes (Note 8)	(271)	(4,094)
Net Income and Comprehensive Income	1,202	27,525
Net Income Per Unit (Note 13)	0.03	0.83
Diluted Net Income Per Unit (Note 13)	0.03	0.78

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Deficit

Canexus Income Fund

For the Years Ended December 31, 2010 and 2009

CAD thousands	2010	2009
Beginning of Year	(44,662)	(53,962)
Net Income	1,202	27,525
Distributions Declared (Note 7)	(20,270)	(18,225)
End of Year	(63,730)	(44,662)

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

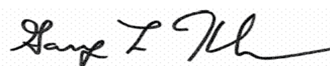
Canexus Income Fund

At December 31, 2010 and 2009

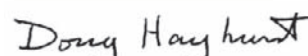
CAD thousands, except unit amounts	2010	2009
ASSETS		
Current Assets		
Cash	83	394
Interest Receivable on Debentures of Canexus LP	912	19
Due from Affiliates, Net (Note 5)	-	17
Distribution Receivable from Canexus LP (Note 6)	1,794	1,544
Prepaid Expenses	105	23
Total Current Assets	2,894	1,997
Investment in Debentures of Canexus LP (Note 5)	124,609	85,780
Investment in Canexus LP (Note 6)	307,724	295,590
Total Assets	435,227	383,367
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	1	1
Due to Affiliates, Net (Note 5)	960	-
Distribution Payable to Unitholders (Note 7)	1,794	1,544
Unit Based Compensation (Note 12)	448	-
Interest Payable on Convertible Debentures (Notes 4 and 5)	912	19
Total Current Liabilities	4,115	1,564
Convertible Debentures, Net (Notes 4 and 5)	112,126	78,496
Future Income Tax (Note 8)	7,208	7,479
Unit Based Compensation (Note 12)	224	20
Total Liabilities	123,673	87,559
Equity		
Equity Component of Convertible Debentures (Notes 4 and 5)	13,972	7,634
Unitholders' Equity (39,341,055 Units outstanding) (Note 9)	355,035	325,620
Contributed Surplus (Note 12)	6,277	7,216
Deficit	(63,730)	(44,662)
Total Equity	311,554	295,808
Total Liabilities and Equity	435,227	383,367

See accompanying notes to the Consolidated Financial Statements

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



Gary L. Kubera
Director



Douglas Hayhurst
Director

Consolidated Statements of Cash Flows

Canexus Income Fund

For the Years Ended December 31, 2010 and 2009

CAD thousands	2010	2009
Operating Activities		
Net Income	1,202	27,525
Charges and Credits to Income Not Involving Cash		
Equity Income from Investment in Canexus LP	(3,280)	(25,474)
Unit Based Compensation	555	1,325
Future Income Taxes	(271)	(4,094)
Accretion of Convertible Debentures (Notes 4 and 5)	1,335	350
Cash Distributions Received from Canexus LP	16,976	15,775
Change in Due to/from Affiliates, Net, and Interest Due from/to Affiliates, Net	(4,153)	265
Change in Non-Cash Operating Working Capital	811	19
Total Operating Activities	13,175	15,691
Financing Activities		
Cash Distributions Paid	(16,976)	(15,775)
Proceeds from Exercise of Unit Options	3,490	477
Proceeds from Convertible Debentures (Note 4)	60,000	86,000
Convertible Debenture Transaction Costs (Notes 4 and 5)	(2,798)	(2,436)
Total Financing Activities	43,716	68,266
Investing Activities		
Purchase of Debentures of Canexus LP (Note 5)	(60,000)	(86,000)
Reimbursement of Convertible Debenture Transaction Costs (Note 5)	2,798	2,436
Total Investing Activities	(57,202)	(83,564)
Increase (Decrease) in Cash	(311)	393
Cash – Beginning of Year	394	1
Cash – End of Year	83	394

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Income Fund

For the Years Ended December 31, 2010 and 2009

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 LP in which it holds a 0.01 percent interest.

At December 31, 2010, the Fund held a 36.7 percent (December 31, 2009 – 34.2 percent) interest in Canexus LP. Nexen Inc ("Nexen") held a 63.3 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP. On February 7, 2011, Nexen disposed of its entire interest in Canexus LP (see Note 15 Subsequent Event).

At December 31, 2010, the Fund owned 100 percent of the shares of Canexus Limited, but did not account for its investment on a consolidated basis due to Nexen having the ability to appoint the majority of the board positions.

2. Summary of Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, the consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended.

Use of Estimates

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

Income Taxes

The Fund follows the liability method of accounting for income taxes. This method recognizes income tax assets and liabilities at current rates, based on temporary differences in reported amounts for financial statement and tax purposes. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income when substantively enacted.

These 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.

Accounting for Investments in Canexus LP and Canexus Limited

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

Unit Based Compensation

The Fund provides unit based compensation in the form of options and corresponding bonus rights under the Trust Unit Incentive Plan ("TUIP") and sponsors the granting of unit appreciation rights ("UARs") and corresponding bonus rights under the Unit Appreciation Rights Plan ("UARP") to officers and employees. Deferred trust units ("DTUs") and notional reinvestments are provided to directors under the Directors' Deferred Trust Unit Compensation Plan ("DTUCP").

Management uses the fair value method to recognize compensation expense associated with unit based compensation at the time of grant. Under the TUIP, expense is recognized over the vesting period or other expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing Units of the Fund ("Units", "Unit", "Fund Units" or "Fund Unit") and are not settled in cash. On March 3, 2010, the Board of Directors of Canexus

Limited approved an amendment to the TUIP to allow recipients of options awarded in 2005 ("2005 TUIP") the choice to receive cash or Units upon exercise of their options. As a result of this amendment, the fair value of these awards at the date of amendment ($0.4 million) was transferred from contributed surplus to a liability. The liability is remeasured at each subsequent reporting period end to its fair value. There are no 2005 TUIP options remaining at December 31, 2010. Under the UARP, expense is recognized over the vesting period or other expected term of service with a corresponding increase in liabilities as these instruments are settled in cash. As the expense and obligation of the UARP and the 2005 TUIP is related to services provided by employees of Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus U.S. Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovers this expense from CCCLP, CUI or Canexus Brazil as applicable. Under the DTUCP, expense is recognized at the time of grant with a corresponding increase to contributed surplus as these instruments vest at the time of grant and are settled by issuing Fund Units.

3. Adoption of IFRS

The Fund will adopt International Financial Reporting Standards ("IFRS") in accordance with the Canadian Accounting Standards Board requirement that publicly accountable entities prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by the Fund for the year ended December 31, 2010 and of the opening statement of financial position at January 1, 2010.

4. Convertible Debentures

On September 28, 2010, the Fund issued convertible unsecured subordinated series III debentures (the "Series III Convertible Debentures"). Series I, II and III Convertible Debentures collectively are the "Convertible Debentures". The following Convertible Debentures were outstanding at December 31, 2010:

	Series I	Series II	Series III
Issue Date	August 31, 2009	August 31, 2009	September 28, 2010
Maturity Date	December 31, 2014	December 31, 2014	December 31, 2015
Fixed Distribution Rate	8.00%	8.00%	5.75%
Conversion Price	$5.10	$5.10	$8.30

	December 31, 2010				
	Series I	Series II	Series III	Unamortized Discount	Total Carrying Value
Outstanding, Beginning of Year	45,780	40,000	-	(7,284)	78,496
Issued	-	-	60,000	(8,221)	51,779
Converted	(21,171)	-	-	1,687	(19,484)
Accretion of Discount	-	-	-	1,335	1,335
Outstanding, End of Year	24,609	40,000	60,000	(12,483)	112,126

	December 31, 2009				
	Series I	Series II	Series III	Unamortized Discount	Total Carrying Value
Outstanding, Beginning of Year	-	-	-	-	-
Issued	46,000	40,000	-	(7,654)	78,346
Converted	(220)	-	-	20	(200)
Accretion of Discount	-	-	-	350	350
Outstanding, End of Year	45,780	40,000	-	(7,284)	78,496

Fair Value (See Note 10)	Series I	Series II	Series III
December 31, 2010	33,874	55,060	61,194
December 31, 2009	50,129	43,800	-

Interest is payable on the Convertible Debentures on December 31 and June 30 of each year. The first interest payment for the Series III Convertible Debentures is June 30, 2011.

The Series I and Series III Convertible Debentures were issued at a price of $1,000 per Series I or Series III Convertible Debenture. The Series I and Series III Convertible Debentures may be converted into Fund Units at the option of the holder at any time prior to the earlier of maturity or redemption by the Fund. The Series I Convertible Debentures are redeemable by the Fund at a price of $1,000 per Series I Convertible Debenture on or after January 1, 2013 and on or before December 31, 2013 provided that the "Current Market Price" of Fund Units on the date that the notice of redemption is given is not less than 125 percent of the conversion price, or at a price of $1,000 per Series I Convertible Debenture after December 31, 2013 and before December 31, 2014, the Series I Convertible Debenture maturity date. The Series III Convertible Debentures are redeemable by the Fund at a price of $1,000 per Series III Convertible Debenture on or after January 1, 2014 and on or before December 31, 2014 provided that the "Current Market Price" of Fund Units on the date that the notice of redemption is given is not less than 125 percent of the conversion price, or at a price of $1,000 per Series III Convertible Debenture after December 31, 2014 and before December 31, 2015, the Series III Convertible Debenture maturity date. The Current Market Price of a Fund Unit is the weighted average price per unit for Fund Units for the 20 consecutive trading days ending on the fifth trading day preceding the date of determination. The Fund may elect to pay principal upon maturity or redemption and interest by issuing Fund Units. In the case of the payment of principal, the number of Fund Units issued will be determined by dividing the redemption amount by 95 percent of the Current Market Price. In the case of interest payments, the number of Fund Units sold to pay interest will be determined by the market price of the Fund Units at the time of sale.

The Series II Convertible Debentures were issued through a private placement to Nexen, an affiliate. The terms and conditions of the Series II Convertible Debentures are as disclosed above for the Series I Convertible Debentures with certain exceptions, including that they are convertible into Exchangeable Limited Partnership ("LP") Units of Canexus LP and that the Fund may elect to pay principal upon maturity or redemption and interest by issuing Exchangeable LP Units of Canexus LP. On January 27, 2011, Nexen converted the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP (see Note 15 Subsequent Event).

Proceeds from the issue of the Series III Convertible Debentures were used to purchase $60 million of unsecured subordinated series III debentures of Canexus LP (the "Series III Debentures") which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing on June 30, 2011. The Series III Debentures mature on December 31, 2015.

Transaction costs associated with the issue by the Fund of the Series III Convertible Debentures of $2.8 million were reimbursed by Canexus LP.

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

Due to/from affiliates, net, at December 31, 2010 and 2009 represent amounts owing from/to the Fund, non-interest bearing promissory notes payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principal amount of Debentures redeemed by Canexus LP (see Note 6 Investment in Canexus LP), and the recovery of the expense related to the UARP for employees who provide services to CCCLP, CUI or Canexus Brazil (see Note 12 Unit Based Compensation).

