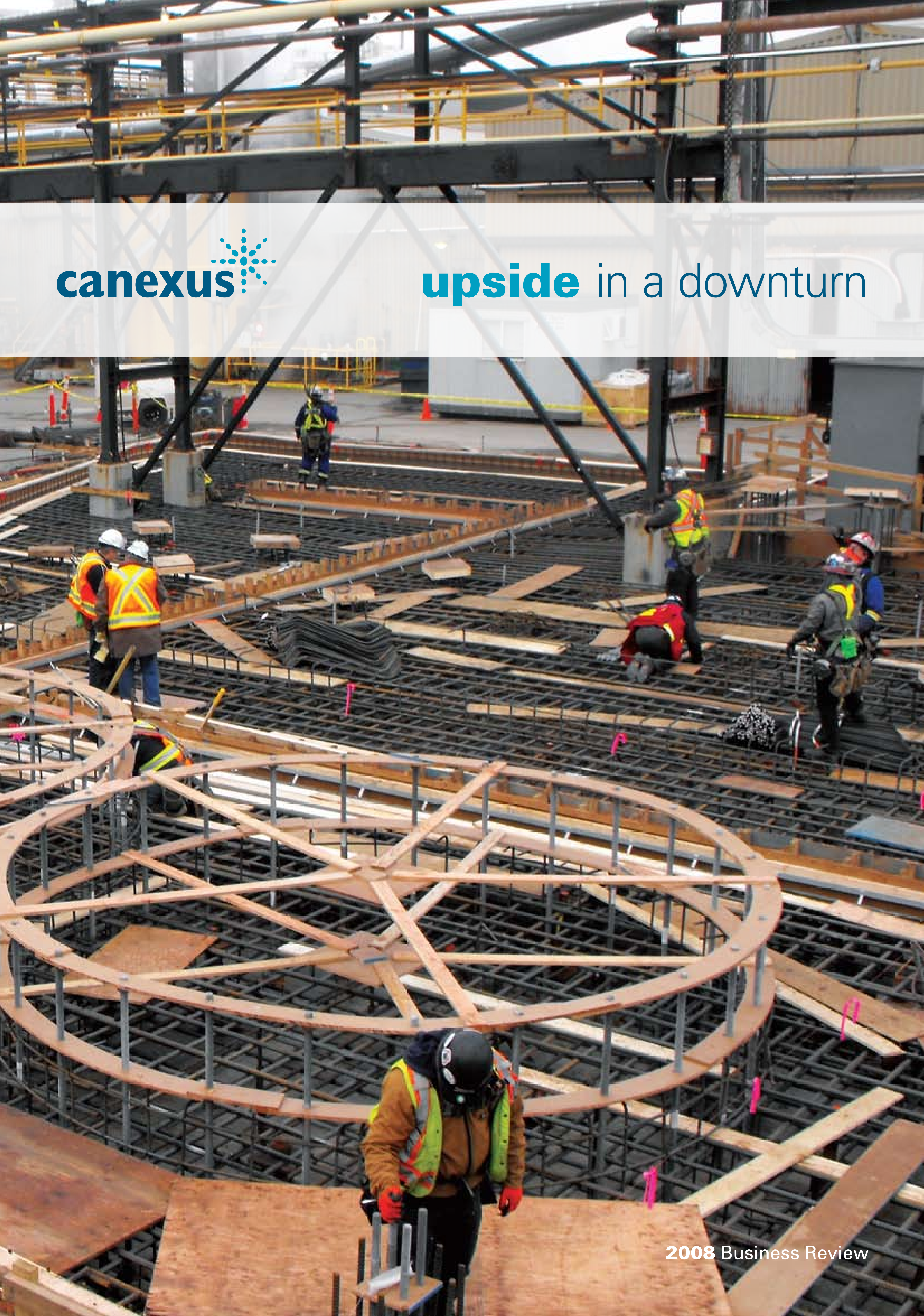


canexus

upside in a downturn

2008 Business Review

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

North Vancouver, BC

Low-cost chlor-alkali producer in Pacific Northwest.

Our Technology Conversion Project will reduce fixed and variable costs and add $35-$43 million in annual cash flow beginning in 2010.

Brandon, MB

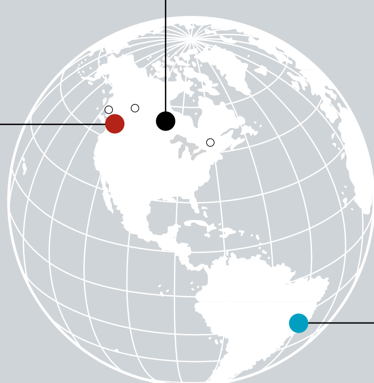
World's largest and North America's lowest-cost sodium chlorate plant.

We can deliver to about two-thirds of the North American pulp market cheaper than anybody else. And we just grew capacity here by 12%.

Espirito Santo, Brazil

25-year contract with world leading pulp producer.

We're partnered with Aracruz Celulose in a fixed-margin contract, and are well-positioned to grow in this fast-paced South American market.



○ Other Canexus plants: Nanaimo, British Columbia, Beauharnois, Quebec and Bruderheim, Alberta

In this report, dollar amounts are in Canadian dollars, unless otherwise noted.

Forward-Looking Statements This report contains forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries, including with respect to the timing of the Brazil expansion, the stability of sodium chlorate prices, expected volumes of sodium chlorate, the Fund's expected payout ratio, global caustic soda demand, expectations for MECU netbacks, TCP contributions to operating cash flow and capacity additions resulting from the Brandon debottlenecking opportunities. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form filed on the Fund's SEDAR profile at **www.sedar.com.** Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law. Financial outlook information contained in this report about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Such financial outlook information should not be used for purposes other than those for which it is disclosed herein.

Invest in **upside**

low-cost advantage

Brandon is the lowest cost; North Vancouver's costs will decrease.
Brazil's long-term, fixed-margin contract adds great stability.

defined growth

Our Technology Conversion Project at North Vancouver
leads a line-up of projects adding new cash flow by 2010.

financial strength

Our projects are financed and balance sheet is strong.
We've locked in currency certainty for upside.

solid distributions

With low-cost advantages and growing cash flow,
we see our distributions as sustainable post-2010.

President's Message

"As the cover shows, we not only see upside, we are building it. We are well equipped to weather this downturn and deliver results that add significant cash flow in 2010."

Record Results

After a year of record results and strategic growth, Canexus is looking ahead to 2009 and beyond with both confidence and caution. Our recent achievements and growth underway clearly demonstrate our long-term upside against the prevailing economic outlook.

In 2008, we delivered outstanding financial performance while also advancing successful major projects that will sustain our advantages. Revenue was $474.4 million and distributable cash was $83.3 million—both records for the Fund. We distributed $51.2 million to our investors, including a special distribution declared in December, and met our target payout ratio.

These results are particularly noteworthy because they were achieved with a relatively high Canadian dollar. For 2009, we expect to benefit from the weaker Canadian dollar and have locked in currency option protection on our exchange requirements. Also, our balance sheet is sound, with no issues around our credit facilities or debt repayments.

Building Upside

Our strategy of maximizing the potential of our assets to profitably increase operating cash flow was especially successful in 2008. We completed the Brandon Phase 7 project in February, expanding capacity of this low-cost sodium chlorate plant by about 12%. It beat our expectations and is delivering over $12 million in incremental cash flow, with further efficiencies still to come.

As we have grown Brandon over the years, we have built up proven project expertise that we are now applying to current growth initiatives. In Brazil, we have just finished an incremental increase to sodium chlorate capacity and have a second larger expansion underway. Our Bruderheim facility has an exciting project in progress that showcases our flexibility and potential for pursuing opportunities. By combining a strategic location, our logistics expertise and the innovative strength of our people, we are creating a new revenue stream from trans-loading hydrocarbons destined for nearby oil sands and refining operations.

Our primary growth focus for 2009 is undoubtedly the Technology Conversion Project (TCP) at North Vancouver. I am pleased to report that we are on track to have our new plant in production in the first quarter of 2010. Our ability to produce chlor-alkali products at a lower cost and with added capacity will generate an estimated $35-$43 million annually in incremental cash flow. Building on TCP momentum, we are also expanding our hydrochloric acid capacity, which gives us added flexibility to manage chlorine inventories. TCP will confirm our position as a leading and low-cost supplier to the western North American market for the long term.

Agility in a Downturn

Through prudent planning, Canexus has established a strong vantage point to observe the economic horizon and monitor the key indicators of our industry. While the current economic uncertainty makes forecasting difficult, we are confident we can sustain the pressures of this downturn while continuing to nurture the long-term advantages that give us the staying power to survive and prosper. We are a proven low-cost producer with strong customer relationships and a hard-earned reputation for quality and reliability.

While demand for our customers' products has decreased and is affecting our industry volumes in the short term, we expect any demand erosion to trigger supply reductions. It will likely take two or three quarters for supply and demand factors to resolve and a higher level of clarity to return to the market.

Looking forward, our sustainable advantages and committed people make us well prepared to meet the challenges ahead. I would like to acknowledge the collective contributions of our board members, employees and customers in achieving our past and future success. Thank you also to our unitholders for your ongoing support. We look forward to keeping you informed on our growth projects and results.

Gary Kubera
President & CEO

Our doors are open to current and potential investors who want to better understand our plans and results.

We asked Gary

Q: What is the future of the pulp sector?

A: Our ongoing assessment of global industry fundamentals convinces us that the North American pulp and paper industry has the capabilities and markets to remain the world's biggest production region for the long term. While our customers are not immune to economic cycles, our low-cost advantage will serve us well in both this current slowdown and future recovery.

Q: Are your distributions sustainable?

A: Yes. We've just delivered record distributable cash in 2008. Our business units are weathering this economic downturn quite well, we have currency certainty in place and our growth projects are well underway. I'm confident our cash flow growth will support current distributions beyond 2010 when income trusts become taxable.

Q: What corporate structure do you envision for Canexus come 2011?

A: We view our business as a going concern and don't rely on a particular legal structure for our well-being. When tax rules for trusts change, I believe we'll convert to a high-yield corporation that continues paying out distributions in the form of dividends. Ultimately, this depends on whether the market values yield. Otherwise, the money is better invested in advancing the company's growth.

Financial **Strength**

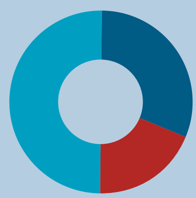
Distributable cash jumped 43% to a record $83.3 million in 2008.

In 2008, we delivered solid results despite currency headwinds and a weakening global economy. Our strong balance sheet and growing cash flow provide a great foundation for pursuing our upside.

Selected Annual Financial Information

(CAD$ millions)	2008	2007	2006
Sales Revenues	**474.4**	413.6	405.3
Cost of Goods Sold	**339.1**	295.7	285.7
Gross Margin	**135.3**	117.9	119.6
Gross Margin (%)	**29%**	29%	30%
Operating Cash Flow	**102.3**	87.7	92.7
Fund Cash Distributions	**19.1**	26.9	27.8
Payout Ratio (%)	**61%**	122%	90%

2008 Operating Cash Flow of $102.3 Million (by business unit)



50% North American Sodium Chlorate **31%** North American Chlor-alkali
19% South America

no debt maturities before Q3

2011

Strong Balance Sheet
In economic downturns, investors turn more to balance sheet strength. Fortunately, we are in great financial shape. Our growth projects are financed, we have plenty of availability in our existing credit facilities and no debt maturing before August 2011. Our debt repayments begin after we complete these projects, which will generate significant additional cash flow. So we are well positioned to weather this downturn, service our debt and build our upside.

Currency Certainty

Foreign exchange rates are an important part of our business. More than two-thirds of our revenue is denominated in US dollars, while most expenses are in Canadian dollars. We have proven our ability to battle the currency headwinds of the past few years, during which the Canadian dollar appreciated 25% before it declined sharply this past fall.

For 2009, we have secured exchange rate certainty on virtually all of our net US dollar cash flow with options that allow us to sell US dollars and acquire Canadian dollars at an average price of US$0.8185. If the Canadian dollar rises, we're ensured a rate of US$0.8185. Still we benefit if the dollar weakens below this level. This certainty comes at a great time—when we are completing major capital expenditures on TCP.

North American Sodium Chlorate

Brandon: Staying Power

Brandon is 4 times the size of the average North American sodium chlorate plant.

Our flagship facility in Brandon, Manitoba, uses renewable hydroelectric power, giving us an unrivalled advantage. In volatile times, this plant provides consistent, unwavering benefits by positioning us as the low-cost producer.

12%

increase in production capacity in 2008, adding 20% more cash flow than expected

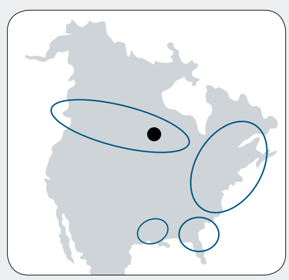
In an economic downturn, the low-cost producer has the advantage. Brandon is the largest sodium chlorate plant in the world and the lowest-cost sodium chlorate plant in North America. Clearly, our low-cost structure and economies of scale give Brandon the staying power to not only survive, but thrive.

Growing our Advantage

Our investments to enhance Brandon grow our advantage. In 2008, we completed our third successful expansion at Brandon in seven years. With capacity boosted by 12%, the plant performed above design capacity for most of the year and added $12 million in cash flow. The Brandon advantage will be further emphasized into 2009, with more than 80% of our North American sodium chlorate production here. Our plan is to run Brandon at full rates and adjust production from our other plants if needed.

Cautious Optimism

With the economic downturn, demand from North American pulp customers has slowed, but is expected to improve later in 2009. Market conditions are fragile and susceptible to further adjustments due to higher pulp inventories and poor economic conditions. As the low-cost producer, we will weather this situation and continue looking at a number of opportunities to harness our advantage.



Why Brandon?

Electricity is the major expense in producing sodium chlorate. Manitoba has the lowest electricity rates in North America—and it's all derived from renewable hydroelectric power. Plus Brandon is at the nexus of two major transcontinental railroads, so transportation through North America is unparalleled. As the map shows, Brandon can supply the circled areas—about two-thirds of North American pulp mills—cheaper than anybody else.

North American Chlor-Alkali

TCP: Change for the Better

TCP is on budget and on track for completion in early 2010.

TCP takes our more than 50-year-old plant and makes it modern, efficient and environmentally superior. It will dramatically lower our operating costs, expand capacity and confirm our low-cost leadership in the region.

60%

of TCP benefits are cost savings

We've been supplying the western North American market with quality chlor-alkali products for more than 50 years from our North Vancouver plant. Our TCP builds on this track record. It positions us to emerge from this economic downturn as an even stronger competitor—fully able to capitalize on market opportunities.

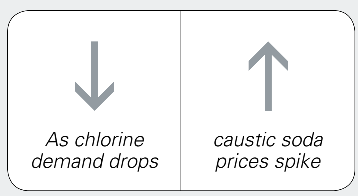
Project Benefits

Our new plant will be more cost efficient and will add an estimated $35-$43 million in annual operating cash flow. Because 60% of the project benefits will come from decreased production costs, we will realize the benefits almost immediately, regardless of economic conditions. TCP also reduces our environmental footprint. Using new technology, we virtually eliminate all uses of natural gas.

We have also initiated a project to convert more chlorine into higher-value hydrochloric acid. The project will proceed in parallel with TCP and provide long-term flexibility to manage our chlorine inventory during periods of demand volatility.

Mixed Short-term Outlook

While the short-term outlook for our chlor-alkali business is mixed, we are well positioned to benefit from any industry capacity rationalization in the coming months. With our cost advantages, we expect our operating rates to remain above average even though the chlor-alkali markets are in a state of instability.



The Balancing Act

Chlorine and caustic soda are both produced in the chlor-alkali electro-chemical process—you can't produce one without the other. Not surprising, they tend to move in opposite directions. In a strong economy, chlorine is the driver, particularly for PVC production. In a weaker economy, chlorine demand drops. This causes caustic soda supplies to tighten which then drives caustic prices up. Caustic soda can weather downturns better because of its widespread uses.

Brazil: Positioned to Grow

With our fixed-margin contract, we benefit from any operational efficiencies we gain.

The sustainability and stable performance of our South American business unit showcase our record of efficient operations and position us to benefit from the vast growth opportunities the region offers.

4th

consecutive year of improved operating performance

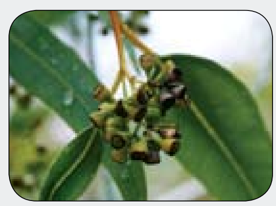
Our business in South America is based on a 25-year, fixed-margin supply contract with Aracruz Celulose, one of the world's leading pulp producers. Since entering the region in 1999, we have continued to strengthen our plant, improve efficiencies and increase capacity.

Consistent Growth

Our record of reliable performance supports our bottom line and long-term growth plans. In 2008, we achieved our fourth consecutive year of improved operating performance in Brazil. We completed a 2,000-tonne sodium chlorate debottleneck expansion and have started a further 4,400-tonne expansion to meet increasing demand. These expansions demonstrate our ability to deliver strategic growth and thrive in less-than-desirable market conditions.

Stable Outlook

Through the first part of 2009, we expect to maintain high chlor-alkali operating rates while managing reduced chlorine demand against our caustic soda supply commitments. Sodium chlorate sales are projected to be consistent with historical levels. We will continue to benefit from our long-term, fixed-margin contract, while actively pursuing growth opportunities in the region.



Money doesn't grow on trees… or does it?

South America is an emerging leader in global pulp production largely because producers can harvest hardwood pulp every 7 to 15 years from eucalyptus trees. (In North America, trees take 20 to 70 years.) Eucalyptus is grown in environmentally acceptable plantations near pulp mills, providing an additional cost advantage. But did you know that more than 50% of the world's softwood is grown in North America? So there's value in both regions.

Growth we can Bank on

A roster of strategic projects is securing our long-term future.

By early 2010, all of our current growth projects will be on stream. Below is a summary of the estimated annual operating cash flow they'll deliver, with TCP driving this upside.

$35-43 million

North Vancouver TCP will result in a more modern and environmentally superior plant with lower costs and more capacity. It's fully financed with distributable cash, our DRIP and committed credit facilities.

$3.0 million

Brazil Sodium Chlorate Expansions build on two successful expansions there already. Our third in early 2009 added 2,000 tonnes of capacity and the fourth, slated for early 2010, will add 4,400 tonnes more.

$1.6-2.0 million

North Vancouver Hydrochloric Acid Project will increase acid capacity by 70,000 tonnes and enable us to produce more higher-value acid and caustic soda in periods of lower chlorine demand.

$1.0-2.0 million

Bruderheim Terminal Expansion sets us up to trans-load hydrocarbons for the Alberta Heartland and oil sands operations starting in April 2009. It also supports future chlor-alkali sales in Alberta.

Leading our Upside

We act with Responsible Care® because we believe it is the right and only way to run a business.

Beyond our current growth projects, our management team is actively focused on new opportunities and empowering change leaders throughout Canexus to guide our next phase of growth.

Building on our Expertise

We're not interested in random growth, but rather strategic growth that builds on what we already do well. Our strength is taking under-utilized assets and maximizing their potential. Our new trans-loading project at Bruderheim does just that, creating an exciting new revenue stream. It combines a strategic location, our logistics expertise and the creative strength of our people.

