

CANEXUS INCOME FUND

**Annual and Special Meeting of
Securityholders
to be held on April 23, 2009**

**NOTICE OF ANNUAL
AND SPECIAL MEETING
and
INFORMATION CIRCULAR**

March 4, 2009



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March 4, 2009

Dear Canexus Securityholder,

On behalf of your board of directors and management, you are cordially invited to attend the Annual and Special Meeting of Unitholders to be held at The Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta, on Thursday, April 23, 2009 at 11:00 a.m.

It is important that your units or security interests be represented at the meeting. We hope you can join us, but should you be unable to attend the meeting in person, we encourage you to vote by telephone, via the internet or by completing and returning the enclosed form of proxy.

You will find information regarding the matters to be voted on at the meeting in the enclosed notice and circular. In addition to the formal items of business to be brought before the meeting, there will be a report on Canexus' operations during 2008 and future plans, followed by a question and answer period. Your interest in Canexus is appreciated. We look forward to seeing you on April 23rd.

Yours truly,

(signed) "Gary L. Kubera"
President and Chief Executive Officer,
Canexus Limited

**ANNUAL GENERAL AND SPECIAL MEETING OF UNITHOLDERS
to be held on Thursday, April 23, 2009**

NOTICE

The Annual and Special Meeting (the Meeting) of the holders of trust units (Trust Units) and special voting rights (collectively, the Securityholders) of Canexus Income Fund (the Fund) will be held at The Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta, at 11:00 a.m. (Calgary Time) on Thursday, April 23, 2009. The purpose of the Meeting is to consider and to take action on the following matters:

1. receive the audited financial statements of the Fund and Canexus Limited Partnership for the period ended December 31, 2008, and the auditors' reports on those statements;
2. elect directors of Canexus Limited (the Corporation), the administrator of the Fund, to hold office for the following year, and to direct Computershare Trust Company of Canada, as trustee of the Fund, to cause the election of the directors of the Corporation;
3. appoint Deloitte & Touche LLP as independent auditors of the Fund for 2009 and authorize the Corporation's Audit Committee to fix their pay;
4. approve all unallocated Options and Bonus Rights under the Trust Unit Incentive Plan;
5. approve amendments to the directors' Deferred Trust Unit Compensation Plan to increase the number of Trust Units that may be issued under the plan and clarify the directors who may participate in the plan; and
6. transact any other business that may properly come before the Meeting or any adjournment of the Meeting.

If you cannot attend the Meeting, you may vote by proxy, via telephone or on the internet. See pages 7 and 8 for information on how to vote. To be valid, your proxy must be received by Computershare Trust Company of Canada no later than 11:00 am (Calgary time) on April 21, 2009 or, if the meeting is adjourned, at least 48 hours (excluding weekends and holidays) before the time set for the meeting to resume. The chair of the meeting has the discretion to accept late proxies.

By order of the board of Canexus Limited,
as administrator of Canexus Income Fund

(signed) "Diane J. Pettie"
Vice President, General Counsel & Corporate Secretary

Calgary, Alberta, Canada
March 4, 2009

GENERAL INFORMATION

This circular is provided in regard to the solicitation of proxies by the management of Canexus Limited, as administrator of Canexus Income Fund for use at the Annual and Special Meeting of Securityholders to be held on April 23, 2009 and at any adjournments of that meeting.

Date of Information

Information in this circular is as of March 4, 2009, unless otherwise noted.

Currency and Exchange Rate

All dollar figures are in Canadian currency, except as noted. On March 4, 2009, the reported closing spot price quoted by the Bank of Canada for CAD\$1.2754 was US\$1.00.

Record Date

Securityholders of record at the close of business on March 11, 2009 are entitled to attend and vote at the meeting on the basis of one vote for each Fund Unit or Exchangeable Unit held as of that date. At the close of business on March 4, 2009, there were 32,889,415 Fund Units outstanding and 59,322,946 Exchangeable Units of Canexus LP outstanding, all of which were held by Nexen. Each Exchangeable Unit is exchangeable on a 1:1 basis for Fund Units. Canexus' Fund Units trade under the symbol CUS.UN on the TSX.

Owners of 10% or More of the Issued Units and Special Voting Rights

Approximately 4,031,315 Fund Units (12.3%) were owned by Mackenzie Financial Corporation. Nexen Inc. held 59,322,946 Exchangeable Units in Canexus LP (which represents 64.3% of the Fund Units on a fully diluted basis, assuming all Exchangeable Units were exchanged for Fund Units).

To the knowledge of the directors and officers, no other person beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the Fund Units or special voting rights.

Registered and Beneficial Unitholders

You are a registered Unitholder if your Fund Units are held in your name and you have a unit certificate.

You are a beneficial unitholder if your Fund Units are held in the name of a nominee. That is, your certificate was deposited with a bank, trust company, securities broker, trustee or other institution.

Mailing of Circular

This Circular, a proxy and our 2008 annual report will be mailed to Securityholders on April 2, 2009. The 2008 annual report is being mailed to:

- all Registered Unitholders and holders of Exchangeable Units, except those who asked not to receive it, and
- to beneficial Unitholders who requested a copy.

We will provide proxy materials to brokers, custodians, nominees and fiduciaries in order to enable them to forward such materials to our beneficial Unitholders.

Annual and Interim Reports

If you are a Registered Unitholder, a copy of our 2008 annual report is included in this package, unless you asked not to receive it. If you do not wish to receive our annual report next year, or wish to receive our interim reports, please fill out and return the card enclosed with this package.

Our annual report can also be accessed at www.canexus.ca or you can request a copy in the manner set out under Availability of Documents below.

Availability of Documents

A copy of the annual report, including Canexus' and Canexus LP's financial information contained in the audited financial statements and MD&A for the financial year ended December 31, 2008, will be sent free of charge to any Unitholder on request. It can also be retrieved from SEDAR by accessing our public filings at www.sedar.com.