Canexus Limited, as administrator of the Fund, and indirectly the Trustee of Canexus Commercial Trust and the General Partner of Canexus LP, incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the years ended December 31, 2010 and 2009 were $92,000 and $93,000 respectively.

On August 31, 2009, the Fund issued convertible unsecured subordinated series I and series II debentures (the "Series I Convertible Debentures" and "Series II Convertible Debentures"). Transaction costs associated with the issue of the Series I and Series II Convertible Debentures of $2.4 million were reimbursed by Canexus LP. The proceeds from the Series I and Series II Convertible Debentures were used to purchase $46 million of unsecured subordinated series I debentures of Canexus LP (the "Series I Debentures") and $40 million of unsecured subordinated series II debentures of Canexus LP (the "Series II Debentures") which bear interest at 8 percent payable semi-annually in arrears on December 31 and June 30 of each year. The Series I and II Debentures mature on December 31, 2014. On January 27, 2011, the Series II Debentures were redeemed in full (see Note 15 Subsequent Event).

The Series II Convertible Debentures (see Note 4 Convertible Debentures) outstanding at December 31, 2010 and 2009 are held by Nexen. Interest expense recognized on the Series II Convertible Debentures for the years ended December 31, 2010 and 2009 was $3.2 million and $1.1 million respectively. The accretion of the Series II Convertible Debentures for the years ended December 31, 2010 and 2009 was $0.6 million and $0.2 million respectively. At December 31, 2010, there was $9,000 of interest payable to Nexen on the Series II Convertible Debentures (December 31, 2009 – $9,000). On January 27, 2011, the

Series II Convertible Debentures were converted by Nexen into 7,843,137 Exchangeable LP Units of Canexus LP (see Note 15 Subsequent Event).

On September 28, 2010, the Fund issued $60 million of Series III Convertible Debentures. Transaction costs associated with the issue of the Series III Convertible Debentures of $2.8 million were reimbursed by Canexus LP. The proceeds from the Series III Convertible Debentures were used to purchase $60 million of Series III Debentures of Canexus LP which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing on June 30, 2011. The Series III Debentures mature on December 31, 2015.

At December 31, 2010 and 2009, the Fund had an investment in Series I, II and III Debentures of Canexus LP as follows:

	December 31, 2010	December 31, 2009
Outstanding, Beginning of Year	85,780	-
Issued	60,000	86,000
Redeemed	(21,171)	(220)
Outstanding, End of Year	124,609	85,780

Interest income recognized on these Debentures for the years ended December 31, 2010 and 2009 was $6.8 million and $2.3 million respectively. At December 31, 2010, $0.9 million was receivable from Canexus LP for interest income on the Debentures (December 31, 2009 – $19,000). At December 31, 2010, $4.9 million of non-interest bearing promissory notes (December 31, 2009 – $5,000) were payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principal amount of Debentures redeemed by Canexus LP (see Note 6 Investment in Canexus LP). Non-interest bearing promissory notes payable are included in due to/from affiliates, net, at December 31, 2010 and 2009.

6. Investment in Canexus LP

	December 31, 2010		December 31, 2009	
	Number of Ordinary LP Units	Amount	Number of Ordinary LP Units	Amount
Outstanding, Beginning of Year	33,701,807	295,590	32,570,814	284,240
Equity Income from Investment in Canexus LP	-	3,280	-	25,474
Distributions Reinvested Pursuant to the DRIP[1] (Note 7)	515,085	3,044	1,087,857	3,876
Issue of Units Pursuant to Conversion of Series I Debentures	4,151,156	26,080	43,136	225
Distributions Received from Canexus LP	-	(18,476)	-	(16,681)
Distribution Receivable from Canexus LP	-	(1,794)	-	(1,544)
Outstanding, End of Year	38,368,048	307,724	33,701,807	295,590

Note:

(1) Under the Distribution Reinvestment Plan ("DRIP"), proceeds from the reinvestment of distributions by Unitholders of the Fund are utilized by the Fund to subscribe for additional trust units in Canexus Commercial Trust, which in turn utilizes the proceeds to subscribe for additional Ordinary Limited Partnership ("LP") Units of Canexus LP.

Pursuant to the Series I and Series III Debenture agreements between Canexus LP and the Fund, in the event a holder of Series I or Series III Convertible Debentures of the Fund exercises their right to convert the Series I or Series III Convertible Debentures into Fund Units, Canexus LP shall issue to the Fund Ordinary LP Units that are equal in number to the Fund Units issued by the Fund on conversion of Series I or Series III Convertible Debentures at a subscription price equal to fair market value. At that same time, Canexus LP shall redeem that portion of the principal amount of the Series I or Series III Debentures that are equal to the principal amount of Series I or Series III Convertible Debentures of the Fund that were converted.

7. Distributions

The Fund declared distributions of $20.3 million ($0.5472 per Unit) and $18.2 million ($0.5472 per Unit) for the years ended December 31, 2010 and 2009 respectively. Of the total distributions declared for the years ended December 31, 2010 and 2009, $3 million and $3.9 million respectively were reinvested by Unitholders in additional Fund Units pursuant to the DRIP.

8. Income Taxes

The Fund, a specified investment flow-through entity, will be subject to income tax beginning in 2011. As a result, the Fund has recognized a $7.2 million future income tax liability at December 31, 2010 (December 31, 2009 – $7.5 million) on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

(a) Temporary Differences

	December 31, 2010		December 31, 2009	
	Future Income Tax Asset	Future Income Tax Liability	Future Income Tax Asset	Future Income Tax Liability
Assets/Liabilities underlying Investment in Canexus LP	-	7,208	-	7,479

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

	2010	2009
Income before Future Income Taxes	931	23,431
Canadian Statutory Rate	0%	0%
Add (Deduct) the Tax Effect of:		
Tax Rate Adjustment	23	(951)
Other Changes in Temporary Differences Expected to Reverse Post 2010	(294)	(3,143)
Recovery of Future Income Taxes	(271)	(4,094)
Effective Tax Rate	(29%)	(17%)

9. Unitholders' Equity

	December 31, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
Beginning of Year	33,848,871	325,620	32,570,814	320,801
Fund Units Issued Pursuant to the DRIP	515,085	3,044	1,087,857	3,876
Fund Units Issued on Exercise of Unit Options	825,943	5,003	147,064	723
Fund Units Issued on Conversion of Series I Convertible Debentures	4,151,156	21,368	43,136	220
End of Year	39,341,055	355,035	33,848,871	325,620

DRIP participants may elect, in the case of holders of Fund Units, to automatically reinvest monthly distributions in additional Fund Units and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP. The Fund has reserved 22,000,000 Units for the issuance of Fund Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between the Fund, Canexus Commercial Trust, Canexus LP and Nexen, the Exchangeable LP Units held by Nexen are exchangeable for Fund Units on a one-for-one basis. The Fund has reserved 66,238,563 Units at December 31, 2010 (December 31, 2009 – 64,835,420 Units) for the exchange of the Exchangeable LP Units. An exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to the Fund. As a result of the above transactions, the Fund's interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange. On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units for an equivalent number of Fund Units. Also on February 7, 2011, Nexen disposed of its entire interest in the Fund through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of $6.40 per Fund Unit (see Note 15 Subsequent Event).

10. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash	83	83	394	394
Loans and Receivables, measured at amortized cost				
Interest Receivable on Debentures of Canexus LP	912	912	19	19
Due from Affiliates, Net	-	-	17	17
Distribution Receivable from Canexus LP	1,794	1,794	1,544	1,544
Investment in Debentures of Canexus LP	124,609	150,128	85,780	93,929
Total Loans and Receivables	127,315	152,834	87,360	95,509
Total Financial Assets	127,398	152,917	87,754	95,903
Financial Liabilities				
Held-For-Trading, measured at fair value				
Short-Term Unit Based Compensation	448	448	-	-
Long-Term Unit Based Compensation	224	224	20	20
Total Held-For-Trading	672	672	20	20
Other Financial Liabilities, measured at amortized cost				
Accounts Payable and Accrued Liabilities	1	1	1	1
Due to Affiliates, Net	960	960	-	-
Distribution Payable to Unitholders	1,794	1,794	1,544	1,544
Interest Payable on Convertible Debentures	912	912	19	19
Convertible Debentures, Net	112,126	150,128	78,496	93,929
Total Other Financial Liabilities	115,793	153,795	80,060	95,493
Total Financial Liabilities	116,465	154,467	80,080	95,513

The Fund did not have available-for-sale financial instruments as at or during the years ended December 31, 2010 and 2009.

There has been no change in the nature of financial instruments of the Fund, the methods used by the Fund to measure the risks arising from financial instruments or in the Fund's objectives, policies and processes for managing such risks since the year ended December 31, 2009.

The Fund categorizes its financial instruments carried at fair value into one of three levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement of their fair value. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. Credit risk associated with counterparty default, as well as our own credit risk, is included in our estimates of fair value. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. Cash and unit based compensation are the only financial instruments carried at fair value and, consistent with December 31, 2009, have been valued using Level 1 inputs.

The carrying value of interest receivable on debentures of Canexus LP, distribution receivable from Canexus LP, accounts payable and accrued liabilities, due to/from affiliates, net, distribution payable to Unitholders, and interest payable on convertible debentures approximates their fair value as these financial instruments are near maturity. The fair value of the Series I and Series III Convertible Debentures was based on a quoted market price in an active market. The fair value of the Series II Convertible Debentures was calculated by comparison to quoted prices for similar instruments traded in an active market. The fair value of the Investment in Debentures of Canexus LP was determined based on the fair value determined above for the Convertible Debentures as the proceeds raised on their issuance were used to purchase Debentures of Canexus LP in which, at December 31, 2010, the Fund held a 36.7 percent interest (see Note 4 Convertible Debentures).

(b) Financial Risk Management

The Fund has exposure to credit risk and liquidity risk as it is entirely dependent on the receipt of cash distributions and interest revenue on the Debentures from Canexus LP for purposes of paying cash distributions to Unitholders and interest payments to Convertible Debentureholders.

11. Capital Risk Management

The capital structure of the Fund consists of cash, Convertible Debentures and issued capital. The Fund manages its capital structure and makes adjustments in order to preserve its ability to meet financial obligations, provide an appropriate investment return to Unitholders and allow financing options to the Fund as financing needs arise. Management, upon approval of the Board of Directors, may balance the Fund's overall capital structure through new Unit issues, the issuance of debt or by undertaking other activities as deemed appropriate. There has been no change in the Fund's objectives, policies and processes for managing capital since the year ended December 31, 2009.