Grounded in our Values

Our daily operations and growth will always be grounded in our four values—reputation, results, resources and relationships. Reputation is our most important asset, supported by our unwavering commitment to operate safely, and with integrity and Responsible Care®. As we empower our people to live their values and passions at work, we unleash the innovative thinking that will truly power our future.

Canexus Management Team
Front row—left to right: Tom Jackson, Karen Bost, Gary Kubera, Hazel Kreuz
Back row—left to right: Kevin Meaney, Brian Bourgeois, Andy Lacara, Péricles dos Santos, Diane Pettie, Rich McLellan

We not only see upside, we are building it.
Our TCP project at North Vancouver leads a line-up of projects adding defined cash flow and growth by 2010.
TCP is on track, on budget and fully financed.

canexus

www.canexus.ca

TSX: CUS.UN

Designed and Produced by one
Printed in Canada by Rhino Print Solutions

canexus

upside in the numbers

2008 MD&A and Financial Statements

About Canexus Canexus produces sodium chlorate and chlor-alkali products largely for the pulp and paper and water treatment industries. Our five plants in Canada and one in Brazil are reliable, low-cost, strategically-located facilities that capitalize on competitive electricity costs and transportation infrastructure to minimize production and delivery costs. Canexus targets opportunities to maximize unitholder returns and delivers high-quality products to its customers. Canexus is listed on the Toronto Stock Exchange under the symbol CUS.UN. More information about Canexus is available at **www.canexus.ca.**

Table of Contents

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 February 27, 2009. This MD&A should be read in conjunction with:

- the audited consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") as at and for the year ended December 31, 2008 included in this report; and
- the audited consolidated financial statements of the Fund and Canexus LP as at and for the year ended December 31, 2007 and the notes thereto available on the SEDAR website at www.sedar.com.

The audited consolidated financial statements of the Fund and Canexus LP have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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

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

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

Additional information relating to the Fund and Canexus LP 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.

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.

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.

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

General Description of the Fund and Canexus LP

At December 31, 2008, the Fund held a 36.5 percent (December 31, 2007 – 38.6 percent) indirect interest, through its wholly-owned subsidiary Canexus Commercial Trust, in Canexus LP and Nexen Inc. held a 63.5 percent (December 31, 2007 – 61.4 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 $19.0 million ($0.5928 per Unit) declared for the year ended December 31, 2008 including a special distribution of $0.0456 per Unit declared payable to Unitholders of record December 31, 2008. Distribution Reinvestment Program ("DRIP") participation continued at an average participation rate of approximately 23 percent.
- 2008 Distributable Cash available to Canexus Income Fund increased 43 percent over 2007.
- Payout ratio of 61 percent consistent with previous guidance for 2008.

Selected Annual Financial Information

CAD thousands, except per unit amounts	2008	2007	2006
Equity Income (Loss) from Investment in Canexus LP	(2,141)	21,047	18,190
Net Income (Loss)	(2,587)	5,533	16,122
Earnings (Loss) ($/Unit)	(0.08)	0.17	0.51
Diluted Earnings (Loss) ($/Unit)	(0.08)	0.17	0.51
Cash Distributions Declared	19,048	26,908	27,775
Cash Distributions Declared ($/Unit)	0.5928	0.8475	0.8748
Distributable Cash available to Canexus Income Fund	31,165	22,141	30,849

	2008	2007	2006
Total Assets	287,519	304,183	311,450
Total Long-Term Liabilities	11,573	12,654	-

Results of Operations

Investment

At December 31, 2008, the Fund had an indirect investment in 32,570,814 Ordinary Limited Partnership ("LP") Units (36.5 percent) of Canexus LP at a cost of $320.8 million. At December 31, 2007, the Fund had an indirect investment in 31,750,000 Ordinary LP Units (38.6 percent) of Canexus LP at a cost of $317.5 million. The Fund accounts for this investment using the equity method. The Fund's indirect investment in Canexus LP decreased to 36.5 percent at December 31, 2008, from 38.6 percent at December 31, 2007, due to Nexen Inc.'s 100 percent participation in the DRIP.

For the year ended December 31, 2008, the Fund's losses from Canexus LP were $2.1 million (December 31, 2007 – income of $21.1 million) and the carrying value of this investment at December 31, 2008 was $284.2 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 and accompanying bonus rights and deferred trust units and notional reinvestments. Management uses the fair-value method to recognize compensation expense associated with unit based compensation at the time of grant. Expense is recognized over the vesting period or expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing Units of the Fund and are not settled in cash.

Statement of Distributable Cash

CAD thousands, except as noted	2008	2007
Canexus LP		
Net Income (Loss)	(6,035)	54,547
Realized Foreign Exchange Gain on Cash	(1,803)	-
Charges and Credits to Income Not Involving Cash:		
Future Income Taxes	(5,089)	4,388
Amortization	43,408	44,370
Unrealized (Gains) Losses on Currency Translation	61,558	(34,488)
Change in Fair Value of Foreign Exchange Options	(1,799)	31
Change in Fair Value of Foreign Exchange Forward	(3,797)	-
Change in Fair Value of Electricity Forward Swaps	-	2,229
Change in Fair Value of Interest Rate Swaps	2,803	-
Accrual for Future TCP Severance Costs	7,310	-
Other	6,560	3,952
Total Charges and Credits to Income Not Involving Cash	110,954	20,482
Contributions to / Payments for Defined Benefit Plans	(4,366)	(2,370)
Purchase of Foreign Exchange Options	(6,117)	(360)
Expenditures on Asset Retirement Obligations	(1,121)	(616)
Changes in Non-Cash Operating Working Capital and Due to Affiliates	(19,023)	10,186
Cash From Operating Activities	72,489	81,869
Changes in Non-Cash Operating Working Capital and Due to Affiliates	19,023	(10,186)
Maintenance Capital Expenditures	(15,100)	(12,731)
Amortization of the Purchase Cost of Foreign Exchange Options	(1,221)	(819)
Realized Foreign Exchange Gain on Cash	1,803	-
Operating Non-Cash Items	6,295	(17)
Distributable Cash within Canexus LP (1)	83,289	58,116
Canexus Income Fund		
Share of Canexus LP's Distributable Cash	31,462	22,424
Trust Administration Expenses	(297)	(283)
Distributable Cash available to Canexus Income Fund (1)	31,165	22,141
Cash Distributions Declared	19,048	26,908
Payout Ratio (1)	61%	122%

Note:

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

Net income for the year ended December 31, 2008 was lower than net income for the year ended December 31, 2007 primarily due to unrealized currency translation losses on Canexus LP's US dollar denominated long-term debt and to the accrual of future severance costs arising from the technology conversion project ("TCP") at our North Vancouver chlor-alkali facility. See Canexus LP "Changes in Net Income 2008 versus 2007".

Cash from operating activities, before the impact of temporary changes in non-cash operating working capital and due to affiliates, increased for the year ended December 31, 2008 as compared to the year ended December 31, 2007 due to an increase in gross margins and an increase in realized currency translation gains partially offset by an increase in general and administrative expense (see Canexus LP "Changes in Net Income 2008 versus 2007"), an increase in costs to purchase foreign exchange call option contracts which cover virtually all of our net exposure to the US dollar for 2009 (see Canexus LP "Executive Summary" and "Highlights") and an increase in solvency contributions to our defined benefit pension plan.

The change in non-cash operating working capital and due to affiliates for the year ended December 31, 2008 was primarily due to timing differences in the amount of accounts receivable, inventories and operating supplies and accounts payable and accrued liabilities. At December 31, 2008, accounts receivable from Aracruz Celulose S.A., our primary customer in South America, were $11.6 million versus $0 at December 31, 2007 due only to early payment of amounts outstanding in 2007. Inventory at

December 31, 2008 was higher than at December 31, 2007 due to higher sodium chlorate inventory at our South American plant as a result of a temporary shutdown in November 2008 by our primary customer and to high caustic soda inventory at our North Vancouver chlor-alkali plant due to a decline in demand in the fourth quarter in the pulp sector in Western Canada in response to the general economic slowdown. Our primary customer returned to more normal operating rates in December 2008 which are expected to continue into 2009. The increase in accounts payable and accrued liabilities was primarily due to an increase in amounts related to the TCP at our North Vancouver plant and to an increase in the amount accrued for 2008 bonuses. The change in non-cash operating working capital and due to affiliates for the year ended December 31, 2007 was due to timing differences in the amount of accounts receivable resulting from the early payment of amounts outstanding in 2007 by Aracruz Celulose S.A.

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

The cost of foreign exchange call option contracts 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 January 1, 2008 to December 31, 2008 and a special distribution of $0.0456 per Unit to Unitholders of record on December 31, 2008 for total distributions declared of $19.0 million ($0.5928 per Unit) for the year ended December 31, 2008.

At December 31, 2008, the Fund had distributions receivable from Canexus LP. Upon receipt of these distributions in January 2009, the Fund paid distributions payable of $3.0 million outstanding at December 31, 2008.

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

On 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 an $11.6 million future income tax liability as at December 31, 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 federal tax will be applied to distributions from publicly traded income trusts which could result in reduced cash available for distributions. The rate of tax will be equal to the prevailing general federal corporate income tax rate (slated to be 16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial tax factor" which under proposed regulations will be based on the prevailing provincial corporate income tax rates in the provinces where the Specified Investment Flow Through ("SIFT") has permanent establishments. Based on current enacted rates it is anticipated that the provincial tax factor will be approximately 11.1 percent in 2011 and 2012. This will result in a combined federal and provincial tax rate of approximately 27.6 percent for 2011 and 26.1 percent for 2012 and subsequent years. For accounting purposes the provincial tax factor is not considered substantively enacted and has therefore not been taken into consideration for purposes of computing future income taxes. At the time the proposal becomes enacted there will be a corresponding adjustment to the future income tax liability. Under the legislation, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to avoid being subject to the SIFT tax before then. 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 prior to 2011 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). In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

On December 4, 2008 the Minister of Finance released explanatory notes for the Notice of Ways and Means Motion that was tabled on November 28, 2008. The explanatory notes contain revisions to the "normal growth" guidelines. Under the revised normal growth guidelines the "safe harbour" amount has been accelerated. The revised guidelines permit a SIFT to immediately issue new equity to bring its cumulative growth up to 100% of its October 31, 2006 capitalization. Under the normal growth guidelines, the Fund had available at December 31, 2008 a "safe harbour" amount of $221.7 million. This amounts does 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 Limited Partnership Units issued to Nexen Inc. outstanding at October 31, 2006.

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 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 would see a significant reduction in their after-tax realizations.
- The Fund could convert to a public corporation pursuant to the draft legislation discussed below.

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. This draft legislation, with some amendments, is now incorporated in Bill C-10, which received first reading in the House of Commons on February 6, 2009. 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.

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

Summary of Quarterly Results

The changes in equity income (loss) for each of the three month periods were due to changes in the net income (loss) of Canexus LP for the same periods. The equity loss from the investment in Canexus LP for the three months ended December 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. 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 for future severance costs arising from the TCP at Canexus LP's North Vancouver chlor-alkali facility (See "Summary of Quarterly Results" discussion relating to Canexus LP).

	Three Months Ended			
	December 31	September 30	June 30	March 31
CAD thousands, except per unit amounts	2008	2008	2008	2008
Equity Income (Loss) from Investment in Canexus LP	(6,243)	1,791	3,602	(1,291)
Net Income (Loss)	(5,731)	2,122	2,922	(1,900)
Earnings (Loss) Per Unit ($/Unit)	(0.18)	0.07	0.09	(0.06)
Diluted Earnings (Loss) Per Unit ($/Unit)	(0.18)	0.07	0.09	(0.06)
Cash Distributions Declared	5,927	4,406	4,370	4,345
Cash Distributions Declared ($/Unit)	0.1824	0.1368	0.1368	0.1368
Distributable Cash available to Canexus Income Fund	7,174	9,248	6,774	7,969

	Three Months Ended			
	December 31	September 30	June 30	March 31
CAD thousands, except per unit amounts	2007	2007	2007 (1)	2007
Equity Income from Investment in Canexus LP	1,625	8,242	6,739	4,441
Net Income (Loss)	5	6,228	(4,423)	3,723
Earnings (Loss) Per Unit ($/Unit)	-	0.20	(0.14)	0.12
Diluted Earnings (Loss) Per Unit ($/Unit)	-	0.20	(0.14)	0.12
Cash Distributions Declared	6,077	6,943	6,944	6,944
Cash Distributions Declared ($/Unit)	0.1914	0.2187	0.2187	0.2187
Distributable Cash available to Canexus Income Fund	4,210	8,064	2,992	6,875

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 initially 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 capital assets underlying its investment in Canexus LP, which differences are expected to reverse subsequent to 2010.

Liquidity and Capital Structure

Outstanding Securities of the Fund

At December 31, 2008, the Fund had 32,570,814 Units outstanding (February 27, 2009 – 32,780,069).

At December 31, 2008, Nexen Inc. held 56,637,539 Exchangeable LP Units of Canexus LP (February 27, 2009 – 53,386,786), 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.

Under the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between Canexus Income Fund, Canexus Commercial Trust, Canexus Limited Partnership and Nexen Inc., an exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to Canexus Income Fund. As a result of the above transactions, the Fund's indirect interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange.

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 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 extendible revolving credit facilities and senior secured notes ("Senior Secured Notes") in "events of default" as defined in each of the extendible revolving credit facilities and the note indenture governing the Senior Secured Notes.

Critical Accounting Estimates

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

Canexus Limited Partnership

Canexus Limited Partnership (hereinafter referred to as "Canexus LP", "we" or "our") is a limited partnership established under the laws of Alberta. Canexus LP through its subsidiaries produces sodium chlorate and chlor-alkali products in 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.

At December 31, 2008, the Fund held an indirect 36.5 percent (December 31, 2007 – 38.6 percent) interest (through its wholly-owned subsidiary Canexus Commercial Trust) and Nexen Inc. held a 63.5 percent (December 31, 2007 – 61.4 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP.

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 business of Canexus LP, to enter into any agreement and to incur any obligation related to the affairs of Canexus LP and is entitled to full reimbursement of all costs and expenses incurred on behalf of Canexus LP. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of Canexus LP, these costs and obligations have been reflected in the financial statements and notes thereto of Canexus LP.

Executive Summary

Canexus LP achieved record financial performance in 2008 generating distributable cash of $83.3 million; the highest annual distributable cash generated since its inception and an increase of 43 percent over 2007. Solid operating and financial performance by our North American sodium chlorate and chlor-alkali business units contributed to this record performance.

North American sodium chlorate revenues increased 14 percent and gross margins improved by 3 percent year over year. Price increases implemented during 2008 more than offset the appreciation in the Canadian dollar relative to the US dollar year over year, while strong demand from US customers during the first three quarters of 2008 contributed to an increase in sales volumes.

North American chlor-alkali revenues increase 11 percent and gross margins improved by 2 percent year over year. The increase in revenue was primarily attributable to strong caustic soda realized selling prices throughout 2008, which more than offset the appreciation in the Canadian dollar relative to the US dollar year over year and a decline in chlorine selling prices.

Our Brandon sodium chlorate plant expansion, completed in February 2008, continues to perform above design capacity further contributing to enhanced 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 downgrades of our power line capacity by Manitoba Hydro. We currently have a commitment from Manitoba Hydro to provide us with incremental power until they complete a line upgrade study, at which time we will evaluate the study options and finalize our investment plans. The Brandon sodium chlorate 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.

We are nearing completion of a value-enhancing initiative that leverages the strategic location of our Bruderheim, Alberta facility. This $8.1 million terminal expansion project is a directional step toward supporting chlor-alkali sales in Alberta and it expands the scope of products that can be handled on the site located northeast of Edmonton. We will apply our logistics experience to trans-load hydrocarbons for nearby Alberta Heartland and oil sands operations beginning in April 2009.

The TCP at our North Vancouver chlor-alkali facility has fully committed financing and remains on schedule for start-up in the first quarter of 2010. Approximately $150 million of the $208 million budget was committed at December 31, 2008. 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 foreign exchange forward contract whereby we will buy Japanese Yen ("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.

On May 1, 2008, amendments to our extendible revolving credit facility were made to increase the available facility from $350 to $410 million and to increase available short-term swing line loans under the facility from $20 to $35 million. On November 28, 2008, a further amendment was made to increase the available facility from $410 to $420 million. This credit facility matures August 11, 2011. All other terms and conditions of this credit facility remain substantially the same as the previous credit facility. Also on May 1, 2008, Canexus LP issued US $50 million of Senior Secured Notes which bear interest at a fixed rate of interest of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US $20 million senior secured revolving credit facility ("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.

Our South American sodium chlorate and chlor-alkali business unit performance fell short of expectations with gross margins negatively impacted by the stronger US dollar year over year. A 2,000 tonne sodium chlorate expansion project at our Brazil plant was completed at the end of January 2009 and the further 4,400 tonne expansion previously announced is underway and is expected 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 Extendible Revolving Credit Facility") 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.

In October 2008, 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 LP to sell US dollars and acquire Canadian dollars at an average price of US $0.8185 per Canadian dollar from January 1, 2009 to December 31, 2009. These call option contracts cover virtually all of our net exposure to the US dollar for 2009.

Highlights

- Record financial performance for 2008 with distributable cash of $83.3 million; the highest distributable cash generated since Canexus LP's inception and an increase of 43 percent over 2007, achieved with an average exchange rate of US $0.96 per Canadian dollar.
- Revenue increased 15 percent to $474.4 million from $413.6 million in 2007.
- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder were $0.5928 per LP Unit for total distributions of $51.2 million including a special distribution declared payable to LP Unitholders of record December 31, 2008 of $0.0456 per LP Unit. DRIP participation by Ordinary and Exchangeable LP Unitholders has continued at an overall participation rate of approximately 71 percent.
- Solid financial performance from our North American sodium chlorate and chlor-alkali business units with improved gross margins over 2007 of 3 and 2 percent respectively.
- Our Brandon sodium chlorate plant expansion completed in 2008 continues to perform above design capacity contributing to enhanced margins.
- The TCP at our North Vancouver chlor-alkali facility remains on schedule for start-up in the first quarter of 2010. Approximately $150 million of the $208 million budget was committed at December 31, 2008 with $64 million spent.
- Total borrowings under our committed credit facilities at December 31, 2008 were $295 million with remaining available capacity of $225 million. We have no debt maturing before August 2011.
- A 2,000 tonne sodium chlorate expansion project at our Brazil plant was completed at the end of January 2009. The further 4,400 tonne expansion previously announced is underway and is expected to start-up in the first quarter of 2010.

- An $8.1 million project is nearing completion to expand truck loading, rail capacity and product handling capabilities at our Bruderheim, Alberta facility. When operational in April 2009, the project will facilitate increased chlor-alkali distribution through the terminal and enable trans-loading of hydrocarbons.