We also file an Annual Information Form with the Canadian securities regulators. This information can also be retrieved from SEDAR by accessing our public filings at www.sedar.com.

All documents required to be filed may also be accessed at www.canexus.ca.

Finally, all documents required to be filed can be obtained from our Corporate Secretary by request in writing and addressed to:

By mail: Canexus Income Fund
#600, 801 – 7th Avenue, SW
Calgary, Alberta, Canada
T2P 3P7
Attention: Corporate Secretary

By email: corporatesecretary@canexus.ca

Communicating with the Board

Unitholders may write to the board or any member or members of the board in care of the following address:

By mail: Canexus Income Fund
#600, 801 – 7th Avenue, SW
Calgary, Alberta, Canada
T2P 3P7
Attention: Corporate Secretary

By email: board@canexus.ca

We receive a number of inquiries on a wide range of subjects. The board has consulted with management to develop a process to assist in managing inquiries directed to the board or its members.

Letters and emails addressed to the board, any of its members or the independent directors, as a group, are reviewed to determine if a response from the board is appropriate. While the board oversees management, it does not participate in our day-to-day functions and operations and is not normally in the best position to respond to inquiries on those matters. Those inquiries will be directed to the appropriate personnel for response. The board has instructed the Corporate Secretary to review all correspondence and, in its discretion, not forward items that are:

- not relevant to Canexus' operations, policies or philosophies,
- commercial in nature, or
- not appropriate for consideration by the board.

All inquiries will receive a response from the board or management. The Corporate Secretary maintains a log of all correspondence sent to board members. Directors may review the log at any time and request copies of any correspondence received.

Distribution Reinvestment Plan

We have a distribution reinvestment plan which lets unitholders elect to have cash distributions reinvested in units. Plan information and an election form may be accessed at www.canexus.ca.

Loans to Directors and Officers

As set out in the corporate governance policy, attached as Schedule B on page 57, we do not make loans to our directors and officers. There are no loans outstanding from Canexus to any of our directors or officers.

Ethics Policy

Under our ethics policy, all directors, officers and employees must demonstrate a commitment to ethical business practices and behaviour in all business relationships. Employees are not permitted to commit an unethical, dishonest or illegal act or to instruct other employees to do so.

Any waivers of, or changes to, the ethics policy must be board approved and disclosed. There has never been a waiver. The ethics policy was updated on October 21, 2008. Our ethics policy provides for an external integrity helpline, in place since June 2006. Canexus' ethics policy is available at www.canexus.ca and we intend to disclose any waivers of or amendments to this policy online. Our ethics policy and any future amendments to it are also filed on SEDAR at www.sedar.com. To request a copy of the policy, contact the chief compliance officer by emailing integrity@canexus.ca or by calling 403.571.7335.

Reporting Concerns

Please direct any concerns about Canexus, including in particular its financial statements, accounting practices or internal controls, to:

- management or the Chair of the Audit Committee, as set out in the ethics policy, or
- EthicsPoint, as set out below.

Employees, customers, suppliers, partners, unitholders and other external stakeholders who have a concern are encouraged to raise it with our chief compliance officer:

By mail: Canexus Income Fund
#600, 801 – 7th Avenue, SW
Calgary, Alberta, Canada
T2P 3P7
Attention: Compliance

By email: integrity@canexus.ca

You may also report concerns through our integrity helpline – a secure reporting system, which is owned and managed by EthicsPoint, an independent third-party service provider. To find out more about our integrity helpline and for toll free numbers for other countries, visit www.canexus.ca and click on the "Integrity Helpline" link at the top of the page or access the helpline directly:

Online: www.ethicspoint
By phone: 1.866.384.4277
(toll-free in North America)

VOTING INFORMATION

BENEFICIAL UNITHOLDER VOTING

You are a beneficial Unitholder if your Fund Units are held in the name of a nominee, that is, your Fund Units are represented by an account statement by your bank, trust company, securities broker, trustee or other nominee, while the original certificate is lodged with CDS & Co., the nominee of CDS Clearing and Depository Services Inc.

Voting Options

- In person at the meeting (see below);
- By voting instruction (see below and enclosed voting instruction form);
- By telephone; or
- By internet (see enclosed voting instruction form).

Voting in Person

If you plan to attend the Meeting and wish to vote your units in person, insert your own name in the space provided on the enclosed voting instruction form. Then follow the signing and return instructions provided by your nominee. Your vote will be taken and counted at the Meeting so don't complete the voting instructions on the form. Please register with the transfer agent, Computershare, when you arrive.

Voting Instructions

Whether or not you attend the meeting you can appoint someone else to attend and vote as your proxyholder. Use the enclosed voting instruction form to do this. The persons named in the enclosed voting instruction form are directors. **You can also choose another person to be your proxyholder by printing that person's name in the space provided.** Then complete the rest of the voting instruction form, sign it and return it. Your votes can only be counted if the person you appointed attends the Meeting and votes on your behalf. If you have sent in your voting instruction form, you may not vote again at the Meeting unless you revoke your instructions.

Return your completed voting instruction form in the envelope provided or fax it to one of the numbers set out in the form so that it arrives on or before 11:00 am (Calgary time) on April 21, 2009.

Revoking Voting Instructions

Follow the procedures provided by your nominee. Your nominee must receive your request to revoke the instructions prior to 11:00 am (Calgary time) on April 21, 2009. This will give your nominee time to submit the revocation to us.

REGISTERED UNITHOLDER VOTING

You are a Registered Unitholder if your Fund Units are held in your name and you have a unit certificate.

Voting Options

- In person at the meeting (see below);
- By proxy (see below and instructions on form of proxy);
- By telephone (see enclosed proxy); or
- By internet (see enclosed proxy).

Voting in Person

If you plan to attend the Meeting and wish to vote your Fund Units in person, don't complete or return the enclosed proxy. Your vote will be taken and counted at the Meeting. Please register with the transfer agent, Computershare, when you arrive.

