



Third Quarter



Canexus Income Fund's excellent third quarter significantly increases distributable cash

Highlights

- *Distributable cash up 17 percent to \$24.8 million from the same period last year; the Fund declared \$4.4 million in cash distributions at a payout ratio of 48 percent (50 percent normalized for the timing of maintenance capital spending); the Fund improved its guidance for the year to reflect a payout ratio of 60 to 65 percent*
- *Canexus saw modest benefits from a devaluation of the Canadian dollar against the US dollar during the quarter; benefits should be more significant in the fourth quarter as the Canadian dollar has continued to weaken significantly*
- *In October, we capitalized on the opportunity presented by the significant devaluation of the Canadian dollar and purchased Canadian dollar call option contracts on US \$10 million per month which entitle Canexus to sell US dollars at an average price of US \$0.8185 per Canadian dollar from January 1, 2009 through December 31, 2009. This should improve our cash flow by in excess of \$30 million for 2009 versus dollar parity*
- *Significant caustic soda price increases have been announced for the fourth quarter*
- *Our North Vancouver chlor-alkali plant operated above industry operating rates during the quarter; the TCP is progressing on time and on budget with committed financing in place through August 2011. At September 30, our long-term debt was \$249 million leaving an additional \$250 million of committed credit available*
- *North American sodium chlorate sales volumes for the third quarter increased 20 percent from the same period last year due to strong demand from US customers and price increases; our Brandon sodium chlorate plant expansion is performing above design capacity further enhancing margins*
- *South America sales revenue increased 44 percent from the same period last year with sodium chlorate and chlor-alkali volumes increasing by 17 and 8 percent respectively; in addition to the 2,000 MT sodium chlorate expansion that will be completed in January 2009, the Board approved a further 4,400 MT expansion that will start-up in the first quarter of 2010 at an estimated cost of US \$5 million*

Dear Unitholders,

On behalf of the Board and the management team of Canexus Income Fund, I am pleased to report the results for the third quarter of 2008. Canexus had an exceptional quarter. We have improved our guidance for 2008 with a lower payout ratio of 60 to 65 percent, continue to see good supply-demand fundamentals and are starting to benefit from the decrease in the value of the Canadian dollar.

We ran at full operating rates at our North Vancouver chlor-alkali facility into early November with rates recently being slightly decreased due to the traditional slowdown in the water treating season. Our TCP is progressing well and approximately \$111 million of the \$208 million budget is committed to date.

During the quarter, sodium chlorate volume and pricing were higher than projected at our recently expanded Brandon facility. Additionally, the North American industry operated at near full economic capacity. We continue to systematically grow our business in South America. Results remain strong and our in-progress capacity expansions demonstrate our ability to grow our advantages.

We are mindful of current economic conditions, but believe we are well positioned to weather any downturn. Canexus remains committed to our growth strategy and believe our performance is sustainable through 2009.

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

Gary L. Kubera
President and Chief Executive Officer

Management's Discussion and Analysis

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of November 12, 2008. This MD&A should be read in conjunction with:

- the unaudited interim consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") for the three and nine months ended September 30, 2008, and
- the MD&A and the audited consolidated financial statements of the Fund and Canexus LP for the year ended December 31, 2007 and the notes thereto, available on the System for Electronic Data Analysis and Retrieval's ("SEDAR") website at www.sedar.com.

The unaudited 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 indirect interest in Canexus LP. The Fund accounts for its investment in Canexus LP using the equity method and therefore, does not consolidate the results of operations of Canexus LP. As a result, unaudited consolidated financial statements with accompanying notes 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 is available on the Fund's profile on the SEDAR website at www.sedar.com.

Non-GAAP Measures

The selected financial information and discussion below also refers to certain measures to assist in assessing financial performance. These "non-GAAP measures" such as "earnings before interest, income taxes, depreciation and amortization" ("EBITDA"), "Gross Margin", "Gross Margin Percentage", "Distributable Cash" and "Payout Ratio" should not be construed as alternatives to net income or loss or other comparable measures determined in accordance with GAAP as an indicator of performance or as a measure of liquidity and cash flow. Non-GAAP measures do not have standard meanings prescribed by GAAP and therefore, are unlikely to be comparable to similar measures presented by other issuers.

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

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

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

Gross Margin is a non-GAAP measure that represents the contribution of operating activities to earnings. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions. Gross Margin Percentage is calculated as Gross Margin divided by Sales Revenues.

GENERAL DESCRIPTION OF THE FUND AND CANEXUS LP

As at September 30, 2008, the Fund holds a 37.3 percent indirect interest, through its wholly owned subsidiary Canexus Commercial Trust, in Canexus LP and Nexen Inc. holds a 62.7 percent controlling interest in Canexus LP.

Canexus LP, through its various direct and indirect subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in South America, largely for the pulp and paper and water treatment industries.

CANEXUS INCOME FUND

The Fund is an unincorporated open-ended trust established by a Trust Indenture dated June 28, 2005, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada). The head office and principal business office of the Fund is located in Calgary, Alberta.

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

Highlights (See also "Highlights" of Canexus LP)

- Distributions to Unitholders of \$4.4 million (\$0.1368 per Unit) declared for the three months ended September 30, 2008. Participation in the Distribution Reinvestment Program ("DRIP"), implemented in February 2008, continues to exceed our expectations with an average participation rate of approximately 24 percent by Fund Unitholders.
- Payout ratio of 48 percent (50 percent when normalized for the timing of maintenance capital expenditures) for the three months ended September 30, 2008 and 55 percent (59 percent when normalized for the timing of maintenance capital expenditures) for the nine months ended September 30, 2008.

Summary of Quarterly Results

The changes in equity income for each of the three month periods were due to changes in the net income of Canexus LP for the same periods. The equity loss from the investment in Canexus LP for the three months ended March 31, 2008 was primarily due to charges to Canexus LP's net income for unrealized currency translation losses on its US dollar denominated long-term debt and providing for future severance costs arising from the Technology Conversion Project ("TCP") at Canexus LP's North Vancouver chlor-alkali facility (See "Summary of Quarterly Results" discussion relating to Canexus LP).

CAD thousands, except per unit amounts	Three Months Ended			
	Sept. 30 2008	June 30 2008	March 31 2008	Dec. 31 2007
Equity Income (Loss) from Investment in Canexus LP	1,783	3,602	(1,291)	1,625
Net Income (Loss)	2,114	2,922	(1,900)	5
Earnings (Loss) Per Unit (\$/Unit)	0.07	0.09	(0.06)	-
Diluted Earnings (Loss) Per Unit (\$/Unit)	0.07	0.09	(0.06)	-
Cash Distributions Declared	4,406	4,370	4,345	6,077
Cash Distributions Declared (\$/Unit)	0.1368	0.1368	0.1368	0.1914

CAD thousands, except per unit amounts	Three Months Ended			
	Sept. 30 2007 ⁽¹⁾	June 30 2007	March 31 2007	Dec. 31 2006
Equity Income from Investment in Canexus LP	8,242	6,739	4,441	1,464
Net Income (Loss)	6,228	(4,423)	3,723	323
Earnings (Loss) Per Unit (\$/Unit)	0.20	(0.14)	0.12	0.01
Diluted Earnings (Loss) Per Unit (\$/Unit)	0.20	(0.14)	0.12	0.01
Cash Distributions Declared	6,943	6,944	6,944	6,944
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.2187	0.2187

Note:

- ⁽¹⁾ On June 22, 2007, previously announced legislation providing for the income taxation of specified investment flow through entities received Royal Assent. As a result of the new legislation, the Fund recognized a \$10.5 million future income tax liability in the three month period ended June 30, 2007 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP, which differences are expected to reverse subsequent to 2010. As at September 30, 2008 the Fund has recognized a \$12.5 million future income tax liability.

Results of Operations

Investment

At September 30, 2008, the Fund had an indirect investment in 32,290,041 Ordinary Limited Partnership Units (37.3 percent) of Canexus LP at a cost of \$319.9 million. The Fund accounts for this investment using the equity method.

For the three and nine months ended September 30, 2008 the Fund's equity income from Canexus LP was \$1.8 million and \$4.1 million respectively, and the carrying value of this investment at September 30, 2008 was \$296.1 million (December 31, 2007 - \$302.7 million).

Expenses

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

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

Statement of Distributable Cash

CAD thousands, except as noted	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Canexus LP				
Net Income	4,768	21,361	10,875	50,337
Charges and Credits to Income Not Involving Cash:				
Future Income Taxes (Recovery)	(3,073)	1,220	(1,961)	2,814
Amortization	11,151	11,034	31,814	32,804
Unrealized (Gains) Losses on Currency Translation	12,946	(12,070)	21,766	(30,032)
Change in Fair Value of Foreign Exchange Options	374	(670)	1,679	(688)
Change in Fair Value of Foreign Exchange Forward	(630)	(86)	(630)	(5)
Change in Fair Value of Electricity Forward Swaps	-	2,908	-	1,429
Change in Fair Value of Interest Rate Swaps	420	-	(1,625)	-
Accrual for Future TCP Severance Costs	-	-	7,310	-
Other	3,425	(1,106)	5,222	557
	29,381	22,591	74,450	57,216
Contributions to Defined Benefit Pension Plan	-	(590)	(2,444)	(1,776)
Purchase of Foreign Exchange Options	(372)	(360)	(1,102)	(360)
Expenditures on Asset Retirement Obligations	(417)	(32)	(446)	(536)
Changes in Non-Cash Operating Working Capital and				
Due to Affiliates, Net	10,176	1,126	(10,780)	(2,228)
Cash From Operating Activities	38,768	22,735	59,678	52,316
Changes in Non-Cash Operating Working Capital and				
Due to Affiliates, Net	(10,176)	(1,126)	10,780	2,228
Maintenance Capital Expenditures	(2,126)	(2,518)	(5,934)	(8,987)
Amortization of the Purchase Cost of Foreign Exchange				
Options	(582)	(60)	(942)	(640)
Operating Non-Cash Items	(1,108)	2,088	106	2,116
Distributable Cash within Canexus LP ⁽¹⁾	24,776	21,119	63,688	47,033
Canexus Income Fund				
Share of Canexus LP's Distributable Cash ⁽¹⁾	9,306	8,149	24,225	18,148
Trust Administration Expenses	(58)	(85)	(234)	(217)
Distributable Cash available to Canexus Income Fund ⁽¹⁾	9,248	8,064	23,991	17,931
Cash Distributions Declared	4,405	6,943	13,120	20,831
Payout Ratio ⁽¹⁾	48%	86%	55%	116%
Payout Ratio Normalized for Timing of Maintenance				
Capital Expenditures of \$14 million for 2008 ⁽¹⁾	50%	90%	59%	120%

Note:

⁽¹⁾ See comments concerning non-GAAP Measures on page 2.

Distributable Cash within Canexus LP represents cash from operating activities adjusted for temporary changes in non-cash operating working capital and other non-cash impacting expenses less maintenance capital expenditures. Maintenance capital expenditures are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels. Distributable Cash (see "non-GAAP Measures" on page 2) is not a recognized measure under Canadian GAAP and therefore, Canexus LP's method of calculating Distributable Cash is unlikely to be comparable to methods used by other trusts.

Net income for the three months ended September 30, 2008 is lower than net income for the three months ended September 30, 2007 primarily due to unrealized currency translation losses in the third quarter of 2008 as compared to unrealized currency translation gains in the third quarter of 2007.

Cash from operating activities, before the impact of temporary changes in non-cash operating working capital, increased for the three months ended September 30, 2008, as compared to the three months ended September 30,

2007, as a result of an increase in gross margin and realized currency translation gains, including a \$0.9 million realized currency translation gain on the repayment of US \$7.4 million on our amended and restated credit facility, offset by an increase in general and administrative expenses and lower realized gains on foreign exchange options.

The change in non-cash operating working capital and due to affiliates for the three months ended September 30, 2008 was primarily due to lower finished goods inventories and to temporary changes in the amount of accounts payable and accrued liabilities. Finished goods inventories were higher at June 30, 2008 due to the build up of sodium chlorate inventories caused by a delay between a significant customer closing its mills during the second quarter and the timing of when shipments to alternate customers began, a delayed barge shipment of caustic soda resulting in higher caustic soda inventories and the increase in production from our Brandon, Manitoba sodium chlorate production facility. Higher sodium chlorate inventories has enabled us to plan the replacement of one of the transformer rectifiers at our Beauharnois sodium chlorate production facility in 2008 and therefore, to avoid one of our maintenance turnarounds in 2009.

The change in non-cash operating working capital and due to affiliates for the three months ended September 30, 2007 was primarily due to a temporary reduction in the level of accounts receivable.

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. It also includes the cost of foreign exchange call option contracts described further in the succeeding paragraph.

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

Distributions

The Fund made monthly distributions of \$0.0456 per Unit for the period July 1, 2008 to September 30, 2008 for total distributions declared of \$4.4 million (\$0.1368 per Unit) for the three months ended September 30, 2008.

At September 30, 2008 the Fund had a distribution receivable of \$1.5 million from Canexus LP. Upon receipt of this distribution in October 2008, the Fund paid distributions payable of \$1.5 million outstanding at September 30, 2008.

Under the Distribution Reinvestment Plan implemented in February 2008, participants may elect, in the case of holders of Units of the Fund, to automatically reinvest monthly distributions in additional Units of the Fund and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP, in each case at a 5 percent discount to the average market price of the Units on the TSX on the applicable distribution payment date.

Unitholders resident in the United States are not entitled to participate in the DRIP.

Income Taxes

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

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts (the "SIFT" tax), received Royal Assent. As a result, the Fund has recognized a \$12.5 million future income tax liability as at September 30, 2008 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

Commencing in 2011, a 29.5 percent (2012 – 28.0 percent) tax will be applied to distributions from publicly traded income trusts which could result in reduced cash available for distributions. On February 26, 2008 the Government of Canada, in its Federal Budget, announced further changes to the SIFT tax rules. The provincial component of the SIFT tax will be based on the provincial rate where the Specified Investment Flow Through ("SIFT") has a permanent establishment rather than using a 13 percent flat rate. This may result in the combined SIFT tax rate applicable in 2012 to fall from 28 percent. Under the legislation, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to be eligible for grandfathering under the old rules. On December 15, 2006 the Government issued guidelines with respect to what it would consider normal growth for existing income trusts. Under these guidelines, the amount of equity units that an income trust can issue may not exceed the greater of \$50 million and the value of its publicly traded equity units on October 31, 2006 (subject to annual limits) prior to 2011. In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

Under the normal growth guidelines, the Fund had available at December 31, 2007 a "safe harbour" amount of \$99.7 million. The "safe harbour" amount for the Fund for each of 2008, 2009 and 2010 is an additional \$49.8 million per year.

Should any portion of the “safe harbour” not be utilized in any period, this portion will be available in a subsequent period. These amounts do not include equity that the Fund could issue to replace debt that was outstanding at October 31, 2006 nor does it include equity that would be issued for the Exchangeable LP Units issued to Nexen.

The legislation could have the following impacts, and the Fund could take the following actions:

- A portion of the Fund’s cash flow could be allocated to the payment of cash distribution taxes and would not be available for distribution.
- If organizational structural changes are not made, the after-tax distributions in 2011 to taxable Canadian investors will remain approximately the same (under current business conditions, before considering the impact of the TCP at our North Vancouver chlor-alkali facility and other factors expected to impact on our business), however, tax-deferred investors and foreign investors will see a significant reduction in their after tax realizations.
- The Fund could convert to a public corporation pursuant to the draft legislation discussed below.

At the current time the legislation is not expected to limit the Fund’s near term growth opportunities.

On July 14, 2008, the Department of Finance released draft legislation to enable the conversion of existing SIFT’s into public corporations without immediate tax consequences to the SIFT’s or their investors. The Fund will carefully review its alternatives to most effectively achieve its business strategy and optimize value for the Unitholders in light of the current draft legislation.

Liquidity and Capital Structure

Outstanding Securities of the Fund

At September 30, 2008 the Fund had 32,290,041 Units outstanding (November 12, 2008 - 32,375,858 Units).