	December 31, 2010	December 31, 2009
Cash	83	394
Convertible Debentures, Net	(112,126)	(78,496)
Unitholders' Equity	(355,035)	(325,620)
	(467,078)	(403,722)

12. Unit Based Compensation

(a) TUIP

(i) *TUIP (Excluding 2005 TUIP for the Year Ended December 31, 2010)*

	Number of Options		Weighted Average Exercise Prices	
	2010	2009	2010	2009
Outstanding, Beginning of Year	3,057,820	2,874,900	5.78	5.85
Granted	965,070	464,000	6.72	4.96
Exercised	(433,579)	(115,780)	5.95	4.12
Forfeited	(46,150)	(165,300)	5.55	5.84
2005 Unit Options as per Amendment	(450,500)	-	9.73	-
Outstanding, End of Year	3,092,661	3,057,820	5.47	5.78
Exercisable, End of Year	1,563,807	1,832,379	5.20	6.81

(ii) *2005 TUIP*

	Number of Options		Weighted Average Exercise Prices	
	2010	2009	2010	2009
Outstanding, Beginning of Year	-	-	-	-
2005 Unit Options as per Amendment	450,500	-	9.73	-
Exercised [1]	(444,500)	-	9.75	-
Forfeited	(6,000)	-	8.32	-
Outstanding, End of Year	-	-	-	-
Exercisable, End of Year	-	-	-	-

Note:

(1) 353,100 2005 TUIP options were exercised and settled for $606,000 in cash which was recovered from CCCLP, CUI or Canexus Brazil, as applicable during the year ended December 31, 2010.

The range of exercise prices for Unit options outstanding at December 31, 2010 under the TUIP was $2.99 to $8.67 per Unit and the weighted average remaining contractual life was 3.1 years.

The Fund has granted options and corresponding bonus rights to officers and employees under the TUIP. Each option permits the holder to purchase one Unit at a stated exercise price. The options granted vest over three years and expire in 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 TUIP and the DTUCP (the "Plans") is equal to 5 percent of the aggregate issued and outstanding Units and Exchangeable LP Units (on a non-diluted basis) (December 31, 2010 – 5,278,981), which is the maximum allowable under the Plans. Of the maximum allowable under the Plans, the aggregate number of Units reserved under the DTUCP is 400,000 (see 12(c) below). At December 31, 2010, 3,964,396 Units (December 31, 2009 – 4,198,764 Units) are reserved and available for issue upon the exercise of options and redemption of bonus rights under the TUIP and 316,261 Units (December 31, 2009 – 241,832 Units) are reserved and available for issuance under the DTUCP.

At December 31, 2010, a total of 3,092,661 Unit options and 3,092,661 corresponding bonus rights were outstanding under the TUIP. Accumulated notional bonus Units on these bonus rights were 871,735 at December 31, 2010. At December 31, 2010, there were 1,563,807 vested Unit options exercisable into 1,563,807 Units, as well as 1,563,807 corresponding bonus rights redeemable into 744,167 notional bonus Units accumulated thereon.

At December 31, 2009, a total of 3,057,820 Unit options and 3,057,820 corresponding bonus rights had been granted. Accumulated notional bonus Units on these bonus rights were 1,140,944 at December 31, 2009. At December 31, 2009, there were 1,832,379 vested Unit options exercisable into 1,832,379 Units, as well as 1,832,379 corresponding bonus rights redeemable into 920,868 notional bonus Units accumulated thereon.

The Fund recognized TUIP unit based compensation expense for the years ended December 31, 2010 and 2009 of $0.9 million and $0.6 million respectively, excluding the 2005 TUIP, with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash. The expense associated with the 2005 TUIP was recognized in prior years over the vesting period of the 2005 TUIP.

The weighted average fair value of Unit options issued is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for Unit options granted during the years ended December 31, 2010 and 2009:

	2010	2009
Risk-Free Interest Rate (%)	3.10	4.32
Estimated Hold Period Prior to Exercise (years)	3	3
Expected Volatility in the Price of Units (%)	37.7	40.5
Expected Annual Distributions per Unit	-	-
Fair Value of Options Granted	1.93	1.57

(b) UARP

The Fund began sponsoring grants of unit appreciation rights and corresponding bonus rights to officers and employees under the UARP on October 26, 2009.

Each UAR entitles the holder to a cash payment equal to the excess of the market price of Fund Units over the exercise price of the right. The UARs granted vest over three years and expire on December 15 of the third calendar year following the year in which the UAR was granted. Each UARs 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 UAR, to receive an additional cash payment to reflect the notional reinvestment of distributions ("notional bonus Units") that would have been paid on the Fund Unit underlying the UAR from the date of grant of the UAR.

Under the UARP, expense is recognized over the vesting period or other expected term of service with a corresponding increase to liabilities as these instruments are settled in cash. The Fund recognized UAR unit based compensation expense for the years ended December 31, 2010 and 2009 of $0.7 million and $20,000 respectively. The portion of the UARP unit based compensation liability that vests within one year is considered to be short-term and the remaining portion is considered to be long-term. As the expense related to the UARP is related to employees who provide services to CCCLP,

CUI or Canexus Brazil, the Fund has recorded a recovery of this expense of $0.7 million and $20,000 during the years ended December 31, 2010 and 2009 respectively, from CCCLP, CUI or Canexus Brazil as applicable.

The range of exercise prices for UARs outstanding at December 31, 2010 under the UARP was $5.19 to $5.63 per UAR and the weighted average remaining contractual life was 2 years.

At December 31, 2010, a total of 395,270 UARs and 395,270 corresponding bonus rights were outstanding. Accumulated notional bonus Units on these bonus rights were 53,685 at December 31, 2010. At December 31, 2010, there were 112,444 vested UARs exercisable into 112,444 UARs, as well as 112,444 corresponding bonus rights redeemable into 1,432 notional bonus Units accumulated thereon.

At December 31, 2009, a total of 430,100 UARs and 430,100 corresponding bonus rights had been granted. Accumulated notional bonus Units on these bonus rights were 7,547 at December 31, 2009. At December 31, 2009, there were no vested UARs or notional bonus Units.

	Number of UARs		Weighted Average Exercise Prices	
	2010	2009	2010	2009
Outstanding, Beginning of Year	430,100	-	5.19	-
Granted	11,000	435,100	5.91	5.19
Exercised	(30,163)	-	5.19	-
Forfeited	(15,667)	(5,000)	5.53	5.19
Outstanding, End of Year	395,270	430,100	5.20	5.19
Exercisable, End of Year	112,444	-	5.19	-

(c) DTUCP

At December 31, 2010, there were 316,261 DTUs outstanding under the DTUCP comprised of 238,000 DTUs granted and 78,261 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. At December 31, 2009, there were 241,832 DTUs outstanding under the DTUCP comprised of 186,000 DTUs granted and 55,832 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

An aggregate of 400,000 Units are reserved under the DTUCP.

The Fund recognized DTUCP unit based compensation expense for the years ended December 31, 2010 and 2009 of $0.3 million and $0.7 million respectively with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash.

In accordance with the terms of the DTUCP, a total of 75,221 Fund Units will be distributed to the three Nexen appointed Directors on August 7, 2011 (see Note 15 Subsequent Event).

13. Net Income Per Unit

Net income per unit is calculated using net income divided by the weighted average number of Units outstanding. Diluted net income per unit is calculated in the same manner as net income per unit, except (i) the numerator is adjusted to remove the income or expense associated with dilutive instruments, and (ii) the weighted average number of diluted Units outstanding is used as the denominator.

	December 31, 2010	December 31, 2009
Weighted Average Number of Units Outstanding	36,746,262	33,253,632
Units Issuable Pursuant to DTUs and Notional Reinvestments	254,010	187,340
Units Issuable Pursuant to Unit Options and Corresponding Bonus Rights	3,340,474	1,883,951
Notional Units to be Purchased from Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	(1,821,132)	(1,579,379)
Units Issuable on Conversion of the Series I Debentures	-	3,013,483
Weighted Average Number of Diluted Units Outstanding	38,519,614	36,759,027

During the years ended December 31, 2010 and 2009, outstanding Unit options and corresponding bonus rights, DTUs and notional reinvestments and the Series I Convertible Debentures were the only potential dilutive instruments. In addition, the Series III Convertible Debentures issued on September 28, 2010 were potentially dilutive during the year ended December 31, 2010. The conversion of the Series I and Series III Convertible Debentures were anti-dilutive for the year ended December 31, 2010 and therefore were not included in the diluted net income per Unit calculation.

In calculating the weighted average number of diluted Units outstanding for the year ended December 31, 2010, 186,892 weighted average DTUs and 67,118 corresponding weighted average additional DTUs (from notional reinvestments) were included and 2,286,473 weighted average Unit options and 1,054,001 corresponding weighted average notional bonus Units were included. We included all Unit options and corresponding notional bonus Units as their option exercise price was lower than the average Unit trading price and associated distributions declared.

In calculating the weighted average number of diluted Units outstanding for the year ended December 31, 2009, 143,545 weighted average DTUs and 43,795 corresponding weighted average additional DTUs (from notional reinvestments) were included and 1,574,140 weighted average Unit options and 309,811 corresponding weighted average notional bonus Units were included. We excluded 1,470,790 Unit options and 706,453 corresponding notional bonus Units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

At December 31, 2010, 4,194,292 Fund Units had been issued on conversions of Series I Convertible Debentures (December 31, 2009 – 43,136). If all of the Convertible Debentures had been converted the Fund's interest in Canexus LP would have been 40.5 percent and Nexen would have held a 59.5 percent controlling interest in Canexus LP at December 31, 2010.

14. Economic Dependence

The Fund is entirely dependent on cash distributions and interest revenue on the Debentures received from Canexus LP.

15. Subsequent Event

Disposal by Nexen of Interest in Canexus LP and the Fund

On January 27, 2011, Nexen converted the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP and on February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units for an equivalent number of Fund Units (see Note 9 Unitholders' Equity). On February 7, 2011, Nexen disposed of its entire interest in the Fund through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of $6.40 per Fund Unit. As a result of the above transactions, as of February 7, 2011, the Fund indirectly owns 100 percent of Canexus LP.

After giving effect to this offering, Nexen will not own any Fund Units or any securities convertible into Fund Units as the sale of 74,539,604 Fund Units by Nexen represented Nexen's entire interest in Canexus LP and the Fund. In accordance with the Governance Agreement between the Fund, Canexus Commercial Trust, Canexus LP, Canexus Limited, Canexus Holdings, and Nexen dated August 18, 2005, upon closing of the secondary offering on February 7, 2011, Nexen automatically ceased to be a party to the Governance Agreement and the three Nexen appointees to the Board of Directors of Canexus Limited resigned.