Selected Annual Financial Information

	For the Years Ended December 31		
CAD thousands, except as noted	2008	2007	2006
Sales Volumes			
Sodium Chlorate (000s Metric Tonnes (MT))	449	433	443
Chlor-alkali (000s Metric Electro-Chemical Units (MECU))	187	188	195
Sales Revenues	474,357	413,607	405,331
Cost of Goods Sold	339,060	295,725	285,716
Gross Margin (1)	135,297	117,882	119,615
Gross Margin (%) (1)	29%	29%	30%
Net Income	(6,035)	54,547	47,143
Plus: Provision for (Recovery of) Income Taxes	(3,776)	6,884	789
Plus: Amortization	43,408	44,370	40,223
Plus: Interest Expense	11,658	11,377	10,713
EBITDA (1)	45,255	117,178	98,868
Cash Distributions Declared	51,218	70,319	71,992
Cash Distributions Declared ($/Unit)	0.5928	0.8475	0.8748
Distributable Cash within Canexus LP	83,289	58,116	80,290
Capital Expenditures			
Maintenance	15,100	12,731	12,098
Remediation	1,638	-	-
Infrastructure and IT	-	395	5,215
Continuous Improvement	4,540	1,479	1,242
Expansion	67,213	46,722	8,799
Total Capital Expenditures	88,491	61,327	27,354
Average Foreign Exchange Rate (CAD $ to US $)	US $0.96	US $0.92	US $0.88

	At December 31		
	2008	2007	2006
Total Assets	579,551	488,199	486,384
Total Long-Term Liabilities	346,884	256,084	221,584

Note:

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

The operations of Canexus LP currently includes sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta; and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in South America.

North American sodium chlorate price increases implemented in the first and third quarters of 2008 and strong demand from US customers during the first three quarters of 2008 more than offset the appreciation of the Canadian dollar relative to the US dollar during 2008 resulting in an increase of 14 percent in North American sodium chlorate revenues. North American caustic soda price increases implemented in the third and fourth quarters of 2008 offset the significant downward pressure on chlorine selling prices and the appreciation of the Canadian dollar relative to the US dollar during 2008 resulting in an increase of 11 percent in North American chlor-alkali revenues.

The gross margin percentage of 29 percent for the year ended December 31, 2008 was consistent with the year ended December 31, 2007 with increases in North American realized selling prices and increased production at our low-cost Brandon, Manitoba sodium chlorate facility offset by higher North American natural gas and electricity costs (primarily in Alberta), a lower gross margin in South America and higher fixed costs.

Capital expenditures for the year ended December 31, 2008 were $88.5 million as compared to the year ended December 31, 2007 of $61.3 million. This increase was due to increases in maintenance capital expenditures of $2.4 million, continuous improvement capital expenditures of $3.1 million and expansion capital expenditures of $20.5 million offset by a decrease in infrastructure and IT capital expenditures of $0.4 million. In addition, capital expenditures of $1.6 million were incurred to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver chlor-alkali facility to comply with regulations enacted in British Columbia regarding the use of ozone depleting substances. See "Results of Operations – Changes in Net Income 2008 versus 2007 – Capital Expenditures".

Results of Operations

Changes in Net Income 2008 versus 2007

CAD thousands	
Net Income for the Year Ended December 31, 2007	54,547
Items Increasing (Decreasing) Net Income	
Sales Revenues	60,750
Cost of Goods Sold	(43,335)
Amortization	962
General and Administrative Expense	(2,800)
Interest Expense	(281)
Change in Fair Value and Realized Gains on Foreign Exchange Options	621
Change in Fair Value and Realized Gains on Interest Rate Swaps	(2,708)
Change in Fair Value of Foreign Exchange Forward	3,786
Change in Fair Value of Electricity Forward Swaps	2,229
Currency Translation Losses	(80,734)
Income Taxes	10,660
Accrual for Future TCP Severance Costs	(7,310)
Allowance for Impairment in Value of Asset Backed Commercial Paper ("ABCP")	(1,000)
Allowance for Doubtful Accounts	(450)
Other	(972)
Loss for the Year Ended December 31, 2008	(6,035)

Net income (loss) for the year ended December 31, 2008 decreased by $60.6 million or 111 percent from the year ended December 31, 2007 and EBITDA for the year ended December 31, 2008 decreased by $71.9 million or 61 percent from the year ended December 31, 2007 primarily due to unrealized currency translation losses.

An increase in gross margin of $17.4 million increased net income

Year Ended December 31, 2008	North America Sodium Chlorate	North America Chlor-alkali	South America	Total
Sales Revenues	218,993	145,356	110,008	474,357
Cost of Goods Sold	151,814	100,551	86,695	339,060
Gross Margin [1]	67,179	44,805	23,313	135,297
Gross Margin (%) [1]	31%	31%	21%	29%

Year Ended December 31, 2007	North America Sodium Chlorate	North America Chlor-alkali	South America	Total
Sales Revenues	192,190	130,737	90,680	413,607
Cost of Goods Sold	137,557	93,108	65,060	295,725
Gross Margin [1]	54,633	37,629	25,620	117,882
Gross Margin (%) [1]	28%	29%	28%	29%

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 14 percent from $192.2 million in 2007 to $219.0 million in 2008 due to a 4 percent increase in sales volumes and a 9 percent increase in realized selling prices. Price increases implemented in the first and third quarters of 2008 more than offset the appreciation in the value of the Canadian dollar relative to the US dollar year over year. Strong demand from US customers during the first three quarters of 2008 contributed to the increase in sales volumes. The increase in the gross margin percentage from 28 percent for 2007 to 31 percent for 2008 was primarily due to the increase in realized selling prices and an increase in production at our low-cost Brandon, Manitoba facility, which started up in February 2008, partially offset by higher electricity costs and higher fixed costs. Fixed costs were higher primarily due to an increase in the bonus amount for 2008.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 11 percent from $130.7 million in 2007 to $145.4 million in 2008 primarily due to higher realized selling prices. Caustic soda price increases implemented in the third and fourth quarters of 2008 more than offset a decline in chlorine selling prices and the appreciation of Canadian dollar relative to the US dollar year over year. The gross margin percentage increased from 29 percent to 31 percent due to the increase in realized selling prices partially offset by higher natural gas costs and slightly higher fixed costs. Fixed costs were higher primarily due to an increase in the bonus amount for 2008.

South America

Sales revenue in South America increased 21 percent from $90.7 million for 2007 to $110.0 million for 2008. This increase was primarily the result of higher realized selling prices for both sodium chlorate (increase of 13 percent) and chlor-alkali products (increase of 18 percent). The increase in realized selling prices was due to the pass-through nature of the contract with our primary customer which contributes to higher revenues as costs increase. The gross margin percentage declined from 28 percent to 21 percent primarily due to an increase in the purchase of caustic soda at higher spot prices for resale to our primary customer which generates no margin, higher fixed costs and the impact of the stronger Canadian dollar in 2008 on our fixed US dollar margins, partially offset by slightly higher production of both sodium chlorate and chlor-alkali products. Fixed costs were higher due to an increase in general maintenance expenses, costs associated with a hypochlorite tank failure, a salt inventory adjustment and to the impact of the stronger Brazilian Real, on Real denominated expenditures, against the US dollar year over year.

Lower amortization expense increased net income by $1.0 million

Amortization expense decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to lower amortization for our Beauharnois sodium chlorate plant which is almost fully amortized partially offset by higher amortization on our Brandon sodium chlorate plant as a result of the expansion which started up in February 2008.

Higher general and administrative expense decreased net income by $2.8 million

General and administrative expense was higher for the year ended December 31, 2008 as a result of higher bonus amounts for 2008, slightly higher salary and benefit costs and increased spending on business development activities.

Higher interest expense decreased net income by $0.3 million

The increase in interest expense for the year ended December 31, 2008 was due to interest on the US $50 million Senior Secured Notes and interest on borrowings by CQBL on their US $10 million EDC Extendible Revolving Credit Facility partially offset by higher interest capitalized to major projects, lower interest rates and lower borrowings on our extendible revolving credit facility.

The amount outstanding on our extendible revolving credit facility at December 31, 2008 was US $176,000,000 as compared to US $204,000,000 at December 31, 2007. The weighted average interest rate on borrowings from this credit facility was 4.50 percent in 2008 as compared to 6.19 percent for 2007.

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.

During the third quarter of 2008, CQBL closed a US $10 million EDC Extendible Revolving Credit Facility which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. The amount outstanding on CQBL's EDC Extendible Revolving Credit Facility at December 31, 2008 was US $6 million. The weighted average interest rate on borrowings from this credit facility was 2.88 percent.

Interest capitalized on major projects was $1,612,081 in 2008 as compared to $1,479,489 in 2007.

Changes in foreign exchange options increased net income by $0.6 million

During the year ended December 31, 2008 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9709 for the period March 1, 2008 to August 31, 2008; and
- US $5 million per month which 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.

In October 2008, Canexus LP secured 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 $0.8200 and to sell US $5 million per month and acquire Canadian dollars at a price of US $0.8170 for the period January 1, 2009 to December 31, 2009.

Realized gains of $1.1 million and mark-to-market fair value gains of $1.8 million were recorded on these foreign exchange call option contracts for a total gain of $2.9 million in 2008.

During the year ended December 31, 2007 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5.0 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9497 per Canadian dollar for the period September 5, 2007 to February 27, 2008; and
- US $5.0 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8700 per Canadian dollar for the period January 17, 2007 to July 11, 2007.

Realized gains of $2.3 million were recorded on these foreign exchange call option contracts in 2007.

Changes in fair value of interest rate swaps decreased net income by $2.7 million

In May 2008, Canexus LP 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. We recorded mark-to-market fair value losses of $2.8 million on these interest rate swaps and realized gains of $0.1 million for a net loss of $2.7 million during the year ended December 31, 2008.

Changes in fair value of a foreign exchange forward increased net income by $3.8 million

In August 2008, Canexus LP entered into a foreign exchange forward 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. Mark-to-market fair value gains of $3.8 million were recorded on this foreign exchange forward during the year ended December 31, 2008.

Changes in fair value of electricity forward swaps increased net income by $2.2 million

From time to time, Canexus LP uses forward swap contracts to manage its exposure to the price of electricity in Alberta. We did not have any electricity forward swap contracts outstanding during 2008. In 2007 Canexus LP had electricity forward swap contracts on 262,800 Megawatt-hours ("MWh") at a weighted average price of $66.12 per MWh for the period January 1, 2007 to December 31, 2007. We recorded mark-to-market fair value losses of $2.2 million on these electricity forward swap contracts.

Changes in currency translation gains (losses) decreased net income by $80.7 million

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

During the year ended December 31, 2008, fluctuations in exchange rates resulted in unrealized losses of $61.6 million and realized gains of $10.6 million for a net loss of $51.0 million as compared to unrealized gains of $34.5 million and realized losses of $4.7 million for a net gain of $29.8 million for the year ended December 31, 2007.

During the year ended December 31, 2008, we recorded an unrealized currency translation loss of $58.8 million on our US dollar denominated borrowings on our extendible revolving credit facility and Senior Secured Notes as a result of the significant devaluation of the Canadian dollar in the fourth quarter and realized gains of $3.6 million on repayments of US $37.4 million of our extendible revolving credit facility for a net loss of $55.2 million. During the year ended December 31, 2007 we recorded an unrealized currency translation gain of $32.0 million on our extendible revolving credit facility.

We borrow in US dollars as a substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar.

Lower income taxes increased net income by $10.7 million

Income taxes decreased for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to the impact of the weaker Brazilian Real used to translate US dollar denominated intercompany debt in Brazil and decreased earnings in certain international subsidiaries.

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

During the year ended December 31, 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 impairment of ABCP decreased net income by $1.0 million

Canexus LP recorded a $1.6 million estimated impairment loss on its investment in non-bank sponsored ABCP during the year ended December 31, 2008 in addition to the $0.6 million recorded during the year December 31, 2007 for a total estimated impairment loss of $2.2 million.

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. On January 22, 2009, the ABCP was replaced with long-term asset backed securities ("Restructured Notes") which are divided into several classes.

We valued this ABCP using the key characteristics of each class of Restructured Notes we received: 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 Restructured Notes. As a result of this analysis, we have estimated the fair market value of our ABCP investment to be $1.9 million at December 31, 2008.

While we believe that we have utilized an appropriate methodology to estimate the 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 December 31, 2008 is accurate. Subsequent adjustments may be required in future reporting periods.

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

During the third quarter of 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".

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

During the year ended December 31, 2008, Canexus LP recorded the following other income (expense) items:

- $0.6 million of expense for prior period costs associated with a state tax assessment on energy purchases in South America;
- $0.3 million of expense related to an assessment of social security taxes in South America;
- an inventory adjustment of $0.4 million;
- a loss of $0.1 million on the sale of a property in Brandon, Manitoba; and
- $0.4 million of income related to a reversal of a customer rebate accrual following an assessment of sales volumes.

During the year ended December 31, 2007, Canexus LP recorded the following other income (expense) items:

- $0.4 million of income related to an insurance recovery;
- $0.6 million of income resulting from an assessment of accruals related to contingent legal claims and other provisions;
- $0.5 million of expense resulting from adjustments related to prior year salt purchases for fuel surcharges; and
- $0.3 million of expense for the write off of unusable caustic soda inventory.

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

Capital Expenditures

Capital expenditures for the year ended December 31, 2008 were $88.5 million as compared to the year ended December 31, 2007 of $61.3 million. This increase was due to increases in maintenance capital expenditures of $2.4 million, continuous improvement capital expenditures of $3.1 million and expansion capital expenditures of $20.5 million partially offset by a decrease in infrastructure and IT capital expenditures of $0.4 million. In addition, capital expenditures of $1.6 million were incurred to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver chlor-alkali facility to comply with regulations enacted in British Columbia regarding the use of ozone depleting substances. The increase in maintenance capital expenditures was primarily due to the advancement of work on two transformer rectifiers at our Beauharnois sodium chlorate plant originally planned for 2009. The increase in continuous improvement capital expenditures was due to expenditures to construct hydrogen gas cooling, compression and piping infrastructure to transport byproduct hydrogen from a nearby plant to Canexus LP's North Vancouver chlor-alkali plant. The hydrogen will be burned in the North Vancouver chlor-alkali plant's boilers to produce steam used in the sodium hydroxide evaporation process and is a replacement for natural gas and therefore will reduce greenhouse gas emissions, energy consumption and cost. Higher expenditures in 2008 versus 2007 related to the TCP at our North Vancouver chlor-alkali plant were offset by lower expenditures related to the expansion of our Brandon sodium chlorate plant which was completed in February 2008.

On January 31, 2008, the Board of Directors of Canexus Limited announced their approval of the TCP for our North Vancouver chlor-alkali facility. This project is anticipated to cost a total of $208 million, of which $65.7 million including capitalized interest of $1.7 million had been spent as at December 31, 2008. The TCP will replace existing 50-year old diaphragm technology and assets with proven membrane technology that is newer, 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.

Summary of Quarterly Results

	Three Months Ended			
	December 31	September 30	June 30	March 31
CAD thousands, except as noted	2008	2008	2008	2008
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	104	118	114	113
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	41	53	46	47
Sales Revenues	124,493	130,373	110,763	108,728
Cost of Goods Sold	87,129	90,503	83,928	77,500
Gross Margin (1)	37,364	39,870	26,835	31,228
Gross Margin (%) (1)	30%	31%	24%	29%
Net Income	(16,910)	4,768	9,454	(3,347)
Plus: Provision for (Recovery of) Income Taxes	(3,387)	(2,526)	1,810	327
Plus: Amortization	11,594	11,151	10,721	9,942
Plus: Interest Expense	3,478	2,992	2,746	2,442
EBITDA (1)	(5,225)	16,385	24,731	9,364
Cash Distributions Declared	16,682	11,757	11,496	11,283
Cash Distributions Declared ($/Unit)	0.1824	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP	19,601	24,776	18,009	20,903
Capital Expenditures				
Maintenance	9,166	2,126	2,372	1,436
Remediation	1,638	-	-	-
Continuous Improvement	576	1,665	1,659	640
Expansion	20,319	20,703	14,487	11,704
Total Capital Expenditures	31,699	24,494	18,518	13,780
Average Foreign Exchange Rate (CAD $ to US $)	US $0.87	US $0.97	US $1.00	US $1.00

Notes:

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

(2) A portion of these expenditures ($1,358,000) were funded by restricted investments in December 2008.

	Three Months Ended			
	December 31	September 30	June 30	March 31
CAD thousands, except as noted	2007	2007	2007	2007
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	114	108	101	110
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	44	53	43	48
Sales Revenues	103,331	104,990	99,207	106,079
Cost of Goods Sold	76,469	68,872	75,064	75,320
Gross Margin (1)	26,862	36,118	24,143	30,759
Gross Margin (%) (1)	26%	34%	24%	29%
Net Income	4,210	21,361	17,466	11,510
Plus: Provision for Income Taxes	2,240	2,623	1,379	642
Plus: Amortization	11,566	11,034	10,897	10,873
Plus: Interest Expense	2,374	3,091	2,878	3,034
EBITDA (1)	20,390	38,109	32,620	26,059
Cash Distributions Declared	16,325	17,998	17,998	17,998
Cash Distributions Declared ($/Unit)	0.1914	0.2187	0.2187	0.2187
Distributable Cash within Canexus LP	11,083	21,119	7,886	18,028
Capital Expenditures				
Maintenance	3,744	2,518	4,195	2,274
Continuous Improvement	584	218	569	108
Infrastructure and IT	-	-	-	395
Expansion	17,970	10,874	9,546	8,332
Total Capital Expenditures	22,298	13,610	14,310	11,109
Average Foreign Exchange Rate (CAD $ to US $)	US $1.01	US $0.95	US $0.88	US $0.86

Note:

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

Fourth Quarter

Changes in Net Income Fourth Quarter 2008 versus Third Quarter 2008

CAD thousands	
Net Income for the Third Quarter 2008	4,768
Items Increasing (Decreasing) Net Income	
Sales Revenues	(5,880)
Cost of Goods Sold	3,374
Amortization	(443)
General and Administrative Expense	(349)
Interest Expense	(486)
Change in Fair Value and Realized Gains on Foreign Exchange Options	3,760
Change in Fair Value and Realized Gains on Interest Rate Swaps	(3,839)
Change in Fair Value of Foreign Exchange Forward	2,537
Currency Translation Losses	(24,147)
Income Taxes	861
Allowance for Impairment of ABCP	1,600
Allowance for Doubtful Accounts	700
Other	634
Loss for the Fourth Quarter 2008	(16,910)

Net income (loss) for the fourth quarter of 2008 decreased from the third quarter of 2008 by $21.7 million primarily due to unrealized currency translation losses.