As at September 30, 2008, Nexen Inc. held 54,294,462 Exchangeable LP Units of Canexus LP (November 12, 2008 - 54,993,612 Exchangeable LP Units), each of which is exchangeable into one Unit of the Fund at no cost at any time at the option of Nexen, and each of which carries a special voting right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

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

Business Risks

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

For a discussion of certain risks related to Canexus LP’s operations, see the “Market Risk Analysis” discussion relating to Canexus LP. Additional risk factors relating to the Fund and Canexus LP’s operations are contained in the Fund’s Annual Information Form for the year ended December 31, 2007, which has been filed on the Fund’s profile on the SEDAR website at www.sedar.com.

Guarantees

The Fund and each of its wholly-owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP’s credit facilities and senior secured notes in “events of default” as defined in each of the credit facility and senior secured note agreements.

Selected Annual Financial Information

	Year Ended December 31 2007	Year Ended December 31 2006	Period Ended December 31 2005 ⁽¹⁾
CAD thousands, except per unit amounts			
Equity Income from Investment in Canexus LP	21,047	18,190	11,518
Net Income	5,533	16,122	11,025
Earnings (\$/Unit)	0.17	0.51	0.35
Diluted Earnings (\$/Unit)	0.17	0.51	0.35
Cash Distributions Declared	26,908	27,775	10,325
Cash Distributions Declared (\$/Unit)	0.8475	0.8748	0.3252
	2007	2006	2005
Total Assets	304,183	311,450	321,007
Total Long-Term Liabilities	12,654	-	-

Note:

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

Critical Accounting Estimates

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

CANEXUS LIMITED PARTNERSHIP

Canexus Limited Partnership ("Canexus LP", "we" or "our") is a limited partnership established under the laws of Alberta. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in South America, largely for the pulp and paper and water treatment industries. We have Canadian sodium chlorate production facilities located in Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia and a chlor-alkali production facility located in North Vancouver, British Columbia. 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.

As at September 30, 2008, the Fund held an indirect 37.3 percent interest (through its wholly owned subsidiary Canexus Commercial Trust) and Nexen Inc. held a 62.7 percent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the "General Partner", which holds a 0.01 percent interest in Canexus LP. The Fund owns 100 percent of the shares of Canexus Limited, but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

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

Executive Summary

Canexus LP had an exceptional third quarter with strong performance from each of its three business units. Distributable cash of \$24.8 million for the three months ended September 30, 2008 and \$63.7 million for the nine months ended September 30, 2008 were 17 and 35 percent higher respectively, than the comparable periods of 2007. The weakening of the Canadian dollar relative to the US dollar during the third quarter of 2008, as compared to the first 6 months of 2008, combined with the impact of substantial increases in caustic soda selling prices implemented in the third quarter were the primary contributors to this successful performance.

Strong sodium chlorate demand from US customers and sodium chlorate price increases implemented in the first and third quarters of 2008 more than offset the impact of the appreciation of the Canadian dollar relative to the US dollar year over year, resulting in a 20 percent increase in sodium chlorate revenues for the third quarter of 2008, as compared to the third quarter of 2007, and a 12 percent increase for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007. Higher production at our low-cost Brandon, Manitoba sodium chlorate production facility offset the impact of higher electricity costs, slightly higher fixed costs and the stronger Canadian dollar relative to the US dollar.

North American chlor-alkali revenues increased 17 percent for the third quarter of 2008, as compared to the third quarter of 2007, and 5 percent for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007. Significant caustic soda price increases implemented in the third quarter of 2008 offset the impact of significant downward pressure on chlorine prices, the stronger Canadian dollar relative to the US dollar and higher natural gas costs during the quarter.

The Technology Conversion Project ("TCP") at our North Vancouver chlor-alkali facility has fully committed financing and remains on budget and on time to start-up in the first quarter of 2010. Approximately \$111 million of the \$208 million budget was committed at September 30, 2008. The cell house foundation was completed and building construction was started during the third quarter. This project is expected to substantially enhance our competitive strength in the chlor-alkali business, generating an estimated \$35 to \$43 million of incremental annual cash flow as a result of decreased production costs and an increase in plant capacity. We accrued estimated future severance costs payable following start-up of the TCP in 2010 of \$7.3 million in the first quarter of 2008. 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. In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP.

The \$8.6 million hydrochloric acid expansion project at our North Vancouver chlor-alkali facility, approved by the Board of Directors in the second quarter of 2008, is on schedule and on budget. This project will increase Canexus LP's North American hydrochloric acid production capacity by 70 percent, adding approximately \$1.6 million in operating cash flow annually beginning mid 2010.

Operating performance of our Brandon plant expansion, completed in February 2008, continues to perform above design capacity further enhancing margins. Continued operation of the expansion at the design rate of 33,000 tonnes will require an upgrade of power line capacity as a result of recent downgrades of our power line capacity by Manitoba Hydro. We currently have a commitment from Manitoba Hydro to provide us the additional power line capacity until they complete a line upgrade study, at which time we will evaluate the study options and finalize our investment plans. The Brandon plant is the lowest-cost sodium chlorate plant in North America and the largest in the world. With the expansion complete, Brandon now provides debottlenecking opportunities that could add up to an additional 30,000 to 40,000 tonnes of capacity over the next 2 to 5 years.

Continued strong demand for both sodium chlorate and caustic soda from our primary customer in South America as well as, the cost pass-through nature of our contract with this customer, contributed to increased revenues from our South American operation of 44 percent and 25 percent, respectively for the three and nine months ended September 30, 2008. A decline in gross margin percentage for the three and nine months ended September 30, 2008, as compared to the same periods in the prior year, was due to the increased purchase of caustic soda for resale to our primary customer which attracts no margin.

A 2,000 tonne incremental sodium chlorate expansion project is currently in progress at our South American plant and is scheduled for start-up in January 2009. In addition, the Board of Directors recently approved a further 4,400 MT expansion which is estimated to cost US \$5 million and to start-up in the first quarter of 2010.

During the third quarter of 2008, Canexus Quimica Brasil Ltda. ("CQBL"), an indirect, wholly owned subsidiary of Canexus LP, closed a US \$10 million extendible revolving credit facility with Export Development Canada ("EDC") which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general CQBL corporate purposes including capital expenditures.

Highlights

- Solid operating and financial performance for the quarter with distributable cash of \$24.8 million, up 17 percent from the third quarter of 2007.
- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder, Nexen Inc., for the three month period ended September 30, 2008 were \$0.1368 per Unit for total distributions of \$11.8 million. Participation in the DRIP program, implemented in February 2008, continues to exceed our expectations with an overall participation rate of approximately 70 percent by Ordinary and Exchangeable LP Unitholders.
- North American sodium chlorate sales revenues for the third quarter increased 20 percent, as compared to the third quarter of 2007, due primarily to strong demand from US customers and price increases. The operating performance of our Brandon plant expansion, completed in February 2008, continues to perform above design capacity further enhancing margins.

- North American chlor-alkali revenues increased 17 percent for the third quarter of 2008 as compared to the third quarter of 2007. Our North Vancouver chlor-alkali facility operated at 93 percent of capacity and above industry operating rates during the third quarter due to the impact of Hurricane Ike on US Gulf Coast manufacturers. Significant caustic soda price increases in the third quarter of 2008 offset the impact of lower chlorine prices, the stronger Canadian dollar relative to the US dollar and higher natural gas costs. Although we expect operating rates to decrease slightly in the fourth quarter due to the traditional slow down in the water treating segment, significant caustic soda price increases announced for the fourth quarter are expected to contribute to higher MECU prices.
- The TCP at our North Vancouver chlor-alkali facility has fully committed financing and remains both on budget and on schedule for start-up in the first quarter of 2010. As at September 30, 2008, approximately \$111 million of the \$208 million budget had been committed. The cell house foundation was completed and building construction was started during the third quarter. This project is expected to substantially enhance our competitive strength in the chlor-alkali business, generating estimated incremental annual cash flow of \$35 to \$43 million as a result of decreased production costs and an increase in plant capacity. We accrued estimated future severance costs payable following start-up of the TCP in 2010 of \$7.3 million in the first quarter of 2008. In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP.
- South American sales revenue increased 44 percent from the comparable period in 2007 with sodium chlorate and chlor-alkali sales volumes increasing by 17 and 8 percent, respectively. In addition to the 2000 MT sodium chlorate expansion which is anticipated to be completed in January 2009, the Board of Directors has approved a further 4,400 MT expansion at an estimated cost of \$5 million that is expected to start-up in the first quarter of 2010.
- During the third quarter of 2008, COBL, an indirect, wholly owned subsidiary of Canexus LP, closed a US \$10 million extendible revolving credit facility with EDC which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general COBL corporate purposes including capital expenditures.
- During October, in two separate transactions, Canexus LP secured additional Canadian dollar foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.82 per Canadian dollar from January 1, 2009 through December 31, 2009 and to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.8170 per Canadian dollar from January 1, 2009 through December 31, 2009.

Summary of Quarterly Results

CAD thousands, except as noted	Three Months Ended			
	September 30 2008	June 30 2008	March 31 2008	December 31 2007
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	118	114	113	114
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	53	46	47	44
Sales Revenues	130,373	110,763	108,728	103,331
Cost of Goods Sold	90,503	83,928	77,500	76,469
Gross Margin ⁽¹⁾	39,870	26,835	31,228	26,862
Gross Margin (%) ⁽¹⁾	31%	24%	29%	26%
Net Income (Loss)	4,768	9,454	(3,347)	4,210
Plus: Provision for (Recovery of) Income Taxes	(2,526)	1,810	327	2,240
Plus: Amortization	11,151	10,721	9,942	11,566
Plus: Interest Expense	2,992	2,746	2,442	2,374
EBITDA ⁽¹⁾	16,385	24,731	9,364	20,390
Capital Expenditures				
Maintenance	2,126	2,372	1,436	3,744
Continuous Improvement Expansion	1,665	1,659	640	584
	20,703	14,487	11,704	17,970
Total Capital Expenditures	24,494	18,518	13,780	22,298
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$ 0.97	US \$1.00	US \$1.00	US \$1.01

CAD thousands, except as noted	Three Months Ended			
	September 30 2007	June 30 2007	March 31 2007	December 31 2006
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	108	101	110	115
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	53	43	48	44
Sales Revenues	104,990	99,207	106,079	100,862
Cost of Goods Sold	68,872	75,064	75,320	73,013
Gross Margin ⁽¹⁾	36,118	24,143	30,759	27,849
Gross Margin (%) ⁽¹⁾	34%	24%	29%	28%
Net Income	21,361	17,466	11,510	3,794
Plus: Provision for (Recovery of) Income Taxes	2,623	1,379	642	(1,335)
Plus: Amortization	11,034	10,897	10,873	10,319
Plus: Interest Expense	3,091	2,878	3,034	2,827
EBITDA ⁽¹⁾	38,109	32,620	26,059	15,605
Capital Expenditures				
Maintenance	2,518	4,195	2,274	3,814
Continuous Improvement Infrastructure and IT Expansion	218	569	108	842
	-	-	395	874
	10,874	9,546	8,332	6,414
Total Capital Expenditures	13,610	14,310	11,109	11,944
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.95	US \$0.88	US \$0.86	US \$0.88

Note:

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

Results of Operations

Changes in Net Income Three Months Ended September 30, 2008 versus Three Months Ended September 30, 2007

CAD thousands	
Net Income for the Three Months Ended September 30, 2007	21,361
Items Increasing (Decreasing) Net Income	
Sales Revenues	25,383
Cost of Goods Sold	(21,631)
Amortization	(117)
General and Administrative Expenses	(1,432)
Interest Expense	99
Change in Fair Value and Realized Gains on Foreign Exchange Options	(1,519)
Change in Fair Value of Foreign Exchange Forward	544
Change in Fair Value and Realized Losses on Interest Rate Swaps	(457)
Change in Fair Value of Electricity Forward Swaps	2,908
Changes in Currency Translation Gains (Losses)	(22,678)
Income Taxes	5,149
Allowance for Doubtful Accounts	(450)
Allowance for Impairment in Value of ABCP	(1,600)
Other	(792)
Net Income for the Three Months Ended September 30, 2008	4,768

Net income for the three months ended September 30, 2008 decreased by \$16.6 million or 78 percent over the three months ended September 30, 2007. Net income for the three months ended September 30, 2008 is lower than net income for the three months ended September 30, 2007 primarily due to unrealized currency translation losses on our US dollar denominated long-term debt versus unrealized currency translation gains in the comparable period of 2007 and an allowance for impairment recorded on our investment in non-bank sponsored asset backed commercial paper ("ABCP"), partially offset by an increase in gross margin and lower income taxes. EBITDA for the three months ended September 30, 2008 decreased by \$21.7 million or 57 percent over the three months ended September 30, 2007.

An increase in gross margin of \$3.8 million increased net income

Three Months Ended September 30, 2008	North America			Total
	Sodium Chlorate	Chlor-alkali	South America	
Sales Revenues	58,025	40,907	31,441	130,373
Cost of Goods Sold	39,689	27,104	23,710	90,503
Gross Margin ⁽¹⁾	18,336	13,803	7,731	39,870
Gross Margin (%) ⁽¹⁾	32%	34%	25%	31%

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

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 20 percent from \$48.3 million for the three months ended September 30, 2007 to \$58.0 million for the three months ended September 30, 2008 due to increased sales volumes of 8 percent and 10 percent higher realized selling prices. The increase in realized selling prices was due to price increases implemented in the first and third quarters of 2008. The increase in sales volumes was primarily due to strong demand from US customers. Gross margin decreased from 33 percent for the three months ended September 30, 2007 to 32 percent for the same period in 2008 primarily due to higher electricity costs, particularly at our Bruderheim, Alberta plant, and slightly higher fixed costs, offset by increased production at our low-cost Brandon, Manitoba sodium chlorate production facility following start-up in February 2008 of our expansion project.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 17 percent for the three months ended September 30, 2008, as compared to the three months ended September 30, 2007, as a result of a 3 percent increase in sales volumes and 16 percent higher realized selling prices. The increase in realized selling prices was primarily due to caustic soda price increases which were partially offset by lower chlorine prices. Gross margin decreased from 38 percent for

the three months ended September 30, 2007 to 34 percent for the same period in 2008 primarily as a result of higher natural gas costs and higher fixed costs offset somewhat by lower electricity costs. The plant operated at an average rate of 93 percent for the three months ended September 30, 2008, as compared to 100 percent for the three months ended September 30, 2007, to manage chlorine inventory levels.

South America

Sales revenue in South America increased 44 percent from \$21.8 million for the three months ended September 30, 2007 to \$31.4 million for the three months ended September 30, 2008 due to both higher sales volumes and higher realized selling prices. Sales volumes of sodium chlorate and chlor-alkali products increased by 17 and 8 percent, respectively, for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007. The increase in sales volumes was due to continued high demand for both sodium chlorate and caustic soda by our primary customer. The increase in realized selling prices was due to the pass-through nature of the contract with our primary customer, which contributes to higher sales revenues as costs increase. The increase in costs for the three months ended September 30, 2008, as compared to the three months ended September 30, 2007, was primarily due to the strengthening of the Brazilian Real against the US dollar. The decline in gross margin from 31 percent for the three months ended September 30, 2007 to 25 percent for the same period in 2008 was the result of the significant purchase and resale of caustic soda to our primary customer which generates no margin as well as the impact on our fixed US dollar margins of the stronger Canadian dollar during the three months ended September 30, 2008, as compared to the three months ended September 30, 2007. Absolute gross margin increased 14 percent from \$6.8 million in the third quarter of 2007 to \$7.7 million in the third quarter of 2008.

Higher amortization expense decreased net income by \$0.1 million

Amortization expense increased for the three months ended September 30, 2008, as compared to the same period in the prior year, primarily due to higher amortization on our Brandon, Manitoba sodium chlorate production facility as a result of the expansion which started up in February 2008, offset by lower amortization for our Beauharnois sodium chlorate production facility which is almost fully amortized.

Higher general and administrative costs decreased net income by \$1.4 million

General and administrative costs were higher for the three months ended September 30, 2008, as compared to the three months ended September 30, 2007, primarily due to higher salary and benefit costs as a result of adjustments in the quarter to reflect revised year-to-date estimates for employee benefit costs and increased spending on business development activities.