Independent Auditor's Report

Canexus Limited Partnership

To the Unitholders of Canexus Limited Partnership:

We have audited the accompanying consolidated financial statements of Canexus Limited Partnership and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of income and comprehensive income, deficit and accumulated other comprehensive loss and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

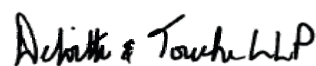
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canexus Limited Partnership and subsidiaries at December 31, 2010 and 2009 and the results of their operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Calgary, Alberta
March 3, 2011

Consolidated Statements of Income and Comprehensive Income

Canexus Limited Partnership

For the Years Ended December 31, 2010 and 2009

CAD thousands	2010	2009
Revenues		
Sales	457,357	458,447
Expenses		
Cost of Goods Sold	356,035	312,280
Amortization	57,030	46,321
General and Administrative	32,526	35,173
Interest on Debentures (Note 13)	6,805	2,323
Interest	9,735	5,338
	462,131	401,435
Income (Loss) before Other Income, Impairment and Income Taxes	(4,774)	57,012
Other Income (Note 19)	19,350	43,707
Income before Impairment and Income Taxes	14,576	100,719
Impairment (Note 8 (a))	-	(17,227)
Income before Income Taxes	14,576	83,492
Provision for Income Taxes (Note 10)		
Current	4,715	2,901
Future	489	6,939
	5,204	9,840
Net Income	9,372	73,652
Other Comprehensive Loss, Net of Tax (Note 19)	(3,553)	(12,786)
Comprehensive Income	5,819	60,866

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss

Canexus Limited Partnership

For the Years Ended December 31, 2010 and 2009

CAD thousands	2010	2009
Deficit		
Beginning of Year	(73,254)	(94,430)
Net Income	9,372	73,652
Distributions Declared	(55,883)	(52,476)
End of Year	(119,765)	(73,254)
Accumulated Other Comprehensive Loss		
Beginning of Year	(27,510)	(14,724)
Other Comprehensive Loss, Net of Tax (Note 19)	(3,553)	(12,786)
End of Year	(31,063)	(27,510)

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Canexus Limited Partnership

At December 31, 2010 and 2009

CAD thousands	2010	2009
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 20(c))	3,223	13,200
Accounts Receivable (Note 4)	51,206	53,786
Inventories and Operating Supplies (Note 5)	34,509	31,404
Derivative Financial Instruments (Note 6)	405	1,532
Prepaid Expenses (Note 7)	3,178	3,537
Due from Affiliates, Net (Note 13)	637	-
Total Current Assets	93,158	103,459
Property, Plant and Equipment, Net (Note 8(a))	642,110	559,233
Intangible Assets, Net (Note 8(b))	1,555	1,522
Long-Term Investments (Note 9)	2,704	3,137
Future Income Tax (Note 10)	9,229	7,941
Other Long-Term Assets (Note 11)	5,062	8,648
Total Assets	753,818	683,940

Consolidated Balance Sheets

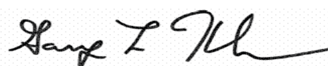
Canexus Limited Partnership

At December 31, 2010 and 2009

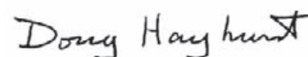
CAD thousands, except unit amounts	2010	2009
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 12)	10,512	-
Accounts Payable and Accrued Liabilities	45,987	60,119
Distribution Payable to Ordinary Limited Partnership ("LP") Unitholders	1,794	1,544
Distribution Payable to Exchangeable Limited Partnership ("LP") Unitholder, Nexen Inc. ("Nexen")	3,021	2,957
Interest Payable	1,454	1,021
Interest Payable on Debentures (Note 13)	912	19
Due to Affiliates, Net (Note 13)	-	172
Total Current Liabilities	63,680	65,832
Derivative Financial Instruments (Note 6)	2,972	2,106
Long-Term Debt (Note 12)	321,684	284,851
Debentures, Net (Note 13)	120,415	83,457
Future Income Tax (Note 10)	14,956	13,900
Asset Retirement Obligations (Note 14)	39,686	33,072
Other Long-Term Liabilities (Note 11)	5,386	3,677
Total Liabilities	568,779	486,895
Equity		
Ordinary LP Units (38,368,048 outstanding) (Note 16)	338,276	309,152
Exchangeable LP Units (66,238,563 outstanding) (Note 16)	(2,409)	(11,343)
Total LP Units	335,867	297,809
Deficit	(119,765)	(73,254)
Accumulated Other Comprehensive Loss	(31,063)	(27,510)
Total Deficit and Accumulated Other Comprehensive Loss	(150,828)	(100,764)
Total Equity	185,039	197,045
Commitments, Contingencies and Guarantees (Note 18)		
Total Liabilities and Equity	753,818	683,940

See accompanying notes to the Consolidated Financial Statements

Approved on behalf of the Board of Canexus Limited, general partner of Canexus Limited Partnership:



Gary L. Kubera
Director



Douglas Hayhurst
Director

Consolidated Statements of Cash Flows

Canexus Limited Partnership

For the Years Ended December 31, 2010 and 2009

CAD thousands	2010	2009
Operating Activities		
Net Income	9,372	73,652
Realized Currency Translation (Gains) Losses on Cash	(948)	1,240
Charges and Credits to Income Not Involving Cash (Note 20(a))	75,079	39,434
Contributions to/Payments for Defined Benefit Plans	(2,397)	(2,989)
Purchase of Foreign Exchange Options	(972)	(1,798)
Expenditures on Asset Retirement Obligations (Note 14)	(980)	(869)
Interest Income on Long-Term Investments (Note 9)	(4)	(262)
Change in Due from/to Affiliates, Net and Interest Payable to Affiliates	5,578	(664)
Changes in Non-Cash Operating Working Capital (Note 20(b))	1,436	9,519
Total Operating Activities	86,164	117,263
Financing Activities		
Proceeds from (Repayments of) Short-Term Borrowings, Net	10,512	(10,870)
Proceeds from Extendible Revolving Credit Facility	457,946	50,313
Proceeds from Senior Secured Revolving Credit Facility	1,068	16,292
Proceeds from Export Development Canada ("EDC") Extendible Revolving Credit Facility	4,056	2,250
Proceeds from Debentures	60,000	86,000
Repayments of Extendible Revolving Credit Facility	(419,130)	(17,545)
Repayments of Senior Secured Revolving Credit Facility	(14,211)	(3,148)
Repayments of EDC Extendible Revolving Credit Facility	(2,114)	-
Credit Facility Transaction Costs	(4,256)	(691)
Reimbursement of Fund Convertible Debenture Transaction Costs	(2,798)	(2,436)
Cash Distributions Paid to Ordinary LP Unitholders	(16,976)	(15,780)
Cash Distributions Paid to Nexen, Exchangeable LP Unitholder	(26,608)	(8,869)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 9)	830	6,521
Total Financing Activities	48,319	102,037
Investing Activities		
Expenditures on Property, Plant and Equipment	(134,372)	(214,284)
Changes in Non-Cash Investing Working Capital (Note 20(b))	(10,942)	6,622
Total Investing Activities	(145,314)	(207,662)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	854	(2,386)
Increase (Decrease) in Cash and Cash Equivalents	(9,977)	9,252
Cash and Cash Equivalents – Beginning of Year	13,200	3,948
Cash and Cash Equivalents – End of Year	3,223	13,200
Supplemental Cash Flow Information (Note 20(c))		

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Limited Partnership

For the Years Ended December 31, 2010 and 2009

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 four plants located in Canada and one in South America, 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.

At December 31, 2010, Canexus Income Fund (the "Fund") held a 36.7 percent (December 31, 2009 – 34.2 percent) interest and Nexen held a 63.3 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP. Effective February 7, 2011, Nexen disposed of its entire interest in Canexus LP (see Note 22 Subsequent Event).

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust (a wholly owned subsidiary of the Fund) and Nexen 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 business of Canexus LP, to enter into any agreement and to incur any obligation related to the affairs of Canexus LP and is entitled to full reimbursement of all costs and expenses incurred on behalf of Canexus LP. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of Canexus LP, these costs and obligations have been reflected in the consolidated financial statements and notes thereto of Canexus LP.

2. Summary of Significant Accounting Policies

The consolidated financial statements of Canexus LP are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, the consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended.

Use of Estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Management reviews these estimates on an ongoing basis including those related to litigation, asset retirement obligations, the allowance for doubtful accounts, employee future benefits, the recoverability of tangible long-lived assets, income taxes and the fair value of derivative financial instruments. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Revenue Recognition

Revenue is recognized when our products are delivered to our customers pursuant to a sales contract specifying delivery volumes and sales prices. Provisions for estimated rebates, commissions and pricing allowances are recorded as a reduction to sales.

Transportation

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

Income Taxes

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

Employee Benefits

The cost of pension benefits earned by employees in our defined benefit pension plans is actuarially determined using the projected-benefit method prorated on service and our best estimate of the plans' investment performance, salary escalations and retirement ages of employees. To calculate the plans' expected returns, assets are measured at fair value.

Past service costs arising from plan amendments, and net actuarial gains and losses which exceed 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets, are expensed in equal amounts over the expected average remaining service life of the employee group. We measure the plan assets and the accrued benefit obligation on December 31 each year.

Foreign Currency Translation

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

The accounts of our international subsidiaries that are considered financially and operationally independent are translated from their functional currency into Canadian dollars as follows:

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

Gains and losses resulting from this translation are included in accumulated other comprehensive income (loss) in equity.

The accounts of our international subsidiaries that are not considered financially and operationally independent are translated from their functional currency into Canadian dollars as follows:

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

Gains and losses resulting from this translation are included in net income (loss) for the period.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that mature within 90 days of their purchase. These investments are recorded at cost, which approximates their market value.

Accounts Receivable

Accounts receivable are recorded when revenue is recognized in accordance with our revenue recognition policy. An allowance for doubtful accounts is established for accounts receivable to approximate future expected credit risk loss exposure to existing customers.

Inventories and Operating Supplies

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

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

Property, Plant and Equipment (“PP&E”)

PP&E is recorded at cost and includes only recoverable costs that directly result in an identifiable future benefit. Unrecoverable costs, maintenance and turnaround costs that do not extend the useful lives of the related assets are expensed as incurred. Improvements that increase capacity or extend the useful lives of the related assets are capitalized.

Amortization

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

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

Long-Term Investments

Long-term Investments are recorded at the lower of cost or market value.

Financial Instruments and Derivatives

All financial assets and liabilities are recognized on the balance sheet when we become a party to the contractual provisions of the instrument and are initially recognized at fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified as either held-for-trading; loans and receivables; held-to-maturity or available-for-sale. Financial liabilities are classified as either held-for-trading or other financial liabilities. Classification of financial assets and liabilities depends on the characteristics and the purpose for which they were acquired. Except in very limited circumstances, the classification of financial instruments is not subsequently changed. After initial recognition, items classified as held-for-trading and available-for-sale are revalued at fair values, while items classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Impairment recorded on items classified as held-to-maturity is reviewed using the incurred credit loss model and results in the reversal of impairment if the current estimated realizable value of the item is greater than the current carrying value.

Transaction costs or fees attributable to the acquisition, issue or disposal of a financial asset or financial liability are recorded net against the fair value of the financial instrument. Interest income or expense is recorded using the effective interest method.

Asset Retirement Obligations

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

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

3. Adoption of IFRS

Canexus LP will adopt International Financial Reporting Standards ("IFRS") in accordance with the Canadian Accounting Standards Board requirement that publicly accountable entities prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The adoption of IFRS will require the restatement, for comparative purposes, of amounts reported by Canexus LP for the year ended December 31, 2010 and of the opening statement of financial position at January 1, 2010.