Voting by Proxy

Whether or not you attend the Meeting, you can appoint someone else to attend and vote as your proxyholder. You can use the enclosed proxy or any other proper form of proxy to do this. The persons named in the enclosed proxy are directors. **You can also choose another person to be your proxyholder by printing that person's name in the space provided.** Then complete the rest of the proxy, sign it and return it. Your votes can only be counted if the person you appointed attends the Meeting and votes on your behalf. If you have voted by proxy, you may not vote in person at the Meeting, unless you revoke your proxy.

Return your completed proxy in the envelope provided or fax so that it arrives on or before 11:00 am (Calgary time) on April 21, 2009 or, if the meeting is adjourned, at least 48 hours (excluding weekends and holidays) before the time set for the Meeting to resume. As we do not typically accept late votes, we encourage you to vote on time.

Revoking Your Proxy

You may revoke your proxy at any time before it is acted on. You can do this by delivering a written statement that you want to revoke your proxy to our Corporate Secretary on or before April 21, 2009, or to the chair of the Meeting on April 23, 2009.

GENERAL INFORMATION

Proxy Solicitation

Proxies are being solicited by management of Canexus, mainly by mail. Canexus will pay for the cost of proxy solicitation. Our officers, employees and agents may solicit proxies by telephone, email, facsimile, mail or person interviews. Canexus has retained Broadridge, 5970 Chedworth Way, Mississauga, Ontario, L5R 4G4, at a fee of approximately \$3,500 plus taxes, postage and out of pocket expenses to aid in the solicitation of proxies from individual and institutional investors in Canada and the US.

Voting

If you hold Fund Units or Exchangeable Units at the close of business on March 11, 2008, you may vote on:

- Election of directors;
- Appointment of auditors;
- TUIP approval for unallocated Options and Bonus Rights;
- DTUCP amendment and reservation of additional Fund Units; and
- Any other business that may properly come before the Meeting or any adjournments of the Meeting.

Each Fund Unit or Exchangeable Unit is entitled to one vote. A simple majority of votes (50% plus one vote) is required to approve all matters.

Quorum

Our by-laws state that a quorum for transacting business at a Unitholder meeting is:

- Two people present in person or by proxy;
- Each Unitholder or proxyholder is entitled to vote at the Meeting; and
- Together represent at least 5% of the Fund Units outstanding and entitled to vote at the Meeting.

Proxy Voting

You can indicate on your proxy how you want your proxyholder to vote your units or you can let your proxyholder decide for you. If you specify on your proxy how you want your Fund Units to be voted, then your proxyholder must vote your Fund Units that way. If you don't specify on your proxy how you want your Fund Units to be voted, then your proxyholder can vote your Fund Units as he or she sees fit.

If you appoint Mr. Flanagan or Kubera, the directors set out in the enclosed proxy, and do not specify how you want your Fund Units to be voted, your Fund Units will be voted as follows:

Election of management nominees as directors	FOR
Appointment of Auditors	FOR
Approval of unallocated Options and Bonus Rights in the TUIP	FOR
Amendment of directors' DTUCP	FOR
Additional 200,000 Fund Units in directors' DTUCP	FOR

Interest of Informed Persons in Material Transactions

Other than as disclosed in this Circular, no "informed person" (as defined in National Instrument 51-102), and no proposed nominee for director of the Corporation, nor any of their respective associates or affiliates, has had any material interest, direct or indirect, in any transaction of the Fund since January 1, 2008 or in any proposed transaction which has materially affected or would materially affect the Fund or any of its subsidiaries. Copies of public filings of the Fund may be accessed through the internet via SEDAR at www.sedar.com.

Interest of Certain Persons or Companies in Matters to be Acted Upon

Except as disclosed in this Circular, no person who has been a director or executive officer of the Corporation, no proposed nominee as a director, and no associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

Amendment and Other Matters

Management does not intend to present any other business at the Meeting. We aren't aware of any amendments to the proposed matters or any other matters which may be presented at the Meeting. If amendments or other matters properly come before the Meeting, your proxyholder will vote on them using their best judgment.

Vote Counting and Confidentiality

Votes by proxy are counted by Computershare. Your vote is confidential, unless you clearly intend to communicate your position to management or as necessary to comply with legal requirements.

Voting Questions

Please contact Computershare by telephone:

North America: 1-800-564-6253
Other Locations: 514-982-7555

BUSINESS OF THE MEETING

If you appoint Mr. Flanagan or Mr. Kubera, the directors set out in the enclosed proxy, and do not specify how you want your Fund Units or special voting rights to be voted, they will be voted as follows:

- | | |
|--|------------|
| • Election of management nominees as directors | FOR |
| • Appointment of Auditors | FOR |
| • Approval of unallocated Options and Bonus Rights in the TUIP | FOR |
| • Amendment of directors' DTUCP | FOR |
| • Additional 200,000 Fund Units in directors' DTUCP | FOR |

Financial Statements

The financial statements are presented to the Securityholders each year and the independent chartered accountants Deloitte & Touche LLP, will be available to answer appropriate questions at the Meeting.

Election Of Directors

Directors are elected each year at the annual meeting. The Board and management have concluded that each nominee is well qualified to serve on Canexus' Board. The Governance Agreement sets the number of directors between 7 and 17. The Board has set the number of directors at 10, two of whom are nominated by Nexen under the terms of the Governance Agreement, and eight of whom are elected at the AGM.

The Board operates independently from management and 6 of the 8 nominees are independent. The nominees have the relevant expertise essential to ensure appropriate strategic direction and oversight.

See page 11 for more details.

Appointment of Auditors

The auditors review the financial statements of the Fund and Canexus Limited Partnership and report to the Audit Committee. All auditors' fees are pre-approved by the Audit Committee.

See page 11 for more details.

Trust Unit Incentive Plan

This plan enhances Unitholder value as part of Canexus' long-term incentive plan for certain key employees. Unallocated entitlements under the TUIP, which has been in place since 2005, are required by the TSX to be renewed by Unitholder approval every three years.