Lower interest expense increased net income by \$0.1 million

The decrease in interest expense for the three months ended September 30, 2008 was primarily due to the impact of the stronger Canadian dollar on US dollar interest expense, lower interest rates and slightly lower borrowings on our amended and restated revolving credit facility offset by interest on the US \$50 million of Prudential senior secured notes issued May 1, 2008. The Canadian to US dollar foreign exchange rate averaged US \$0.97 for the three months ended September 30, 2008 versus US \$0.95 for the same period the prior year. The weighted average interest rate on credit facility borrowings for the three months ended September 30, 2008 was 4.31 percent as compared to 6.36 percent for the same period the prior year. The amount outstanding on our credit facility as at September 30, 2008 was US \$185,600,000 as compared to US \$189,000,000 at September 30, 2007. Interest expense on the US \$50 million Prudential senior secured notes was \$860,686 for the three months ended September 30, 2008. Interest capitalized on major projects during the three months ended September 30, 2008 was \$375,842 (September 30, 2007 - \$378,849).

Changes in foreign exchange options decreased net income by \$1.5 million

During the three months ended September 30, 2008, Canexus LP had Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar for the period June 1, 2008 to August 31, 2008 and Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9588 per Canadian dollar from September 1, 2008 to December 31, 2008. Realized gains of \$0.1 million and mark-to-market losses in fair value of \$0.4 million were recorded on these options for a net loss of \$0.3 million.

During the three months ended September 30, 2007, Canexus LP had Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.87 which expired July 11, 2007 and Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to February 27, 2008. Realized gains of \$0.6 million and mark-to-market gains in fair value of \$0.6 million were recorded on these options for a total gain of \$1.2 million.

Changes in fair value of a foreign exchange forward increased net income by \$0.6 million

In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant. Mark-to-market fair value gains of \$0.6 million were recorded on this forward during the three months ended September 30, 2008.

Changes in interest rate swaps decreased net income by \$0.5 million

In March 2008, we entered into interest rate swap agreements under which we swap 3 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. For the three months ended September 30, 2008 we recorded mark-to-market losses in fair value of \$0.4 million on these swaps and realized losses of \$0.1 million for a total loss of \$0.5 million.

Changes in fair value of electricity forward swaps increased net income by \$2.9 million

From time to time, Canexus LP uses forward swap contracts to manage our exposure to the price of electricity in Alberta. We did not have any electricity forward swap contracts outstanding during the three months ended September 30, 2008. At September 30, 2007, we had electricity forward swap contracts under which we paid a fixed weighted average price of \$66.12 per MWh and received a floating price on 66,270 MWh for the period October 1, 2007 to December 31, 2007. We recorded mark-to-market losses in fair value of \$2.9 million on these swaps for the three months ended September 30, 2007.

Changes in currency translation gains (losses) decreased net income by \$22.7 million

During the three months ended September 30, 2008, fluctuations in exchange rates resulted in unrealized losses of \$12.9 million and realized gains of \$1.3 million for a net loss of \$11.6 million versus unrealized gains of \$12.1 million and realized losses of \$1.0 million for a net gain of \$11.1 million for the three months ended September 30, 2007. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the three months ended September 30, 2008, we recorded an unrealized currency translation loss on our US dollar denominated borrowings on our amended and restated revolving credit facility and Prudential senior secured notes of \$10.8 million and a realized gain of \$0.9 million on the repayment of US \$7.4 million of our amended and restated revolving credit facility for a net loss of \$9.9 million, as compared to an unrealized currency translation gain of \$12.6 million for the three months ended September 30, 2007.

Lower income taxes increased net income by \$5.1 million

Income taxes decreased for the three months ended September 30, 2008, as compared to the three months ended September 30, 2007, due to tax benefits recorded in certain operating subsidiaries arising from the impact of exchange rate movements.

An increase in the allowance for doubtful accounts decreased net income by \$0.5 million

During the three months ended September 30, 2008, Canexus LP recorded an increase in its general allowance for doubtful accounts to cover the risk exposure related to Pope & Talbot. See "Market Risk Analysis – Credit Risk".

An increase in the allowance for impairment of ABCP decreased net income by \$1.6 million

During the three months ended September 30, 2008, Canexus LP recorded an additional \$1.6 million for estimated impairment in value of its investment in non-bank sponsored ABCP for a total estimated impairment loss of \$2.2 million (\$0.6 million was recorded in the fourth quarter of 2007).

On June 29, 2007, Canexus LP invested a portion (\$4.1 million) of the restricted investments in non-bank sponsored ABCP with a maturity of September 28, 2007. When the ABCP matured but was not repaid in 2007, it became subject to an ongoing restructuring process that is expected to replace the ABCP with long term asset backed securities ("New Notes").

While the restructuring proposal received investor approval in April 2008, and Court approval in June 2008, the proposal has been the subject of numerous appeals to the Ontario Court of Appeal and the Supreme Court of Canada. In September 2008, the Supreme Court of Canada denied leave to appeal, thus clearing the way for implementation of the restructuring plan. A firm implementation date has not yet been provided, but the Pan-Canadian Investor Committee, which is overseeing the restructuring, has indicated an intent to complete the restructuring prior to the end of November 2008.

We have valued this ABCP under the assumption that the restructuring will be completed and the New Notes will be issued. Using publicly available information received from the Pan-Canadian Investor Committee, we have been able to determine the key characteristics of each class of New Notes we expect to receive: par value; credit rating; interest rate; and, maturity date. We sought advice to help us estimate the return that a prospective investor would require for each class of notes ("Required Yield"). Using the Required Yield as the discount factor, we calculated the net present value of the expected cash flows for each class of New Notes. As a result of this analysis, we estimated the fair market value of our ABCP investment to be \$1.9 million as at September 30, 2008.

While we believe that we have utilized an appropriate methodology to estimate fair value, given the current state and ongoing volatility of global financial markets, there can be no assurance that management's estimate of potential recovery as at September 30, 2008 is accurate. Subsequent adjustments may be required in future reporting periods.

Other income and expense items decreased net income by \$0.8 million

During the three months ended September 30, 2008, Canexus LP recorded prior period costs associated with an assessment of social security taxes in South America of \$0.2 million, a write down of inventory of \$0.4 million and a loss of \$0.1 million on the sale of a property in Brandon, Manitoba.

Capital Expenditures

Capital expenditures for the three months ended September 30, 2008 were \$24.5 million as compared to \$13.6 million for the three months ended September 30, 2007. Increased spending on continuous improvement projects of \$1.5 million and \$9.8 million on expansion projects was partially offset by \$0.4 million lower spending on maintenance capital projects. Higher expenditures related to the TCP at our North Vancouver plant were offset by lower expenditures related to the expansion of our Brandon, Manitoba sodium chlorate plant.

The TCP is anticipated to cost a total of \$208 million, of which \$47.5 million including capitalized interest of \$1.1 million had been spent as at September 30, 2008. The project is anticipated to be completed in the first quarter of 2010. The TCP will replace existing 50-year old diaphragm technology and assets with proven membrane technology that is more cost-efficient and environmentally friendly. Project benefits are expected to include incremental annual operating cash flow of between \$35 and \$43 million as a result of decreased production costs and increased plant capacity. The TCP is not expected to have a significant impact on our ongoing chlor-alkali operations until the first quarter of 2010, at which point we anticipate a 4 week shutdown period to complete tie-in's and commission the new membrane technology.

Changes in Net Income Nine Months Ended September 30, 2008 versus Nine Months Ended September 30, 2007

CAD thousands	
Net Income for the Nine Months Ended September 30, 2007	50,337
Items Increasing (Decreasing) Net Income	
Sales Revenues	39,588
Cost of Goods Sold	(32,675)
Amortization	990
General and Administrative Expenses	(1,068)
Interest Expense	823
Change in Fair Value and Realized Gains on Foreign Exchange Options	(2,489)
Change in Fair Value and Realized Losses on Interest Rate Swaps	1,588
Change in Fair Value of Electricity Forward Swaps	1,429
Change in Fair Value of Foreign Exchange Forward	625
Changes in Currency Translation Gains (Losses)	(42,942)
Income Taxes	5,033
Accrual for Future TCP Severance Costs	(7,310)
Allowance for Doubtful Accounts	(450)
Allowance for Impairment in Value of ABCP	(1,600)
Other	(1,004)
Net Income for the Nine Months Ended September 30, 2008	10,875

Net income for the nine months ended September 30, 2008 decreased from the nine months ended September 30, 2007 by \$39.5 million or 78 percent. This decrease was primarily the result of unrealized currency translation losses on our US dollar denominated long-term debt versus unrealized currency translation gains in the comparable period of 2007, an accrual for future severance costs associated with the TCP, an allowance for impairment recorded on our investment in non-bank sponsored ABCP, a decrease in unrealized gains in fair value and realized gains on foreign exchange options, partially offset by higher gross margin and lower income taxes. EBITDA for the nine month period ended September 30, 2008 decreased from the nine month period ended September 30, 2007 by \$46.3 million or 48 percent.

Net income increased due to an increase in gross margin of \$6.9 million

Nine Months Ended September 30, 2008	North America		South America	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	162,426	103,513	83,925	349,864
Cost of Goods Sold	113,896	73,661	64,374	251,931
Gross Margin ⁽¹⁾	48,530	29,852	19,551	97,933
Gross Margin (%) ⁽¹⁾	30%	29%	23%	28%

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

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 12 percent from \$144.4 million for the nine months ended September 30, 2007 to \$162.4 million for the nine months ended September 30, 2008 due to an 8 percent increase in sales volumes and a 4 percent increase in realized selling prices. Price increases implemented throughout 2007 and 2008 more than offset the appreciation in the relative value of the Canadian dollar to the US dollar for the same periods. The increase in sales volumes was primarily due to strong demand from US customers. Gross margin percentage was consistent for each of the nine month periods ended September 30, 2008 and September 30, 2007. Increases in realized selling prices and higher production at our low-cost Brandon, Manitoba sodium chlorate plant offset increased electricity costs, particularly at our Bruderheim, Alberta plant, and higher fixed costs. Fixed costs were higher primarily due to higher salary and benefit costs as a result of adjustments to reflect revised estimates for employee benefit costs.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 5 percent from \$98.5 million for the nine months ended September 30, 2007 to \$103.5 million for the nine months ended September 30, 2008 due to a 5 percent increase in sales volumes and a 4 percent increase in realized selling prices. Caustic soda price increases implemented in 2008 more than offset the significant downward pressure on chlorine realized selling prices during the nine months ended September 30, 2008. Gross margin percentage was consistent for each of the nine month periods ended September 30, 2008 and September 30, 2007 with higher realized selling prices and lower electricity costs being offset by higher natural gas costs and slightly higher fixed costs in 2008.

South America

Sales revenue in South America increased 25 percent from \$67.3 million for the nine months ended September 30, 2007 to \$83.9 million for the nine months ended September 30, 2008 as a result of higher sales volumes for both sodium chlorate (9 percent increase) and chlor-alkali products (5 percent increase) and higher realized selling prices for both sodium chlorate (6 percent increase) and chlor-alkali products (13 percent increase). The increase in sales volumes was due to continued high demand for both sodium chlorate and caustic soda by our primary customer. The increase in realized selling prices was due to the pass-through nature of the contract with our primary customer, which contributes to higher sales revenues as costs increase. The increase in costs for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, was primarily due to the strengthening of the Brazilian Real against the US dollar. Gross margin declined from 30 percent for the nine months ended September 30, 2007 to 23 percent for the nine months ended September 30, 2008 due to higher caustic soda purchase and resale to our primary customer which generates no margin.

Lower amortization expense increased net income by \$1.0 million

Amortization expense decreased for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, primarily due to lower amortization for our Beauharnois sodium chlorate production facility which is almost fully amortized, offset by higher amortization on our Brandon plant as a result of the expansion which started-up in February 2008.

Higher general and administrative expense decreased net income by \$1.1 million

General and administrative costs were higher for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, primarily due to higher salary and benefit costs as a result of revised year-to-date estimates for employee benefit costs, costs associated with the upgrade of our SAP software and increased spending on business development activities.

Lower interest expense increased net income by \$0.8 million

Interest expense was lower for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, due to lower interest rates, slightly lower borrowings on our amended and restated revolving credit facility and higher interest capitalized on major projects, offset by interest on the US \$50 million Prudential senior secured notes. The amount outstanding on our amended and restated revolving credit facility at September 30, 2008 was US \$185,600,000 as compared to US \$189,000,000 at September 30, 2007. On May 1, 2008, Canexus LP issued US \$50 million of senior secured notes to Prudential which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. The weighted average interest rate on our amended and restated revolving credit facility borrowings for the nine months ended September 30, 2008 was 4.43 percent as compared to 6.24 percent for the nine months ended September 30, 2007. Interest expense on the US \$50 million Prudential senior secured notes was \$1,411,959 for the nine months ended September 30, 2008. Interest capitalized on major projects during the nine months ended September 30, 2008 was \$1,008,058 as compared to \$643,592 for the nine months ended September 30, 2007.

Changes in foreign exchange options decreased net income by \$2.5 million

During the nine months ended September 30, 2008 Canexus LP had Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to February 27, 2008, Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from March 1, 2008 to August 31, 2008 and Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9588 per Canadian dollar from September 1, 2008 to December 31, 2008. Realized gains of \$1.1 million and mark-to-market losses in fair value of \$1.7 million were recorded on these options for a net loss of \$0.6 million.

During the nine months ended September 30, 2007 Canexus LP had Canadian dollar foreign exchange call option contracts that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.87 per Canadian dollar for the period January 17, 2007 to July 11, 2007 and Canadian dollar foreign exchange call option contracts on US \$5 million per month that entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 from September 5, 2007 to February 27, 2008. Realized gains of \$1.2 million and mark-to-market gains in fair value of \$0.7 were recorded on these options for a total gain of \$1.9 million.

Changes in fair value of a foreign exchange forward increased net income by \$0.6 million

In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant. Mark-to-market fair value gains of \$0.6 million were recorded on this forward during the nine months ended September 30, 2008.

Changes in interest rate swaps increased net income by 1.6 million

In March 2008, we entered into interest rate swap agreements under which we swap 3 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. For the nine months ended September 30, 2008 we recorded mark-to-market gains in fair value of \$1.7 million on these swaps and realized losses of \$0.1 million for a net gain of \$1.6 million.

Changes in fair value of electricity forward swaps increased net income by \$1.4 million

From time to time, Canexus LP uses forward swap contracts to manage our exposure to the price of electricity in Alberta. We did not have any electricity forward contracts outstanding during the nine months ended September 30, 2008. At September 30, 2007, we had electricity forward swap contracts outstanding under which we paid a fixed weighted average price of \$66.12 per MWh and received a floating price on 66,270 MWh for the period October 1, 2007 to December 31, 2007. We recorded mark-to-market losses in fair value of \$1.4 million for the nine months ended September 30, 2007.

Changes in currency translation gains (losses) decreased net income by \$42.9 million

During the nine months ended September 30, 2008, fluctuations in exchange rates resulted in unrealized losses of \$21.8 million and realized gains of \$6.6 million for a net loss of \$15.2 million versus unrealized gains of \$30.0 million and realized losses of \$2.2 million for a net gain of \$27.8 million for the nine months ended September 30, 2007. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the nine months ended September 30, 2008 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$20.4 million as compared to an unrealized currency translation gain of \$30.5 million for the nine months ended September 30, 2007. The weakening of the Canadian dollar in 2008 through September 30 has resulted in the reversal of \$20.4 million of the \$38.4 million of unrealized gains on our US dollar debt recorded since our Initial Public Offering in August 2005.

Lower income taxes increased net income by \$5.0 million

Income taxes decreased for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007, due to a decrease in income taxes primarily due to recording tax benefits in certain operating subsidiaries arising from the impact of exchange rate movements.

Accrual for estimated future TCP severance costs payable decreased net income by \$7.3 million

During the nine months ended September 30, 2008, we accrued estimated costs of \$7.3 million for severance costs payable to employees following start-up of the TCP at our North Vancouver chlor-alkali facility in 2010. 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. Following start-up of the TCP we expect to be able to permanently reduce our work force at this facility by approximately one-third.

An increase in the allowance for doubtful accounts decreased net income by \$0.5 million

During the nine months ended September 30, 2008, Canexus LP recorded an increase of \$0.7 million in its general allowance for doubtful accounts to cover the risk exposure related to Pope & Talbot. See "Market Risk Analysis – Credit Risk".