4. Accounts Receivable

	December 31, 2010	December 31, 2009
Accounts Receivable – Trade	42,828	43,849
Allowance For Doubtful Accounts	(2,610)	(2,614)
	40,218	41,235
Accounts Receivable – Value Added Taxes and Other	10,988	12,551
	51,206	53,786

The aging of trade receivables at December 31, 2010 is set out below:

	North America	South America	Asia	Total
Current	27,284	10,039	275	37,598
Past Due 0 – 30 days	3,301	31	-	3,332
Past Due 31 – 60 days	55	-	-	55
Past Due 61 – 90 days	1	-	-	1
Past Due Greater than 90 Days	1,800	42	-	1,842
	32,441	10,112	275	42,828

The movement in the allowance for doubtful accounts in respect of trade receivables is set out below:

	December 31, 2010	December 31, 2009
Beginning of Year	(2,614)	(2,697)
Allowance for Doubtful Accounts	-	(650)
Write Off of Specific Accounts Receivable	4	733
End of Year	(2,610)	(2,614)

Management evaluates the collectability of accounts receivable on an ongoing basis and establishes an allowance for doubtful accounts to approximate future expected credit risk loss exposure to existing customers.

5. Inventories and Operating Supplies

	December 31, 2010	December 31, 2009
Raw Materials and Work-in-Progress	6,036	5,985
Finished Goods	12,697	10,769
Operating Supplies	15,776	14,650
	34,509	31,404

Impairments of $0.5 million were recorded in raw materials and $0.3 million in operating supplies at December 31, 2010.

6. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	3,223	3,223	13,200	13,200
Derivative Financial Instruments				
Foreign Exchange Options	405	405	1,532	1,532
Total Held-For-Trading	3,628	3,628	14,732	14,732
Loans and Receivables, measured at amortized cost				
Accounts Receivable	51,206	51,206	53,786	53,786
Long-Term Deposits with the Energy Resources Conservation Board ("ERCB"), formerly the Energy Utilities Board	130	130	130	130
Long-Term Accounts Receivable	1,131	1,131	6,755	6,755
Due from Affiliates, Net	637	637	-	-
Total Loans and Receivables	53,104	53,104	60,671	60,671
Held-to-Maturity, measured at amortized cost				
Long-Term Investments	2,704	2,704	3,137	3,137
Total Financial Assets	59,436	59,436	78,540	78,540
Financial Liabilities				
Held-For-Trading, measured at fair value				
Derivative Financial Instruments				
Interest Rate Swaps	2,972	2,972	2,106	2,106
Total Held-For-Trading	2,972	2,972	2,106	2,106
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	10,512	10,512	-	-
Accounts Payable and Accrued Liabilities	45,987	45,987	60,119	60,119
Distributions Payable	4,815	4,815	4,501	4,501
Interest Payable	1,454	1,454	1,021	1,021
Interest Payable on Debentures	912	912	19	19
Due to Affiliates, Net	-	-	172	172
Debentures, Net	120,415	150,128	83,457	93,929
Long-Term Debt	321,684	321,482	284,851	284,104
Total Other Financial Liabilities	505,779	535,290	434,140	443,865
Total Financial Liabilities	508,751	538,262	436,246	445,971

Canexus LP did not have available-for-sale financial instruments as at or during the years ended December 31, 2010 and 2009.

There has been no change in the nature of financial instruments of Canexus LP, the methods used by Canexus LP to measure the risks arising from financial instruments or in Canexus LP's objectives, policies and processes for managing such risks since the year ended December 31, 2009.

Canexus LP categorizes its financial instruments carried at fair value into one of three levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement of their fair value. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. Credit risk associated with counterparty default, as well as our own credit risk, is included in our estimates of fair value. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. There has been no change in the level in which we classified each financial instrument carried at fair value since the year ended December 31, 2009.

The following table includes all of our fair value measurements recognized in the balance sheet at December 31, 2010.

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	3,223	-	-	3,223
Foreign Exchange Options	-	405	-	405
Interest Rate Swaps	-	(2,972)	-	(2,972)
	3,223	(2,567)	-	656

The carrying value of accounts receivable and due from affiliates, net, approximates their fair value as these financial instruments are near maturity. The carrying value of the long-term deposits with the ERCB and the long-term accounts receivable approximates their fair value as the carrying values do not significantly differ from their expected settlement amounts. The carrying value of long-term investments, net of an allowance for impairment, approximates their fair value. The carrying value of short-term borrowings, accounts payable and accrued liabilities, distributions payable, interest payable and interest payable on Debentures, approximates their fair value as these financial instruments are near maturity. The carrying value of the revolving credit facilities loans approximates their fair value as these loans bear interest at floating rates (see Note 12 Long-Term Debt and Short-Term Borrowings). At December 31, 2010 , the fair value of the US $50 million Senior Secured Notes ("Senior Secured Notes") was $49.5 million (US $49.8 million) (December 31, 2009 – $51.6 million (US $49.3 million)). The fair value of the Senior Secured Notes was determined by comparison to what the present value of a similar instrument with a similar time to maturity would have been at December 31, 2010. The fair value of the Debentures were determined based on the fair market value determined for the Series I, II and III Convertible Debentures issued by the Fund as the proceeds raised on their issuance were used to purchase unsecured subordinated debentures of Canexus LP in which, at December 31, 2010, the Fund held a 36.7 percent interest.

(b) Financial Risk Management

(i) *Overview*

Canexus LP has exposure to credit risk, liquidity risk and market risk (including foreign currency rate risk and interest rate risk). The Board of Directors has overall responsibility for the oversight of Canexus LP's risk management framework. Canexus LP has established risk management policies governing the use of derivative financial instruments, investing of excess liquidity and cash management. These policies are periodically reviewed and approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by Internal Audit on a periodic basis. The nature of the risks faced by Canexus LP and its policies for managing such risks remain unchanged from the year ended December 31, 2009.

(ii) *Liquidity Risk*

Liquidity risk is the risk that Canexus LP will not be able to meet its financial obligations as they come due. Our approach to managing this risk includes the continual monitoring of forecast and actual cash flows to ensure we have sufficient liquidity to meet financial obligations when due and by maintaining adequate committed borrowing facilities.

(iii) *Credit Risk*

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from Canexus LP's trade accounts receivable. The following precautions are taken to reduce this risk:

- the financial strength of counterparties is assessed through a 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, if available, and internal assessments based on company and industry analysis;
- counterparty credit limits are reviewed regularly; and
- credit limits are periodically reviewed with the Audit Committee of the Board of Directors.

Credit risk concentrations at December 31, 2010 for trade accounts receivable were as follows:

	North America		South America		Asia		Total	
Industry	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	24,663	76	7,981	79	275	100	32,919	77
Water Treatment	2,604	8	448	5	-	-	3,052	7
Chemicals	2,299	7	236	2	-	-	2,535	6
Oil and Gas	962	3	-	-	-	-	962	2
Other	1,913	6	1,447	14	-	-	3,360	8
	32,441	100	10,112	100	275	100	42,828	100

Geographical Area	Carrying Value	Percent
Canada	16,610	39
United States	15,831	37
South America	10,112	23
Asia	275	1
	42,828	100

Our North American customers are diverse with no one customer accounting for more than 8 percent of total trade accounts receivable at December 31, 2010 (December 31, 2009 – 8 percent).

The majority of our South American production is sold to Fibria Celulose S.A. ("Fibria"), formerly Aracruz Celulose S.A., under a long-term sales agreement. At December 31, 2010, trade amounts owing from Fibria represented 18 percent of total trade accounts receivable (December 31, 2009 – 17 percent).

(iv) *Market Risks*

Foreign Currency Rate Risk

A substantial portion of the sales 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 South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. The average Canadian to US dollar foreign exchange rate for the year ended December 31, 2010 was US $0.97. An increase in the Canadian to US dollar exchange rate to US $1.02 would have decreased income before income taxes by $6.6 million for the year ended December 31, 2010, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US $0.92 would have increased income before income taxes by $5.4 million for the year ended December 31, 2010. A range of US $0.92 to $1.02 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has borrowed US dollar denominated long-term debt and incurs other expenditures in US dollars. During the year ended December 31, 2010, Canexus LP had the following foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9434 per Canadian dollar from October 1, 2010 to December 31, 2010;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 per Canadian dollar from July 1, 2010 to September 30, 2010;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010; and
- total of US $10 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9479 (US $5 million per month) and US $0.9302 (US $5 million per month) for an average of US $0.9391 per Canadian dollar from January 1, 2010 to March 31, 2010.

During the three months ended December 31, 2010, Canexus LP acquired foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9804 per Canadian dollar from January 1, 2011 to March 31, 2011.

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

Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. The average 30 day US LIBOR base rate was 0.27 percent for the year ended December 31, 2010. A change in the 30 day US LIBOR base rate to 0.2 percent would have increased income before income taxes by $0.2 million for the year ended December 31, 2010. A change in the 30 day US LIBOR base rate to 1 percent would have decreased income before income taxes by $1.9 million the year ended December 31, 2010. A range of 0.2 to 1 percent for the 30 day US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap three month US LIBOR floating interest rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. These interest rate swaps are settled quarterly.

7. Prepaid Expenses

	December 31, 2010	December 31, 2009
Prepaid Insurance	2,016	2,200
Prepaid Freight	502	584
Prepaid Property Tax	120	-
Other	540	753
	3,178	3,537

The majority of other prepaid expenses consist of information technology software licenses and SAP maintenance costs.

8. Property, Plant and Equipment and Intangible Assets

(a) Property, Plant and Equipment

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	604,733	386,635	218,098
North America Chlor-alkali	498,088	155,206	342,882
South America	134,856	54,785	80,071
Corporate	10,880	9,821	1,059
	1,248,557	606,447	642,110

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	596,022	363,945	232,077
North America Chlor-alkali	390,428	138,047	252,381
South America	121,555	48,848	72,707
Corporate	10,821	8,753	2,068
	1,118,826	559,593	559,233

Canexus LP's North Vancouver chlor-alkali facility achieved stable operating rates in August 2010 following the start-up of the Technology Conversion Project ("TCP") at the end of June. Total costs capitalized on the TCP at December 31, 2010 were $285.2 million including capitalized interest of $13.2 million. These costs are now being amortized.

The PP&E balance at December 31, 2010 includes capitalized costs of $18.5 million for other projects under construction or development. These costs are not being amortized. The balance at December 31, 2009 included capitalized costs of $258.6

million relating primarily to the TCP at our North Vancouver facility ($209.6 million including capitalized interest of $6.4 million), as well as other projects under construction or development.

On April 22, 2009, we announced the closure of our Bruderheim sodium chlorate operations. An impairment of sodium chlorate assets of $17.2 million and severance and other closure related costs of $3.3 million included in other income were incurred during the year ended December 31, 2009.

(b) Intangible Assets

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
North America Chlor-alkali	683	-	683
South America	231	18	213
Corporate	2,401	1,742	659
	3,315	1,760	1,555

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
North America Chlor-alkali	544	-	544
Corporate	2,401	1,423	978
	2,945	1,423	1,522

Intangible assets consist of software.