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

	North America			
Fourth Quarter 2008	Sodium Chlorate	Chlor-alkali	South America	Total
Sales Revenues	56,567	41,843	26,083	124,493
Cost of Goods Sold	37,918	26,890	22,321	87,129
Gross Margin (1)	18,649	14,953	3,762	37,364
Gross Margin (%) (1)	33%	36%	14%	30%

	North America			
Third Quarter 2008	Sodium Chlorate	Chlor-alkali	South America	Total
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%

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment decreased 3 percent from $58.0 million in the third quarter to $56.6 million in the fourth quarter due to a decline in sales volumes of 11 percent partially offset by a 10 percent increase in realized selling prices. The increase in realized selling prices was due to the devaluation of the Canadian dollar relative to the US dollar during the fourth quarter. The decline in sales volumes was due to the deterioration in global pulp markets in the fourth quarter caused by the economic slowdown (See "Outlook – North America Sodium Chlorate"). The gross margin percentage increased from 32 percent to 33 percent primarily as a result of higher realized selling prices partially offset by slightly higher electricity prices (primarily in Alberta), slightly higher fixed costs and 16 percent lower production in the fourth quarter.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 2 percent from $40.9 million for the third quarter to $41.8 million for the fourth quarter primarily due to a 26 percent increase in realized selling prices for caustic soda which more than offset a 16 percent decline in caustic soda sales volume and a 29 percent decline in chlorine sales volume. Realized selling prices increased per MECU due to caustic soda price increases implemented in the fourth quarter and the devaluation of the Canadian dollar relative to the US dollar during the fourth quarter. The decline in caustic soda sales volume was due to decreased demand in the fourth quarter, particularly in the pulp sector in Western Canada, in response to the general economic slowdown. The decline in chlorine sales volume was due to the normal seasonal softening in chlorine demand used in water treatment as well as, a larger than anticipated negative impact on chlorine derivative demand as a result of the construction sector slowdown (See "Outlook – North America Chlor-alkali"). The gross margin percentage increased by 2 percent in the fourth quarter due to higher realized selling prices partially offset by higher natural gas and electricity costs and lower production.

South America

Sales revenue in South America decreased 17 percent from $31.4 million for the third quarter to $26.1 million for the fourth quarter due to lower sales volumes of both sodium chlorate (decrease of 20 percent) and chlor-alkali products (decrease of 22 percent) partially offset by increases in realized selling prices of both sodium chlorate (increase of 3 percent) and caustic soda (increase of 12 percent). The decline in sales volume of sodium chlorate and caustic soda was due to a reduction in pulp production rates in November by our primary customer to manage high pulp inventory levels resulting from the global economic slowdown. The decline in chlor-alkali sales volumes was due to a reduction in our chlor-alkali plant operating rate in December in response to a decline in merchant chlorine demand in Brazil (See "Outlook – South America"). The increase in realized selling prices for both sodium chlorate and caustic soda were due to the pass-through nature of the contract with our primary customer which contributes to higher revenues as costs increase. The increase in costs was primarily due to the purchase of caustic soda at higher spot prices for resale to our primary customer. Realized selling prices per unit also increased due to the lower production volumes for both sodium chlorate and chlor-alkali products. The gross margin percentage declined from 25 percent for the third quarter to 14 percent for the fourth quarter primarily as a result of the reduction in our chlor-alkali plant operating rate which necessitated the purchase and resale of caustic soda on the spot market at higher prices than could be billed to our primary customer (for the production shortfall below the chlor-alkali plant's capacity) to meet our primary customer's requirements partially offset by the impact of the weaker Canadian dollar against the US dollar during the fourth quarter on our fixed US dollar margins.

Higher amortization expense decreased net income by $0.4 million

The increase in amortization expense in the fourth quarter of 2008, as compared to the third quarter of 2008, was due to the completion of maintenance capital and continuous improvement projects which we began to amortize in the fourth quarter.

Higher general and administrative expense decreased net income by $0.3 million

The increase in general and administrative expense in the fourth quarter was due to a number of miscellaneous employee related expenses.

Higher interest expense decreased net income by $0.5 million

The increase in interest expense for the fourth quarter was due to interest on borrowings by CQBL on their US $10 million EDC Extendible Revolving Credit Facility, an increase in interest rates and the devaluation of the Canadian dollar relative to the US dollar during the fourth quarter partially offset by lower borrowings on our extendible revolving credit facility and higher interest capitalized to major projects.

The amount outstanding on our extendible revolving credit facility at December 31, 2008 was US $176,000,000 as compared to US $185,600,000 at September 30, 2008. The weighted average interest rate on borrowings from this credit facility was 4.57 percent during the fourth quarter as compared to 4.41 percent during the third quarter.

At December 31, 2008, the amount outstanding on CQBL's EDC Extendible Revolving Credit Facility was US $6 million as compared to $0 at September 30, 2008. The weighted average interest rate on borrowings from this credit facility was 2.88 percent for the fourth quarter of 2008.

Interest capitalized on major projects during the fourth quarter was $604,023 as compared to $375,842 during the third quarter.

Changes in foreign exchange options increased net income by $3.8 million

During the fourth quarter, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008. During October 2008, 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 $0.8200 per Canadian dollar 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 to December 31, 2009. Unrealized mark-to-market fair value gains of $3.5 million were recorded on these foreign exchange call option contracts during the fourth quarter.

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

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008; and
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9709 for the period March 1, 2008 to August 31, 2008.

Realized gains of $0.1 million and unrealized mark-to-market fair value losses of $0.4 million were recorded on these foreign exchange call option contracts for a net loss of $0.3 million during the third quarter.

Changes in fair value of interest rate swaps decreased net income by $3.8 million

In May 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. We recorded mark-to-market losses in fair value of $4.4 million and realized gains of $0.1 million for a net loss of $4.3 million during the fourth quarter. During the third quarter, we recorded mark-to-market fair value losses of $0.4 million and realized losses of $0.1 million for a total loss of $0.5 million.

Changes in fair value of a foreign exchange forward increased net income by $2.5 million

In August 2008, Canexus LP entered into a foreign exchange forward 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. We recorded mark-to-market fair value gains of $3.2 million on this foreign exchange forward contract during the fourth quarter as compared to mark-to-market fair value gains of $0.6 million for the third quarter.

Changes in currency translation gains (losses) decreased net income by $24.2 million

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

During the fourth quarter, fluctuations in exchange rates resulted in unrealized losses of $39.8 million and realized gains of $4.0 million for a net loss of $35.8 million as compared to unrealized losses of $12.9 million and realized gains of $1.3 million for a net loss of $11.6 million during the third quarter.

During the fourth quarter, we recorded an unrealized currency translation loss of $38.4 million on our US dollar denominated borrowings on our extendible revolving credit facility and Senior Secured Notes and a realized loss of $0.4 million on the repayment of US $10.0 million of our extendible revolving credit facility for a total loss of $38.8 million. During the third quarter, we recorded an unrealized currency translation loss of $10.8 million on our extendible revolving credit facility and Senior Secured Notes and a realized gain of $0.9 million on the repayment of US $7.4 million of our extendible revolving credit facility for a net loss of $9.9 million.

We borrow in US dollars as a substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar.

Lower income taxes increased net income by $0.9 million

Income taxes were lower in the fourth quarter of 2008 primarily due to recording tax benefits in certain operating subsidiaries arising from the impact of exchange rate movements.

Allowance for impairment of ABCP increased net income by $1.6 million

Canexus LP recorded a $1.6 million estimated impairment loss on its investment in non-bank sponsored ABCP during the third quarter. See discussion related to “Changes in Net Income 2008 versus 2007”.

Allowance for doubtful accounts increased net income by $0.7 million

During the third quarter, 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”.

Other income and expense items increased net income by $0.6 million

During the fourth quarter, Canexus LP recorded $0.1 million of expense related to a self assessment of social security taxes in South America. During the third quarter, Canexus LP recorded $0.2 million of expense related to an assessment of social security taxes in South America, an inventory adjustment of $0.4 million and a loss of $0.1 million on the sale of a property in Brandon, Manitoba.

Changes in Net Income Fourth Quarter 2008 versus Fourth Quarter 2007

CAD thousands	
Net Income for the Fourth Quarter 2007	4,210
Items Increasing (Decreasing) Net Income	
Sales Revenues	21,162
Cost of Goods Sold	(10,660)
Amortization	(28)
General and Administrative Expense	(1,732)
Interest Expense	(1,104)
Change in Fair Value and Realized Gains on Foreign Exchange Options	3,110
Change in Fair Value and Realized Gains on Interest Rate Swaps	(4,296)
Change in Fair Value of Foreign Exchange Forward	3,161
Change in Fair Value of Electricity Forward Swaps	800
Currency Translation Losses	(37,752)
Income Taxes	5,627
Allowance for Impairment of ABCP	600
Other	(8)
Loss for the Fourth Quarter 2008	(16,910)

Net income for the fourth quarter of 2008 decreased, as compared to the fourth quarter of 2007, by $21.1 million primarily due to unrealized currency translation losses.

Net income increased due to an increase in gross margin of $10.5 million

	North America			
Fourth Quarter 2008	Sodium Chlorate	Chlor-alkali	South America	Total
Sales Revenues	56,567	41,843	26,083	124,493
Cost of Goods Sold	37,918	26,890	22,321	87,129
Gross Margin (1)	18,649	14,953	3,762	37,364
Gross Margin (%) (1)	33%	36%	14%	30%

	North America			
Fourth Quarter 2007	Sodium Chlorate	Chlor-alkali	South America	Total
Sales Revenues	47,800	32,200	23,331	103,331
Cost of Goods Sold	35,934	22,756	17,779	76,469
Gross Margin (1)	11,866	9,444	5,552	26,862
Gross Margin (%) (1)	25%	29%	24%	26%

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 18 percent from $47.8 million for the fourth quarter of 2007 to $56.6 million in the fourth quarter of 2008 due to an increase in realized selling prices of 27 percent offset by an 8 percent decline in sales volumes. The increase in realized selling prices was due to price increases implemented in the first and third quarters of 2008 and to the weaker Canadian dollar relative to the US dollar in the fourth quarter of 2008 as compared to the fourth quarter of 2007. The decrease in sales volumes was due to the deterioration in global pulp markets caused by the economic slowdown in the fourth quarter of 2008 (See "Outlook – North America Sodium Chlorate). The gross margin percentage increased from 25 percent to 33 percent due to the increase in realized selling prices and higher production at our low-cost Brandon, Manitoba plant partially offset by higher electricity costs (primarily in Alberta), lower production volumes and higher fixed costs. Fixed costs were higher primarily due to higher bonus amounts in 2008.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 30 percent from $32.2 million for the fourth quarter of 2007 to $41.8 million for the fourth quarter of 2008 as a result of an 81 percent increase in caustic soda realized selling prices partially offset by a decline in chlorine realized selling prices of 27 percent and declines in both caustic soda (11 percent) and chlorine (17 percent) sales volumes. The increase in caustic soda realized selling prices was due to price increases implemented in the third and fourth quarters of 2008 and to the weaker Canadian dollar relative to the US dollar in the fourth quarter of 2008 as compared to the fourth quarter of 2007. The decline in chlorine realized selling prices was due to the worsening general economic downturn in the fourth quarter of 2008 which further exacerbated the construction sector slowdown and consequently the decline in chlorine derivative demand and to a later than normal seasonal downturn in the water treatment sector in 2007 (See "Outlook – North America Chlor-alkali"). Gross margins for the North American chlor-alkali business increased from 29 percent to 36 percent primarily as a result of higher realized caustic soda selling prices offset by higher natural gas costs, lower production and higher fixed costs. Fixed costs were higher primarily due to higher bonus amounts for 2008.

South America

Sales revenue in South America increased 12 percent from $23.3 million for the fourth quarter of 2007 to $26.1 million for the fourth quarter of 2008 due to higher realized selling prices for both sodium chlorate and chlor-alkali products on 17 percent lower volumes for both (See Quarter 4, 2008 demand related comments for South America on page 18). This 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 was primarily due to the purchase of caustic soda at higher spot prices for resale to our primary customer. Realized selling prices per unit also increased due to the lower production volumes for both sodium chlorate and chlor-alkali products. The gross margin percentage declined from 24 percent to 14 percent due primarily to the purchase of caustic soda on the spot market at higher prices than could be billed to our primary customer (for the production shortfall below the chlor-alkali plant's capacity due to lower operating rates in December), higher fixed costs and lower production partially offset by the impact of the weaker Canadian dollar against the US dollar in the fourth quarter of 2008, as compared to the fourth quarter of 2007, on our fixed US dollar margins.

Higher general and administrative expense decreased net income by $1.7 million

The increase in general and administrative expense for the fourth quarter of 2008, as compared to the fourth quarter of 2007, was primarily due to higher bonus amounts for 2008 and increased spending on business development activities.

Higher interest expense decreased net income by $1.1 million

The increase in interest expense for the fourth quarter of 2008, as compared to the fourth quarter of 2007, was due to interest on the US $50 million Senior Secured Notes, interest on borrowings by CQBL on their US $10 million EDC Extendible Revolving Credit Facility and lower interest capitalized to major projects partially offset by lower interest rates and lower borrowings on our extendible revolving credit facility.

The amount outstanding on our extendible revolving credit facility at December 31, 2008 was US $176,000,000 as compared to US $204,000,000 at December 31, 2007. The weighted average interest rate on borrowings from this credit facility was 4.57 percent during the fourth quarter of 2008 as compared to 6.06 percent during the fourth quarter of 2007.

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.

During the third quarter of 2008, CQBL closed a US $10 million EDC Extendible Revolving Credit Facility. At December 31, 2008 there was US $6 million outstanding on this credit facility. The weighted average interest rate on borrowings from this credit facility was 2.88 percent for the fourth quarter of 2008.

Interest capitalized on major projects during the fourth quarter of 2008 was $604,023 as compared to $835,896 during the fourth quarter of 2007.

Changes in foreign exchange options increased net income by $3.1 million

During the fourth quarter of 2008, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008. During October 2008, 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 $0.8200 per Canadian dollar 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 to December 31, 2009. Mark-to-market fair value gains of $3.5 million were recorded on these foreign exchange call option contracts during the fourth quarter of 2008.

During the fourth quarter of 2007, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9497 for the period September 5, 2007 to February 27, 2008. Mark-to-market fair value losses of $0.7 million and realized gains of $1.1 million were recorded on these options for a net gain of $0.4 million.

Changes in fair value of interest rate swaps decreased net income by $4.3 million

In May 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. We recorded mark-to-market fair value losses of $4.4 million and realized gains of $0.1 million for a net loss of $4.3 million during the fourth quarter of 2008.

Changes in fair value of a foreign exchange forward increased net income by $3.2 million

In August 2008, Canexus LP entered into a foreign exchange forward 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. We recorded mark-to-market fair value gains of $3.2 million on this foreign exchange forward contract during the fourth quarter of 2008.

Changes in fair value of electricity forward swaps increased net income by $0.8 million

From time to time, Canexus LP uses forward swap contracts to manage its exposure to the price of electricity in Alberta. Canexus LP did not have any forward swap contracts outstanding during the fourth quarter of 2008. During the fourth quarter of 2007, Canexus LP 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 through December 31, 2007. Canexus LP recorded a mark-to-market fair value loss on these contracts of $ 0.8 million for the fourth quarter of 2007.

Changes in currency translation gains (losses) decreased net income by $37.8 million

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

During the fourth quarter of 2008, fluctuations in exchange rates resulted in unrealized losses of $39.8 million and realized gains of $4.0 million for a net loss of $35.8 million as compared to unrealized gains of $4.5 million and realized losses of $2.5 million for a net gain of $2.0 million during the fourth quarter of 2007.

During the fourth quarter of 2008, we recorded an unrealized currency translation loss of $38.4 million on our US dollar denominated borrowings on our extendible revolving credit facility and Senior Secured Notes and a realized loss of $0.4 million on the repayment of US $10.0 million of our extendible revolving credit facility during the quarter. During the fourth quarter of 2007, we recorded an unrealized currency translation gain on our US dollar denominated long-term debt of $1.5 million.

We borrow in US dollars as a substantial portion of our revenues are denominated in or referenced to the US dollar and hence our cash flows benefit from a weaker Canadian dollar.

Lower income taxes increased net income by $5.6 million

Income taxes were lower in the fourth quarter of 2008, as compared to the fourth quarter of 2007, due to the recording of tax benefits in certain operating subsidiaries arising from the impact of exchange rate movements.

Allowance for impairment in value of ABCP increased net income by $0.6 million

During the fourth quarter of 2007, Canexus LP recorded an allowance for impairment in value of $0.6 million on its investment in non-bank sponsored ABCP. See discussion related to “Changes in Net Income 2008 versus 2007”.

Outlook

North America Sodium Chlorate

The sodium chlorate market, which had been strong through the third quarter, retracted in the fourth quarter in response to dramatic deterioration in global pulp markets caused by the economic slowdown. Higher pulp inventories, a stronger US dollar, and reduced demand due to the global economic slowdown collectively resulted in a collapse of pulp prices in all grades during the fourth quarter of 2008. Approximately 15 percent of all global pulp capacity did not operate in the fourth quarter as numerous pulp mills were curtailed or idled in response to the inventory surplus. In addition to curtailments, three pulp mill closures were announced during the quarter in North America, bringing the total number of mill closures over the past 12 months to five. Through the first three quarters of 2008, North America sodium chlorate export demand growth and demand growth from incremental throughput increase projects at some pulp mills collectively balanced a significant portion of the demand reduction associated with pulp mill closures. However, pulp mill operating rates, which had averaged 94 percent through the third quarter, were cut to 84 percent in November. Further rate reductions were expected in December as November global market pulp shipments dropped to 79 percent.

Some indications emerged during the fourth quarter that the softwood pulp market may have reached bottom before year end. Softwood spot prices have improved modestly; pulp production curtailments during the fourth quarter decreased pulp inventories by two million tonnes and Chinese buyers have returned to the market following a period of complete inactivity. In contrast to softwood, hardwood inventories remain exceptionally high and price deterioration may continue into the first quarter of 2009. Globally, lower pulp prices and curtailed operating rates will increase profitability pressure on high cost mills in 2009, with the possibility of some additional mill closures. The negative impact of lower pulp prices has been tempered in part at Canadian mills as the Canadian dollar has weakened against the US dollar by approximately 18 percent since mid 2008.

Sodium chlorate demand declined by approximately 10 percent in the fourth quarter as a result of the pulp and paper market retraction. The three pulp mills that were permanently closed during the quarter collectively represented 33,000 annual tonnes of sodium chlorate; however, none of the mills were supplied by Canexus. Inclusive of the fourth quarter mill closures, a total of five pulp mills, representing 53,000 annual tonnes of sodium chlorate demand, were permanently closed during 2008.

On the supply side of the market, one sodium chlorate producer announced the partial closure of capacity at one manufacturing facility during the fourth quarter of 2008. Subsequently, a second North American sodium chlorate producer filed for protection pursuant to *Chapter 11* of the *US Bankruptcy Code* on January 12, 2009. The supplier bankruptcy has interjected significant uncertainty into the market and has the potential to have a significant impact on the supply-demand balance if liquidation occurs.

The decline in sodium chlorate demand that occurred during the fourth quarter of 2008 resulted in reduced North American sodium chlorate operating rates of at least 3 percent. Current market conditions reflect continuing sodium chlorate demand uncertainty pending pulp market stabilization. Sodium chlorate demand could be vulnerable as long as high pulp inventories and poor economic conditions continue, and further pulp production curtailments or mill closures are possible. However, because there is also sodium chlorate capacity whose future is questionable, supply-side reductions may counter demand reductions. It will likely take 2 to 3 quarters for supply and demand factors to resolve and a higher level of clarity to return to the market.