An increase in the allowance for impairment of ABCP decreased net income by \$1.6 million

During the nine months ended September 30, 2008, Canexus LP recorded an additional \$1.6 million for estimated impairment in value of its investment in non-bank sponsored ABCP for a total estimated impairment loss of \$2.2 million (\$0.6 million was recorded in the fourth quarter of 2007).

Other income and expense items decreased net income by \$1.0 million

During the nine months ended September 30, 2008, Canexus LP recorded prior period costs associated with a state tax assessment on energy purchases of \$0.6 million in South America, \$0.2 million related to an assessment of social security taxes in South America, an inventory write down of \$0.4 million and a loss of \$0.1 million on the sale of a property in Brandon, Manitoba offset by the reversal of a customer rebate accrual of \$0.4 million based on a current assessment of sales volumes.

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

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

Selected Annual Financial Information

CAD thousands, except as noted	Years Ended December 31		
	2007	2006	2005
Sales Volumes			
Sodium Chlorate (000s Metric Tonnes (MT))	433	443	447
Chlor-alkali (000s Metric Electro-Chemical Units (MECU))	188	195	195
Sales Revenues			
	413,607	405,331	397,423
Cost of Goods Sold			
	295,725	285,716	275,211
Gross Margin ⁽¹⁾			
	117,882	119,615	122,212
Gross Margin (%) ⁽¹⁾			
	29%	30%	31%
Net Income			
	54,547	47,143	54,345
Plus: Provision for Income Taxes			
	6,884	789	3,006
Plus: Amortization			
	44,370	40,223	50,739
Plus: Interest Expense			
	11,377	10,713	3,242
EBITDA ⁽¹⁾			
	117,178	98,868	111,332
Cash Distributions Declared (\$/Unit)			
	0.8475	0.8748	0.3252
Capital Expenditures			
Maintenance			
	12,731	12,098	14,161
Continuous Improvement			
	1,479	1,242	-
Infrastructure and IT			
	395	5,215	-
Expansion			
	46,722	8,799	218
Total Capital Expenditures			
	61,327	27,354	14,379
Average Foreign Exchange Rate (CAD \$ to US \$)			
	US \$0.92	US \$0.88	US \$0.82

	At December 31		
	2007	2006	2005
Total Assets	488,199	486,384	485,127
Total Long-Term Liabilities	256,084	221,584	216,451

Note:

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

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

Price increases implemented during 2007 contributed to higher revenues on lower sales volumes despite the significant strengthening of the Canadian dollar throughout 2007.

The 2007 gross margin percentage declined from prior years primarily due to some temporary downtime experienced during the second quarter of 2007 combined with the significant strengthening of the Canadian dollar. On April 25, 2007, our North American chlor-alkali facility at North Vancouver experienced a disruption in water supply which consequently resulted in damage to one of the plant's three production circuits. Approximately 30 percent of the plant's practical capacity, or 130 MECU's per day, was affected by the damaged circuit. The financial impact of this event on Canexus LP was approximately \$2.8 million resulting from lost sales margins and costs to repair the damage. The plant resumed operating at full capacity on June 8, 2007. This event overlapped with a regularly scheduled maintenance turnaround at this facility in May 2007 with a cost of \$1.4 million (non-capital) and had a negative impact on results from lost sales margins of \$1.7 million.

Outlook

Sodium Chlorate

The sodium chlorate market remained strong through the end of the third quarter of 2008. Over the past twelve months North America sodium chlorate export demand growth has been strong, with overall demand sufficient to balance a significant portion of the demand reduction associated with North American pulp mills idled during the same time period. Sodium chlorate demand has been supported by both high pulp mill operating rates and increased export demand. The increase in sodium chlorate export demand was primarily due to high power prices in Chile which results in

a lower cost to import the product than to produce it locally, and to the strong Euro in the first three quarters of 2008 which recalibrated the relative competitiveness of European sodium chlorate plants in comparison to North American plants. Domestic North American demand continued to be strong throughout the first nine months of 2008 due to a robust pulp market and high pulp prices. Additionally, some North American pulp mills have completed projects to increase pulp throughput, further increasing sodium chlorate demand.

Pulp mill operating rates averaged 94 percent inclusive of capacity associated with three mills idled by Pope & Talbot earlier in the year. However, early indications are emerging that suggest potential weakening in pulp and paper markets. Market pulp inventories have increased progressively over the past 12 months, with inventories of hardwood pulp growing faster than softwood pulp due in part to new hardwood capacity coming on-stream. Higher inventories, a stronger US dollar, and a weakening economy are beginning to exert downward pressure on pulp prices, particularly in the hardwood pulp sector. Continued pulp price retraction will increase profitability pressure on high cost mills, with the possibility of operating rate reductions and/or some mill closures. In particular, Scandinavian pulp manufacturers, especially those in Finland, are expected to be challenged as they are likely among the highest cost global producers due to the combined current dynamics of a strong Euro and significant recent fibre cost increases associated with new tariffs on Russian wood exports.

Market pulp prices rose for both hardwood and softwood pulp during the first and second quarters of 2008, and generally stabilized in the third quarter with a bias toward downward movement at the close of the third quarter. Price pressure is greatest on the hardwood segment. Entering the fourth quarter, on a profitability basis the downward pulp price shifts are being counterbalanced substantially for Canadian mills by the significant weakening of the Canadian dollar because market pulp trades in US dollars.

The sodium chlorate supply and demand balance is expected to favor suppliers for the duration of 2008. In spite of projections for lower pulp mill operating rates in 2009, the sodium chlorate market should remain balanced as cost pressures on suppliers erode the total North American economically operable chlorate capacity. Significant electricity cost increases have been reported in the US Southeast, the region in which the majority of US chlorate capacity is located, as legacy supply contracts are renegotiated. Press reports indicate that fuel cost adjustments in South Carolina and Georgia are resulting in electricity rate increases of up to 20 percent in 2009. Elsewhere in North America, electricity costs remain high in Alberta. Overall, as several North American chlorate plants address margin squeeze due to power price increases, economically operable chlorate capacity erosion is expected to counter lower pulp mill operating rates associated with the general economic turndown, therefore supporting sodium chlorate price stability.

Sodium chlorate market fundamentals, coupled with the continued strength of the Canadian dollar, enabled price increases to be successfully implemented in the third quarter of 2008, particularly to US customers. Supply and demand fundamentals and price settlements in place for the first quarter of 2009 support maintaining current to modestly higher North American prices in the new year. However pulp mill operating rate reductions associated with an economic turndown may create modest downward price pressure later in 2009.

Pope & Talbot, Ltd. and Pope & Talbot, Inc. (collectively, "Pope & Talbot" or "P&T"), entered bankruptcy protection proceedings during the fourth quarter of 2007, and discontinued operations at all three of their North America pulp mills the week of May 5, 2008. Subsequently, the Halsey, Oregon mill was sold and restarted early in the third quarter. On July 29, 2008 an offer to purchase the Harmac mill made by Nanaimo Forest Products was approved by the courts. The transaction closed on August 29, 2008 and the mill restarted the first week of October. Canexus LP's Nanaimo sodium chlorate plant, which accounts for only about five percent of Canexus LP's North American capacity, was affected by the Pope & Talbot bankruptcy in the second quarter; a short term sales agreement was consummated which enabled the Nanaimo plant to operate during the balance of the period prior to the Harmac mill restart. The former P&T mill at MacKenzie, British Columbia was purchased by 0832498 BC Ltd, an Edmonton, Alberta based company associated with Worthington Properties. The transaction closed on September 22, 2008. However, the mill management subsequently announced that restart plans have been placed on hold due to pulp market conditions and lack of a fibre contract. Product that Canexus LP supplied to the Mackenzie mill that remains idle was repositioned to other consumers. The overall annual volume impact to Canexus is negligible given the current strength of demand for these products. The net impact of the operating changes associated with the former Pope & Talbot mills is a reduction in total North America annual chlorate demand of approximately 17,000 metric tonnes. However, the demand reduction was more than negated by the closure of Olin Corporation's 22,000 metric tonnes of chlorate capacity at Dalhousie, New Brunswick in the second quarter.

Chlor-alkali

North America chlor-alkali industry operating rates averaged 90.6 percent between January and August, down 1.6 percent from the same period in 2007. Final statistics on third quarter operating rates are pending, but they will certainly be substantially lower as Hurricanes Gustav and Ike temporarily shut much of the US Gulf Coast capacity for both chlor-alkali and chlorine derivatives. The net impact of the hurricanes on market dynamics was a substantial tightening of the caustic market, and a beneficial impact on chlorine derivative inventories which will help the chlorine supply/demand balance for several months.

As expected, higher demand materialized in the water treatment segment in the second and third quarters, consistent with seasonal trends. However, domestic demand for chlorine derivative chemicals has been very weak year-to-date,

particularly in the vinyl chloride chain which has been hit hard by the housing sector slowdown. In contrast, exports of chlorine derivatives from the US Gulf Coast continued through the third quarter, supported by the weak US dollar and ethylene production economics that are advantaged in comparison to Asian economics. Canexus LP was not impacted by the Gulf Coast hurricanes and operating rates at our North Vancouver chlor-alkali facility have exceeded the industry average for the year in spite of the decision to moderate chlorine production slightly at the start of the third quarter to proactively manage inventory levels. Strong mid-third quarter demand supported a return to full operating rates at our North Vancouver chlor-alkali facility, but a fourth quarter operating rate adjustment is anticipated as chlorine demand softens concurrent with the seasonal falloff in the water treatment segment. Contrary to chlorine, caustic demand was strong in the third quarter and is projected to remain so in the fourth quarter. Caustic supply is restricted by market operating rate reductions necessitated to lower chlorine production, which has exacerbated a caustic supply/demand imbalance.

Consistent with weak demand, chlorine erosion that began earlier this year continued through the third quarter. In spite of chlorine price erosion overall MECU netbacks continued to rise through the third quarter due to sharp caustic price increases driven by short supply. The caustic supply constraint caused by weak chlorine demand is projected to continue to fuel further caustic price increases through the fourth quarter driving MECU netbacks well above historic values. Accordingly, further caustic price increases have been announced for the fourth quarter.

South America

Canexus LP's South American operation continues to deliver strong results. Our primary customer in South America, Aracruz Celulose S.A., has exceeded chlorate, caustic and hydrochloric acid plan consumption for the majority of 2008. Based on operating results through the third quarter, it is anticipated that the 2008 performance of our South American operation will be consistent with plan, at a minimum.

The outlook for the regional bleached pulp market continues to be positive; however global inventories of Bleached Eucalyptus Pulp have risen over the past few quarters. Consequently, prices began easing in the third quarter and are expected to erode further in the next few quarters, albeit to levels still well above historic norms. A 2,000 tonne incremental sodium chlorate expansion in progress at our South America manufacturing plant is scheduled for start-up in January 2009. In addition, the Board of Directors recently approved a further 4,400 MT expansion which is estimated to cost US \$5 million and to start-up in the first quarter of 2010. Options for further, more significant expansions are being evaluated to enable Canexus LP to secure additional supply positions in the growing sodium chlorate market. Management believes Canexus LP is well positioned to take advantage of growth opportunities associated with the pulp and chemical industries in South America.

Liquidity and Capital Structure

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

The following table presents the excess (shortfall) of cash flows from operating activities and the excess (shortfall) of net income (loss), over distributions declared for the three and nine months ended September 30, 2008, the three and nine months ended September 30, 2007 and the years ended December 31, 2007 and December 31, 2006.

Canexus LP considers the amount of cash generated by the business in determining the level of distributions to Ordinary and Exchangeable LP Unitholders. We do not take into account changes in non-cash operating working capital as they are considered to be temporary in nature. Distributable Cash within Canexus LP (see "Statement of Distributable Cash" on page 5) 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 currency translation gains and losses.

	Three Months Ended		Nine Months Ended		Years Ended	
	September 30	September 30	September 30	September 30	December 31	December 31
	2008	2007	2008	2007	2007	2006
Cash Flows from Operating Activities	38,768	22,735	59,678	52,316	81,869	81,302
Net Income	4,768	21,361	10,875	50,337	54,547	47,143
Distributions Declared	11,757	17,997	34,536	53,993	70,319	71,992
Excess (Shortfall) of Cash Flows from Operating Activities over Distributions Declared	27,011	4,738	25,142	(1,677)	11,550	9,310
Excess (Shortfall) of Net Income over Distributions Declared	(6,989)	3,364	(23,661)	(3,656)	(15,772)	(24,849)

Distributions declared exceeded net income for the three months ended September 30, 2008 due to non-cash expenses including amortization, unrealized currency translation losses, mark-to-market adjustments on foreign exchange call option contracts and interest rate swaps, the recording of an allowance for impairment on our investments in non-bank sponsored ABCP and the recording of an allowance for doubtful accounts offset by a recovery of future income taxes.

Distributions declared exceeded net income for the nine months ended September 30, 2008 due to non-cash expenses including amortization, unrealized currency translation losses, mark-to-market adjustments on foreign exchange call option contracts, the recording of an allowance for impairment on our investments in non-bank sponsored ABCP, the recording of an allowance for doubtful accounts and an accrual for future TCP severance costs payable in 2010 upon start-up of the TCP offset by a recovery of future income taxes.

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

Net Debt and Total Equity

	September 30 2008	December 31 2007
Long-Term Debt	249,310	201,572
Less: Cash and Cash Equivalents	(11,621)	(10,056)
Less: Non-Cash Working Capital	(47,966)	(28,515)
Total Net Debt ⁽¹⁾	189,723	163,001
Total Equity ⁽²⁾	170,194	169,698

Notes:

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

(2) At September 30, 2008 there were 32,290,041 Ordinary LP Units (held indirectly by the Fund) and 54,294,462 Exchangeable LP Units (held by Nexen Inc.) outstanding. At December 31, 2007, there were 31,750,000 Ordinary LP Units and 50,535,714 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Units of the Fund at the option of Nexen Inc. at any time.

Liquidity

During the periods presented, Canexus LP consistently generated positive cash flows from operating activities. Cash generated from operating activities is used to pay distributions and remaining excess cash, if any, is used to fund expansion capital expenditures.

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

	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	Change	2008	2007	Change
Cash Flow from Operating Activities	38,768	22,735	16,033	59,678	52,316	7,362
Cash Flow used in Financing Activities	(11,963)	(10,170)	(1,793)	(3,991)	(10,064)	6,073
Cash Flow used in Investing Activities	(25,411)	(12,309)	(13,102)	(54,424)	(41,044)	(13,380)

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, general and administrative expenditures and interest expense. The increase in cash flow from operating activities for the three months ended September 30, 2008 was due to an increase in gross margin, an increase in realized currency translation gains and a temporary increase in non-cash operating working capital, partially offset by an increase in general and administrative expenses. The increase in non-cash operating working capital was primarily due to a temporary decrease in finished goods inventories and a temporary increase in accounts payable and accrued liabilities. The increase in cash flow from operating activities for the nine months ended September 30, 2008 was primarily due an increase in gross margin, an increase in realized currency translation gains and a decrease in interest expense partially offset by a temporary increase in non-cash working capital. The increase in non-cash working capital was due to a temporary increase in finished goods inventories, the reversal of a temporary decrease in accounts receivable and a temporary decrease in accounts payable and accrued liabilities.

Cash Flow used in Financing Activities

Changes in cash flow from financing activities for the three and nine months ended September 30, 2008, as compared to the three and nine months ended September 30, 2007, are comprised of:

	Change Three Months Ended	Change Nine Months Ended
Repayments of Short-Term Borrowings, Net	4,760	(10,506)
Issuance of Senior Secured Notes	-	50,708
Proceeds from Credit Facility Borrowings	(11,656)	(36,039)
Repayments of Credit Facility Borrowings	(8,653)	(32,039)
Deferred Financing and Issue Costs	(29)	(2,718)
Cash Distributions Paid to Ordinary and Exchangeable LP Unitholders	14,716	38,684
Funding of Asset Retirement Expenditures from Restricted Investments	(42)	(701)
Due From Affiliates, Net	(889)	(1,316)
	(1,793)	6,073

Cash Flow used in Investing Activities

Changes in cash flow used in investing activities for the three and nine months ended September 30, 2008, as compared to the three and nine months ended September 30, 2007, are comprised of:

	Change Three Months Ended	Change Nine Months Ended
Increase in Capital Expenditures	(10,884)	(17,763)
Proceeds on Disposal of Property, Plant and Equipment	382	382
Changes in Non-Cash Working Capital	(2,600)	4,001
	(13,102)	(13,380)

Future Liquidity

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

Debt Covenants

As at September 30, 2008, Canexus LP was compliant with all debt covenants contained in its credit facilities and note purchase agreements.