9. Long-Term Investments

During the year ended December 31, 2010, all funds that were previously segregated to be used for the settlement of ongoing asset retirement obligations and site remediation activities (previously referred to as the "Restricted Investments") had been utilized, as a result there are no longer any restricted investments and general funds will be used to settle ongoing asset retirement obligations and site remediation activities.

The estimated realizable value of our $4.1 million investment in restructured notes, which replaced our investment in non-bank sponsored asset backed commercial paper ("ABCP"), was $2.7 million at December 31, 2010 (December 31, 2009 – $2.4 million). During the year ended December 31, 2008, we recorded $1.6 million of impairment charges in addition to $0.6 million recorded in the year ended December 31, 2007, for total impairment charges of $2.2 million. During the year ended December 31, 2010, we reversed impairment charges of $0.4 million, in addition to $0.5 million reversed during the year ended December 31, 2009, for total impairment charges reversed of $0.9 million. The estimated realizable value of our investment in the restructured notes was determined by estimating the yield that a prospective purchaser would require for each class of notes. Our estimates of required yield ranged from 6 to 24 percent for the classes of restructured notes now held with a maturity date of December 20, 2016.

10. Income Taxes

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

(a) Temporary Differences

	December 31, 2010		December 31, 2009	
	Future Income Tax Asset	Future Income Tax Liability	Future Income Tax Asset	Future Income Tax Liability
PP&E, Net and Intangible Assets	2,243	14,956	2,301	13,900
Tax Losses Carried Forward	6,986	-	5,640	-
	9,229	14,956	7,941	13,900

In addition to the temporary differences recognized in subsidiary entities at December 31, 2010, the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately $82 million (2009 – $114 million).

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

	2010	2009
Income before Income Taxes	14,576	83,492
Canadian Statutory Rate	0%	0%
Add (Deduct) the Tax Effect of:		
Taxes on Foreign Operations	4,701	2,901
Unrealized Foreign Exchange Gains (Losses)	805	7,095
Difference in Tax and Accounting Amortization	709	798
Deductible Intercompany Interest Expense	(831)	(1,564)
Other	(180)	610
Provision for Income Taxes	5,204	9,840
Effective Tax Rate	36%	12%

(c) Available Unused Tax Losses and Tax Contingencies

At December 31, 2010, various Canexus LP subsidiaries had unused tax losses totalling $28.2 million (December 31, 2009 – $24.9 million).

Unused loss carry forwards expire as follows:

Year	Amount
2015	2,163
2026	4,847
2027	4,557
2028	6,073
2029	4,119
2030	6,453
Total	28,212

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

11. Other Long-Term Assets and Liabilities

	December 31, 2010	December 31, 2009
Other Long-Term Assets		
Credit Facility Transaction Costs, Net	3,801	1,763
Deposits with the ERCB	130	130
Accounts Receivable	1,131	6,755
Total Other Long-Term Assets	5,062	8,648

	December 31, 2010	December 31, 2009
Other Long-Term Liabilities		
Defined Benefit Pension Liability (Note 15(a))	3,010	1,662
Post Retirement Benefit Liability	2,231	1,869
Other	145	146
Total Other Long-Term Liabilities	5,386	3,677

12. Long-Term Debt and Short-Term Borrowings

	Maturity	December 31, 2010	December 31, 2009
Short-Term Borrowings			
Swing Line Loans under Extendible Revolving Credit Facility	June 30, 2014	10,512	-
Long-Term Debt			
Credit Facilities			
Extendible Revolving Credit Facility	June 30, 2014	262,574	212,983
EDC Extendible Revolving Credit Facility	June 30, 2014	9,946	8,373
Senior Secured Revolving Credit Facility	Cancelled	-	11,513
Total Credit Facilities		272,520	232,869
Senior Secured Notes	May 1, 2013	49,730	52,330
Unamortized Senior Secured Notes Transaction Costs, Net		(566)	(348)
		49,164	51,982
Total Long-Term Debt		321,684	284,851

Effective April 15, 2010, Canexus LP's Extendible Revolving Credit Facility was increased from $420 million to $440 million and its US $20 million Senior Secured Revolving Credit Facility was repaid and cancelled. Effective February 22, 2011, the Extendible Revolving Credit Facility and the EDC Extendible Revolving Credit Facility were amended to extend their maturity date to June 30, 2014 and to reduce borrowing costs by 50 basis points across the various debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") levels. In addition, the financial covenants were amended for the Extendible Revolving Credit Facility, EDC Extendible Revolving Credit Facility and the Senior Secured Notes (see Note 17 Capital Risk Management). Canexus LP's senior secured credit facilities (which now includes the $440 million Extendible Revolving Credit Facility and the US $10 million EDC Extendible Revolving Credit Facility) are available for draw down in either Canadian or US dollars and bear interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP 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. Short term swing line loans of up to $35 million Canadian are available under this credit facility provided that the aggregate principal outstanding under this credit facility does not exceed $440 million.

At December 31, 2010, we had $262.6 million (US $264 million) outstanding on the Extendible Revolving Credit Facility. The weighted average interest rate for the year ended December 31, 2010, including the rate applicable on the interest rate swaps, was 4.33 percent and total interest and standby fees incurred were $11.3 million. Total interest paid on the interest rate swaps for the year ended December 31, 2010 was $1.5 million which is included in other income. At December 31, 2009, we had $213 million (US $203.5 million) outstanding on this credit facility. The weighted average interest rate for the year ended December 31, 2009, including the rate applicable on the interest rate swaps, was 2.82 percent and total interest and standby fees incurred were $4.5 million. Total interest paid on the interest rate swaps was $1.3 million for the year ended December 31, 2009 which is included in other income.

The weighted average interest rate on the swing line loans for the year ended December 31, 2010 was 5.10 percent and total interest and standby fees incurred were $0.7 million. The weighted average interest rate on the swing line loans for the year ended December 31, 2009 was 3.1 percent and total interest and standby fees incurred were $0.4 million.

The Senior Secured Revolving Credit Facility was repaid and cancelled on April 15, 2010. The weighted average interest rate for the period January 1, 2010 to April 15, 2010 was 1.55 percent and total interest and standby fees incurred were $0.1 million. At December 31, 2009, we had $11.5 million (US $11 million) outstanding on this credit facility. The weighted average interest rate for the year ended December 31, 2009 was 2.09 percent and total interest and standby fees incurred were $0.6 million.

At December 31, 2010, we had $9.9 million (US $10 million) outstanding on the EDC Extendible Revolving Credit Facility. The weighted average interest rate for the year ended December 31, 2010 was 3.74 percent and total interest and standby fees incurred were $0.4 million. At December 31, 2009, we had $8.4 million (US $8 million) outstanding on this credit facility. The weighted average interest rate for the year ended December 31, 2009 was 2.10 percent and total interest and standby fees incurred were $0.2 million.

Canexus LP has US $50 million of Senior Secured Notes outstanding which bear interest at a fixed rate of 7.32 percent effective May 10, 2010 (6.57 percent prior to May 10, 2010) and mature May 1, 2013. At December 31, 2010, the Canadian dollar equivalent of the US $50 million of Senior Secured Notes was $49.7 million. At December 31, 2009, the Canadian dollar equivalent of the US $50 million of Senior Secured Notes was $52.3 million.

The credit facility agreements and the note indenture governing the Senior Secured Notes also contain covenants (financial and non-financial) and conditions. At December 31, 2010, we were in compliance with all covenants and conditions.

Canexus LP is the applicant on one Letter of Credit at December 31, 2010; a standby letter of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations ($1.1 million). This Letter of Credit was automatically renewed on January 1, 2011 for $1.5 million. It fully covers the actuarially determined obligation and will continue to be automatically renewed for one year periods unless otherwise advised.

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

Due from/to affiliates, net, at December 31, 2010 and December 31, 2009 relate to amounts owing in the normal course of operations as discussed below.

The General Partner, Canexus Limited, employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by the General Partner are recovered at cost from Canexus Chemicals Canada Limited Partnership ("CCCLP"), a directly and indirectly wholly owned subsidiary of Canexus LP. In addition, the General Partner pays other general and administrative expenses on behalf of Canexus LP which it recovers at cost.

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. There were no amounts owing to the Nexen affiliate for the purchase of electricity and natural gas or to Nexen for the lease of office space at December 31, 2010 and December 31, 2009. Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for a term of 5 years for a total contract value of approximately $2.1 million. There was $4,000 owing by the Nexen affiliate at December 31, 2010 for these services (December 31, 2009 – $11,000).

All related party transactions with Nexen and Nexen affiliates are recorded at their exchange amount which approximates market rates prevailing at the time the agreement or transaction was entered into and are on normal trade terms.

	December 31, 2010	December 31, 2009
Electricity Purchases and Retail Service Fees	(476)	(2,249)
Natural Gas Purchases and Retail Service Fees	(1,996)	(3,557)
Lease of Office Space	(830)	(840)
Transloading and Delivery Services Revenue	352	174
Total Related Party Transactions, Net	(2,950)	(6,472)

On August 31, 2009, Canexus LP issued $86 million of unsecured subordinated debentures to the Fund denoted as Series I and Series II (the "Series I Debentures" and "Series II Debentures" respectively) which bear interest at 8 percent payable semi-annually in arrears on December 31 and June 30 of each year. The Series I and II Debentures mature on December 31, 2014. On January 27, 2011, the Series II Debentures were redeemed in full (see Note 22 Subsequent Event).

On September 28, 2010, the Fund issued $60 million of 5.75 percent convertible unsecured subordinated debentures denoted as Series III Convertible Debentures. Canexus LP reimbursed the Fund $2.8 million for transaction costs associated with the issue of the Series III Convertible Debentures. At December 31, 2010, the Fund had Series I, Series II, and Series III convertible unsecured subordinated debentures (collectively the "Convertible Debentures").

On September 28, 2010, Canexus LP issued $60 million of unsecured subordinated debentures to the Fund denoted as Series III (the "Series III Debentures") which bear interest at 5.75 percent payable semi-annually in arrears on December 31 and June 30 of each year, commencing June 30, 2011. The Series III Debentures mature December 15, 2010.

At December 31, 2010, Canexus LP had Series I, Series II, and Series III Debentures (collectively, the "Debentures") outstanding which were held by the Fund.

	December 31, 2010	December 31, 2009
Debentures, Beginning of Year	85,780	-
Issued	60,000	86,000
Redeemed	(21,171)	(220)
	124,609	85,780
Fund Convertible Debenture Transaction Costs	(5,192)	(2,436)
Accumulated Amortization, Fund Convertible Debenture Transaction Costs	998	113
Unamortized Fund Convertible Debenture Transaction Costs	(4,194)	(2,323)
Debentures, Net, End of Year	120,415	83,457

Interest expense recognized on the Debentures for the years ended December 31, 2010 and 2009 was $6.8 million and $2.3 million respectively. At December 31, 2010, $0.9 million was payable to the Fund for interest on the Debentures (December 31, 2009 – $19,000).