The strong upward sodium chlorate price momentum experienced through the first three quarters of 2008 abated in the fourth quarter. However, in spite of the fourth quarter market slowdown, average sodium chlorate market prices increased from the fourth quarter of 2008 to the first quarter of 2009. Market observations indicate that some producers have lowered their price expectations modestly for the first quarter of 2009. Hence, quarter-to-quarter realized price increases were less than previously anticipated due to competitive pressures. To date, the weaker Canadian dollar has mitigated the impact to Canexus of competitive pricing pressures.

Supply and demand fundamentals and price settlements for the first quarter of 2009 support the potential to maintain current North American prices for the balance of 2009. However, it should be recognized that uncertainties surrounding the potential for both further demand and supply reductions during the year could shift the market balance in favor of either suppliers or buyers during 2009.

North America Chlor-alkali

North America chlor-alkali industry operating rates experienced a dramatic decline in the fourth quarter consistent with rapidly deteriorating economic conditions. Fourth quarter industry operating rates are estimated to have been 65-70 percent, compared to 89 percent from the same period in 2007. As expected, lower demand materialized in the water treatment segment consistent with seasonal trends. The decline of chlorine derivative demand was much greater than previously forecast, particularly in the vinyl chloride chain and isocyanate demand sectors, which were hit hard by the construction slowdown. Canexus LP's operating rate exceeded the industry average in the fourth quarter. Chlorine demand is not expected to improve through the first quarter of 2009 and Canexus LP's operating rates are projected to moderate as necessary to control inventories during the period. Caustic soda demand weakened in the fourth quarter, particularly in the pulp sector in Western Canada. As a result, Canexus LP experienced high caustic soda inventory at year end; inventory is projected to decline to normal levels in the first quarter of 2009 with the addition of new customers and some reduction in planned caustic soda purchases for resale. Overall, North American caustic soda supply is substantially restricted by low chlor-alkali operating rates; however, there appears to be sufficient supply from Asia to meet market demand.

Chlorine prices continued to erode through the fourth quarter consistent with weak demand. Declining chlorine demand compelled chlor-alkali operating rate reductions and, as a result, further short term tightness in caustic soda supply. Accordingly, caustic soda prices appreciated significantly in the fourth quarter. In spite of chlorine price erosion, Canexus LP's MECU netbacks continued to rise through the fourth quarter due to caustic soda price improvement and the positive currency exchange impact on US sales. As global caustic soda demand declines in the first quarter of 2009 caustic soda prices are projected to moderate in the first quarter of 2009, with a net negative impact on MECU netbacks.

South America

Canexus LP's fourth quarter 2008 sodium chlorate sales in South America were impacted by a general turndown in pulp production rates in the Brazilian market. All Brazilian pulp producers reduced production rates in November to manage downward pressure on pulp prices due to high global eucalyptus pulp inventories resulting from the global economic slowdown. Production rates returned to near normal levels in December. Canexus LP's South American sodium chlorate sales are projected to be consistent with historical levels in the first quarter of 2009 based on current customer demand.

Chlorine demand in Brazil declined dramatically in the fourth quarter, resulting in significantly lower sales to key Canexus LP South American customers and a reduction in our chlor-alkali operating rate in December. Accordingly, we were required to purchase additional caustic soda to maintain our supply commitment to Aracruz Celulose S.A. during the fourth quarter. Sluggish demand for chlorine and chlorine derivatives is projected to continue through the first quarter of 2009.

Liquidity and Capital Structure

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

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

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 3) 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 cash distributions. Net income (loss) includes significant non-cash items including amortization and unrealized foreign exchange gains and losses.

	Three Months Ended December 31		Years Ended December 31		
	2008	2007	2008	2007	2006
Cash Flows from Operating Activities	12,811	29,553	72,489	81,869	81,302
Net Income (Loss)	(16,910)	4,210	(6,035)	54,547	47,143
Cash Distributions Declared (1)	16,682	16,326	51,218	70,319	71,992
Excess (Shortfall) of Cash Flows from Operating Activities over Cash Distributions Declared	(3,871)	13,227	21,271	11,550	9,310
Excess (Shortfall) of Net Income (Loss) over Cash Distributions Declared	(33,592)	(12,116)	(57,253)	(15,772)	(24,849)

Notes:

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

Distributions declared exceeded net income (loss) for three month period ended December 31, 2008 due to non-cash expenses including unrealized currency translation losses, amortization and mark-to-market adjustments on held-for-trading financial instruments. Distributions declared exceeded net income (loss) for the year ended December 31, 2008 due to non-cash expenses including amortization, unrealized currency translation losses, mark-to-market adjustments on held-for-trading financial instruments, the recording of estimated severance costs payable to employees following the start-up of the TCP at our North Vancouver chlor-alkali facility in 2010 and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP.

Distributions declared exceeded net income for the three month period ended December 31, 2007 due to non-cash expenses including amortization, mark-to-market adjustments on held-for-trading financial instruments and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP. Distributions declared exceeded net income for the year ended December 31, 2007 due to non-cash expenses including amortization, mark-to-market adjustments on held-for-trading financial instruments and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP.

Distributions declared exceeded net income for the year ended December 31, 2006 due to non-cash expenses including amortization and mark-to-market adjustments on held-for-trading financial instruments.

Distributions declared exceeded cash flows from operating activities for the three month period ended December 31, 2008 due to the declaration of a special distribution of $0.0456 per LP Unit on December 11, 2008 payable to LP Unitholders of record December 31, 2008 and to the declaration of an additional distribution on December 11, 2008 of $540,000 payable to Canexus Commercial Trust.

Net Debt and Total Equity

	2008	2007
Long-Term Debt	283,724	201,572
Less: Cash and Cash Equivalents	(3,948)	(10,056)
Less: Non-Cash Working Capital	(48,391)	(28,515)
Total Net Debt (1)	231,385	163,001
Total Equity (2)	156,968	169,698

Notes:

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

(2) At December 31, 2008 there were 32,570,814 Ordinary LP Units (held indirectly by the Fund) and 56,637,539 Exchangeable LP Units outstanding. At December 31, 2007, there were 31,750,000 Ordinary LP Units (held indirectly by the Fund) and 50,535,714 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Units of the Funds at the option of Nexen Inc. at any time.

Liquidity

Canexus LP generated positive cash flows from operating activities for the years ended December 31, 2008 and December 31, 2007. Cash generated from operating activities was used to pay distributions and remaining excess cash, if any, was used to fund expansion capital expenditures.

The following table provides an overview of Canexus LP's cash flows for the years ended December 31, 2008 and December 31, 2007:

	2008	2007	Change
Cash Flow from Operating Activities	72,489	81,869	(9,380)
Cash Flow from (used in) Financing Activities	1,744	(10,269)	12,013
Cash Flow used in Investing Activities	(82,793)	(65,239)	(17,554)

Cash Flow from Operating Activities

Cash from operating activities is generated primarily from the sale of sodium chlorate and chlor-alkali products and is reduced by the purchase of raw materials and utilities, as well as transportation, labour costs and general and administrative expenditures. A temporary net increase in non-cash operating working capital, increased contributions to the defined benefit pension plan, the purchase of foreign exchange options and an increase in general and administrative expense offset by an increase in gross margins have resulted in a decrease in cash flow from operating activities. The temporary net increase in non-cash working capital was due to timing differences in the amount of accounts receivable, inventories and operating supplies and accounts payable and accrued liabilities. At December 31, 2008, accounts receivable from Aracruz Celulose S.A., our primary customer in South America, were $11.6 million versus $0 at December 31, 2007 due to early payment of amounts outstanding in 2007. Inventory at December 31, 2008 was higher than at December 31, 2007 due to higher sodium chlorate inventory at our South American plant as a result of a temporary shutdown in November 2008 by our primary customer and to high caustic soda inventory at our North Vancouver chlor-alkali plant due to a decline in demand in the fourth quarter, particularly in the pulp sector in Western Canada, in response to the general economic slowdown. The increase in accounts payable and accrued liabilities was primarily due to an increase in amounts related to the TCP at our North Vancouver plant and to an increase in the amount accrued for 2008 bonuses.

Cash Flow from (used in) Financing Activities

The change in cash from (used in) financing activities from the prior year is comprised of:

Repayments of Short-Term Borrowings, Net	(4,447)
Proceeds from Issuance of Senior Secured Notes	50,708
Proceeds from Extendible Revolving Credit Facility	(50,130)
Proceeds from EDC Extendible Revolving Credit Facility	7,235
Repayments of Extendible Revolving Credit Facility	(43,652)
Deferred Financing and Issue Costs	(3,049)
Funding of Asset Retirement Expenditures from Restricted Investments	2,159
Distributions Paid to Ordinary and Exchangeable LP Unitholders	53,189
	12,013

Cash Flow used in Investing Activities

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

Expenditures on Property, Plant and Equipment	(27,164)
Proceeds on Disposal of Property, Plant and Equipment	382
Changes in Non-Cash Working Capital	9,228
	(17,554)

Future Liquidity

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

Debt Covenants

As at December 31, 2008 Canexus LP was compliant with all debt covenants and conditions contained in its extendible revolving credit facilities and the note indenture governing the Senior Secured Notes.

Capital Resources

Canexus LP had commitments of $85.9 million as at December 31, 2008 and $95.5 million as at February 27, 2009, in addition to project inception-to-date expenditures at December 31, 2008 of $65.7 million including capitalized interest of $1.7 million for the TCP at our North Vancouver chlor-alkali facility. The TCP is being financed through excess distributable cash, the DRIP and our existing credit agreements. Management anticipates ongoing annual maintenance capital expenditures of approximately $14 million, which will be financed primarily out of cash flows from operating activities. Maintenance capital expenditures are expected to be higher in 2009 at $18 million as a result of upgrades to our rectifier transformer units at our Beauharnois, Quebec plant. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Units of the Funds or other securities of the Fund.

On May 1, 2008, amendments were made to Canexus LP's extendible revolving credit facility to increase the facility from $350 to $410 million and to increase available short-term swing line loans available under the facility from $20 to $35 million. On November 28, 2008, a further amendment to Canexus LP's extendible revolving credit facility was made to increase it from $410 to $420 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 subject to meeting ongoing covenants (financial and non-financial) and conditions. 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. Canexus LP may draw down the credit facility in either Canadian or US dollars. At December 31, 2008, Canexus LP had $215,529,600 (US $176,000,000) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet as at December 31, 2008. Short-Term swing line loans of up to $35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed $420 million. As at December 31, 2008, Canexus LP had $10.9 million of swing line loans outstanding which are included in Short-Term Borrowings on Canexus LP's audited consolidated balance sheet at December 31, 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 $61,230,000 is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet as at December 31, 2008. There were no amounts outstanding at December 31, 2008 on the US $20 million Senior Secured Revolving Credit Facility.

During the third quarter of 2008, CQBL closed a US $10 million EDC Extendible Revolving Credit Facility 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. At December 31, 2008, CQBL had $7,347,600 (US $6,000,000) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's audited consolidated balance sheet as at December 31, 2008.

Canexus LP is the applicant on three Letters of Credit as at December 31, 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, 2009 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expired on January 31, 2009, at which time it was automatically renewed until May 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 December 31, 2008 these obligations and commitments were as follows:

	Total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases (1)	118,541	20,975	34,256	26,461	36,849
Purchase Obligations (2)	119,149	21,723	46,486	50,940	-
Expansion Capital Expenditures (3)	87,068	78,432	8,636	-	-
Asset Retirement Obligations (4)	74,105	1,385	3,780	-	68,940
Long-Term Debt (5)	284,107	-	222,877	61,230	-
Interest Payments on Senior Secured Notes	17,567	4,023	8,046	5,498	-
Total	700,537	126,538	324,081	144,129	105,789

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% of the cost of which is passed through to our primary customer.*

(3) *Capital expenditures committed at December 31, 2008 are primarily related to the TCP at our North Vancouver chlor-alkali facility. On January 31, 2008, Canexus LP announced final approval by its Board of Directors of the TCP at the North Vancouver chlor-alkali facility. The total estimated cost of this project is $208 million, of which $85.9 million has been included in the table above as committed at December 31, 2008.*

(4) *As at December 31, 2008, undiscounted asset retirement obligations are $74.1 million. The estimated fair value ($46.2 million) of these obligations has been provided for in Canexus LP's audited consolidated financial statements (See Note 12 to the audited consolidated financial statements of Canexus LP for December 31, 2008). 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 $8.9 million of restricted investments to be used for future site remediation and asset retirement obligations. Approximately $4.1 million of restricted investments are invested in non-bank sponsored ("third party") asset backed commercial paper that was due to be received on September 28, 2007 and was not repaid when due. On January 22, 2009 the ABCP was replaced with long-term asset backed securities ("Restructured Notes") which are divided into several classes. Canexus LP has recorded a $2,200,000 allowance for estimated impairment in value as at December 31, 2008 (See Note 10 to the audited consolidated financial statements of Canexus LP for the year ended December 31, 2008).*

(5) *Long-Term Debt amounts are included in Canexus LP's December 31, 2008 audited consolidated balance sheet (See Note 11 to the audited consolidated financial statements of Canexus LP for December 31, 2008). The extendible revolving credit facility balance will fluctuate and does not have fixed repayment terms. Interest is payable on the outstanding balance at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. The EDC Extendible Revolving Credit Facility balance will fluctuate and does not have fixed repayment terms. Interest is payable at a rate based on the US LIBOR rate. Interest payments on the extendible revolving credit facility and the EDC Extendible Revolving Credit Facility have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Interest is payable quarterly on the US dollar Senior Secured Notes at a fixed rate of interest of 6.57 percent. Interest payments have been included in the table above at the CAD equivalent of the USD interest payments using the December 31, 2008 Bank of Canada noon day USD to CAD foreign exchange rate.*

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

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

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the December 31, 2008 audited consolidated balance sheet however, these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

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

Contingent Liabilities

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

Guarantees

We entered into an extendible revolving credit facility with a syndicate of financial institutions in 2005 which was amended and restated during 2008. The credit facility consists of a $420 million extendible 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 Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed $420 million. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests, and subordination agreements.

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 closed a US $10 million EDC Extendible Revolving Credit Facility 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 Extendible Revolving 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. Included in the risks faced by Canexus LP are product price and volume risk, electricity price risk, foreign currency rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form filed on the Fund's SEDAR profile at www.sedar.com.

Product Price and Volume 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 year ended December 31, 2008 would have changed by $19.3 million. For every $100 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the year ended December 31, 2008 would have changed by $14.2 million. These sensitivities to changes in prices are based on 386,500 MT of North American sodium chlorate sales and 141,500 MECU's of North American chlor-alkali sales for the year ended December 31, 2008. Sensitivities of $50 per MT for sodium chlorate and $100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the current economic uncertainty. A change in sales volumes for North American sodium chlorate of 20,000 MT would have changed net income before taxes for the year ended December 31, 2008 by $2.6 million. A change in sales volumes for North American chlor-alkali products of 10,000 MECU's would have changed net income before taxes for the year ended December 31, 2008 by $5.9 million. These sales volume changes are considered to be reasonably possible should economic conditions experienced in late 2008 persist throughout 2009.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America, Aracruz Celulose S.A., typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors; such as an inability to sell chlorine or chlorine derivatives, or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the “Canexus Price”). Current market prices in Brazil exceed the Canexus Price. For every 5,000 MT of caustic soda we do not produce net income before income taxes would have decreased by $3.4 million for the year ended December 31, 2008. We acquired 1,134 MT of caustic soda to make up for our production shortfall below operating capacity.

Electricity Price Risk

The cost of electricity is a key production cost. For every 3 percent change in the price of electricity, net income before income taxes would have changed by $2.5 million for the year ended December 31, 2008. This sensitivity to changes in electricity prices is based on electricity consumption of 2,439,000 MWh for the year ended December 31, 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 December 31, 2008 we did not have any electricity forward swap contracts outstanding.

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 for the full year would have decreased net income before income taxes by $6.2 million for the year ended December 31, 2008 before the impact of hedging instruments. A decrease in the Canadian to US dollar exchange rate to US $0.75 for the full year would have increased net income before income taxes by $42.2 million for the year ended December 31, 2008. A range of US $0.75 to $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 audited consolidated financial statements of Canexus LP for the year ended December 31, 2008) and incurs other expenditures in US dollars. In addition, during the year ended December 31, 2008 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9709 for the period March 1, 2008 to August 31, 2008; and
- US $5 million per month which 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.

In October 2008, Canexus LP secured 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 $0.8200 and to sell US $5 million per month and acquire Canadian dollars at a price of US $0.8170 for the period January 1, 2009 to December 31, 2009. These option contracts cover virtually all of our net exposure to the US dollar for 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 foreign exchange forward 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.

Credit Risk

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

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

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

Our North American customers are diverse with no one customer accounting for more than 8 percent of total trade accounts receivable at December 31, 2008.

The majority of our South American production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at December 31, 2008, trade amounts owing from Aracruz Celulose S.A. represented 21 percent of total trade accounts receivable (December 31, 2007 – 0 percent; due to the early payment of amounts outstanding in 2007).

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

We have been focusing additional effort on counterparty credit risk as a result of the current global economic situation. 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.

Derivative Financial Instruments and Off-Balance Sheet Arrangements

As at December 31, 2008, Canexus LP did not have any material off-balance sheet arrangements.

As at December 31, 2008, Canexus LP had 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 $0.8200 per Canadian dollar 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 option contracts cover virtually all of our net exposure to the US dollar for 2009. The fair value of these contracts is included in Derivative Financial Instruments on Canexus LP's audited consolidated balance sheet as at December 31, 2008 and changes in their fair value are included in Other Income (Expense) (See Note 16 to the audited consolidated financial statements of Canexus LP).

During 2008, Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 for the period September 1, 2008 to December 31, 2008;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9709 for the period March 1, 2008 to August 31, 2008; and
- US $5 million per month which 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.

These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flow to benefit from any devaluation of the Canadian dollar relative to the US dollar.

At December 31, 2008, Canexus LP had interest rate swap agreements under which we swap 3 month US LIBOR floating interest for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. These interest rate swap agreements are settled quarterly. The fair value of these interest rate swap agreements is included in Derivative Financial Instruments on Canexus LP's audited consolidated balance sheet as at December 31, 2008 and changes in their fair value are included in Other Income (Expense) (See Note 16 to the audited consolidated financial statements of Canexus LP).

At December 31, 2008, Canexus LP had a foreign exchange forward contract under which 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. The fair value of this foreign exchange forward contract is included in Derivative Financial

Instruments on Canexus LP's audited consolidated balance sheet as at December 31, 2008 and changes in its fair value are included in Other Income (Expense) (See Note 16 to the audited consolidated financial statements of Canexus LP).

From time to time, Canexus LP utilizes forward swap contracts to manage our exposure to the price of electricity in Alberta. At December 31, 2008 and February 27, 2009, we did not have any electricity forward swap contracts outstanding.

The fair value of derivative financial instruments is determined by management and is estimated based on the cash payment or receipt necessary to settle the contracts with counterparty financial institutions.

Transactions with Related Parties

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

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

	December 31 2008	December 31 2007
Electricity Purchases and Retail Service Fees	14,978	16,194
Natural Gas Purchases and Retail Service Fees	10,538	8,230
Forward Swap Receipts	-	(1,533)
Total	25,516	22,891

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 2008 and no impairment was found based on future cash flow estimates used.