See pages 11 and 39 for more details.

Directors' Deferred Trust Unit Compensation Plan

The DTUCP is a key component of the directors compensation and has been in place since 2005. The initial plan reserved an aggregate of 200,000 Fund Units to be available for issuance. The TSX requires listed issuers to seek Unitholder approval for: (a) any increase in the number of securities reserved for issuance pursuant to a security based compensation arrangement that has a fixed number of securities issuable pursuant to its terms; and (b) an amendment to the DTUCP to clarify which directors are entitled to participate in the Plan.

See pages 12, 13 and 25 for more details.

Other Business

Management does not intend to present any other business at the meeting and we are not aware of amendments to proposed matters or any other matters calling for your action.

BUSINESS OF THE MEETING

March 4, 2009

KEY SECTIONS

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Financial Statements

The consolidated financial statements for the Fund and Canexus LP for the year ended December 31, 2008, and the Auditors' report on those statements are in the 2008 annual report **which is being mailed with this Circular** to all Registered Unitholders, except those who asked not to receive it, and to beneficial Unitholders who requested it.

Election of Directors

We must have between 7 and 17 directors under the Governance Agreement. On August 9, 2005, the Board determined that there will be 10 directors, two of whom shall be nominated by Nexen under the Governance Agreement (Nexen has the right under the Governance Agreement to appoint nine directors while Nexen holds more than 50% of the issued units or exchangeable units in the Fund). Directors will be elected at the AGM each year and will hold office until the next AGM or until their successors are duly appointed or elected. Director nominees, each of whom is currently a director of the Corporation, are:

Stephanie L. Felesky, C.M	Nicholas G. Kirton
Hugh A. Fergusson	Gary L. Kubera
Dennis G. Flanagan	Thomas A. Sugalski
Douglas P. Hayhurst	Lyll C. Work

The Board and management feel the nominees are well qualified to act as directors. Each one has confirmed his or her eligibility and willingness to serve as a director if elected. We don't know of any reason why a nominee is not eligible for election. However, if a nominee is not eligible to serve at the time of the meeting, the directors named in the enclosed proxy will vote for a substitute if one is chosen by the Board.

See pages 17 to 21 for nominees' biographies.

Management and the Board recommend that you vote FOR these appointments. The directors named in the enclosed proxy will vote FOR these nominees unless you indicate that authority to do so is withheld.

Appointment of Auditors

The Audit Committee recommends appointing Deloitte & Touche LLP as auditors for 2009. During the three financial years ended December 31, 2008, Deloitte & Touche LLP served as our auditors. Deloitte & Touche LLP was first appointed auditors of the Fund effective June 28, 2005.

The auditors will be present at the meeting. They will be given the opportunity to make a statement if they wish to do so and will be available to answer appropriate questions. The Audit Committee recommends that you vote FOR this appointment. The directors named in the enclosed proxy will vote FOR this appointment unless you indicate that authority to do so is withheld.

Trust Unit Incentive Plan

Trust Unit Incentive Plan History

The TUIP was first set up on August 18, 2005. The Board has approved authorization of the unallocated options and bonus rights that must be approved by unitholders at the AGM.

Approval of Unallocated Options and Bonus Rights under Trust Unit Incentive Plan

The Fund adopted the TUIP as a long term incentive component of its total compensation package pursuant to which Options may be granted to the officers and employees of the Corporation and other subsidiaries of the Fund, as the directors of the Corporation determine. In addition, under the TUIP, at the time that Options are granted, corresponding Bonus Rights may also be granted to the Option holder.

Pursuant to the TUIP, at all times 5% of the issued and outstanding Fund Units (on a non-diluted basis, but including Exchangeable Units) at the relevant time are reserved and available for issuance upon the exercises of Options and redemptions of Bonus Rights and issuance of Fund Units pursuant to the DTUCP. Additionally, the 5% maximum is an "evergreen" provision whereby the number of Fund Units equivalent to the number of Options that had been exercised, terminated, cancelled or expired and in the case of Bonus Rights the number of Fund Units issued upon redemption or reserved for issuance in connection with a Bonus Right which has expired or been cancelled or terminated, would be automatically re-reserved for issuance under the TUIP and available for future issuances.

Please see the discussion below under the heading TUIP OPTIONS on page 39 for a comprehensive discussion of the other material terms and conditions of the TUIP and the mechanics of its operation.

As of March 4, 2009, there were 32,889,415 Fund Units and 59,322,946 Exchangeable Units issued and outstanding, and there were 2,879,400 Options and 2,879,400 corresponding Bonus Rights issued and outstanding (which, upon full vesting are exercisable into 2,879,400 Fund Units and redeemable into 788,647 Fund Units, respectively) and, accordingly, 3,668,047 Fund Units are reserved and available for issuance with respect to these Options and Bonus Rights being 4.0% of the aggregate issued and outstanding Fund Units and Exchangeable Units. Also, as of March 4, 2009, there were 169,072 directors' DTUs issued under the directors' DTUCP including DTUs accumulated through the notional reinvestment of distributions, including the notional DTU balances of 35,204 in the aggregate for the two Nexen appointed directors, and accordingly 169,072 Fund Units are reserved and available for issuance with respect to these DTU's being 0.2% of the aggregate issued and outstanding Fund Units and Exchangeable Units. An additional 773,499 Fund Units, being 0.8 % of the aggregate

issued and outstanding Fund Units and Exchangeable Units are reserved and available for issuance under the TUIP in the respect of unallocated Options and Bonus Rights and the DTUCP in respect of unallocated DTUs.

TSX Requirement for Approval

The TSX requires listed issuers to renew securityholder approval every three years for any unallocated entitlements that are issuable under a security based compensation arrangement that does not have a fixed maximum number of securities issuable pursuant to its terms. As the TUIP does not have a fixed maximum number of Fund Units that may be subject to Options or Bonus Rights granted under the TUIP, it qualifies as a reloading security compensation arrangement to which this requirement applies. The

resolution must be approved by a majority of the votes cast in person or by proxy at the Meeting by Unitholders.