Pursuant to the Series I and Series III Debenture agreements between Canexus LP and the Fund, in the event a holder of Series I or Series III Convertible Debentures of the Fund exercises their right to convert the Series I or Series III Convertible Debentures into Fund Units, Canexus LP shall issue to the Fund Ordinary LP Units that are equal in number to the Fund Units issued by the Fund on conversion of Series I or Series III Convertible Debentures at a subscription price equal to fair market value. At that same time, Canexus LP shall redeem that portion of the principal amount of the Series I or Series III Debentures that is equal to the principal amount of Series I or Series III Convertible Debentures of the Fund that were converted.

On January 27, 2011, Nexen converted the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP (see Note 22 Subsequent Event).

At December 31, 2010, $4.9 million of non-interest bearing promissory notes were receivable from the Fund for the excess of the subscription price of Ordinary LP Units over the principal amount of Series I and Series III Debentures redeemed by Canexus LP (December 31, 2009 – $5,000). Non-interest bearing promissory notes receivable are included in due from/to affiliates, net, at December 31, 2010 and December 31, 2009.

14. Asset Retirement Obligations

Changes in the carrying amount of asset retirement obligations associated with our PP&E are as follows:

	December 31, 2010	December 31, 2009
Beginning of Year	33,072	44,771
Disposals	(185)	-
Expenditures on Asset Retirement Obligations	(980)	(869)
Accretion Expense	2,353	2,870
Effect of Foreign Exchange	(16)	(672)
Change in Obligations Reclassified to Current Liabilities [1]	(910)	965
Changes in Cash Flow Estimates and Timing	6,352	(13,993)
End of Year	39,686	33,072

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At December 31, 2010, $1.3 million was included in accounts payable and accrued liabilities (December 31, 2009 – $0.4 million).

Our total estimated undiscounted asset retirement obligations at December 31, 2010 were $139.3 million (December 31, 2009 – $121.8 million). The expected timing of settling our obligations is determined on a plant by plant basis and is currently expected to occur between the years of 2015 to 2050. We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 7.06 percent. Approximately $4.6 million included in our asset retirement obligations are expected to be settled over the next three years.

15. Pension and Other Post Retirement Benefits

(a) Defined Benefit Pension Plans

The cost of pension benefits earned by employees under the Defined Benefit Plan and under the Supplemental Plan are determined using the projected unit credit actuarial cost method prorated on employment services and are expensed as services are rendered. We fund the Defined Benefit Plan according to federal and provincial government regulations by contributing to trust funds administered by an independent trustee. These funds are invested 50 percent in equities and 50 percent in bonds. Effective January 1, 2008, the Defined Benefit Pension Plan was closed to new entrants. All new members subsequent to this date must participate in the Defined Contribution Pension Plan.

	December 31, 2010	December 31, 2009
Change in Projected Benefit Obligation		
Beginning of Year	67,971	59,448
Service Cost	2,998	2,759
Interest Cost	4,147	3,942
Plan Participants' Contributions	716	760
Benefits Paid	(867)	(4,272)
Actuarial Loss	10,353	5,334
End of Year [(1)]	85,318	67,971
Change in Fair Value of Plan Assets		
Beginning of Year	56,602	50,807
Expected Return on Plan Assets	3,738	3,376
Employer's Contributions	2,389	2,743
Plan Participants' Contributions	716	760
Benefits Paid	(867)	(4,272)
Deferred Investment Gain	1,227	3,188
End of Year	63,805	56,602
Reconciliation of Funded Status		
Funded Status [(1)]	(21,513)	(11,369)
Unamortized Prior Service Costs	5	13
Unamortized Net Actuarial Loss	18,498	9,694
Pension Liability, Net	(3,010)	(1,662)
Pension Liability Recognized		
Other Long-Term Liabilities (Note 11)	(3,010)	(1,662)

	December 31, 2010	December 31, 2009
Assumptions (%)		
Accrued Benefit Obligation		
Discount Rate	5.25	6.00
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Benefit Cost		
Discount Rate	6.00	6.50
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Long-Term Annual Rate of Return on Plan Assets [(2)]	6.50	6.50

Notes:

(1) Includes unfunded obligations for supplemental benefits to the extent that the benefit is limited by statutory guidelines. At December 31, 2010, the projected benefit obligation for supplemental benefits was $1.2 million (December 31, 2009 – $852,000).

(2) The long-term annual rate of return on plan assets assumption is based on a mix of historical market returns for debt and equity securities.

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

	2010	2009
Cost of Benefits Earned by Employees	2,998	2,759
Interest Cost on Benefits Earned	4,147	3,942
Actual Return on Plan Assets	(4,965)	(6,564)
Actuarial Losses	10,353	5,334
Amortization of Transitional Asset	-	1
Pension Expense Before Adjustments for the Long-Term Nature of Employee Future Benefit Costs	12,533	5,472
Difference Between Expected and Actual Return	1,227	3,188
Difference Between Recognized and Actual Actuarial Gains	(10,031)	(5,156)
Difference Between Recognized and Actual Past Service Costs	8	8
Net Pension Expense	3,737	3,512

(c) Employer Funding Contributions

Our total funding contributions for 2010 for our defined benefit plan were $2.4 million (December 31, 2009 – $2.5 million).

(d) 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 were $0.9 million for the Canadian plan; $0.1 million for the US plan and $0.2 million for the South American plan for the year ended December 31, 2010 and $0.8 million for the Canadian plan; $0.1 million for the US plan and $0.2 million for the South American plan for the year ended December 31, 2009.

(e) Post Retirement Benefits

Post retirement benefits in Canada consist of a company paid $5,000 group life insurance policy, the payment of provincial health care premiums where applicable, and coverage under the Employee Family Assistance Program. The costs are fully accrued as compensation in the period employees work however; the future obligations are not funded. The expense recognized for the year ended December 31, 2010 was $0.3 million (December 31, 2009 – $0.3 million). At December 31, 2010, other long-term liabilities includes a $2.1 million (December 31, 2009 – $1.8 million) post retirement benefit liability.

The present value of Canexus Limited Canadian employees' future post retirement benefits obligation at December 31, 2010 was $3.1 million (December 31, 2009 – $2.4 million).

Post retirement benefits in the US consist of a medical benefits bonus plan. Under the bonus plan, US employees as of December 9, 2006 who attain a minimum of 10 years of completed service are entitled to a benefit of US $4,000 for every year of completed service. The expense recognized for the year ended December 31, 2010 was $40,000 (December 31, 2009 – $36,000). At December 31, 2010, other long-term liabilities includes a $0.1 million (December 31, 2009 – $0.1 million) post retirement benefit liability.

The present value of Canexus Limited US employees' future post retirement benefits obligation at December 31, 2010 was $0.2 million (December 31, 2009 – $0.2 million).

16. 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.

	December 31, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
General Partner Units				
Beginning of Year	1	-	1	-
Issued	-	-	-	-
End of Year	1	-	1	-
Ordinary LP Units				
Beginning of Year	33,701,807	309,152	32,570,814	305,051
Issued Pursuant to the DRIP	515,085	3,044	1,087,857	3,876
Issued Pursuant to Redemption of Debentures	4,151,156	26,080	43,136	225
End of Year	38,368,048	338,276	33,701,807	309,152
Exchangeable LP Units (Note 22)				
Beginning of Year	64,835,420	(11,343)	56,637,539	(38,929)
Issued Pursuant to the DRIP	1,403,143	8,934	8,197,881	27,586
End of Year	66,238,563	(2,409)	64,835,420	(11,343)

Under the Distribution Reinvestment Plan ("DRIP") participants may elect, in the case of holders of Units of the Fund ("Units", "Unit", "Fund Units" or "Fund Unit"), to automatically reinvest monthly distributions in additional Fund Units and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP.

Pursuant to the DRIP, cash distributions are reinvested in additional Fund Units or Exchangeable LP Units of Canexus LP at 95 percent of the volume weighted average market price of Fund Units for the 10 trading days preceding the distribution payment date. Fund Units or Exchangeable LP Units of Canexus LP acquired under the DRIP are issued directly from the Fund's or Canexus LP's treasury, as applicable. The Fund has reserved 22,000,000 Units for the issue of Fund Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

Pursuant to the Debenture agreement between Canexus LP and the Fund, in the event a holder of Series I or III Convertible Debentures of the Fund exercises their right to convert the Series I or III Convertible Debentures into Fund Units, Canexus LP shall issue to the Fund Ordinary LP Units that are equal in number to the Fund Units issued by the Fund on conversion of the Series I or III Convertible Debentures at a subscription price equal to fair market value. At that same time, Canexus LP shall redeem that portion of the principle amount of the Series I or III Debentures that is equal to the principle amount of Series I or III Convertible Debentures of the Fund that were converted.

The General Partner 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 percent 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 LP unit held at all meetings of holders of the LP units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Fund Units at the option of the holder at any time. Additionally, Exchangeable LP Units have special voting rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund. On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units for an equivalent number of Fund Units (see Note 22 Subsequent Event).

Canexus LP declared distributions of $0.5472 per LP Unit for the years ended December 31, 2010 and 2009 respectively to Ordinary and Exchangeable LP Unitholders. On December 8, 2010, a distribution of $0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record December 31, 2010 for payment on or about January 15, 2011.

17. Capital Risk Management

Canexus LP manages its capital structure and makes adjustments in order to preserve its ability to meet financial obligations, deploy capital to provide an appropriate investment return to LP Unitholders and to maintain a capital structure that allows financing options to Canexus LP as financing needs arise. There has been no change in Canexus LP's objectives, policies, and processes for managing capital since the year ended December 31, 2009. The capital structure of Canexus LP consists of the following:

	December 31, 2010	December 31, 2009
Cash and Cash Equivalents	3,223	13,200
Short-Term Borrowings	(10,512)	-
Long-Term Debt	(321,684)	(284,851)
Debentures, Net [(1)]	(120,415)	(83,457)
Ordinary LP Units	(338,276)	(309,152)
Exchangeable LP Units	2,409	11,343
	(785,255)	(652,917)

Note:

(1) The Debentures and the Convertible Debentures issued by the Fund are specifically excluded from our financial covenants.

Management, upon approval of the Board of Directors, may balance the overall capital structure of Canexus LP through new LP Unit issues, the issuance of new debt or by undertaking other activities as deemed appropriate. Canexus LP monitors capital using financial metrics equivalent to those defined in the financial covenants of its credit agreements. Under the $440 million Extendible Revolving Credit Facility, the US $50 million Senior Secured Notes and the US $10 million EDC Extendible Revolving Credit Facility the following covenants are required to be met through to, and including, March 31, 2011:

- Consolidated Senior Debt to EBITDA Ratio not to exceed 4.5 to 1.0
- Consolidated Total Debt to EBITDA Ratio not to exceed 4.5 to 1.0
- Consolidated EBITDA to Interest Expense Ratio not to be less than 3.0 to 1.0

Effective February 22, 2011, the financial covenants were amended for the Extendible Revolving Credit Facility, the EDC Extendible Revolving Credit Facility and the Senior Secured Notes. Under the amendment, effective for the three month periods ending June 30, 2011 and September 30, 2011 the Consolidated Senior Debt to EBITDA Ratio is not to exceed 4.0 to 1.0. Effective December 31, 2011, the Consolidated Senior Debt to EBITDA Ratio is not to exceed 3.5 to 1.0.