Capital Resources

Canexus LP has commitments of \$64.9 million as at September 30, 2008 and \$71.4 million as at November 12, 2008. At September 30, 2008, project inception-to-date expenditures for the TCP at our North Vancouver chlor-alkali facility were \$47.5 million, including \$1.1 million of capitalized interest. This project is being financed through any or all of our amended and restated revolving credit facility, proceeds from the Prudential senior secured notes, our US \$20 million Prudential senior secured revolving credit facility and DRIP proceeds. Management anticipates maintenance capital expenditures of \$14 million for 2008 and ongoing annual maintenance capital expenditures of approximately \$14 million, which will be financed primarily out of cash flows from operating activities. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, debt or issuances of Units of the Fund or other securities of the Fund.

On May 1, 2008 amendments were made to Canexus LP's credit facility to increase the facility from \$350 to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million. All other terms and conditions of the amended credit facility remain substantially the same as those of the previous credit facility. The amended credit facility is a four year revolving credit facility which matures August 18, 2011 and which can be extended each year, at the option of the lenders, for an additional year to provide for an ongoing four year term. The credit facility is available for draw down during the revolving period and has interest rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which can be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We can draw down the credit facility in either Canadian or US dollars. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. The credit facility can also be used to fund future acquisitions and capital expenditures. At September 30, 2008 we had \$196,717,440 (US \$185,600,000) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's consolidated balance sheet at September 30, 2008. Short-term swing line loans of up to \$35 million are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$410 million. There were no swing line loans outstanding at September 30, 2008.

On May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate, at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP. The Canadian dollar equivalent of the US \$50 million senior secured notes of \$52,995,000 is included in Long-Term Debt on Canexus LP's consolidated balance sheet at September 30, 2008. There were no amounts outstanding at September 30, 2008 on the US \$20 million senior secured revolving credit facility.

During the third quarter of 2008, CQBL, an indirect, wholly owned subsidiary of Canexus LP, closed a US \$10 million extendible revolving credit facility with EDC which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general CQBL corporate purposes including capital expenditures.

Canexus is the applicant on three Letters of Credit as at September 30, 2008 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.4 million) and the Independent System Operator for power curtailment obligations (\$0.2 million) as well as a documentary letter of credit in favour of Chlorine Engineers Corporation Ltd. for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million). The CIBC Mellon Letter of Credit expires on January 1, 2009 and is automatically renewed for one year periods unless otherwise advised. The Independent System Operator Letter of Credit expires on December 1, 2008 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires on January 31, 2009.

Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. As at September 30, 2008 these obligations and commitments were as follows:

	Total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases ⁽¹⁾	126,769	4,617	36,363	30,604	55,185
Purchase Obligations ⁽²⁾	131,379	5,486	46,960	51,374	27,559
Expansion Capital Expenditures ⁽³⁾	64,930	14,901	50,029	-	-
Asset Retirement Obligations ⁽⁴⁾	74,400	2,560	14,025	1,445	56,370
Long-Term Debt ⁽⁵⁾	247,712	-	196,717	50,995	-
Total	645,190	27,564	344,094	134,418	139,114

Notes:

- (1) Payments for operating leases are included in cash flow from operating activities. Operating leases include minimum lease payment obligations associated with leases for office space, rail cars, vehicles, 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.
- (3) Capital expenditures committed at September 30, 2008 are primarily related to the TCP at our North Vancouver chlor-alkali facility. The total estimated cost of this project is \$208 million.
- (4) As at September 30, 2008, undiscounted asset retirement obligations are \$74.4 million. The estimated fair value (\$45.7 million) of these obligations has been provided for in Canexus LP's unaudited consolidated balance sheet. The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates. Canexus LP has \$14.0 million of restricted investments to be used for future site remediation and asset retirement obligations. Approximately \$4.1 million of these restricted investments are invested in non-bank sponsored ABCP that was due to be received on September 28, 2007 and was not repaid. Canexus LP recorded an additional \$1.6 million allowance for estimated impairment in value in the third quarter of 2008, in addition to \$0.6 million recorded in the fourth quarter of 2007, for a total allowance for estimated impairment of \$2.2 million (See Note 10 to the unaudited consolidated financial statements of Canexus LP for the three and nine months ended September 30, 2008).
- (5) Long-Term Debt amounts are included in Canexus LP's September 30, 2008 unaudited consolidated balance sheet. These balances will fluctuate and do not have fixed repayment terms. Interest is payable on outstanding balances at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Interest payments have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.

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

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

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the September 30, 2008 unaudited consolidated balance sheet however, these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

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

Contingent Liabilities

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

Guarantees

We entered into a credit facility with a syndicate of financial institutions in 2005 which was amended and restated on May 1, 2008. The credit facility consists of a \$410 million revolving facility maturing on August 18, 2011, a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The credit facility is available for draw down during the revolving period. The credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may draw down the credit facility in either Canadian or US dollars. Short-term swing line loans of up to \$35 million are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$410 million. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements.

Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate, at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP. The senior secured notes and the senior secured revolving credit facility are secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements.

During the third quarter of 2008, CQBL, an indirect, wholly owned subsidiary of Canexus LP, closed a US \$10 million extendible revolving credit facility with EDC which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general CQBL corporate purposes including capital expenditures. The EDC credit facility is secured by a floating charge debenture over all of Canexus LP's assets and certain guarantees, security interests and subordination agreements.

Market Risk Analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business including product price risk, electricity price risk, foreign currency rate risk and interest rate risk. In addition, Canexus LP is exposed to credit risk and liquidity risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form for the year ended December 31, 2007, which has been filed on the Fund's SEDAR profile at www.sedar.com.

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. An increase in the Canadian to US dollar exchange rate to US \$1.00 would have decreased net income before income taxes by \$1.1 million for the three month period ended September 30, 2008 and \$1.4 million for the nine month period ended September 30, 2008, before the impact of hedging instruments. A decrease in the Canadian to US dollar exchange rate to US \$0.75 would have increased net income before income taxes by \$13.3 million for the three month period ended September 30, 2008 and \$36.1 million for the nine month period ended September 30, 2008, before the impact of hedging instruments. A range of US \$0.75 to US \$1.00 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 entered into US dollar denominated debt (See Note 11 to the unaudited consolidated financial statements of Canexus LP for the three and

nine months ended September 30, 2008) and incurs other expenditures in US dollars. In addition, Canexus LP has secured foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9588 per Canadian dollar from September 1, 2008 to December 31, 2008. During October, in two separate transactions, Canexus LP secured additional Canadian dollar foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.82 per Canadian dollar from January 1, 2009 through December 31, 2009 and to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.8170 per Canadian dollar from January 1, 2009 through December 31, 2009. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flow to benefit from devaluation of the Canadian dollar relative to the US dollar.

In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant.

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

Product Price Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate, net income before income taxes for the three and nine month periods ended September 30, 2008 would have changed by \$5.0 million and \$14.8 million respectively, before the impact of foreign exchange on US sales. For every \$50 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the three and nine month periods ended September 30, 2008 would have changed by \$2.0 million and \$5.5 million respectively, before the impact of foreign exchange on US sales. These sensitivities to changes in prices are based on 101,000 MT of North American sodium chlorate sales and 41,000 MECU's of North American chlor-alkali sales for the three month period ended September 30, 2008 and 296,000 MT of North American sodium chlorate sales and 111,000 MECU's of North American chlor-alkali sales for the nine month period ended September 30, 2008.

Sensitivities of \$50 per MT for sodium chlorate and \$50 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Electricity Price Risk

The cost of electricity is a key production cost. For every 3 percent change in the price of electricity, net income before income taxes would have changed by \$0.6 million for the three month period ended September 30, 2008 and \$1.9 million for the nine month period ended September 30, 2008. This sensitivity to changes in electricity prices is based on electricity consumption of 627,000 MWh for the three month period ended September 30, 2008 and 1,909,000 MWh for the nine month period ended September 30, 2008.

A 3 percent change in the price of electricity is considered reasonable given historical price changes and market expectations for future movement.

Canexus LP has utilized forward swap contracts from time to time to manage our exposure to the price of electricity in Alberta, which is a deregulated market. At September 30, 2008 we did not have any electricity forward swap contracts outstanding.

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 amended and restated revolving credit facility. A change in the 30 day US LIBOR rate to 2 percent would have increased net income before income taxes by \$0.3 million for the three month period ended September 30, 2008 and \$1.7 million for the nine month period ended September 30, 2008. A change in the 30 day US LIBOR rate to 5 percent would have decreased net income before income taxes by \$1.3 million for the three month period ended September 30, 2008 and \$3.1 million for the nine month period ended September 30, 2008. A range of 2 to 5 percent for the US LIBOR rate is considered reasonable given current rates and the recent movement of 30 day US LIBOR rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap 3 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. The fair value of these swap agreements are included in derivative financial instruments with changes in their fair value included in other income (See Note 15 to the unaudited consolidated financial statements of Canexus LP for the three and nine months ended September 30, 2008). Fair value has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions.

Credit Risk

Credit risk is the risk of loss if counterparties do not fulfil 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 reviewed with the Audit Committee of the Board of Directors annually.

Our North American customers are diverse with no one customer accounting for more than 9 percent of total trade accounts receivable at September 30, 2008.

The majority of our South American production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at September 30, 2008, trade amounts owing from Aracruz Celulose S.A. represented 17 percent of total trade accounts receivable (December 31, 2007 – 0 percent).

Management expects all amounts past due to be collectible with the exception of amounts due from Pope & Talbot, Ltd. ("P&T"). The amount outstanding past 90 days is primarily due from P&T who applied for protection under the *Companies' Creditors Arrangement Act* ("CCAA") on October 29, 2007. We have filed proofs of claim in the bankruptcy proceedings to recover our pre-petition and post-petition accounts receivable. Canexus LP has a general allowance for doubtful accounts receivable of \$2.6 million which management believes is sufficient to absorb credit risk loss exposure at September 30, 2008, including the full credit risk loss exposure related to P&T.

We are focusing additional effort on counterparty risk as a result of the current global financial crisis. We plan to strictly enforce credit terms, monitor customer order patterns for abnormalities and are attempting to better understand the financing arrangements of key customers. Our credit facilities and financial derivative transactions are predominantly with the major Canadian chartered banks.

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 maintaining adequate committed reserve borrowing facilities.

As at September 30, 2008, Canexus LP had held-for-trading financial assets of \$14.0 million, loans and receivables of \$63.2 million, held-to-maturity financial assets of \$11.8 million and financial liabilities of \$308.7 million. All financial assets and financial liabilities have short terms to maturity (one to three months) with the exception of long-term debt (See Note 11 to the unaudited consolidated financial statements of Canexus LP for the three and nine months ended September 30, 2008).

Transactions with Related Parties

Due from/to affiliates at September 30, 2008 and December 31, 2007 relate to amounts owing in the normal course of operations as discussed below.

Canexus Limited employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by Canexus Limited are recovered in full from Canexus Chemicals Canada Limited Partnership (directly and indirectly wholly-owned by Canexus LP). Amounts outstanding to Canexus Limited for these costs as at September 30, 2008 and December 31, 2007 are due to timing.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. In addition, Canexus LP had a separate forward swap contract with a Nexen Inc. affiliate to manage our exposure to the price of electricity in deregulated jurisdictions until December 31, 2007. Under this forward swap contract, Canexus LP paid a fixed rate and received a floating rate per MWh.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Electricity Purchases and Retail Service Fees	2,807	1,250	12,254	11,298
Natural Gas Purchases and Retail Service Fees	2,445	1,529	7,987	6,032
Forward Swap Payments	-	(3,068)	-	(1,817)
Total	5,252	(289)	20,241	15,513

Critical Accounting Estimates

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

Impairment of Long Lived Assets

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

Canexus LP's assets were assessed for impairment at the end of 2007 and no impairment was found based on future cash flow estimates used. There have been no significant changes in circumstances or conditions during the three and nine months ended September 30, 2008.

Cash flow estimates used for purposes of impairment assessments require assumptions about three primary elements - future sales prices, sales volumes and operating costs. Estimates of future sales prices require significant judgements about highly uncertain future events. Sales price forecasts used to assess impairment are based on prices derived from future price forecasts from industry sources and assessments made by Canexus LP. Estimates of future operating costs are made by Canexus LP. Given the significant assumptions required and the possibility that actual conditions will differ, the assessment of impairment is considered to be a critical accounting estimate. Any impairment charges would lower net income.

Asset Retirement Obligations

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

Asset retirement obligations are recorded in the consolidated financial statements of Canexus LP by discounting, to the present value, the estimated retirement obligations associated with its chemical plants using a credit-adjusted risk free rate. 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 a change in assumptions would have on its financial results. However, management of Canexus LP believes that the assumptions it has made are reasonable.

Changes in Accounting Policies

Financial Instruments

Effective January 1, 2008, the Fund and Canexus LP adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 8 of the unaudited consolidated financial statements of the Fund for the three and nine months ended September 30, 2008 and in Note 7 of the unaudited consolidated financial statements of Canexus LP for the three and nine months ended September 30, 2008.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

Capital Disclosures

Effective January 1, 2008, the Fund and Canexus LP adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 9 of the unaudited consolidated financial statements of the Fund for the three and nine months ended September 30, 2008 and in Note 14 of the unaudited consolidated financial statements of Canexus LP for the three and nine months ended September 30, 2008.

Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Financial Reporting Standards ("IFRS") and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value.

The adoption of these standards resulted in the reclassification of major spare parts and stand-by equipment from inventories and operating supplies to property, plant and equipment of \$1.5 million on January 1, 2008 for Canexus LP.

Financial Statement Presentation

Effective January 1, 2008, the Fund and Canexus LP adopted the revised recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of either the Fund or Canexus LP.

Future Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and harmonizes this standard with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect this section to have a material impact on either the Fund's or Canexus LP's current results of operations or financial position.

Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Canexus has developed a conversion implementation plan and is assessing the impact of the conversion on the consolidated financial statements and disclosures of the Fund and Canexus LP.

Forward Looking Statements and Information

This MD&A may contain forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries that involve risks and uncertainties. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. 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 for the year ended December 31, 2007, which has been 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 designed to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified and that such information is accumulated and communicated to our management, including the President and Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

We maintain adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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 three months ended September 30, 2008.

Canexus Income Fund

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2008 and 2007

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands, except per unit amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenues				
Equity Income from Investment in Canexus Limited Partnership	1,791	8,242	4,102	19,422
Expenses				
Trust Administration Expenses	58	85	234	217
Unit Based Compensation (Note 11)	329	590	922	1,856
	387	675	1,156	2,073
Income Before Future Income Taxes	1,404	7,567	2,946	17,349
Provision for (Recovery of) Future Income Taxes (Note 12)	(718)	1,339	(198)	11,821
Net Income	2,122	6,228	3,144	5,528
Earnings Per Unit (Note 6)	0.07	0.20	0.10	0.17
Diluted Earnings Per Unit (Note 6)	0.07	0.20	0.10	0.17

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF DEFICIT For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Beginning of Period	(40,021)	(25,541)	(32,328)	(10,953)
Net Income	2,122	6,228	3,144	5,528
Distributions Paid	(2,933)	(4,628)	(11,648)	(18,516)
Distribution Payable	(1,473)	(2,315)	(1,473)	(2,315)
End of Period	(42,305)	(26,256)	(42,305)	(26,256)

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED BALANCE SHEETS As at September 30, 2008 and December 31, 2007

CAD thousands	September 30 2008	December 31 2007
ASSETS		
Current Assets		
Cash	1	-
Due from Affiliates	-	39
Distribution Receivable from Canexus Limited Partnership	1,473	1,448
Prepaid Expenses	4	29
Total Current Assets	1,478	1,516
Investment in Canexus Limited Partnership (Note 7)	296,048	302,667
Total Assets	297,526	304,183
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	1	2
Due to Affiliates	171	-
Distribution Payable to Unitholders (Note 10)	1,473	1,448
Total Current Liabilities	1,645	1,450
Future Income Tax Liabilities (Note 12)	12,456	12,654
Total Liabilities	14,101	14,104
Equity		
Unitholders' Equity (32,290,041 Fund Units outstanding) (Note 5)	319,900	317,500
Contributed Surplus (Note 11)	5,830	4,907
Deficit	(42,305)	(32,328)
Total Equity	283,425	290,079
Total Liabilities and Equity	297,526	304,183

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Operating Activities				
Net Income	2,122	6,228	3,144	5,528
Charges and Credits to Income Not Involving Cash				
Equity Income from Investment in Canexus Limited Partnership (Note 7)	(1,791)	(8,242)	(4,102)	(19,422)
Unit Based Compensation (Note 11)	329	590	922	1,856
Future Income Taxes (Note 12)	(718)	1,339	(198)	11,821
Cash Distributions Received from Canexus Limited Partnership	4,393	6,943	11,648	20,831
Due to/from Affiliates, Net	47	-	210	-
Change in Non-Cash Operating Working Capital	12	85	25	217
	4,394	6,943	11,649	20,831
Financing Activities				
Cash Distributions Paid (Note 10)	(3,279)	(6,943)	(9,248)	(20,831)
Investing Activities				
Investment in Canexus Limited Partnership (Note 7)	(1,114)	-	(2,400)	-
Increase in Cash	1	-	1	-
Cash - Beginning of Period	-	-	-	-
Cash - End of Period	1	-	1	-

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS For the Three and Nine Months Ended September 30, 2008 and 2007

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" of Canexus Limited Partnership ("Canexus LP") in which it holds a 0.01 percent interest.