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

Asset Retirement Obligations

Canexus LP is required to remove or remedy the effect of its activities on the environment at its operating sites by dismantling and removing production facilities and 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 audited consolidated financial statements of Canexus LP by discounting, to the present value, the estimated retirement obligations associated with its chemical plants using a weighted average credit-adjusted risk free rate of 5.9 percent. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

A change in any one of the assumptions could impact the asset retirement obligations, property, plant and equipment and net income. It is difficult to determine the impact of a change in any one of the assumptions. As a result, Canexus LP is unable to provide a reasonable sensitivity analysis of the impact a change in assumptions would have on its financial results. However, management of Canexus LP believes that the assumptions it has made are reasonable.

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 to the audited consolidated financial statements of Canexus Income Fund and in Note 7 to the audited consolidated financial statements of Canexus LP.

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.

Effective July 1, 2008, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosure, were amended. Section 3855 was amended to permit the reclassification of financial assets out of the held-for-trading or available-for-sale categories in specified circumstances. Section 3862 was amended to incorporate disclosure requirements when an entity elects to reclassify as indicated above. During 2008, the Fund and Canexus LP did not reclassify any financial instruments.

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 to the audited consolidated financial statements of Canexus Income Fund and Note 14 to the audited consolidated financial statements of Canexus LP.

Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories which replaces Section 3030. The new section 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 this standard resulted in the reclassification by Canexus LP 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.

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 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. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect this section to have a significant impact on the Fund's or Canexus LP's results of operations or financial position.

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-Controlling Interests.

Section 1582 establishes standards for the accounting for a business combination. This new standard applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted.

Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

Section 1602 establishes standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new requirements will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

An entity who chooses to early adopt any one of the aforementioned standards must apply all concurrently.

We do not expect these sections to have a significant impact on the Fund's or Canexus LP's results of operations or financial position.

Conversion to International Financial Reporting Standards

In February 2008, the Accounting Standards Board ("AcSB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that PAE's be required to apply IFRS, in full and without modification, on January 1, 2011.

On June 27, 2008 the Canadian Securities Administrators ("CSA") issued Staff Notice 52-321, *Early Adoption of IFRS*, which indicated that the CSA would be prepared to grant an exemption to allow Canadian financial statement issuers to adopt IFRS early on a case-by-case basis, provided that they could demonstrate that they met certain conditions. The Fund is not planning to adopt IFRS early.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section 1506, Accounting Changes, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applicable with respect to the IFRS Omnibus Exposure Draft.

The Fund is continuing to assess the financial reporting and disclosure impacts of the adoption of IFRS on both the Fund and Canexus LP and, at this time, the impact on the Fund's and Canexus LP's future financial position, results of operations and disclosures are not reasonably determinable or estimable.

The Fund commenced its IFRS conversion project in 2008 and has developed a conversion implementation plan which has been reviewed with the Audit Committee. Reporting to the Audit Committee on the status of the conversion implementation and review of the results of the project team's assessment of the impacts of IFRS on the Fund and Canexus LP occurs quarterly.

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

The Scoping and Project Plan Development phase has been completed and consisted of project planning, staffing, core project team training and the identification of high level differences between Canadian GAAP and IFRS. Based on analysis completed to-date, the identified areas of accounting difference of highest potential impact to the Fund and Canexus LP, based on existing IFRS, are property, plant and equipment and initial adoption of IFRS under the provisions of IFRS 1, First-Time Adoption of IFRS.

The Analysis and Development phase is currently underway and is anticipated to be completed by July 2009. This phase involves a detailed evaluation of the impacts of various options and alternative methodologies provided for under IFRS; the identification and design of changes to operational and financial processes and controls; further training of staff and other key stakeholders; analysis of IFRS 1 optional and mandatory exceptions to full retrospective application of IFRS; identification and development of IFRS disclosure requirements for 2011 reporting and the identification of impacts on information technology systems and development of solutions to address such impacts.

The Implementation phase is anticipated to begin in August 2009 and will involve the execution of changes to operational and financial processes and controls; changes to information technology systems; formal management and Audit Committee approval for the IFRS 1 exemptions utilized and accounting policy and disclosure changes required to become IFRS compliant and further training of staff, as required. Completion of this phase will result in operational and financial processes and information technology systems which enable the collection and reporting of IFRS compliant financial statements and the approval by the Board of Directors of IFRS compliant financial statements.

Forward Looking Statements and Information

This MD&A contains forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries including with respect to the timing of the Brazil expansion, the stability of sodium chlorate prices, expected volumes of sodium chlorate, the Fund's expected payout ratio, global caustic soda demand, expectations for MECU netbacks, TCP contributions to operating cash flow, expected workforce reductions as a result of the TCP, capacity additions resulting from the Brandon debottlenecking opportunities, expected future levels of maintenance capital expenditures, anticipated future operating rates and expected future inventory levels. The use of the words "expects", “anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form filed on the Fund's SEDAR profile at www.sedar.com. Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

Disclosure Controls and Procedures

We maintain disclosure controls and procedures 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.

As of December 31, 2008, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

Internal Controls over Financial Reporting

We are responsible for establishing and maintaining 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 generally accepted accounting principles. We have designed our internal controls over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

As of December 31, 2008, an evaluation was carried out, under the supervision of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal controls over financial reporting as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of internal controls over financial reporting were effective. There were no occurrences of fraud involving management or other employees who have a significant role in our internal controls over financial reporting detected as part of this evaluation and which would have been required to be communicated to the Audit Committee of the Board of Directors or to our auditors.

There were no changes to internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the year ended December 31, 2008.

Management's Report

Canexus Income Fund

February 27, 2009

To the Unitholders of Canexus Income Fund:

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

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

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

Gary Kubera
President and Chief Executive Officer

Richard McLellan
Senior Vice President, Finance
and Chief Financial Officer

Auditors' Report

Canexus Income Fund

To the Unitholders of Canexus Income Fund:

We have audited the consolidated balance sheets of Canexus Income Fund (the "Fund") as at December 31, 2008 and December 31, 2007 and the consolidated statements of income (loss), deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
February 27, 2009

Chartered Accountants

Consolidated Statements of Income (Loss)

Canexus Income Fund

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands, except per unit amounts	2008	2007
Revenues		
Equity Income (Loss) from Investment in Canexus Limited Partnership	(2,141)	21,047
Expenses		
Trust Administration Expense	297	283
Unit Based Compensation (Note 11)	1,230	2,577
	1,527	2,860
Income (Loss) Before Future Income Taxes	(3,668)	18,187
Provision for (Recovery of) Future Income Taxes (Note 12)	(1,081)	12,654
Net Income (Loss)	(2,587)	5,533
Earnings (Loss) Per Unit (Note 6)	(0.08)	0.17
Diluted Earnings (Loss) Per Unit (Note 6)	(0.08)	0.17

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Deficit

Canexus Income Fund

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
Beginning of Year	(32,328)	(10,953)
Net Income (Loss)	(2,587)	5,533
Distributions Declared	(19,047)	(26,908)
End of Year	(53,962)	(32,328)

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Canexus Income Fund

As at December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
ASSETS		
Current Assets		
Cash	1	-
Due from Affiliates	277	39
Distributions Receivable from Canexus Limited Partnership	2,970	1,448
Prepaid Expenses	31	29
Total Current Assets	3,279	1,516
Investment in Canexus Limited Partnership (Note 7)	284,240	302,667
Total Assets	287,519	304,183
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	-	2
Distributions Payable to Unitholders (Note 10)	2,970	1,448
Total Current Liabilities	2,970	1,450
Future Income Taxes (Note 12)	11,573	12,654
Equity		
Unitholders' Equity (32,570,814 Units outstanding) (Note 5)	320,801	317,500
Contributed Surplus (Note 11)	6,137	4,907
Deficit	(53,962)	(32,328)
Total Equity	272,976	290,079
Total Liabilities and Equity	287,519	304,183

See accompanying notes to the Consolidated Financial Statements

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

Gary L. Kubera
Director

Douglas P. Hayhurst
Director

Consolidated Statements of Cash Flows

Canexus Income Fund

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
Operating Activities		
Net Income (Loss)	(2,587)	5,533
Charges and Credits to Income Not Involving Cash		
Equity (Income) Loss from Investment in Canexus Limited Partnership	2,141	(21,047)
Unit Based Compensation (Note 11)	1,230	2,577
Future Income Tax Provision (Recovery) (Note 12)	(1,081)	12,654
Distributions Received from Canexus Limited Partnership	18,065	28,350
Change in Due to Affiliates	(238)	(297)
Change in Non-Cash Operating Working Capital	(4)	5
	17,526	27,775
Financing Activities		
Distributions Paid	(14,224)	(27,775)
Investing Activities		
Investment in Canexus Limited Partnership (Note 5)	(3,301)	-
Increase in Cash	1	-
Cash – Beginning of Year	-	-
Cash – End of Year	1	-

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Income Fund

For the Years Ended December 31, 2008 and December 31, 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 (“General Partner”) of Canexus Limited Partnership (“Canexus LP”) in which it holds a 0.01 percent interest.

The Fund holds an indirect 36.5 percent (December 31, 2007 – 38.6 percent) interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP. Nexen Inc. holds a 63.5 percent (December 31, 2007 – 61.4 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 consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). In the opinion of management, the consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund’s financial position at December 31, 2008 and December 31, 2007 and the results of its operations and cash flows for the years then ended.

(a) Use of Estimates

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

(b) Income Taxes

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

These consolidated financial statements do not reflect any provision for current income taxes as the Fund intends to distribute to its Unitholders substantially all of its taxable income and the Fund intends to comply with the provisions of the Income Tax Act (Canada) that permit, amongst other items, the deduction of distributions to Unitholders, from the Fund’s taxable income.

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

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

(d) Unit Based Compensation

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

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.

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.

Effective July 1, 2008, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosure, were amended. Section 3855 was amended to permit the reclassification of financial assets out of the held-for-trading or available-for-sale categories in specified circumstances. Section 3862 was amended to incorporate disclosure requirements when an entity elects to reclassify as indicated above. During 2008, the Fund did not reclassify any financial instruments.

(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.

(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. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect this section to have a significant impact on the Fund's results of operations or financial position.

(b) Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-Controlling Interests.

Section 1582 establishes standards for the accounting for a business combination. This new standard applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted.

Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

Section 1602 establishes standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new requirements will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

An entity who chooses to early adopt any one of the aforementioned standards must apply all concurrently. We do not expect these sections to have a significant impact on the Fund's results of operations or financial position.

5. Unitholders' Equity

	December 31, 2008		December 31, 2007	
Amount in CAD thousands	Number of Units	Amount	Number of Units	Amount
Beginning of Year	31,750,000	317,500	31,750,000	317,500
Issued Pursuant to the DRIP	820,814	3,301	-	-
End of Year	32,570,814	320,801	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 between Canexus LP, the Fund, Canexus Commercial Trust, General Partner, and Nexen Inc. 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 56,637,539 Units as at December 31, 2008 (December 31, 2007 – 50,535,714 Units) for the exchange of the Exchangeable LP Units.

Under the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between Canexus Income Fund, Canexus Commercial Trust, Canexus Limited Partnership and Nexen Inc., an exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to Canexus Income Fund. As a result of the above transactions, the Fund's indirect interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange.

6. Earnings (Loss) Per Unit

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

	December 31, 2008	December 31, 2007
Weighted Average Number of Units Outstanding	31,974,822	31,750,000
Units Issuable Pursuant to Deferred Trust Units ("DTUs") and Notional Reinvestments (Note 11(b))	114,949	62,605
Units Issuable Pursuant to Options and Corresponding Bonus Rights (Note 11(a))	1,612,795	171,340
Notional Units to be Purchased from Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	(1,123,550)	(140,826)
Weighted Average Number of Diluted Units Outstanding	32,579,016	31,843,119

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

In calculating the weighted average number of diluted Units outstanding for the year ended December 31, 2008, 96,118 weighted average deferred trust units and 18,831 corresponding weighted average additional DTUs (from notional reinvestments) were included and 1,538,833 weighted average unit options and 73,962 corresponding weighted average notional bonus units were included. We excluded 1,148,300 unit options and 472,450 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 year ended December 31, 2007, 55,351 weighted average deferred trust units and 7,254 corresponding weighted average additional DTUs (from notional reinvestments) and 168,406 weighted average unit options and 2,934 corresponding weighted average notional bonus units were included. We excluded 1,330,800 unit options and 325,670 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

	December 31, 2008		December 31, 2007	
Amount in CAD thousands	Number of Ordinary LP Units	Investment	Number of Ordinary LP Units	Investment
Beginning of Year	31,750,000	302,667	31,750,000	309,103
Equity Income (Loss) from Investment in Canexus LP	-	(2,141)	-	21,047
Distributions Reinvested Pursuant to the DRIP	820,814	3,301	-	-
Distributions Received from Canexus LP	-	(16,617)	-	(26,035)
Distributions Receivable from Canexus LP	-	(2,970)	-	(1,448)
End of Year	32,570,814	284,240	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 which 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:

	December 31 2008	December 31 2007
Financial Assets		
Loans and Receivables, measured at amortized cost		
Due from Affiliates	277	39
Distributions Receivable from Canexus LP	2,970	1,448
Total Financial Assets	3,247	1,487
Financial Liabilities		
Other Financial Liabilities, measured at amortized cost		
Accounts Payable and Accrued Liabilities	-	2
Distributions Payable to Unitholders	2,970	1,448
Total Financial Liabilities	2,970	1,450

The Fund did not have held-for-trading or available-for-sale financial instruments as at or during the years ended December 31, 2008 and December 31, 2007.

The carrying value of due from affiliates, distributions receivable, accounts payable and accrued liabilities and distributions 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. 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 the Fund's Unitholders and to allow financing options to the Fund as financing needs arise. Management, upon approval of the Board of Directors, may balance the Fund's overall capital structure through new Unit issues, the issuance of debt or by undertaking other activities as deemed appropriate.

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 December 31, 2008, the Fund had distributions payable of $3.0 million.

The Fund declared distributions of $19.0 million ($0.5928 per Unit) for the year ended December 31, 2008, including a special distribution of $0.0456 per Unit declared payable to Unitholders of record December 31, 2008, and $26.9 million ($0.8475 per Unit) for the year ended December 31, 2007. Of the total distributions paid for the year ended December 31, 2008, $3.3 million (December 31, 2007 – $0) were reinvested by Unitholders in additional Fund Units pursuant to the DRIP. Total distributions of $84.0 million ($2.6403 per Unit) have been declared from inception of the Fund to December 31, 2008.

11. Unit Based Compensation

The Fund has unit based compensation in the form of options and corresponding bonus rights and deferred trust units and notional reinvestments. The Fund has a Trust Unit Incentive Plan and a Directors' Deferred Trust Unit Compensation Plan ("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 is equal to 5 percent of the issued and outstanding Units (December 31, 2008 – 4,460,418), which is the maximum allowable under the Plan (on a non-diluted basis, including the number of Exchangeable LP Units). Of that number, as at December 31, 2008, 3,514,515 Units (December 31, 2007 – 2,314,800) are reserved and available for issuance upon the exercise of options and redemption of bonus rights.

As at December 31, 2008, a total of 2,874,900 Unit options and 2,874,900 corresponding bonus rights have been granted with the Unit options having a weighted average exercise price of $5.85. Accumulated notional bonus Units on these bonus rights were 639,615 as at December 31, 2008. At December 31, 2008 there were 1,211,406 vested Unit options exercisable into 1,211,406 Units, as well as 1,211,406 corresponding bonus rights redeemable into 440,802 notional bonus Units accumulated thereon.

As at December 31, 2007, a total of 2,314,800 Unit options and 2,314,800 corresponding bonus rights had been granted, with the Unit options having a weighted average exercise price of $7.06. Accumulated notional bonus Units on these bonus rights were 343,250 as at December 31, 2007. At December 31, 2007 there were 450,942 vested Unit options exercisable into 450,942 Units and corresponding bonus rights redeemable into 110,567 notional bonus Units accumulated thereon.

The estimated weighted average fair value of Unit options issued is $0.86 per Unit option (December 31, 2007 – $0.96) using the Generalized Black-Scholes option pricing model under the following weighted average assumptions:

	December 31, 2008	December 31, 2007
Risk-Free Interest Rate (%)	4.17	4.17
Estimated Hold Period Prior to Exercise (years)	5	5
Expected Volatility in the Price of Units (%)	27.7	30.2
Expected Annual Distributions per Unit ($/unit)	0.6761	0.7466

(b) DTUCP

As at December 31, 2008, there were 161,710 DTUs outstanding under the DTUCP comprised of 134,000 DTUs granted and 27,710 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. As at December 31, 2007, there were 98,793 DTUs outstanding under the DTUCP comprised of 87,000 DTUs granted and 11,793 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

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 $11.6 million future income tax liability as at December 31, 2008 (December 31, 2007 – $12.7 million) 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.

(a) Temporary Differences

	December 31, 2008		December 31, 2007	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Assets/Liabilities underlying Investment in Canexus LP	-	11,573	-	12,654

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Income (Loss) before Future Income Taxes	(3,668)	18,187
Canadian Statutory Rate	0%	0%
Add (Deduct) the Tax Effect of:		
Enactment of Trust Legislation	-	12,654
Tax Rate Adjustment	(644)	-
Other Changes in Temporary Differences Expected to Reverse Post 2010	(437)	-
Provision for (Recovery of) Future Income Taxes	(1,081)	12,654
Effective Tax Rate	(29%)	70%

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

The Fund is entirely dependent on cash distributions received from Canexus LP.