Effective June 30, 2011, the Consolidated Total Debt to EBITDA Ratio is not to exceed 4.0 to 1.0 and the Consolidated EBITDA to Interest Expense Ratio is not to be less than 3.0 to 1.0.

Consolidated Senior Debt, Consolidated Total Debt and Consolidated EBITDA are non-GAAP measures and are defined in the various credit facility agreements. Consolidated Senior Debt is defined as the aggregate of all long-term debt of the Fund and Canexus LP including Canexus LP's credit facilities and short-term swing line loans, less subordinated long-term debt and intercompany subordinated long-term debt. Consolidated Total Debt is the sum of Consolidated Senior Debt plus subordinated long-term debt. Consolidated EBITDA is defined as the sum of the Fund's and Canexus LP's earnings before interest, taxes, amortization and other non-cash income or expense items on a rolling twelve month basis. Other non-cash income and expense items include unrealized foreign currency translation gains (losses), mark-to-market changes in fair value of derivative financial instruments and other non-cash items. Consolidated interest expense is the sum of the Fund's and Canexus LP's interest expense incurred, before the capitalization of any interest and letter of credit fees, on a rolling twelve month basis.

At December 31, 2010 and December 31, 2009, Canexus LP was in compliance with all financial covenants and conditions.

18. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. At December 31, 2010, these obligations and commitments were as follows:

	2011	2012	2013	2014	2015	Thereafter
Operating Leases	18,078	14,044	12,302	11,476	10,491	36,570
Purchase Obligations	37,022	38,268	39,467	8,088	8,088	-
Expansion Capital Expenditures	6,853	1,490	-	-	-	-
	61,953	53,802	51,769	19,564	18,579	36,570

Purchase obligations include contractual commitments for the purchase of electricity in South America, approximately 90 to 100 percent of the cost of which is passed on to our primary customer and minimum purchase commitments under some multi-year salt supply contracts. Expansion capital expenditures include contractual obligations related to expansion projects.

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.

All of Canexus LP's credit facilities and the Senior Secured Notes are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided unlimited liability guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's credit facilities and Senior Secured Notes in "events of default" as defined in each of the credit facility agreements and the note indenture governing the Senior Secured Notes.

19. Other Income

	2010	2009
Currency Translation Gains (Losses)		
Unrealized Currency Translation Gains (Losses)		
Debt	(9,806)	45,855
Working Capital	(408)	468
Total Unrealized Currency Translation Gains (Losses)	(10,214)	46,323
Realized Currency Translation Gains (Losses)		
Debt	24,829	19
Working Capital	375	(562)
Total Realized Currency Translation Gains (Losses)	25,204	(543)
Total Currency Translation Gains	14,990	45,780
Gains (Losses) on Held-for-Trading Financial Instruments		
Change in Fair Value of Foreign Exchange Options	(2,100)	(8,905)
Realized Gains on Foreign Exchange Options	2,323	10,515
Change in Fair Value of Interest Rate Swaps	(866)	696
Realized Losses on Interest Rate Swaps	(1,488)	(1,270)
Change in Fair Value of Foreign Exchange Forward	-	(3,796)
Realized Gain on Foreign Exchange Forward	-	2,493
Change in Fair Value of Foreign Exchange Swap	-	(1)
Realized Gain on Foreign Exchange Swap	-	11
Interest Income Earned on Cash and Cash Equivalents	190	529
Total Gains (Losses) on Held-for-Trading Financial Instruments	(1,941)	272
Gains on Held-to-Maturity Financial Instruments		
Interest Income on Long-Term Investments	4	262
Other		
Reversal of Accrual for Future TCP Severance Costs	399	981
Allowance for Doubtful Accounts	-	(650)
Loss on Disposal of Assets	(598)	-
Reversal of Impairment in Value of ABCP	393	453
Provision for Obsolete Inventory	(528)	-
Hydrogen Supply Contract Settlement	6,556	-
Sodium Chlorate Plant Closure Costs	(102)	(3,294)
Other	177	(97)
Total Other	6,297	(2,607)
Total Other Income	19,350	43,707

Comprehensive income consists of net income and other comprehensive loss ("OCI"). OCI for Canexus LP consists of foreign exchange gains and losses on the translation of the financial statements of our financially and operationally independent foreign operations.

20. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	2010	2009
Amortization	57,030	46,321
Change in Fair Value of Foreign Exchange Options	2,100	8,905
Change in Fair Value of Foreign Exchange Forward	-	3,796
Change in Fair Value of Interest Rate Swaps	866	(696)
Unrealized (Gains) Losses on Currency Translation	10,214	(46,323)
Future Income Taxes	489	6,939
Pension and Post Retirement Benefit Expense	4,114	3,834
Reversal of Accrual for Future TCP Severance Costs	-	(981)
Reversal of Impairment of ABCP	(393)	(453)
Impairment of Sodium Chlorate Assets	-	17,227
Allowance for Doubtful Accounts	-	650
Other	659	215
	75,079	39,434

(b) Changes in Non-Cash Working Capital

	December 31, 2010	December 31, 2009
Accounts Receivable	4,885	16,325
Inventories and Operating Supplies	(3,035)	8,119
Prepaid Expenses	358	636
Accounts Payable and Accrued Liabilities	(10,793)	(8,551)
Accrued Interest Payable	432	(666)
Effect of Foreign Exchange on Non-Cash Working Capital	(1,353)	278
Total Change in Non-Cash Working Capital	(9,506)	16,141
Relating to:		
Operating Activities	1,436	9,519
Investing Activities	(10,942)	6,622
Total Change in Non-Cash Working Capital	(9,506)	16,141

(c) Other Cash Flow Information

	2010	2009
Interest Paid	15,301	11,003
Income Taxes Paid	5,319	2,624

	December 31, 2010	December 31, 2009
Cash and Cash Equivalents		
Cash	1,157	4,018
Cash Equivalents	2,066	9,182
Total	3,223	13,200

21. Operating Segments

Canexus LP's operations are comprised of North American sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; 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 South America. In South America, most of our sales are made to a single customer, Fibria, under a long-term sales agreement. Canexus also provides fee-for-service hydrocarbon transloading services to the oil and gas industry from its terminal at Bruderheim, Alberta. The accounting policies of our segments are the same as those described in Note 2 Summary of Significant Accounting Policies. Identifiable assets are those used in the operations of the segments.

(a) Operating Segments

Year Ended December 31, 2010	North America				
	Sodium Chlorate [1]	Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	212,234	146,976	98,147	-	457,357
Expenses					
Cost of Goods Sold	147,734	133,820	74,481	-	356,035
Amortization	27,041	19,291	8,770	1,928	57,030
General and Administrative	10,453	11,692	4,155	6,226	32,526
Interest on Debentures	-	-	-	6,805	6,805
Interest	-	-	-	9,735	9,735
	185,228	164,803	87,406	24,694	462,131
Income (Loss) before Other Income (Expense) and Income Taxes	27,006	(17,827)	10,741	(24,694)	(4,774)
Other Income (Expense)	(438)	(597)	6,695	13,690	19,350
Income (Loss) before Income Taxes	26,568	(18,424)	17,436	(11,004)	14,576
Capital Expenditures	12,166	101,862	20,258	86	134,372

Year Ended December 31, 2009	North America				
	Sodium Chlorate [1]	Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	216,613	147,669	94,165	-	458,447
Expenses					
Cost of Goods Sold	138,748	104,814	68,718	-	312,280
Amortization	25,657	12,092	7,738	834	46,321
General and Administrative	13,018	10,309	4,139	7,707	35,173
Interest on Debentures	-	-	-	2,323	2,323
Interest	-	-	-	5,338	5,338
	177,423	127,215	80,595	16,202	401,435
Income (Loss) before Other Income (Expense), Impairment and Income Taxes	39,190	20,454	13,570	(16,202)	57,012
Other Income (Expense)	(3,294)	-	-	47,001	43,707
Income before Impairment and Income Taxes	35,896	20,454	13,570	30,799	100,719
Impairment	(17,227)	-	-	-	(17,227)
Income before Income Taxes	18,669	20,454	13,570	30,799	83,492
Capital Expenditures	26,879	176,884	10,133	388	214,284

Note:

(1) Revenues, costs and capital expenditures for the North American Terminal Operations for the years ended December 31, 2010 and December 31, 2009 are included in North America Sodium Chlorate.

Identifiable Assets	North America Sodium Chlorate	North America Chlor-alkali	South America	Corporate	Total
December 31, 2010	254,949	370,388	112,743	15,738	753,818
December 31, 2009	268,795	280,851	108,532	25,762	683,940

(b) Geographic Segments

PP&E, Net	December 31, 2010	December 31, 2009
Canada	561,915	486,264
United States	124	262
South America	80,071	72,707
	642,110	559,233

Sales	2010	2009
Canada	164,375	152,148
United States	189,254	203,705
South America	98,147	94,165
Asia	5,581	8,429
	457,357	458,447

22. Subsequent Event

Disposal by Nexen of Interest in Canexus LP and the Fund

On January 27, 2011, Nexen converted the Series II Convertible Debentures into 7,843,137 Exchangeable LP Units of Canexus LP and on February 7, 2011, Nexen exchanged 74,539,604 Exchangeable LP Units for an equivalent number of Fund Units (see Note 16 Equity). On February 7, 2011, Nexen disposed of its entire interest in the Fund through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of $6.40 per Fund Unit. As a result of the above transactions, as of February 7, 2011, the Fund indirectly owns 100 percent of Canexus LP.

After giving effect to this offering, Nexen will not own any Fund Units or any securities convertible into Fund Units as the sale of 74,539,604 Fund Units by Nexen represented Nexen's entire interest in Canexus LP and the Fund. In accordance with the Governance Agreement between the Fund, Canexus Commercial Trust, Canexus LP, Canexus Limited, Canexus Holdings, and Nexen dated August 18, 2005, upon closing of the secondary offering on February 7, 2011, Nexen automatically ceased to be a party to the Governance Agreement and the three Nexen appointees to the Board of Directors of Canexus Limited resigned.

Corporate Information

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Hugh A. Fergusson
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Richard T. McLellan
Senior Vice President, Finance
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Angelo (Andy) Lacara, Jr.
Senior Vice President, Operations

Brian P. Bourgeois
Senior Vice President, Sales and Marketing

Péricles dos Santos
Managing Director, South America

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

Karen D.W. Bost
Vice President, Corporate Services

Hazel A.B. Kreuz
Director, Corporate Planning

Thomas A. Jackson
Director, Supply Chain

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Chartered Accountants
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Registrar and Transfer Agent

Computershare Trust Company of Canada
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Stock Exchange Listing

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Canexus trades on the Toronto Stock Exchange:
Trust Units **CUS.UN**

Convertible debentures:
Series I **CUS.DB**
Series III **CUS.DB.A**

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