As at September 30, 2008, the Fund held an indirect 37.3 percent interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP. Nexen Inc. held a 62.7 percent controlling interest in Canexus LP.

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

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2007. The Fund does not have any comprehensive income and accordingly, has not presented statements of other comprehensive income and accumulated other comprehensive income.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at September 30, 2008 and the results of its operations and cash flows for the three and nine months ended September 30, 2008 and September 30, 2007. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2007, except as described in Note 3.

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

3. Changes in Accounting Policies

(a) Financial Instruments

Effective January 1, 2008, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 8.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

(b) Capital Disclosures

Effective January 1, 2008, the Fund adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 9.

(c) Financial Statement Presentation

Effective January 1, 2008, the Fund adopted the revised recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of the Fund.

4. Future Accounting Pronouncements

(a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is substantially aligned with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect this section to have any impact on the Fund's current results of operations or financial position.

(b) Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund has developed a conversion implementation plan and is currently assessing and analyzing the impacts of the conversion on the consolidated financial statements and disclosures of the Fund.

5. Unitholders' Equity

CAD thousands	September 30, 2008		December 31, 2007	
	Number of Units	Amount	Number of Units	Amount
Beginning of Period	31,750,000	317,500	31,750,000	317,500
Issued Pursuant to the DRIP	540,041	2,400	-	-
End of Period	32,290,041	319,900	31,750,000	317,500

Under the Distribution Reinvestment Plan ("DRIP") participants may elect, in the case of holders of Units of the Fund, to automatically reinvest monthly distributions in additional Units of the Fund 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 will be reinvested in additional units at 95 percent of the volume weighted average market price of Units of the Fund for the 10 trading days preceding the distribution payment date. Units acquired under the DRIP will be issued directly from the Fund's or Canexus LP's treasury, as applicable. The Fund has reserved 17,000,000 Units for the issuance of 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, the Exchangeable LP Units held by Nexen Inc. are exchangeable for Units of the Fund on a one-for-one basis. The Fund has reserved 54,294,462 Units as at September 30, 2008 (December 31, 2007 - 50,535,714 Units) for the exchange of the Exchangeable LP Units.

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

6. Earnings Per Unit

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Weighted average number of Units outstanding	32,158,912	31,750,000	31,942,628	31,750,000
Units issuable pursuant to deferred trust units (“DTUs”) and notional reinvestments (Note 11(b))	107,036	56,708	103,976	55,202
Units issuable pursuant to options and corresponding bonus rights (Note 11(a))	1,023,233	-	989,729	59,302
Notional units to be purchased with proceeds from exercise/redemption of options and corresponding bonus rights	(1,026,349)	-	(954,399)	(59,320)
Weighted average number of diluted Units outstanding	32,262,832	31,806,708	32,081,934	31,805,184

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

In calculating the weighted average number of diluted Units outstanding for the three months ended September 30, 2008, 87,000 weighted average deferred trust units and 20,036 corresponding weighted average additional DTUs (from notional reinvestments) were included and 938,566 weighted average unit options and 84,667 corresponding weighted average notional bonus units were included. We excluded 1,198,300 unit options and 423,837 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Units outstanding for the three months ended September 30, 2007, 49,000 weighted average deferred trust units and 7,708 corresponding weighted average additional DTUs (from notional reinvestments) were included. We excluded 1,370,800 unit options and 256,764 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

In calculating the weighted average number of diluted Units outstanding for the nine months ended September 30, 2008, 87,000 weighted average deferred trust units and 16,976 corresponding weighted average additional DTUs (from notional reinvestments) were included and 946,114 weighted average unit options and 43,615 corresponding weighted average notional bonus units were included. We excluded 1,187,800 unit options and 423,636 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Units outstanding for the nine months ended September 30, 2007, 49,000 weighted average deferred trust units and 6,202 corresponding weighted average additional DTUs (from notional reinvestments) and 54,249 weighted average unit options and 5,053 corresponding weighted average notional bonus units were included. We excluded 1,316,300 unit options and 248,279 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

7. Investment in Canexus LP

	Nine Months Ended September 30, 2008		Year Ended December 31, 2007	
	Number of Ordinary LP Units	Investment	Number of Ordinary LP Units	Investment
Beginning of Period	31,750,000	302,667	31,750,000	309,103
Equity Income from Investment in Canexus LP	-	4,102	-	21,047
Distributions Reinvested Pursuant to the DRIP	540,041	2,400	-	-
Distributions Received from Canexus LP	-	(11,648)	-	(26,035)
Distribution Receivable from Canexus LP	-	(1,473)	-	(1,448)
End of Period	32,290,041	296,048	31,750,000	302,667

Proceeds from the reinvestment of distributions by Unitholders of the Fund are utilized by the Fund to subscribe for additional Units in Canexus Commercial Trust who in turn, utilizes the proceeds to subscribe for additional Ordinary LP Units of Canexus LP.

8. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	September 30 2008	December 31 2007
Financial Assets		
Loans and Receivables, measured at amortized cost		
Due from Affiliates	-	39
Distribution Receivable from Canexus Limited Partnership	1,473	1,448
	1,473	1,487
Financial Liabilities		
Other Financial Liabilities, measured at amortized cost		
Accounts Payable and Accrued Liabilities	1	2
Due to Affiliates	171	-
Distribution Payable to Unitholders	1,473	1,448
	1,645	1,450

The Fund did not have held-for-trading or available-for-sale financial instruments during the three and nine month periods ended September 30, 2008.

The carrying value of due from/to affiliates, distribution receivable, accounts payable and accrued liabilities and distribution payable approximate their fair value as these financial instruments are near maturity.

(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 from Canexus LP for purposes of paying cash distributions to Unitholders.

9. Capital Risk Management

The Fund manages its capital to ensure that it has the financial capacity and liquidity to meet obligations as they come due and to provide returns to Unitholders. The capital structure of the Fund consists of issued capital (See Note 5). The Fund manages its capital structure and makes adjustments in order to preserve its ability to meet financial obligations, to provide an appropriate investment return to its Unitholders and to allow financing options to the Fund as financing needs arise. Management, upon approval of the Board of Directors, will balance its overall capital structure through new Unit issues, the issuance of debt or by undertaking other activities as deemed appropriate.

10. Distributions

The Fund pays monthly distributions to its Unitholders of record on the last business day of each month approximately 15 days after the end of each month. At September 30, 2008, the Fund had a distribution payable of \$1.5 million.

The Fund declared distributions of \$4.4 million (\$0.1368 per Unit) for the three months ended September 30, 2008 and \$13.1 million (\$0.4104 per Unit) for the nine months ended September 30, 2008. Of the total distributions paid for the three and nine months ended September 30, 2008, \$1.1 million and \$2.4 million respectively, were reinvested by Unitholders in additional Fund Units pursuant to the DRIP (See Note 5). The Fund declared distributions of \$6.9 million (\$0.2187 per Unit) for the three months ended September 30, 2007 and \$20.8 million (\$0.6561 per Unit) for the nine months ended September 30, 2007. Total distributions of \$78.1 million (\$2.4579 per Unit) have been declared from inception of the Fund to September 30, 2008.

11. Unit Based Compensation

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

(a) Trust Unit Incentive Plan

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

Each option permits the holder to purchase one Unit at a stated exercise price. The options granted vest over three years and are exercisable on a cumulative basis over five years. Each option's exercise price equals the market price at the time of grant.

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

The number of Units reserved under the Trust Unit Incentive Plan and the DTUCP (see (b) below) is equal to 5 percent of the issued and outstanding Units (September 30, 2008 – 4,329,225), which is the maximum allowable under the Plan (on a non-diluted basis, including the number of Exchangeable LP Units – see Note 5). Of that number, as at September 30, 2008, 2,664,660 Units are reserved and available for issuance upon the exercise of options and redemption of bonus rights.

As at September 30, 2008, a total of 2,137,300 Unit options and 2,137,300 corresponding bonus rights have been granted with the Unit options having a weighted average exercise price of \$6.95. Accumulated notional bonus Units on these bonus rights were 527,360 as at September 30, 2008. At September 30, 2008, there are 719,597 vested Unit options exercisable into 719,597 Units, as well as 719,597 corresponding bonus rights redeemable into 285,203 notional bonus Units accumulated thereon. As at September 30, 2007, a total of 1,370,800 Unit options and 1,370,800 corresponding bonus rights had been granted, with the Unit options having a weighted average exercise price of \$8.63. Accumulated notional bonus Units on these bonus rights were 256,764 at September 30, 2007. At September 30, 2007 there were 215,730 vested Unit options exercisable into 215,730 Units, as well as 215,730 corresponding bonus rights redeemable into 55,590 notional bonus Units accumulated thereon.

The estimated weighted average fair value of Unit options issued is \$0.92 per Unit option (September 30, 2007 - \$1.17) using the Generalized Black-Scholes option pricing model under the following weighted average assumptions:

	September 30, 2008	September 30, 2007
Risk-Free Interest Rate (%)	4.19	4.04
Estimated Hold Period Prior to Exercise (years)	5	5
Expected Volatility in the Price of Units (%)	24.0	29.8
Expected Annual Distributions per Unit (\$/unit)	0.7283	0.8748

(b) DTUCP

As at September 30, 2008, there were 108,633 DTUs outstanding under the DTUCP comprised of 87,000 DTUs granted and 21,633 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. As at September 30, 2007, there were 58,036 DTUs outstanding under the DTUCP comprised of 49,000 DTUs granted and 9,036 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

An aggregate of 200,000 Units are reserved under the DTUCP.

12. Income Taxes

These unaudited 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.

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 \$12.5 million future income tax liability as at September 30, 2008 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP, which differences are expected to reverse subsequent to 2010.

13. Related Party Transactions

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

14. Economic Dependence

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

Canexus Limited Partnership

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2008 and 2007

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenues				
Sales	130,373	104,990	349,864	310,276
Expenses				
Cost of Goods Sold	90,503	68,872	251,931	219,256
Amortization	11,151	11,034	31,814	32,804
General and Administrative	8,849	7,417	23,788	22,720
Interest	2,992	3,091	8,180	9,003
	113,495	90,414	315,713	283,783
Income before Other Income (Expense) and Income Taxes	16,878	14,576	34,151	26,493
Other Income (Expense) (Note 15)	(14,636)	9,408	(23,665)	28,488
Income before Income Taxes	2,242	23,984	10,486	54,981
Provision for (Recovery of) Income Taxes				
Current	547	1,403	1,572	1,830
Future	(3,073)	1,220	(1,961)	2,814
	(2,526)	2,623	(389)	4,644
Net Income	4,768	21,361	10,875	50,337
Other Comprehensive Income (Loss), Net of Tax	2,908	(5,624)	5,125	(13,979)
Comprehensive Income	7,676	15,737	16,000	36,358

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Deficit				
Beginning of Period	(53,849)	(28,425)	(37,177)	(21,405)
Net Income	4,768	21,361	10,875	50,337
Distributions Declared	(11,757)	(17,997)	(34,536)	(53,993)
End of Period	(60,838)	(25,061)	(60,838)	(25,061)
Accumulated Other Comprehensive Loss				
Beginning of Period	(29,573)	(25,217)	(31,790)	-
Adoption of Financial Instruments Accounting Policy	-	-	-	(16,862)
Other Comprehensive Income (Loss), Net of Tax	2,908	(5,624)	5,125	(13,979)
End of Period	(26,665)	(30,841)	(26,665)	(30,841)

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED BALANCE SHEETS At September 30, 2008 and December 31, 2007

CAD thousands, except unit amounts	September 30 2008	December 31 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 19(c))	11,621	10,056
Accounts Receivable (Note 5)	62,814	55,167
Inventories and Operating Supplies (Note 6)	36,709	32,245
Derivative Financial Instruments (Note 7)	2,421	724
Prepaid Expenses (Note 8)	5,035	2,796
Due from Affiliates (Note 18)	354	-
Total Current Assets	118,954	100,988
Property, Plant and Equipment, Net (Note 9)	401,765	368,105
Restricted Investments (Note 10)	11,792	13,007
Future Income Tax Assets	6,945	6,099
Other Long-Term Assets	2,147	-
Total Assets	541,603	488,199
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 11)	-	13,588
Accounts Payable and Accrued Liabilities	54,149	43,571
Distribution Payable to Ordinary LP Unitholders	1,473	1,448
Distribution Payable to Nexen Inc., Exchangeable LP Unitholder	2,476	2,305
Accrued Interest Payable	1,269	615
Due to Affiliates (Note 18)	-	890
Total Current Liabilities	59,367	62,417
Long-Term Debt (Note 11)	249,310	201,572
Future Income Tax Liabilities	9,366	9,777
Asset Retirement Obligations (Note 12)	43,144	42,123
Other Long-Term Liabilities	10,222	2,612
Total Liabilities	371,409	318,501
Equity		
Ordinary LP Units (32,290,041 outstanding) (Note 13)	304,150	301,750
Exchangeable LP Units (54,294,462 outstanding) (Note 13)	(46,453)	(63,085)
	257,697	238,665
Deficit	(60,838)	(37,177)
Accumulated Other Comprehensive Loss	(26,665)	(31,790)
Total Deficit and Accumulated Other Comprehensive Loss	(87,503)	(68,967)
Total Equity	170,194	169,698
Total Liabilities and Equity	541,603	488,199

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three and Nine Months Ended September 30, 2008 and 2007

CAD thousands	Three Months Ended		Nine Months Ended	
	September 30 2008	2007	September 30 2008	2007
Operating Activities				
Net Income	4,768	21,361	10,875	50,337
Charges and Credits to Income Not Involving Cash (Note 19(a))	24,613	1,230	63,575	6,879
Contributions to Defined Benefit Pension Plan	-	(590)	(2,444)	(1,776)
Purchase of Foreign Exchange Options	(372)	(360)	(1,102)	(360)
Expenditures on Asset Retirement Obligations	(417)	(32)	(446)	(536)
Due to/from Affiliates, Net	(2,242)	(1,107)	(2,733)	(2,146)
Changes in Non-Cash Operating Working Capital (Note 19(b))	12,418	2,233	(8,047)	(82)
	38,768	22,735	59,678	52,316
Financing Activities				
Repayments of Short-Term Borrowings, Net	-	(4,760)	(13,588)	(3,082)
Proceeds from Issuance of Senior Secured Notes	-	-	50,708	-
Proceeds from Credit Facilities	-	11,656	9,079	45,118
Repayments on Credit Facilities	(8,653)	-	(32,039)	-
Deferred Financing and Issue Costs	(29)	-	(2,718)	-
Cash Distributions Paid to Ordinary LP Unitholders	(3,281)	(6,945)	(10,700)	(20,837)
Cash Distributions Paid to Nexen Inc., Exchangeable LP Unitholder	-	(11,052)	(4,609)	(33,156)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 10)	-	42	(124)	577
Due from Affiliates, Net	-	889	-	1,316
	(11,963)	(10,170)	(3,991)	(10,064)
Investing Activities				
Expenditures on Property, Plant and Equipment	(24,494)	(13,610)	(56,792)	(39,029)
Proceeds on Disposal of Property, Plant and Equipment	382	-	382	-
Changes in Non-Cash Investing Working Capital (Note 19(b))	(1,299)	1,301	1,986	(2,015)
	(25,411)	(12,309)	(54,424)	(41,044)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(117)	(267)	302	(623)
Increase (Decrease) in Cash and Cash Equivalents	1,277	(11)	1,565	585
Cash and Cash Equivalents – Beginning of Period	10,344	4,575	10,056	3,979
Cash and Cash Equivalents – End of Period	11,621	4,564	11,621	4,564
Supplemental Cash Flow Information (Note 19(c))				

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS For the Three and Nine Months Ended September 30, 2008 and 2007

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

1. Organization and Business of Canexus Limited Partnership

Canexus Limited Partnership ("Canexus LP", "we" or "our") is a limited partnership established under the laws of Alberta. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in 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.