Auditors' Report

Canexus Limited Partnership

To the Partners of Canexus Limited Partnership:

We have audited the consolidated balance sheets of Canexus Limited Partnership (the "Partnership") as at December 31, 2008 and December 31, 2007 and the consolidated statements of income (loss) and comprehensive income, deficit and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
February 27, 2009

Consolidated Statements of Income (Loss) and Comprehensive Income

Canexus Limited Partnership

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
Revenues		
Sales	474,357	413,607
Expenses		
Cost of Goods Sold	339,060	295,725
Amortization	43,408	44,370
General and Administrative	32,986	30,186
Interest	11,658	11,377
	427,112	381,658
Income before Other Income (Expense) and Income Taxes	47,245	31,949
Other Income (Expense) (Note 16)	(57,056)	29,482
Income (Loss) before Income Taxes	(9,811)	61,431
Provision for (Recovery of) Income Taxes (Note 20 (b))		
Current	1,313	2,496
Future	(5,089)	4,388
	(3,776)	6,884
Net Income (Loss)	(6,035)	54,547
Other Comprehensive Income (Loss), Net of Tax (Note 16)	17,066	(14,928)
Comprehensive Income	11,031	39,619

See accompanying notes to the Consolidated Financial Statements

Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss

Canexus Limited Partnership

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
Deficit		
Beginning of Year	(37,177)	(21,405)
Net Income (Loss)	(6,035)	54,547
Distributions Declared	(51,218)	(70,319)
End of Year	(94,430)	(37,177)
Accumulated Other Comprehensive Loss		
Beginning of Year	(31,790)	-
Adoption of Financial Instruments Accounting Policy	-	(16,862)
Other Comprehensive Income (Loss), Net of Tax (Note 16)	17,066	(14,928)
End of Year	(14,724)	(31,790)

See accompanying notes to the Consolidated Financial Statements

Consolidated Balance Sheets

Canexus Limited Partnership

As at December 31, 2008 and December 31, 2007

CAD thousands, except unit amounts	2008	2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	3,948	10,056
Accounts Receivable (Note 5)	70,761	55,167
Inventories and Operating Supplies (Note 6)	39,523	32,245
Derivative Financial Instruments (Note 7)	9,634	724
Prepaid Expenses (Note 8)	4,172	2,796
Total Current Assets	128,038	100,988
Property, Plant and Equipment, Net (Note 9)	432,662	368,105
Restricted Investments (Note 10)	8,943	13,007
Future Income Taxes (Note 20 (a))	7,761	6,099
Other Long-Term Assets (Note 13)	2,147	-
Total Assets	579,551	488,199
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 11)	10,870	13,588
Accounts Payable and Accrued Liabilities	54,640	43,571
Distributions Payable to Ordinary LP Unitholders	2,970	1,448
Distributions Payable to Nexen Inc., Exchangeable LP Unitholder	5,167	2,305
Accrued Interest Payable	1,687	615
Due to Affiliates (Note 19)	365	890
Total Current Liabilities	75,699	62,417
Long-Term Debt (Note 11)	283,724	201,572
Future Income Taxes (Note 20 (a))	8,280	9,777
Asset Retirement Obligations (Note 12)	44,771	42,123
Other Long-Term Liabilities (Note 13)	10,109	2,612
Total Liabilities	422,583	318,501
Equity		
Ordinary LP Units (32,570,814 outstanding) (Note 14)	305,051	301,750
Exchangeable LP Units (56,637,539 outstanding) (Note 14)	(38,929)	(63,085)
Total LP Units	266,122	238,665
Deficit	(94,430)	(37,177)
Accumulated Other Comprehensive Loss	(14,724)	(31,790)
Total Deficit and Accumulated Other Comprehensive Loss	(109,154)	(68,967)
Total Equity	156,968	169,698
Commitments, Contingencies and Guarantees (Note 17)		
Total Liabilities and Equity	579,551	488,199

See accompanying notes to the Consolidated Financial Statements

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

Gary L. Kubera
Director

Douglas P. Hayhurst
Director

Consolidated Statements of Cash Flows

Canexus Limited Partnership

For the Years Ended December 31, 2008 and December 31, 2007

CAD thousands	2008	2007
Operating Activities		
Net Income (Loss)	(6,035)	54,547
Realized Foreign Exchange Gain on Cash	(1,803)	-
Charges and Credits to Income Not Involving Cash (Note 21(a))	110,954	20,482
Contributions to / Payments for Defined Benefit Plans	(4,366)	(2,370)
Purchase of Foreign Exchange Options	(6,117)	(360)
Expenditures on Asset Retirement Obligations (Note 12)	(1,121)	(616)
Change in Due to Affiliates, Net	(165)	(369)
Changes in Non-Cash Operating Working Capital (Note 21(b))	(18,858)	10,555
	72,489	81,869
Financing Activities		
Proceeds from (Repayments of) Short-Term Borrowings, Net	(2,718)	1,729
Proceeds from Issuance of Senior Secured Notes	50,708	-
Proceeds from Extendible Revolving Credit Facility	9,784	59,914
Proceeds from Export Development Canada Extendible Revolving Credit Facility	7,235	-
Repayments of Extendible Revolving Credit Facility	(43,652)	-
Deferred Financing and Issue Costs	(3,048)	-
Cash Distributions Paid to Ordinary LP Unitholders	(14,768)	(28,357)
Cash Distributions Paid to Nexen Inc., Exchangeable LP Unitholder	(4,609)	(44,209)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 10)	2,812	654
	1,744	(10,269)
Investing Activities		
Expenditures on Property, Plant and Equipment	(88,491)	(61,327)
Proceeds on Disposal of Property, Plant and Equipment	382	-
Changes in Non-Cash Investing Working Capital (Note 21(b))	5,316	(3,912)
	(82,793)	(65,239)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2,452	(284)
Increase (Decrease) in Cash and Cash Equivalents	(6,108)	6,077
Cash and Cash Equivalents – Beginning of Year	10,056	3,979
Cash and Cash Equivalents – End of Year	3,948	10,056
Supplemental Cash Flow Information (Note 21(c))		

See accompanying notes to the Consolidated Financial Statements

Notes to Consolidated Financial Statements

Canexus Limited Partnership

For the Years Ended December 31, 2008 and December 31, 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.

Canexus Income Fund (the "Fund") indirectly holds a 36.5 percent (December 31, 2007 – 38.6 percent) interest and Nexen Inc. holds a 63.5 percent (December 31, 2007 – 61.4 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP.

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 business of Canexus LP, to enter into any agreement and to incur any obligation related to the affairs of Canexus LP and is entitled to full reimbursement of all costs and expenses incurred on behalf of Canexus LP. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of Canexus LP, these costs and obligations have been reflected in the consolidated financial statements and notes thereto of Canexus LP.

2. Summary of Significant Accounting Policies

The consolidated financial statements of Canexus LP are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, the consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at December 31, 2008 and December 31, 2007 and the results of its operations and cash flows for the years then ended.

(a) Use of Estimates

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

(b) Revenue Recognition

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

(c) Transportation

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

(d) Income Taxes

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

(e) Employee Future Benefits

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

(f) Foreign Currency Translation

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

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

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

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

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

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

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

(g) Cash and Cash Equivalents

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

(h) Accounts Receivable

Accounts receivable are recorded based on our revenue recognition policy. An allowance for doubtful accounts is established for accounts to approximate future expected credit risk loss exposure to existing customers.

(i) Inventories and Operating Supplies

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

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

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

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

(k) Amortization

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

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

(l) Restricted Investments

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

(m) Financial Instrument Transaction Costs

For financial instruments measured at amortized cost, transaction costs or fees attributable to the acquisition, issue or disposal of a financial asset or financial liability are recorded net against the fair value of the financial instrument. Interest income or expense is recorded using the effective interest method.

(n) Asset Retirement Obligations

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

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

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.

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.

Effective July 1, 2008, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3862, Financial Instruments – Disclosure, were amended. Section 3855 was amended to permit the reclassification of financial assets out of the held-for-trading or available-for-sale categories in specified circumstances. Section 3862 was amended to incorporate disclosure requirements when an entity elects to reclassify as indicated above. During 2008, Canexus LP did not reclassify any financial instruments.

(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.

(c) Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories, which replaces Section 3030. The new section 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 this standard 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 a significant impact on Canexus LP's results of operations or financial position.

(b) Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-Controlling Interests.

Section 1582 establishes standards for the accounting for a business combination. This new standard applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted.

Section 1601 establishes standards for the preparation of consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

Section 1602 establishes standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new requirements will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

An entity who chooses to early adopt any one of the aforementioned standards must apply all concurrently. We do not expect these sections to have a significant impact on Canexus LP's results of operations or financial position.

5. Accounts Receivable

	December 31 2008	December 31 2007
Accounts Receivable – Trade	56,160	37,580
Allowance For Doubtful Accounts	(2,697)	(2,000)
	53,463	35,580
Accounts Receivable – Value Added Taxes and Other	17,298	19,587
	70,761	55,167

The aging of trade receivables as at December 31, 2008 is set out below:

	North America	South America	Asia	Total
Current	29,849	13,496	991	44,336
Past Due 0 – 30 days	9,395	255	-	9,650
Past Due 31 – 60 days	691	-	-	691
Past Due 61 – 90 days	459	-	-	459
Past Due Greater than 90 Days	1,024	-	-	1,024
	41,418	13,751	991	56,160

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

	December 31, 2008	December 31, 2007
Beginning of Year	(2,000)	(4,406)
Allowance for Doubtful Accounts	(700)	(1,000)
Write Off of Specific Accounts Receivable	3	3,406
End of Year	(2,697)	(2,000)

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

6. Inventories and Operating Supplies

	December 31 2008 (1)	December 31 2007
Raw Materials and Work-in-Progress	7,942	5,318
Finished Goods	16,787	13,664
Operating Supplies	14,794	13,263
	39,523	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.

7. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	December 31, 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	3,948	3,948	10,056	10,056
Derivative Financial Instruments				
Foreign Exchange Options	8,640	8,640	724	724
Foreign Exchange Forward	3,797	3,797	-	-
Interest Rate Swaps	(2,803)	(2,803)	-	-
Total Derivative Financial Instruments	9,634	9,634	724	724
Total Held-For-Trading	13,582	13,582	10,780	10,780
Loans and Receivables, measured at amortized cost				
Accounts Receivable	70,761	70,761	55,167	55,167
Held-to-Maturity, measured at amortized cost				
Restricted Investments (Note 10)	8,943	8,943	13,007	13,007
Total Financial Assets	93,286	93,286	78,954	78,954
Financial Liabilities				
Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	10,870	10,870	13,588	13,588
Accounts Payable and Accrued Liabilities	54,640	54,640	43,571	43,571
Distributions Payable	8,137	8,137	3,753	3,753
Accrued Interest Payable	1,687	1,687	615	615
Due to Affiliates	365	365	890	890
Long-Term Debt	283,724	281,221	201,572	201,572
Accrual for Future TCP Severance Cost (Note 13)	7,310	7,310	-	-
Total Financial Liabilities	366,733	364,230	263,989	263,989

Canexus LP did not have available-for-sale financial instruments as at or during the years ended December 31, 2008 and December 31, 2007.

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

Derivative financial instruments are carried at fair value as determined by management which is based on the estimated cash payment or receipt necessary to settle the contracts with 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. 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 extendible revolving credit facilities loans approximates their fair value as these loans bear interest at floating rates. At December 31, 2008, the fair value of the US $50 million senior secured notes ("Senior Secured Notes") was $47.9 million (US $39.1 million) excluding deferred issue costs.

(b) Financial Risk Management

(i) *Overview*

Canexus LP has exposure to credit risk, liquidity risk and market risk (including foreign currency rate risk, product price and volume risk, South American chlor-alkali plant operating rate risk, electricity rate risk, and interest rate risk). The Board of Directors has overall responsibility for the oversight of Canexus LP's risk management framework. Canexus LP has established risk management policies governing the use of derivative financial instruments, investing of excess liquidity and cash management. These policies are periodically reviewed and approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by Internal Audit on a periodic basis.

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 fulfill their contractual obligations and arises principally from Canexus LP's trade accounts receivable. The following precautions are taken to reduce this risk:

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

Credit risk concentrations as at December 31, 2008 for trade accounts receivable were as follows:

	North America		South America		Asia		Total	
Industry Category	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	30,383	73	12,036	88	-	-	42,419	76
Water Treatment	6,174	15	537	4	-	-	6,711	12
Chemicals	1,960	5	35	-	991	100	2,986	5
Oil and Gas	1,495	4	-	-	-	-	1,495	3
Other	1,406	3	1,143	8	-	-	2,549	4
	41,418	100	13,751	100	991	100	56,160	100

Geographical Area	Carrying Value	Percent
Canada	16,396	29
United States	25,023	45
South America	13,750	24
Asia	991	2
	56,160	100

Our North American customers are diverse with no one customer accounting for more than 8 percent of total trade accounts receivable at December 31, 2008.

The majority of our South America production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at December 31, 2008, trade amounts owing from Aracruz Celulose S.A. represented 21 percent of total trade accounts receivable (December 31, 2007 – 0 percent, due to early payment on amounts outstanding in 2007).

(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 borrowing facilities. As at December 31, 2008, Canexus LP had the following committed borrowing facilities:

- $420 million extendible revolving credit facility with a syndicate of financial institutions which matures August 18, 2011. We may draw down this credit facility in either Canadian or US dollars. Short-term swing line loans of up to $35 million Canadian are available under this facility provided that the aggregate principle outstanding under the credit facility does not exceed $420 million. As at December 31, 2008, we had $215,529,600 (US $176,000,000) outstanding on this credit facility, as well as, $10,870,000 of outstanding short-term swing line loans.
- Canexus Quimica Brasil Ltda., ("CQBL"), an indirect, wholly owned subsidiary of Canexus LP, had a US $10 million extendible revolving credit facility with Export Development Canada ("EDC Extendible Revolving Credit Facility"), which matures August 18, 2011. As at December 31, 2008, CQBL had $7,347,600 (US $6,000,000) outstanding on this facility.
- A US $20 million senior secured revolving credit facility ("Senior Secured Revolving Credit Facility"), which matures on August 18, 2011. As at December 31, 2008, we did not have any amounts outstanding on this facility.

(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. An increase in the Canadian to US dollar exchange rate to US $1.00 for the full year would have decreased net income before income taxes by $6.2 million for the year ended December 31, 2008 before the impact of hedging instruments. A decrease in the Canadian to US dollar exchange rate to US $0.75 for the full year would have increased net income before income taxes by $42.2 million for the year ended December 31, 2008.

A range of US $0.75 to $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 and incurs other expenditures in US dollars. In addition, Canexus LP had secured foreign exchange call option contracts on US $5.0 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9588 per Canadian dollar from September 1, 2008 to December 31, 2008. In October 2008, Canexus LP secured foreign exchange call option contracts on a total of US $10.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.8200 (US $5.0 million per month) and US $0.8170 (US $5.0 million per month) for an average of US $0.8185 per Canadian dollar from January 1, 2009 to December 31, 2009.

In August 2008, Canexus LP entered into a forward exchange contract whereby we will buy JPY (Japanese Yen) 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 and Volume 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 year ended December 31, 2008 would have changed by $19.3 million. For every $100 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the year ended December 31, 2008 would have changed by $14.2 million. These sensitivities to changes in prices are based on 386,500 MT of North American sodium chlorate sales and 141,500 MECU's of North American chlor-alkali sales for the year ended December 31, 2008. Sensitivities of $50 per MT for sodium chlorate and $100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the current economic uncertainty. A change in sales volumes for North American sodium chlorate of 20,000 MT would have changed net income before taxes for the year ended December 31, 2008 by $2.6 million. A change in sales volumes for North American chlor-alkali products of 10,000 MECU's would have changed net income before taxes for the year ended December 31, 2008 by $5.9 million. These sales volume changes are considered to be reasonably possible should economic conditions experienced in late 2008 persist throughout 2009.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in Brazil, Aracruz Celulose S.A., typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). Current market prices in Brazil exceed the Canexus Price. For every 5,000 MT of caustic soda we do not produce net income before income taxes would decrease by $3.4 million for the year ended December 31, 2008. For the year ended December 31, 2008 we acquired 1,134 MT of caustic soda to make up for our production shortfall below operating capacity.

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 $2.5 million for the year ended December 31, 2008. This sensitivity to changes in electricity prices is based on electricity consumption of 2,439,000 MWh for the year ended December 31, 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 December 31, 2008 and December 31, 2007 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 base rate to 0.3 percent for the full year would have increased net income before income taxes by $4.6 million for the year ended December 31, 2008. A change in the 30 day US LIBOR base rate to 3 percent for the full year would have decreased net income before income taxes by $0.1 million for the year ended December 31, 2008. A range of 0.3 to 3 percent for the US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap 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 (expense). Fair value has been determined by management based on the estimated cash payment or receipt necessary to settle the contracts with counterparty financial institutions.

8. Prepaid Expenses

	December 31 2008	December 31 2007
Prepaid Insurance	2,096	1,951
Prepaid Freight	676	423
Prepaid Property Tax	14	21
Other	1,386	401
	4,172	2,796

Other Prepaid Expenses consists primarily of IT software licenses and SAP maintenance costs.

9. Property, Plant and Equipment

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	572,136	323,551	248,585
North America Chlor-alkali	221,594	127,625	93,969
South America	135,490	49,484	86,006
Corporate	12,947	8,845	4,102
	942,167	509,505	432,662

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	556,802	299,895	256,907
North America Chlor-alkali	155,416	118,846	36,570
South America	103,245	34,152	69,093
Corporate	12,432	6,897	5,535
	827,895	459,790	368,105

The balances at December 31, 2008 include capitalized costs of $85.0 million relating primarily to the TCP at our North Vancouver facility ($65.7 million including capitalized interest of $1.7 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 project which was completed in February 2008 ($45.9 million including capitalized interest of $1.2 million) as well as other projects under construction or development. These 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.

	December 31, 2008	December 31, 2007
Beginning of Year	13,007	13,736
Interest Earned	349	525
Funding of Asset Retirement Obligation Expenditures	(2,813)	(654)
Allowance for Impairment	(1,600)	(600)
End of Year	8,943	13,007

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 but was not repaid when due. On January 22, 2009, the ABCP was replaced 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 the Restructured Notes to be $1.9 million as at December 31, 2008 (December 31, 2007 – $3.5 million). Accordingly, we recorded an impairment charge of $1.6 million in the year ended December 31, 2008 in addition to an impairment of $0.6 million recognized in the fourth quarter of 2007. The fair market value was determined by estimating the yield that a prospective purchaser would require. Our estimates of required yield ranged from 10 to 42 percent for the classes of Restructured Notes now held with a maturity date of December 20, 2016.

11. Long-Term Debt and Short-Term Borrowings

	December 31 2008	December 31 2007
Short-Term Borrowings		
Swing Line Loans under Extendible Revolving Credit Facility	10,870	13,588
Long-Term Debt		
Credit Facilities		
Extendible Revolving Credit Facility	215,530	201,572
EDC Extendible Revolving Credit Facility	7,347	-
Total Credit Facilities	222,877	201,572
Senior Secured Notes	61,230	-
Deferred Issue Costs	(383)	-
	60,847	-
Total Long-Term Debt	283,724	201,572

On November 28, 2008, amendments to Canexus LP's extendible revolving credit facility were made to increase it from $410 million to $420 million. This 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 facility is available for draw down during the revolving period, subject to meeting on going covenants (financial and non-financial) and conditions. Canexus LP may draw down the facility in either Canadian or US dollars. The 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. Short-term swing line loans of up to $35 million Canadian are available under the facility provided that the aggregate principal outstanding under the credit facility does not exceed $420 million. The facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. At December 31, 2008 we were in compliance with all covenants and conditions.

At December 31, 2008 we had $215,529,600 (US $176,000,000) outstanding on this extendible revolving credit facility (excluding swing line loans). The weighted average interest rate for the year ended December 31, 2008 was 4.50 percent and total interest and standby fees were $10,308,334. At December 31, 2007 we had $201,572,400 (US $204,000,000) outstanding on this credit facility. The weighted average interest rate for the year ended December 31, 2007 was 6.19 percent and total interest and standby fees were $12,226,142.

The weighted average interest rate on the swing line loans for the year ended December 31, 2008 was 5.47 percent and total interest and standby fees were $105,851. The weighted average interest rate on the swing line loans for the year ended December 31, 2007 was 6.14 percent and total interest and standby fees were $554,451.

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 December 31, 2008 the Canadian dollar equivalent of the US $50 million of Senior Secured Notes was $61,230,000. Proceeds from the Senior Secured Notes were used to repay swing line loans outstanding at that time, to repay US $20 million of the extendible revolving credit facility, to partially 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 December 31, 2008, there was no balance outstanding on this facility.