The three year anniversary of the inception of the TUIP was August 18, 2008. As a result, the ability of the Fund to grant Options and associated Bonus Rights effectively lapsed at that time. Therefore, any Options and associated Bonus Rights granted subsequent to August 18, 2008 and prior to the meeting are subject to ratification by Securityholders at the meeting. As at the date hereof, 857,600 Options and 857,600 Bonus Rights have been granted during that period are therefore subject to ratification. The Fund does not anticipate any further grants under the TUIP prior to the Meeting.

Date of Grant	Options and Bonus Rights Granted (#)	Exercise Price (\$)	Expiry Date	Options and Bonus Rights Granted by Category (Director / Officer / Employee)
				(#)
October 22, 2008	822,600	3.12	October 21, 2013	0 / 350,000 / 472,600
February 17, 2009	35,000	2.99	February 16, 2014	0 / 35,000 / 0

Securityholder Approval

As an item of special business, the Securityholders will be asked at the Meeting to consider and, if thought fit, adopt the resolution set out below. All currently outstanding Options and Bonus Rights, excluding those referenced in the immediately preceding table, will be unaffected.

“BE IT RESOLVED THAT all unallocated Options and Bonus Rights entitled to be granted pursuant to the TUIP be approved and are authorized to be issued until April 23, 2012, and any Options and Bonus Rights granted subsequent to August 18, 2008 and prior to the date of this Circular (and as disclosed herein) be ratified and confirmed.”

Board and Management Recommendation

Management recommends and the Board has determined that a TUIP is still in the best interests of the Fund and its Unitholders. The Board reserves the right to alter any terms of or not proceed with the proposal at any time prior to the AGM if it is in the best interest of the Fund and its Unitholders.

Management and the Board recommend that unitholders vote FOR the authorization of unallocated Options and Bonus Rights in the TUIP and the ratification of all Options and Bonus Rights granted subsequent to August 18, 2008 and prior to the date of this Circular, (and as disclosed herein). The directors named in the enclosed proxy intend to vote FOR this matter unless you instruct otherwise.

Directors' Deferred Trust Unit Compensation Plan

The Fund has adopted the DTUCP as a component of its director compensation package. The DTUCP provides for

the grant of Deferred Trust Units to members of the Board of directors of the Corporation, the timing and amounts of grants of DTUs under the DTUCP being determined by the directors, upon recommendation of the Compensation Committee.

Please see the discussion below under the heading “DTUs” on page 25 for a comprehensive discussion of the material terms and conditions of the DTUCP and the mechanics of its operation. Unitholders may also obtain a copy of the DTUCP by contacting the Corporate Secretary of the Corporation at Suite 600, 801 - 7th Avenue S.W., Calgary, Alberta, T2P 3P7 or by email at corporate.secretary@canexus.ca.

(a) Amendment to Clarify Director Participation in DTUCP

The Fund adopted the DTUCP concurrently with its initial public offering in August 2005 and at that time indicated that, subject to the proviso that no compensation would be paid to directors who were also employees or members of management of the Corporation, each director would initially receive grants of DTUs in a specified amount. Further grants of DTUs would thereafter be determined by the Board of directors, upon the recommendation of the Compensation Committee. The Compensation Committee and the board of directors have each thereafter managed the DTUCP and the grant of DTUs thereunder in accordance with that intention and in furtherance of the Fund's larger compensation philosophy and objectives.

Notwithstanding that clear intention, the specific provisions of the DTUCP as adopted at that time define a director in such a manner as to exclude directors who have been appointed

by Nexen pursuant to the Governance Agreement. As a result, while it was and remains the intention of the Fund that such appointees be entitled to participate in the DTUCP, the definition as drafted does not permit that participation.

Accordingly, the two appointees of Nexen since the inception of the Fund are not currently entitled to participate in the DTUCP. In light of the foregoing, DTU grants previously approved by the Board of directors on the recommendation of the Compensation Committee have been notional grants insofar as they pertain to the two Nexen appointees and do not, absent approval by Unitholders of an amendment to the definition of "director" in the DTUCP to permit their participation, entitle the two Nexen appointees to receive DTU grants pursuant to the DTUCP.

In light of the foregoing, and to permit the DTUCP to function as originally intended, the Fund is proposing that the definition of director in the DTUCP be amended to remove the exclusion of directors appointed by Nexen. To the extent the amendment is approved by Unitholders at the Meeting, it is the present intention of the Fund to grant DTUs to the two Nexen appointees in the same number as represents the aggregate number of notional DTUs accrued on their behalf since inception of the Fund.

TSX Requirement for Approval

Although the DTUCP contains amendment provisions which permit the Fund to amend the DTUCP in certain circumstances without securityholder approval, the amendments contemplated above are not of the nature that would be permitted by the DTUCP to be undertaken without securityholder approval. As a result, both the DTUCP and the TSX require that securityholder approval must be obtained for the amendment referred to above.

The TSX has conditionally approved the amendment referred to above, subject to securityholder approval. Accordingly, at the Meeting, Unitholders will be asked to consider and, if thought advisable, approve the resolution referred to below. The resolution must be approved by a majority of the votes cast in person or by proxy at the Meeting by Unitholders, excluding the votes cast by the two Nexen appointees in their individual names. Nexen will be entitled to vote its voting interests in respect of the resolution.

Securityholder Approval

As an item of special business, the Securityholders will be asked at the Meeting to consider and, if thought fit, adopt the resolution set out below. Upon the resolution being passed unamended it is the present intention of the Fund to immediately grant DTUs to the two Nexen appointees in the same number as represents the aggregate number of notional DTUs accrued on their behalf since inception of the Fund.