As at September 30, 2008, Canexus Income Fund (the "Fund") indirectly held a 37.3 percent interest and Nexen Inc. held a 62.7 percent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the "General Partner", which holds a 0.01 percent interest in Canexus LP. The Fund owns 100 percent of the shares of Canexus Limited but does not account for its investment on a consolidated basis due to Nexen Inc. having the ability to appoint the majority of the board positions.

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

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2007.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at September 30, 2008 and the results of its operations and cash flows for the three and nine months ended September 30, 2008 and September 30, 2007. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2007, except as described in Note 3.

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

3. Changes in Accounting Policies

(a) Financial Instruments

Effective January 1, 2008, Canexus LP adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 7.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

(b) Capital Disclosures

Effective January 1, 2008, Canexus LP adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 14.

(c) Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Financial Reporting Standards ("IFRS") and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value.

The adoption of these standards resulted in the reclassification of major spare parts and stand-by equipment from inventories and operating supplies to property, plant and equipment of \$1.5 million on January 1, 2008.

(d) Financial Statement Presentation

Effective January 1, 2008, Canexus LP adopted the revised recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of Canexus LP.

4. Future Accounting Pronouncements

(a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is substantially aligned with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect this section to have any impact on Canexus LP's current results of operations or financial position.

(b) Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Canexus LP has developed a conversion implementation plan and is currently assessing and analyzing the impacts of the conversion on the consolidated financial statements and disclosures of Canexus LP.

5. Accounts Receivable

	September 30 2008	December 31 2007
Accounts Receivable – Trade	51,426	37,580
Allowance For Doubtful Accounts	(2,697)	(2,000)
	48,729	35,580
Accounts Receivable – Value Added Taxes and Other	14,085	19,587
	62,814	55,167

The aging of trade receivables as at September 30, 2008 is set out below:

	North America	South America	Total
Current	30,677	10,978	41,655
Past Due 0 – 30 days	8,205	141	8,346
Past Due 31 – 60 days	581	-	581
Past Due 61 – 90 days	-	-	-
Past 90 days	840	4	844
	40,303	11,123	51,426

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

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Beginning of Period	(1,997)	(2,000)
Allowance for Doubtful Accounts	(700)	(700)
Write Off of Specific Accounts Receivable	-	3
End of Period	(2,697)	(2,697)

See note 7(b)(ii) for a description of our management of credit risk. Management expects all amounts past due to be collectible with the exception of amounts due from Pope & Talbot, Ltd. ("P&T"). The amount outstanding past 90 days is primarily due from P&T who applied for protection under the *Companies' Creditors Arrangement Act* ("CCAA") on October 29, 2007. Canexus LP has a general allowance for doubtful accounts receivable of \$2.6 million which management believes is sufficient to absorb credit risk loss exposure at September 30, 2008, including the full credit risk loss exposure related to P&T.

6. Inventories and Operating Supplies

	September 30 2008 ⁽¹⁾	December 31 2007
Raw Materials and Work-in-Progress	5,321	5,318
Finished Goods	18,186	13,664
Operating Supplies	13,202	13,263
	36,709	32,245

Note:

⁽¹⁾ Major spare parts and stand-by equipment of \$1.5 million were reclassified from inventories and operating supplies to property, plant and equipment on January 1, 2008 (See Note 3(c)).

7. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	September 30, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	11,621	11,621	10,056	10,056
Derivative Financial Instruments				
Value of Foreign Exchange Options	147	147	724	724
Value of Foreign Exchange Forward	630	630	-	-
Value of Interest Rate Swaps	1,644	1,644	-	-
	2,421	2,421	724	724
	14,042	14,042	10,780	10,780
Loans and Receivables, measured at amortized cost				
Accounts Receivable	62,814	62,814	55,167	55,167
Due From Affiliates	354	354	-	-
	63,168	63,168	55,167	55,167
Held-to-Maturity, measured at amortized cost				
Restricted Investments (Note 10)	11,792	11,792	13,007	13,007
Financial Liabilities				
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	-	-	13,588	13,588
Accounts Payable and Accrued Liabilities	54,149	54,149	43,571	43,571
Distributions Payable	3,949	3,949	3,753	3,753
Accrued Interest Payable	1,269	1,269	615	615
Due to Affiliates	-	-	890	890
Long-Term Debt	249,310	242,870	201,572	201,572
	308,677	302,237	263,989	263,989

Canexus LP did not have available-for-sale financial instruments during the three and nine month periods ended September 30, 2008.

Canexus LP's maximum exposure for all financial instruments is their carrying value.

Derivative financial instruments are carried at fair value which has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions. The carrying value of accounts receivable approximate their fair value as these financial instruments are near maturity. The carrying value of restricted investments, net of an allowance for impairment, approximates their fair value (See Note 10). The carrying value of short-term borrowings, accounts payable and accrued liabilities, distributions payable, accrued interest payable and due to affiliates approximate their fair value as these financial instruments are near maturity. The carrying value of the credit facilities loans approximates their fair value as these loans bear interest at floating rates (See Note 11). At September 30, 2008, the fair value of the US \$50 million Prudential senior secured notes was \$45.9 million (US \$ 45.2 million) excluding deferred issue costs.

(b) Financial Risk Management

(i) Overview

Canexus LP has exposure to credit risk, liquidity risk and market risk (including currency risk, interest rate risk, product price risk and electricity 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.

Canexus LP's Corporate Finance, Manufacturing and Sales functions provide services to the business, coordinate access to domestic and international financial markets and monitor and manage the financial risks relating to the operations of the company by analyzing exposures by degree and magnitude of risk. Canexus LP seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures where appropriate. Canexus LP does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Finance, Manufacturing and Sales functions report to the Board of Directors on a periodic basis on the results of their risk management activities.

(ii) Credit Risk

Credit risk is the risk of loss if counterparties do not fulfil 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 reviewed with the Audit Committee of the Board of Directors annually.

Credit risk concentrations as at September 30, 2008 for trade accounts receivable were as follows:

Industry Category	North America		South America		Total	
	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	27,539	68	9,363	84	36,902	72
Water Treatment	7,105	18	574	5	7,679	14
Chemicals	3,362	8	79	1	3,441	7
Oil and Gas	792	2	-	0	792	2
Other	1,505	4	1,107	10	2,612	5
	40,303	100	11,123	100	51,426	100

Geographical Area	Carrying Value	Percent
Canada	16,222	31
United States	24,081	47
South America	11,123	22
	51,426	100

Our North American customers are diverse with no one customer accounting for more than 9 percent of total trade accounts receivable at September 30, 2008.

The majority of our South America production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at September 30, 2008, trade amounts owing from Aracruz Celulose S.A. represented 17 percent of total trade accounts receivable (December 31, 2007 – 0 percent).

(iii) 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 maintaining adequate committed reserve borrowing facilities.

As at September 30, 2008, Canexus LP had held-for-trading financial assets of \$14.0 million; loans and receivables of \$63.2 million; held-to-maturity financial assets of \$11.8 million; and financial liabilities of \$308.7 million. All financial assets and financial liabilities have short terms to maturity (one to three months) with the exception of long-term debt (See Note 11).

(iv) Market Risks

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. A 5 percent increase in the value of the Canadian dollar relative to the US dollar would have decreased net income before income taxes by \$2.1 million for the three month period ended September 30, 2008 and \$5.4 million for the nine month period ended September 30, 2008, before the impact of hedging instruments. A 5 percent decrease in the value of the Canadian dollar relative to the US dollar would have increased net income before income taxes by \$2.3 million for the three month period ended September 30, 2008 and \$6.0 million for the nine month period ended September 30, 2008, before the impact of hedging instruments. A sensitivity of 5 percent was selected as this is considered reasonable given the current value 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 entered into US dollar denominated debt (See Note 11) and incurs other expenditures in US dollars. In addition, Canexus LP has secured foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from June 1, 2008 to August 31, 2008 and foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9588 per Canadian dollar from September 1, 2008 to December 31, 2008. In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to our North Vancouver chlor-alkali plant technology conversion project ("TCP").

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

Product Price Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate, net income before income taxes for the three and nine month periods ended September 30, 2008 would have changed by \$5.0 million and \$14.8 million respectively, before the impact of foreign exchange on US sales. For every \$50 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the three and nine month periods ended September 30, 2008 would have changed by \$2.0 million and \$5.5 million respectively, before the impact of foreign exchange on US sales. These sensitivities to changes in prices are based on 101,000 MT of North American sodium chlorate sales and 41,000 MECU's of North American chlor-alkali sales for the three month period ended September 30, 2008 and 296,000 MT of North American sodium chlorate sales and 111,000 MECU's of North American chlor-alkali sales for the nine month period ended September 30, 2008.

Sensitivities of \$50 per MT for sodium chlorate and \$50 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Electricity Rate Risk Management

The cost of electricity is a key production cost. For every 3 percent change in the price of electricity, net income before income taxes would have changed by \$0.6 million for the three month period ended September 30, 2008 and \$2.0 million for the nine month period ended September 30, 2008. This sensitivity to changes in electricity prices is based on electricity consumption of 627,000 MWh for the three month period ended September 30, 2008 and 1,909,000 MWh for the nine month period ended September 30, 2008.

A 3 percent change in the price of electricity is considered reasonable given historical price changes and market expectations for future movement.

Canexus LP has utilized forward swap contracts from time to time to manage our exposure to the price of electricity in Alberta, which is a deregulated market. At September 30, 2008 we did not have any electricity forward swap contracts outstanding.

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. A change in the 30 day US LIBOR rate of 15 percent would have changed net income before income taxes by \$0.2 million for the three month period ended September 30, 2008 and \$0.7 million for the nine month period ended September 30, 2008. A sensitivity of 15 percent is considered reasonable given current 30 day US LIBOR rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap 3 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. The fair value of these swap agreements are included in derivative financial instruments with changes in their fair value included in other income (Note 15). Fair value has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions.

8. Prepaid Expenses

	September 30 2008	December 31 2007
Prepaid Insurance	2,614	1,951
Prepaid Freight	609	423
Prepaid Property Tax	897	21
Other	915	401
	5,035	2,796

9. Property, Plant and Equipment

September 30, 2008	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	566,959	317,633	249,326
North America Chlor-alkali	200,796	125,236	75,560
South America	114,627	41,291	73,336
Other	11,437	7,894	3,543
	893,819	492,054	401,765

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	557,274	300,248	257,026
North America Chlor-alkali	155,416	118,846	36,570
South America	103,245	34,152	69,093
Other	11,960	6,544	5,416
	827,895	459,790	368,105

The balances at September 30, 2008 include capitalized costs of \$58.5 million relating primarily to the TCP at our North Vancouver facility (\$47.5 million including capitalized interest of \$1.1 million), as well as other projects under construction or development. The balances at December 31, 2007 included capitalized costs of \$62.4 million relating primarily to our Brandon plant expansion (\$45.9 million including capitalized interest of \$1.2 million) and our North Vancouver TCP (\$8.9 million including capitalized interest of \$0.3 million), as well as other projects under construction or development. At September 30, 2008 and December 31, 2007 respectively, such costs are not being amortized.

10. Restricted Investments

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

	September 30 2008	December 31 2007
Beginning of Period	13,007	13,736
Interest Earned	261	525
Funding of Asset Retirement Obligation Expenditures	124	(654)
Allowance for Impairment ⁽¹⁾	(1,600)	(600)
End of Period	11,792	13,007

Note:

⁽¹⁾ On June 29, 2007, Canexus LP invested a portion (\$4.1 million) of the restricted investments in non-bank sponsored asset backed commercial paper ("ABCP") with a maturity of September 28, 2007. When the ABCP matured but was not repaid in 2007, it became subject to an ongoing restructuring process that is expected to replace the ABCP with long term asset backed securities ("Restructured Notes") which are divided into several classes. We have estimated the fair market value of our investment in ABCP to be \$1.9 million as at September 30, 2008. Accordingly, we recorded an impairment charge of \$ 1.6 million in the three month period ended September 30, 2008 in addition to an impairment of \$ 0.6 million recognized in the fourth quarter of 2007. The fair market value of the Restructured Notes was determined by estimating the yield that a prospective purchaser would require and the expected maturity date. Depending on the class of Restructured Note, our estimates of required yield ranged from 11.8 to 43.8 percent with the expected maturity date estimated at December 31, 2016.

11. Long-Term Debt and Short-Term Borrowings

	September 30 2008	December 31 2007
Short-Term Borrowings		
Swing Line Loans	-	13,588
Long-Term Debt		
Credit Facilities		
Amended and Restated Extendible Revolving Credit Facility	196,717	201,572
Prudential Senior Secured Notes	52,995	-
Deferred Issue Costs	(402)	-
	52,593	-
	249,310	201,572

On May 1, 2008, amendments to Canexus LP's credit facility were made to increase it from \$350 million to \$410 million. The credit facility is a four year revolving facility which matures August 18, 2011 and which can be extended each year, at the option of the lenders, for an additional year to provide for an ongoing four year term. The credit facility is available for draw down during the revolving period. The credit facility bears interest at rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down the credit facility in either Canadian or US dollars. On May 1, 2008, short-term swing line loans available under the credit facility were increased from \$20 million to \$35 million provided that the aggregate principal outstanding under the credit facility does not exceed \$410 million. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. The credit facility also contains covenants with respect to certain financial ratios. At September 30, 2008 we were in compliance with all covenants.

At September 30, 2008, Canexus LP had \$196,717,440 (US \$185,600,000) outstanding on this credit facility. The weighted average interest rates for the three and nine month periods ended September 30, 2008 were 4.31 percent and 4.43 percent respectively, and total interest and standby fees incurred were \$2,252,572 and \$7,115,599 respectively. At September 30, 2007, we had \$188,300,700 (US \$189,000,000) outstanding on this credit facility. The weighted average interest rates for the three and nine month periods ended September 30, 2007 were 6.36 percent and 6.24 percent respectively, and total interest and standby fees incurred were \$3,274,357 and \$9,205,322, respectively.

At September 30, 2008, we did not have any swing line loans. The weighted average interest rates for the three and nine month periods ended September 30, 2008 were 5.50 percent and 5.53 percent respectively, and total interest and standby fees incurred were \$26,120 and \$171,779 respectively. At September 30, 2007, we had \$8,777,277 of swing line loans. The weighted average interest rate for the three and nine month periods ended September 30, 2007 was 6.25 percent and total interest and standby fees incurred were \$188,191 and \$378,942 respectively.

On May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. At September 30, 2008, we had \$52,995,000 (US \$50,000,000) of senior secured notes payable outstanding. Proceeds from the senior secured notes issue were used to repay swing line loans outstanding, to repay US \$20 million of the credit facility, to fund our defined benefit pension plan contributions for 2008, to fund capital expenditures and for general corporate purposes. In addition, on May 1, 2008, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011. As at September 30, 2008, there was no balance outstanding on this facility.

During the third quarter of 2008, Canexus Quimica Brasil Ltda., ("CQBL"), an indirect, wholly owned subsidiary of Canexus LP, closed a US \$10 million extendible revolving credit facility with Export Development Canada ("EDC") which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general CQBL corporate purposes including capital expenditures. As at September 30, 2008, there was no balance outstanding on this facility.