During the third quarter of 2008, CQBL closed a US $10 million EDC Extendible Revolving Credit Facility 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. At December 31, 2008 we had $7,347,600 (US $6,000,000) outstanding on this credit facility (December 31, 2007 – $0). The weighted average interest rate for the year ended December 31, 2008 was 2.88 percent and total interest and standby fees were $135,941.

Canexus LP is the applicant on three Letters of Credit as at December 31, 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 expired on January 1, 2009 and was automatically renewed until January 1, 2010 and will be automatically renewed for one year periods unless otherwise advised. The Independent System Operator Letter of Credit expires on December 1, 2009 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expired on January 31, 2009, at which time it was automatically renewed until May 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:

	December 31 2008	December 31 2007
Beginning of Year	42,123	40,677
Additions	649	-
Expenditures on Asset Retirement Obligations	(1,121)	(616)
Accretion Expense	2,732	2,572
Effect of Foreign Exchange	823	(550)
Change in Obligations Reclassified to Current Liabilities [1]	(435)	40
End of Year	44,771	42,123

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At December 31, 2008, $1,385,000 was included in accounts payable and accrued liabilities (December 31, 2007 – $950,000).

Our total estimated undiscounted asset retirement obligations at December 31, 2008 amounted to $74.1 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 5.90 percent. Approximately $5.2 million included in our asset retirement obligations are expected to be settled over the next three years.

13. Other Long-Term Assets and Liabilities

	December 31 2008	December 31 2007
Other Long-Term Assets		
Deferred Financing Costs, Net of Accumulated Amortization	2,017	-
Deposits with Energy Utlities Board	130	-
Total Other Long-Term Assets	2,147	-
Other Long-Term Liabilities		
Accrual for Future TCP Severance Cost	7,310	-
Defined Benefit Pension Liability (Note 18)	893	1,427
Post Retirement Benefit Liability (Note 18)	1,841	1,179
Other	65	6
Total Other Long-Term Liabilities	10,109	2,612

14. Equity

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

	December 31, 2008		December 31, 2007	
Amount in CAD thousands	Number of Units	Amount	Number of Units	Amount
General Partner Units				
Beginning of Year	1	-	1	-
Issued	-	-	-	-
End of Year	1	-	1	-
Ordinary Limited Partnership (“LP”) Units				
Beginning of Year	31,750,000	301,750	31,750,000	301,750
Issued Pursuant to the DRIP	820,814	3,301	-	-
End of Year	32,570,814	305,051	31,750,000	301,750
Exchangeable Limited Partnership Units				
Beginning of Year	50,535,714	(63,085)	50,535,714	(63,085)
Issued Pursuant to the DRIP	6,101,825	24,156	-	-
End of Year	56,637,539	(38,929)	50,535,714	(63,085)

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.

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% of the income or loss of Canexus LP for each fiscal year.

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

Canexus LP declared distributions of $0.5928 per LP Unit for the year ended December 31, 2008 (December 31, 2007 – $0.8475) to Ordinary and Exchangeable LP Unitholders. On December 3, 2008, a distribution of $0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record December 31, 2008 for payment on or about January 15, 2009. In addition, on December 11, 2008, Canexus LP declared a special distribution of $0.0456 payable to Ordinary and Exchangeable LP Unitholders of record December 31, 2008 for payment on or about January 15, 2009. On December 11, 2008, an additional distribution of $540,000 was declared and paid by Canexus LP to Canexus Commercial Trust and an additional distribution was declared and paid by Canexus Commercial Trust to Canexus Income Fund. This additional distribution was used by Canexus Income Fund to repay amounts owing to affiliates for trust administration expenses incurred in the year ended December 31, 2008.

15. 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.

	December 31 2008	December 31 2007
Cash and Cash Equivalents	3,948	10,056
Short-Term Borrowings	(10,870)	(13,588)
Long-Term Debt	(283,724)	(201,572)
Ordinary LP Units	(305,051)	(301,750)
Exchangeable LP Units	38,929	63,085
	(556,768)	(443,769)

Management, upon approval of the Board of Directors, may 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 extendible revolving credit facility made on November 28, 2008, as well as the US $50 million Senior Secured Notes, the US $20 million 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 December 31, 2008 and December 31, 2007, Canexus LP was in compliance with all financial covenants and conditions.

	Twelve Months Ended	
	December 31, 2008	December 31, 2007
Net Income (Loss)	(6,035)	54,547
Interest	11,658	11,377
Income Taxes	(3,776)	6,884
Amortization	43,408	44,370
Non-Cash (Income) Expense Items	66,806	(31,638)
Canexus Income Fund Trust Administration Expense	(297)	(283)
Consolidated EBITDA	111,764	85,257
Short-Term Borrowings	10,870	13,588
Long-Term Debt (before Deferred Issue Costs)	284,107	201,572
Consolidated Senior Debt	294,977	215,160
Consolidated Total Debt	294,977	215,160
Interest	11,658	11,377
Capitalized Interest and Letter of Credit Fees	1,919	1,479
Consolidated Interest Expense	13,577	12,856
Consolidated Senior Debt to EBITDA Ratio	2.64:1	2.52:1
Consolidated Total Debt to EBITDA Ratio	2.64:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio	8.23:1	6.63:1

16. Other Income (Expense)

	December 31, 2008	December 31, 2007
Currency Translation Gains (Losses)		
Unrealized Currency Translation Gains (Losses)		
Debt	(58,823)	31,972
Working Capital	(2,735)	2,516
Total Unrealized Currency Translation Gains (Losses)	(61,558)	34,488
Realized Currency Translation Gains (Losses)		
Debt	3,566	-
Working Capital	7,062	(4,684)
Total Realized Currency Translation Gains (Losses)	10,628	(4,684)
Total Currency Translation Gains (Losses)	(50,930)	29,804
Gains (Losses) on Held-for-Trading Financial Instruments		
Change in Fair Value of Foreign Exchange Options	1,799	(31)
Realized Gains on Foreign Exchange Options	1,052	2,261
Change in Fair Value of Interest Rate Swaps	(2,803)	-
Realized Gains on Interest Rate Swaps	95	-
Change in Fair Value of Electricity Forward Swaps	-	(2,229)
Change in Fair Value of Foreign Exchange Forward	3,797	11
Interest Income Earned on Cash and Cash Equivalents	212	98
	4,152	110
Gains on Held-to-Maturity Financial Instruments		
Interest Income on Restricted Investments	348	525
Other		
Accrual for Future TCP Severance Costs	(7,310)	-
Provision for Doubtful Accounts	(700)	(250)
Allowance for Impairment in Value of ABCP (Note 10)	(1,600)	(600)
Other	(1,016)	(107)
	(10,626)	(957)
Total Other Income (Expense)	(57,056)	29,482

Comprehensive income consists of net income and other comprehensive income (loss) (“OCI”). OCI for Canexus LP consists of foreign exchange translation gains and losses on the translation of financial statements of self-sustaining foreign operations.

17. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. As at December 31, 2008 these obligations and commitments were as follows:

	2009	2010	2011	2012	2013	Thereafter
Operating Leases	20,975	17,553	16,703	14,713	11,748	36,849
Purchase Obligations	21,723	22,721	23,765	24,857	26,083	-
Expansion Capital Expenditures	78,432	8,636	-	-	-	-
	121,130	48,910	40,468	39,570	37,831	36,849

Purchase Obligations include contractual commitments for the purchase of electricity in South America, approximately 90% to 100% of the cost of which is passed on to our primary customer.

Expansion Capital Expenditures include contractual obligations related primarily to the TCP at our North Vancouver chlor-alkali facility. Total anticipated capital expenditures for TCP are $208 million. As at December 31, 2008, actual capital expenditures were $65.7 million for the TCP including capitalized interest of $1.7 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.

18. Pension and Other Post Retirement Benefits

(a) Defined Benefit Pension Plans

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

	December 31, 2008	December 31, 2007
Change in Projected Benefit Obligation		
Beginning of Year	62,214	57,810
Service Cost	4,123	3,413
Interest Cost	3,933	2,977
Plan Participants' Contributions	992	848
Benefits Paid	(661)	(232)
Actuarial Gain	(11,153)	(2,602)
End of Year [1]	59,448	62,214
Change in Fair Value of Plan Assets		
Beginning of Year	54,726	49,461
Expected Return on Plan Assets	4,258	3,294
Employer's Contribution	4,749	2,335
Plan Participants' Contributions	992	848
Benefits Paid	(661)	(232)
Deferred Investment Loss	(13,257)	(980)
End of Year	50,807	54,726
Reconciliation of Funded Status		
Funded Status [1]	(8,641)	(7,488)
Unamortized Transitional (Asset) Obligation	1	(1)
Unamortized Prior Service Costs	21	30
Unamortized Net Actuarial Loss	7,726	5,637
Contributions Between Measurement Date and Year End	-	395
Pension Liability, Net	(893)	(1,427)
Pension Liability Recognized		
Other Long-Term Liabilities (Note 13)	(893)	(1,427)
Assumptions (%)		
Accrued Benefit Obligation at December 31		
Discount Rate	6.50	5.25
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Benefit Cost for Year Ended December 31		
Discount Rate	5.25	5.00
Long-Term Rate of Employee Compensation Increase	4.00	4.00
Long-Term Annual Rate of Return on Plan Assets [2]	6.50	6.50

Notes:

(1) Includes unfunded obligations for supplemental benefits to the extent that the benefit is limited by statutory guidelines. At December 31, 2008, the projected benefit obligation for supplemental benefits was $893,000 (December 31, 2007 – $910,000).

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

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

	December 31, 2008	December 31, 2007
Cost of Benefits Earned by Employees	4,123	3,413
Interest Cost on Benefits Earned	3,933	2,977
Actual (Return) Loss on Plan Assets	8,999	(2,314)
Actuarial Gains	(11,153)	(2,602)
Amortization of Transitional Asset	(2)	(2)
Pension Expense Before Adjustments for the Long-Term Nature of Employee Future Benefit Costs	5,900	1,472
Difference Between Expected and Actual Return	(13,257)	(980)
Difference Between Recognized and Actual Actuarial Gains	11,168	2,737
Difference Between Recognized and Actual Past Service Costs	9	8
Net Pension Expense [(1)]	3,820	3,237

Note:

(1) Effective December 31, 2008, Canexus Limited changed the measurement date for reporting related to its defined benefit plans from October 31 to December 31. This change in measurement date did not have a significant impact on the 2008 results of operations on consolidated financial position of Canexus LP.

(c) Employer Funding Contributions

Our total funding contributions for 2008 for our defined benefit plan were $4,181,918 (December 31, 2007 – $2,371,380). In addition, $171,534 was paid to settle EBP benefits owing to individuals leaving the employment of Canexus Limited in 2008.

(d) Contributions under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were $660,655 for the Canadian plan and $101,157 for the US plan for the year ended December 31, 2008 and $523,849 for the Canadian plan and $83,678 for the US plan for the year ended December 31, 2007.

(e) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work however, these future obligations are not funded. The expense recognized for the year ended December 31, 2008 was $383,996 (December 31, 2007 – $327,996). At December 31, 2008 other long-term liabilities includes a $1,499,704 (December 31, 2007 – $1,124,599) post retirement benefit liability.

The present value of Canexus Limited Canadian employees' future post retirement benefits obligation as at December 31, 2008 was $1,862,000 (December 31, 2007 – $2,181,000).

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. During the year ended December 31, 2008, a review of the plan for compliance with US Internal Revenue Code rules related to non management employees resulted in the removal of certain employees from the plan and the recognition of a curtailment loss of $206,000. The expense recognized for the year ended December 31, 2008, including the curtailment loss of $206,000, was $287,004 (December 31, 2007 – $54,000). At December 31, 2008 other long-term liabilities includes a $341,004 (December 31, 2007 – $54,000) post retirement benefit liability.

The present value of Canexus Limited US employees' future post retirement benefits at December 31, 2008 was $461,000 (December 31, 2007 – $279,000).

19. Amounts Due to Affiliates and Related Party Transactions

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

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

	December 31 2008	December 31 2007
Electricity Purchases and Retail Service Fees	14,978	16,194
Natural Gas Purchases and Retail Service Fees	10,538	8,230
Forward Swap Receipts	-	(1,533)
	25,516	22,891

20. Income Taxes

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

(a) Temporary Differences

	December 31, 2008		December 31, 2007	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Property, Plant and Equipment, Net and Intangible Assets	3,132	8,280	2,719	9,777
Tax Losses Carried Forward	4,629	-	3,380	-
	7,761	8,280	6,099	9,777

In addition to the temporary differences recognized in subsidiary entities, as at December 31, 2008 the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately $67 million.

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

	December 31, 2008	December 31, 2007
Canadian Statutory Rate	0.00%	0.00%
Income (Loss) before Income Taxes	(9,811)	61,431
Provision for Income Taxes Computed at the Canadian Statutory Rate	-	-
Add (Deduct) the Tax Effect of:		
Taxes on Foreign Operations	1,313	2,496
Unrealized Foreign Exchange Gains (Losses)	(5,832)	3,537
Difference in Tax and Accounting Depreciation	2,204	1,616
Deductible Intercompany Interest Expense	(1,085)	(858)
Other	(376)	93
Provision for (Recovery of) Income Taxes	(3,776)	6,884

(c) Available Unused Tax Losses and Tax Contingencies

At December 31, 2008, various Canexus LP subsidiaries had unused tax losses totaling $19.1 million (December 31, 2007 – $15 million).

Unused loss carryforwards expire as follows:

Year	Amount
2009	349
2010	2,148
2015	2,163
2026	4,847
2027	4,557
2028	5,005
Total	19,069

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

21. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	December 31, 2008	December 31, 2007
Amortization	43,408	44,370
Change in Fair Value of Foreign Exchange Options	(1,799)	31
Change in Fair Value of Electricity Forward Swaps	-	2,229
Change in Fair Value of Foreign Exchange Forward	(3,797)	(11)
Change in Fair Value of Interest Rate Swaps	2,803	-
Unrealized Currency Translation (Gains) Losses	61,558	(34,488)
Future Income Tax (Recovery) Expense	(5,089)	4,388
Pension and Post Retirement Benefit Expense	4,491	3,624
Accrual for Future TCP Severance Costs	7,310	-
Allowance for Impairment in Value of ABCP	1,600	600
Allowance for Doubtful Accounts	700	250
Other	(231)	(511)
	110,954	20,482

(b) Changes in Non-Cash Working Capital

	December 31, 2008	December 31, 2007
Accounts Receivable	(16,294)	9,228
Inventories and Operating Supplies	(8,749)	(808)
Prepaid Expenses	(1,396)	535
Accounts Payable and Accrued Liabilities	10,113	(1,367)
Accrued Interest Payable	1,072	122
Effect of Foreign Exchange on Non-Cash Working Capital	1,712	(1,067)
Total Change in Non-Cash Working Capital	(13,542)	6,643
Relating to:		
Operating Activities	(18,858)	10,555
Investing Activities	5,316	(3,912)
Total Change in Non-Cash Working Capital	(13,542)	6,643

(c) Other Cash Flow Information

	December 31, 2008	December 31, 2007
Interest Paid	11,555	11,258
Income Taxes Paid	1,503	2,223
Cash and Cash Equivalents		
Cash	3,898	9,774
Cash Equivalents	50	282
	3,948	10,056

22. Operating Segments

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

(a) Operating Segments

	North America				
Year Ended December 31, 2008	Sodium Chlorate	Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	218,993	145,356	110,008	-	474,357
Expenses					
Cost of Goods Sold	151,814	100,551	86,695	-	339,060
Amortization	25,676	10,597	6,502	633	43,408
General and Administrative	12,992	10,590	2,867	6,537	32,986
Interest	-	-	-	11,658	11,658
	190,482	121,738	96,064	18,828	427,112
Income (Loss) before Other Expense and Income Taxes	28,511	23,618	13,944	(18,828)	47,245
Other Expense	-	-	-	(57,056)	(57,056)
Income (Loss) before Income Taxes	28,511	23,618	13,944	(75,884)	(9,811)
Capital Expenditures	13,962	66,070	6,730	1,729	88,491

	North America				
Year Ended December 31, 2007	Sodium Chlorate	Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	192,190	130,737	90,680	-	413,607
Expenses					
Cost of Goods Sold	137,557	93,108	65,060	-	295,725
Amortization	28,465	9,557	6,344	4	44,370
General and Administrative	11,677	10,043	2,226	6,240	30,186
Interest	-	-	-	11,377	11,377
	177,699	112,708	73,630	17,621	381,658
Income (Loss) before Other Income and Income Taxes	14,491	18,029	17,050	(17,621)	31,949
Other Income	-	-	-	29,482	29,482
Income before Income Taxes	14,491	18,029	17,050	11,861	61,431
Capital Expenditures	44,208	11,157	4,334	1,628	61,327

Identifiable Assets	North America: Sodium Chlorate	North America: Chlor-alkali	South America	Corporate	Total
December 31, 2008	292,972	128,178	126,809	31,592	579,551
December 31, 2007	301,146	65,312	104,655	17,086	488,199

(b) Geographic Segments

Property, Plant and Equipment, Net	December 31, 2008	December 31, 2007
Canada	346,297	298,834
United States	359	178
South America	86,006	69,093
	432,662	368,105

Sales	2008	2007
Canada	150,442	142,336
United States	197,856	169,214
South America	110,008	90,680
Asia	16,051	11,377
	474,357	413,607

Corporate Information

Directors

Dennis G. Flanagan
Chairman
Calgary, Alberta

Stephanie L. Felesky
Calgary, Alberta

Hugh A. Fergusson
Calgary, Alberta

Douglas P. Hayhurst
West Vancouver, British Columbia

Gary L. Kubera
Houston, Texas

Kevin J. Reinhart
Calgary, Alberta

Marvin F. Romanow
Calgary, Alberta

Thomas A. Sugalski
Longboat Key, Florida

Lyall C. Work
Mississauga, Ontario

Registrar and Transfer Agent
Computershare Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing
Toronto Stock Exchange: CUS.UN

Investor Relations
Richard T. McLellan
Senior Vice President, Finance
and Chief Financial Officer
Telephone: (403) 571-7311
Email: Richard.McLellan@canexus.ca

Auditors
Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

Officers and Senior Management

Gary L. Kubera
President and Chief Executive Officer

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

Péricles dos Santos
Managing Director, South America

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

Kevin A. Meaney
Vice President, Technology and Engineering

Angelo (Andy) Lacara, Jr.
Vice President, Manufacturing

Brian P. Bourgeois
Vice President, Sales and Marketing

Karen D.W. Bost
Vice President, Corporate Services

Hazel A.B. Kreuz
Director, Corporate Planning

Thomas A. Jackson
Director, Supply Chain

Head Office
Suite 600, 801 - 7th Avenue S.W.
Calgary, Alberta T2P 3P7
Telephone: (403) 571-7300
Facsimile: (403) 571-7800
Email: canexus@canexus.ca
Website: **www.canexus.ca**

Houston Corporate Office
Suite 400, 450 Gears Road
Houston, Texas 77067
Telephone: (281) 875-7280

South American Business Development Office
Avenida das Nações Unidas, 12.551
Edifício World Trade Center
Salas 918/919
CEP 04.578-903
Sao Paulo (SP) - Brazil
Telephone: (55) (11) 3443-7467

canexus

www.canexus.ca

TSX: CUS.UN