"BE IT RESOLVED THAT:

1. the amendment to the DTUCP to delete the definition of "Director" in its entirety and replace it with the following definition, be and the same is hereby authorized, approved, ratified and confirmed:

"Director" means a director of the Corporation from time to time other than a Director who is a member of management of the Corporation; and

2. any director or officer of the Corporation, for and on behalf of the Fund, be and is hereby authorized and directed to execute and deliver such documents and instruments and take such other actions as such director or officer may determine to be necessary or advisable to implement this resolution and the matters authorized hereby, and the approval by such director or officer of the text of such documents or instruments and the taking of such actions shall be conclusive proof of the approval thereof by the holders of Fund Units."

Management and the Board recommend that you vote FOR the above resolution. The directors named in the enclosed proxy will vote FOR this resolution unless you indicate that the authority to do so is withheld.

(b) Increase in Fixed Maximum Number of Fund Units

Currently, an aggregate of 200,000 Fund Units have been reserved and are available for issuance under the DTUCP. As at March 4, 2009, there were 169,072 Fund Units reserved for issuance upon the exercise of outstanding DTUs (including notional issuances to the two Nexen appointed directors). As a result, the Fund has only 30,928 Fund Units available to be issued pursuant to the exercise of DTUs which may be granted pursuant to the DTUCP in the future. The Fund therefore proposes increasing the fixed maximum number of Fund Units that may be issued pursuant to the DTUCP to 400,000, thereby ensuring that a reasonable number of Fund Units remain available for the grant of DTUs in the future.

TSX Requirement for Approval

The TSX requires listed issuers to seek securityholder approval for any increase in the number of securities reserved for issuance pursuant to a security based compensation arrangement that has a fixed number of securities issuable pursuant to its terms.

The TSX has conditionally approved the increase in the number of Fund Units available for issuance pursuant to the DTUCP, subject to Unitholder approval. Accordingly, at the Meeting, Unitholders will be asked to consider and, if thought advisable, approve the resolution set forth below. The resolution must be approved by a majority of the votes cast in person or by proxy at the Meeting by Securityholders.

Securityholder Approval

As an item of special business, the Securityholders will be asked at the Meeting to consider and, if thought fit, adopt the resolution set out below.

“BE IT RESOLVED THAT:

1. the amendment to the DTUCP to increase by 200,000 the maximum number of Fund Units issuable under the DTUCP such that the number of Fund Units issuable under the DTUCP shall equal 400,000, be and the same is hereby authorized, approved, ratified and confirmed; and
2. any director or officer of the Corporation, for and on behalf of the Fund, be and is hereby authorized and directed to execute and deliver such documents and instruments and take such other actions as such director or officer may determine to be necessary or advisable to implement this resolution and the matters authorized hereby, and the approval by such director or officer of the text of such documents or instruments and the taking of such actions shall be conclusive proof of the approval thereof by the holders of Fund Units.”

Board and Management Recommendation

Management recommends and the Board has determined that the directors' DTUCP continues to be in the best interests of the Fund and its Unitholders. The Board reserves the right to alter any terms or not proceed with the DTUCP at any time prior to the Meeting if it is in the best interests of the Fund and its Unitholders.

Management and the Board recommend that you vote FOR the above resolution. The directors named in the enclosed proxy will vote FOR these resolutions unless you indicate that the authority to do so is withheld.

Other Business

Management does not intend to present any other business at the Meeting. We are not aware of any amendments to the proposed matters or other matters which may be presented for action. If amendments or other matters are properly brought before the Meeting, your proxyholder will vote on these using his or her best judgment.

BOARD OF DIRECTORS

- The directors are in compliance with the unit ownership guidelines adopted in 2005.
- Following a market review in 2008, the board determined to conduct market reviews of the directors' compensation regularly (currently biannually) rather than annually to save costs.

Nominees

The 8 directors seeking re-election in 2009 are:

Stephanie L. Felesky, C.M.	Nicholas G. Kirton
Hugh A. Fergusson	Gary L. Kubera
Dennis G. Flanagan	Thomas A. Sugalski
Douglas P. Hayhurst	Lyll C. Work

These directors bring varied experience, knowledge and complementary skills to the board. See pages 17 - 20 for their biographies.

Nexen Appointees

Pursuant to the Governance Agreement, Nexen is entitled to appoint directors. The two Nexen appointees are:

Kevin J. Reinhart
Marvin F. Romanow

Areas of Expertise

The board has strong experience in managing and leading growth, international, financial and governance and board experience. Strong experience is present in CEO, human resources, and health, safety, environment and social responsibility, chemicals and financial acumen.

Independent Board

All directors, except for Mr. Kubera and Mr. Flanagan (and the Nexen-appointed directors pursuant to the Governance Agreement), are independent. See page 22 for details.

Sessions Without Management

The board and board committees have sessions without management at each regularly scheduled meeting. See page 23 for details.

Director Compensation

Non-executive directors are paid retainers for board and committee membership and fees for each meeting attended in person or by telephone. Total fees and retainers earned by all board members in 2009 were \$456,000. See pages 24 - 27 for details.

BOARD OF DIRECTORS

March 4, 2009

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NOMINEES

All current directors were elected at the annual meeting on April 24, 2008, and are management nominees for election to the Board.



Stephanie L. Felesky, C.M.
Calgary, Alberta, Canada

Independent

Director since August 18, 2005

Responsible Care® and
Public Policy Committee
Member

Corporate Governance and
Compensation Committee
Member

Fund Units Owned: 37,500
DTUs Owned: 17,620

Stephanie Felesky, 62 is a member of the Calgary Police Commission and a member of the Investment Committee and the Senior Compensation Committee of the University of Calgary. She is also the Co-Chair of the Calgary Children's Initiative and a founding director of the Calgary Homeless Foundation. She is a past director of the Canada Lands Company (a Crown Corporation involved in real estate development) and of Star Choice Communications Ltd. (a communications company wholly owned by Shaw Communications Inc. and previously TSX-V-listed) and several charitable and community based organizations including the United Way, Calgary Inc. and the Calgary Convention Authority,

Ms. Felesky received her Bachelor of Education with distinction from the University of Calgary. In 2004 she became a member of the Order of Canada and in 2005 received the designation of ICD.D from the Institute of Corporate Directors.