Canexus LP is the applicant on three Letters of Credit as at September 30, 2008 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.4 million) and the Independent System Operator for power curtailment obligations (\$0.2 million), as well as a documentary letter of credit in favour of Chlorine Engineers Corporation Ltd. for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million). The CIBC Mellon Letter of Credit expires on January 1, 2009 and is automatically renewed for one year periods unless otherwise advised. The Independent System Operator Letter of Credit expires on December 1, 2008 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires on January 31, 2009.

12. Asset Retirement Obligations

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

	September 30 2008	December 31 2007
Beginning of Period	42,123	40,677
Additions	649	-
Expenditures on Asset Retirement Obligations	(446)	(616)
Accretion Expense	2,055	2,572
Effect of Foreign Exchange	373	(550)
Change in Obligations Reclassified to Current Liabilities ⁽¹⁾	(1,610)	40
End of Period	43,144	42,123

Note:

⁽¹⁾ Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At September 30, 2008, \$2,560,000 was included in accounts payable and accrued liabilities (December 31, 2007 - \$950,000).

Our total estimated undiscounted asset retirement obligations at September 30, 2008 amounted to \$74.4 million (December 31, 2007 - \$73 million). We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 5.9 percent. Approximately \$6.4 million included in our asset retirement obligations are expected to be settled over the next three years.

13. Equity

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

	Nine Months Ended September 30, 2008		Year Ended December 31, 2007	
	Number of Units	Amount	Number of Units	Amount
General Partner Units				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
Ordinary LP Units				
Beginning of Period	31,750,000	301,750	31,750,000	301,750
Issued Pursuant to the DRIP	540,041	2,400	-	-
End of Period	32,290,041	304,150	31,750,000	301,750
Exchangeable LP Units				
Beginning of Period ⁽¹⁾	50,535,714	(63,085)	50,535,714	(63,085)
Issued Pursuant to the DRIP	3,758,748	16,632	-	-
End of Period	54,294,462	(46,453)	50,535,714	(63,085)

Note:

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

The 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 Units of the Fund at the option of the holder at any time. Additionally, Exchangeable LP Units have special voting rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

Canexus LP declared distributions of \$0.1368 per Unit and \$0.4104 per Unit for the three and nine month periods ended September 30, 2008 to Ordinary and Exchangeable LP Unitholders. On September 10, 2008, a distribution of \$0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record September 30, 2008 for payment on or about October 15, 2008.

14. 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 its LP Unitholders and to maintain a capital structure that allows financing options to Canexus LP as financing needs arise. The capital structure of Canexus LP consists of cash and cash equivalents, short-term borrowings, long-term debt and equity comprised of Ordinary and Exchangeable LP Units issued.

	September 30 2008	December 31 2007
Cash and Cash Equivalents	11,621	10,056
Short-Term Borrowings	-	(13,588)
Long-Term Debt	(249,310)	(201,572)
Ordinary LP Units	(304,150)	(301,750)
Exchangeable LP Units	46,453	63,085
	(495,386)	(443,769)

Management, upon approval of the Board of Directors, will balance its overall capital structure through new LP Unit issues, the issuance of new debt or by undertaking other activities as deemed appropriate to its circumstances. Canexus LP monitors capital using financial metrics equivalent to those defined in the financial covenants of its credit agreements. Under the amendments to the credit facility made on May 1, 2008, as well as the US \$50 million Prudential senior secured notes, the US \$20 million Prudential senior secured revolving credit facility and the US \$10 million EDC extendible revolving credit facility, the following covenants are required to be met through to and including December 31, 2010:

- 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 2.5 to 1.0

Effective January 1, 2011, the Consolidated Senior Debt to EBITDA Ratio is not to exceed 3.5 to 1.0, 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, depreciation and 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, on a rolling twelve month basis.

As at September 30, 2008 and December 31, 2007, Canexus LP was in compliance with all financial covenants

	Twelve Months Ended	
	September 30, 2008	December 31, 2007
Net Income	15,086	54,547
Interest	10,554	11,377
Income Taxes	1,851	6,884
Amortization	43,380	44,370
Non-cash (Income) Expense Items	26,950	(31,638)
Canexus Income Fund Trust Administration Expense	(298)	(283)
Consolidated EBITDA	97,523	85,257
Short-Term Borrowings	-	13,588
Long-Term Debt (before Deferred Issue Costs)	249,712	201,572
Consolidated Senior Debt	249,712	215,160
Consolidated Senior Debt	249,712	215,160
Subordinated Long-Term Debt	-	-
Consolidated Total Debt	249,712	215,160
Interest	10,554	11,377
Capitalized Interest and Letter of Credit Fees	2,044	1,479
Consolidated Interest Expense	12,598	12,856
Consolidated Senior Debt to EBITDA Ratio	2.56:1	2.52:1
Consolidated Total Debt to EBITDA Ratio	2.56:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio	7.69:1	6.63:1

15. Other Income (Expense)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Currency Translation Gains (Losses)				
Unrealized				
Debt	(10,846)	12,640	(20,394)	30,446
Other	(2,100)	(570)	(1,372)	(414)
Realized	1,324	(1,014)	6,605	(2,211)
	(11,622)	11,056	(15,161)	27,821
Gains (Losses) on Held-for-Trading Financial Instruments				
Change in Fair Value of Foreign Exchange Options	(374)	670	(1,679)	688
Realized Gains on Foreign Exchange Options	92	567	1,052	1,174
Change in Fair Value of Interest Rate Swaps	(420)	-	1,625	-
Realized Losses on Interest Rate Swaps	(37)	-	(37)	-
Change in Fair Value of Electricity Forward Swaps	-	(2,908)	-	(1,429)
Change in Fair Value of Foreign Exchange Forward	630	86	630	5
Interest Income Earned on Cash and Cash Equivalents	62	24	190	83
	(47)	(1,561)	1,781	521
Gains on Held-to-Maturity Financial Instruments				
Interest Income on Restricted Investments	72	109	261	404
Other				
Accrual for Future TCP Severance Costs	-	-	(7,310)	-
Allowance for Doubtful Accounts	(700)	(250)	(700)	(250)
Allowance for Impairment in Value of ABCP	(1,600)	-	(1,600)	-
Other	(739)	54	(936)	(8)
	(3,039)	(196)	(10,546)	(258)
Total Other Income (Expense)	(14,636)	9,408	(23,665)	28,488

16. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. As at September 30, 2008 these obligations and commitments were as follows:

	2008	2009	2010	2011	2012	Thereafter
Operating Leases	4,617	18,300	18,063	16,064	14,540	55,185
Purchase Obligations ⁽¹⁾	5,486	22,953	24,007	25,110	26,264	27,559
Expansion Capital Expenditures ⁽²⁾	14,901	46,146	3,883	-	-	-
	25,004	87,399	45,953	41,174	40,804	82,744

Notes

⁽¹⁾ Contractual commitment 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.

⁽²⁾ Contractual obligations related to the TCP at our North Vancouver chlor-alkali facility. Total anticipated capital expenditures for TCP are \$208 million. As at September 30, 2008, actual capital expenditures were \$47.5 million for the TCP including capitalized interest of \$1.1 million.

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

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

17. Pension and Other Post Retirement Benefits

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Cost of Benefits Earned by Employees	883	853	2,649	2,559
Interest Cost on Benefits Earned	839	744	2,517	2,232
Expected Return on Plan Assets	(909)	(823)	(2,727)	(2,469)
Net Amortization and Deferral	5	35	15	105
Net Pension Expense	818	809	2,454	2,427

(b) Employer Funding Contributions

2008 annual funding contributions of \$2,444,000 for our defined benefit pension plans were made by May 2008.

(c) Contributions Under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were \$ 153,722 and \$457,654 for the Canadian plan and \$20,404 and \$70,760 for the US plan for the three and nine month periods ended September 30, 2008 respectively. Contributions to the defined contribution pension plans were \$127,695 and \$366,717 for the Canadian plan and \$31,144 and \$90,086 for the US plan for the three and nine month periods ended September 30, 2007 respectively.

(d) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work; however, these future obligations are not funded. The expense recognized for the three and nine month periods ended September 30, 2008 was \$81,959 and \$245,957 respectively. The expense recognized for the three and nine month periods ended September 30, 2007 was \$81,999 and \$245,997 respectively. As at September 30, 2008 other long-term liabilities includes a \$1,370,556 (December 31, 2007 - \$1,124,559) post retirement benefit liability.

Post retirement benefits in the US consist of a medical benefits bonus plan approved on October 30, 2007. Prior to October 30, 2007, the post retirement benefits consisted of a medical benefit which was adopted on December 9, 2006. 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 total amount payable will be paid to employees on the 1st day of the seventh month following the date of retirement and will be grossed up by 40 percent to reimburse retirees for estimated personal taxes. The amounts paid may be used to offset costs of

medical expenses or health insurance but are not required to be used for such purposes. The transitional obligation arising on the initial adoption of the plan is being amortized over the remaining average service life of the existing US employee group. The expense recognized for the three and nine months ended September 30, 2008 was \$17,002 and \$51,003, respectively. As at September 30, 2008 other long-term liabilities includes a \$105,003 (December 31, 2007 – 54,000) post retirement benefit liability.

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

Due from/to affiliates at September 30, 2008 and December 31, 2007 relate to amounts owing in the normal course of operations as discussed below.

Canexus Limited employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by Canexus Limited are recovered in full from Canexus Chemicals Canada Limited Partnership (directly and indirectly wholly owned by Canexus LP). Amounts outstanding to Canexus Limited for these costs as at September 30, 2008 and December 31, 2007 are due to timing.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. In addition, Canexus LP had a separate forward swap contract with a Nexen Inc. affiliate to manage our exposure to the price of electricity in deregulated jurisdictions until December 31, 2007. Under this forward swap contract, Canexus LP paid a fixed rate and received a floating rate per MWh.

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Electricity Purchases and Retail Service Fees	2,807	1,250	12,254	11,298
Natural Gas Purchases and Retail Service Fees	2,445	1,529	7,987	6,032
Forward Swap Payments	-	(3,068)	-	(1,817)
Total	5,252	(289)	20,241	15,513

19. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Amortization	11,151	11,034	31,814	32,804
Change in Fair Value of Foreign Exchange Options	374	(670)	1,679	(688)
Change in Fair Value of Electricity Forward Swaps	-	2,908	-	1,429
Change in Fair Value of Foreign Exchange Forward	(630)	(86)	(630)	(5)
Change in Fair Value of Interest Rate Swaps	420	-	(1,625)	-
Unrealized Currency Translation (Gains) Losses	12,946	(12,070)	21,766	(30,032)
Future Income Taxes	(3,073)	1,220	(1,961)	2,814
Pension and Post Retirement Benefit Expense	940	891	2,774	2,718
Accrual for Future TCP Severance Costs	-	-	7,310	-
Allowance for impairment in value of ABCP	1,600	-	1,600	-
Allowance for Doubtful Accounts	700	(2,162)	700	(2,162)
Other	185	165	148	1
	24,613	1,230	63,575	6,879

(b) Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Accounts Receivable	1,345	6,183	(8,347)	10,904
Inventories and Operating Supplies	2,303	(1,091)	(6,370)	(3,398)
Prepaid Expenses	(1,371)	(841)	(2,258)	(1,168)
Accounts Payable and Accrued Liabilities	8,084	(1,221)	8,967	(7,868)
Accrued Interest Payable	133	151	654	148
Effect of Foreign Exchange on Non-Cash Working Capital	625	353	1,293	(715)
Total Change in Non-Cash Working Capital	11,119	3,534	(6,061)	(2,097)
Relating to:				
Operating Activities	12,418	2,233	(8,047)	(82)
Investing Activities	(1,299)	1,301	1,986	(2,015)
Total Change in Non-Cash Working Capital	11,119	3,534	(6,061)	(2,097)

(c) Other Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest Paid	2,985	2,418	8,387	8,586
Income Taxes Paid	260	1,052	1,054	1,876
Cash and Cash Equivalents				
Cash	5,747	4,452	5,747	4,452
Cash Equivalents ⁽¹⁾	5,874	112	5,874	112
Total	11,621	4,564	11,621	4,564

Note:

⁽¹⁾ Cash equivalents are comprised of balances in short-term investment accounts.**20. Operating Segments**

Canexus LP's operations are comprised of North American sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia, as well as a North American chlor-alkali production facility at North Vancouver, British Columbia; and a South American sodium chlorate and chlor-alkali production facility located in Espirito Santo, Brazil. In South America, most of our sales are made to a single customer, Aracruz Celulose S.A., under a long-term sales agreement.

(a) Operating Segments

Three Months Ended September 30, 2008	North America		South America	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	58,025	40,907	31,441	-	130,373
Expenses					
Cost of Goods Sold	39,689	27,104	23,710	-	90,503
Amortization	6,633	2,736	1,608	174	11,151
General and Administrative	3,563	2,755	1,102	1,429	8,849
Interest	-	-	-	2,992	2,992
	49,885	32,595	26,420	4,595	113,495
Income (Loss) before Other Expense and Income Taxes	8,140	8,312	5,021	(4,595)	16,878
Other Expense	-	-	-	(14,636)	(14,636)
Income (Loss) before Income Taxes	8,140	8,312	5,021	(19,231)	2,242
Expenditures on Property, Plant and Equipment	1,168	21,565	1,562	199	24,494

Three Months Ended September 30, 2007	North America		South America	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	48,302	34,928	21,760	-	104,990
Expenses					
Cost of Goods Sold	32,131	21,761	14,980	-	68,872
Amortization	7,099	2,371	1,563	1	11,034
General and Administrative	3,742	1,510	690	1,475	7,417
Interest	-	-	-	3,091	3,091
	42,972	25,642	17,233	4,567	90,414
Income (Loss) before Other Income and Income Taxes	5,330	9,286	4,527	(4,567)	14,576
Other Income	-	-	-	9,408	9,408
Income before Income Taxes	5,330	9,286	4,527	4,841	23,984
Expenditures on Property, Plant and Equipment	9,616	2,618	1,226	150	13,610

Nine Months Ended September 30, 2008	North America		South America	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	162,426	103,513	83,925	-	349,864
Expenses					
Cost of Goods Sold	113,896	73,661	64,374	-	251,931
Amortization	19,026	7,798	4,740	250	31,814
General and Administrative	9,243	7,700	2,537	4,308	23,788
Interest	-	-	-	8,180	8,180
	142,165	89,159	71,651	12,738	315,713
Income (Loss) before Other Expense and Income Taxes	20,261	14,354	12,274	(12,738)	34,151
Other Expense	-	-	-	(23,665)	(23,665)
Income (Loss) before Income Taxes	20,261	14,354	12,274	(36,403)	10,486
Expenditures on Property, Plant and Equipment	7,093	45,665	3,170	864	56,792

Nine Months Ended September 30, 2007	North America		South America	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	144,390	98,537	67,349	-	310,276
Expenses					
Cost of Goods Sold	101,702	70,273	47,281	-	219,256
Amortization	21,030	6,873	4,898	3	32,804
General and Administrative	11,632	4,666	1,611	4,811	22,720
Interest	-	-	-	9,003	9,003
	134,364	81,812	53,790	13,817	283,783
Income (Loss) before Other Income and Income Taxes	10,026	16,725	13,559	(13,817)	26,493
Other Income	-	-	-	28,488	28,488
Income before Income Taxes	10,026	16,725	13,559	14,671	54,981
Expenditures on Property, Plant and Equipment	28,895	5,665	3,022	1,467	39,029

Identifiable Assets	North America		South America	Corporate	Total
	Sodium Chlorate	Chlor- Alkali			
September 30, 2008	302,332	109,913	108,138	21,220	541,603
December 31, 2007	301,146	65,312	104,655	17,086	488,199

(b) Geographic Segments

	September 30 2008	December 31 2007
Property, Plant and Equipment, Net		
Canada	328,107	298,834
United States	322	178
South America	73,336	69,093
	401,765	368,105

	Three Months Ended September 30		Nine Months Ended September 30	
Sales	2008	2007	2008	2007
Canada	43,741	39,318	121,779	114,016
United States	55,191	43,912	144,160	128,911
South America	31,441	21,760	83,925	67,349
	130,373	104,990	349,864	310,276