Hugh A. Fergusson
Calgary, Alberta, Canada

Independent

Director since August 18, 2005

Responsible Care® and
Public Policy Committee
Chair since August 18, 2005

Corporate Governance and
Compensation Committee
Member

Fund Units Owned: 27,500
DTUs Owned: 17,620

Hugh Fergusson, 61, is an independent businessman and corporate director. He is a retired executive who had over 25 years of service with The Dow Chemical Company, an international chemicals company listed on numerous stock exchanges. In 2004, he retired as the Vice President, Hydrocarbons and Energy, after holding several positions within the organization from his original position as Staff Lawyer. Mr. Fergusson is currently the President of Argyle Resources Inc. (a private energy consulting organization). He is a director of Provident Energy Trust (a TSX- and NYSE-listed oil and gas trust), AltaGas General Partners Inc. (a TSX listed infrastructure income trust), the Canadian Energy Research Institute, the Alberta Electric System Operator, Beyond Compliance Inc. (a private corporate supplier of information systems) and Galileo Educational Network. He is a past board member of Dow Chemical Canada Inc., Union Carbide Canada Inc., Petromont Inc., the Gas Processors Association of America and the Petrochemical Feedstock Association of the Americas.

Mr. Fergusson received a Bachelor of Arts in Political Science in 1970 from McMaster University; a Bachelor of Laws from the University of Windsor in 1973 and in 2006 received the designation of ICD.D. from the Institute of Corporate Directors.



Dennis G. Flanagan
Calgary, Alberta, Canada

Not Independent

Director since August 18, 2005

Board Chair since August 18, 2005

Fund Units Owned: 79,475
DTUs Owned: 28,112

Dennis Flanagan, 69, is a director of Nexen (a TSX- and NYSE-listed oil and gas company) and is a retired oil executive who worked in the oil and gas industry for more than 40 years, including with Ranger Oil Ltd. (a former international oil and gas company listed on numerous stock exchanges) and ELAN Energy Inc. (a former TSX-listed oil and gas company). Most recently, Mr. Flanagan was Executive Chairman of ELAN until it was acquired by Ranger in 1997. With these entities, Mr. Flanagan was involved in all phases of oil and gas exploration and development in Canada, the U.S. and the U.K. sector of the North Sea.

Mr. Flanagan is also a director of NAL Oil & Gas Trust (a TSX-listed oil and gas trust). He is also founding Chair of STARS (Shock Trauma Air Rescue) Foundation. Mr. Flanagan completed the Registered Industrial and Cost Accountant program, the predecessor to the Certified Management Accountant program, in 1967.



Douglas P. Hayhurst
West Vancouver, British Columbia, Canada

Independent

Director since August 18, 2005

Corporate Governance and Compensation Committee Member

Audit Committee Chair since August 18, 2005

Fund Units Owned: 19,392
DTUs Owned: 17,620

Douglas Hayhurst, 62, as an executive with IBM Canada Business Consulting Services and PricewaterhouseCoopers, has been involved globally in business consulting for a wide range of industries, including chemicals, forest, paper and packaging, aerospace and defense, metals and other heavy manufacturing industries. Mr. Hayhurst previously held various senior executive management roles with Price Waterhouse including National Deputy Managing Partner and Managing Partner for British Columbia. Mr. Hayhurst serves on a number of boards including Northgate Minerals Corporation, Accend Capital Corporation, the Advisory Board of Layfield Group Limited (a private company), the British Columbia Chapter of the Institute of Corporate Directors (immediate past Chair) and the Nature Conservancy of Canada (National Board member and British Columbia Region Board Chair).

Mr. Hayhurst received a Bachelor of Arts in Business Administration from the Richard Ivey School of Business at the University of Western Ontario. He is a Fellow of the Institute of Chartered Accountants of British Columbia (FCA) and in 2006 received the designation of ICD.D from the Institute of Corporate Directors.



Nicholas G. Kirton
Calgary, Alberta, Canada

Independent

Director since August 18, 2005

Corporate Governance and Compensation Committee Member

Audit Committee Member

Fund Units Owned: 22,360
DTUs Owned: 17,620

Nicholas Kirton, 64, is a retired Chartered Accountant who had 38 years of service with KPMG LLP, where he held the position of Client Service Partner from 1976 to 2004 and was an associate from 1966 to 1976. Mr. Kirton has served on a number of boards including KPMG and the Canadian Institute of Chartered Accountants, including as Chair of the Qualifications Committee of the Canadian Institute of Chartered Accountants. Mr. Kirton is also a director of Gran Tierra Energy Inc. (an NYSE Alternext and TSX listed international oil and gas exploration and production company), Grand Cache Coal Corporation (a TSX-listed coal mining company), Result Energy Inc. (a TSX-V-listed oil and gas exploration and production company) and the Canadian Investor Protection Fund. Mr. Kirton also serves as a member of the Board of Governors of the University of Calgary.

Mr. Kirton received a Bachelor of Science (Mathematics and Physics) in 1966 from Bishop's University, his Chartered Accountant designation in Quebec in 1969 and was named a Fellow of the Institute of Chartered Accountants (FCA) in Alberta in 1996, and in 2006 received the designation of ICD.D from the Institute of Corporate Directors.



Thomas A. Sugalski
Longboat Key, Florida,
U.S.A.

Independent

Director since August 18, 2005

Responsible Care® and Public Policy Committee Member

Corporate Governance and Compensation Committee Member

Fund Units Owned: 46,000
DTUs Owned: 17,620

Thomas Sugalski, 65, retired as the President of Nexen Chemicals (a division of Nexen) in March 2005, after 10 years in the position and retired as Senior Vice President, Chemicals of Nexen in August 2005, after 17 years with the company. Mr. Sugalski has 39 years experience in the chemicals industry and has held a variety of managerial positions in marketing, employee relations and general management. Before joining Nexen, he served as both Western New York Group Executive and Vice President and General Manager of the Detergent and Specialty Products Division of Occidental Chemical Corporation, a division of Occidental Petroleum Corp. (a NYSE-listed energy and chemicals company).

Mr. Sugalski was a member of the American Chemistry Council and on the Board of Directors of the Chlorine Chemistry Council and the Alliance for Environmental Technology, where he served as Chair for three years. Mr. Sugalski received his Bachelor of Arts in English and Chemistry from Marquette University in 1965.



Lyall C. Work

Mississauga, Ontario,
Canada

Independent

Director since August 18,
2005

Corporate Governance and
Compensation Committee
Chair since August 18, 2005

Audit Committee Member

Fund Units Owned: 24,000
DTUs Owned: 17,620

Lyall Work, 70, began his career with Cominco Ltd. (a public metals and mining company) in 1961. He joined Albright & Wilson (Albright) in 1967 where he held various positions, including President of Albright Americas, President of Albright Asia Pacific and President, Specialty Phosphates of Rhodia from April 2000 until his retirement in 2001. Mr. Work served on 20 boards of wholly-owned subsidiaries of Albright and joint ventures and on one public company board in India which was 40% owned by Albright.

Mr. Work received his Bachelor of Science in Chemical Engineering from the University of Alberta in 1961.



Gary L. Kubera

Houston, Texas, U.S.A.

Not Independent

President and CEO

Director since June 24,
2005

Fund Units Owned: 130,000

Gary Kubera, 49, was appointed President of Nexen Chemicals (a division of Nexen) in March 2005. Mr. Kubera joined Nexen Chemicals in 2002, first as the Director of Sales and subsequently was appointed as the Vice President, Marketing and Business Development. Prior to his employment with Nexen Chemicals, Mr. Kubera worked in sales, marketing, business development and regional and global general management for a number of chemicals-related enterprises, including as Vice President for Global Core Business of SC Johnson's Polymer division from 2000 to 2001 and a variety of positions with McWhorter Technologies Inc. Mr. Kubera also serves as a director on the Chlorine Chemistry Division of the American Chemistry Council and is the current Chairman of the Alliance for Environmental Technology.

Mr. Kubera received his Bachelor of Arts in Chemistry from Ithaca College in 1982 and his Masters of Business Administration from the University of Chicago in 1988, majoring in Finance.

As indicated at page 11, pursuant to the Governance Agreement, Nexen is entitled to appoint certain directors of the Corporation who, together with the directors nominated by the Unitholders at the Meeting, will compose the Board. The two directors of the Corporation currently proposed to be appointed by Nexen, together with the same information as furnished in respect of the proposed directors, are as follows:



Kevin J. Reinhart

Calgary, Alberta, Canada

Not Independent

Nexen Appointee
Director since June 24,
2005

Fund Units Owned: 44,500
Notional DTU Balance:
17,620

Kevin Reinhart, 50, was appointed Senior Vice President and Chief Financial Officer of Nexen effective January 1, 2009. Previously, Mr. Reinhart was Nexen's Senior Vice President, Corporate Planning and Business Development and held that position since July 2002. Mr. Reinhart also held the position as Nexen's Treasurer since October 1998 and Corporate Controller since July 1994. Prior to his employment with Nexen, Mr. Reinhart worked for 13 years in progressively senior roles with KPMG Canada including a two-year term in the firm's National Office Department of Professional Standards.

Mr. Reinhart has a Bachelor of Commerce from Saint Mary's University and is a Chartered Accountant.



Marvin F. Romanow
Calgary, Alberta, Canada

Not Independent
Nexen Appointee
Director since June 24,
2005

Fund Units Owned: 134,846
Notional DTU Balance:
17,620

Marvin Romanow, 53, is the President and Chief Executive Officer of Nexen. Mr. Romanow has over 30 years experience in the oil and gas industry, and has held senior positions in engineering, operations, finance and planning with Wascana Energy Inc., Amoco Canada Petroleum Company Ltd., and Dome Petroleum Ltd. Mr. Romanow served on the Management Committee of Syncrude Canada Ltd., Canada's largest oil sands venture. Mr. Romanow is also a director of the Canadian Energy Research Institute, a leading North American energy think-tank.

Mr. Romanow is a graduate of Harvard's Program for Management Development and in October of 2007 he completed INSEAD's Advanced Management Programme. In April of 2007 he was awarded Canada's "CFO of the Year" award and in September of the same year he received the Petroleum Economist award for "Energy Executive of the Year 2006". Mr. Romanow holds a Masters of Business Administration and a Bachelor of Engineering, with Great Distinction, from the University of Saskatchewan.

OTHER PUBLIC COMPANY DIRECTORSHIPS/COMMITTEE APPOINTMENTS

Name	Other Public Company Directorships	Stock Exchange
Felesky	None	—
Fergusson	Provident Energy Trust AltaGas General Partner Inc.	TSX; NYSE TSX
Flanagan	Nexen Inc. NAL Oil & Gas Trust	TSX; NYSE TSX
Hayhurst	Northgate Minerals Corporation Accend Capital Corporation	TSX; AMEX TSX-V
Kirton	Gran Tierra Energy Inc. Grande Cache Coal Corporation Result Energy Inc.	TSX; NYSE Alternext TSX TSX-V
Sugalski	None	—
Work	None	—
Kubera	None	—
Reinhart	None	—
Romanow	Nexen Inc.	—

Interlocking Service as at March 4, 2009

Company	Directors in Common
Nexen Inc.	Flanagan
Nexen Inc.	Romanow

INDEPENDENCE AND BOARD COMMITTEES

The board affirmed director independence under our Categorical Standards for director independence, attached as Schedule “C”, which were adopted in 2005 and most recently affirmed on February 19, 2009. Our Categorical Standards meet or exceed the requirements set out in National Policy 58-201 – Corporate Governance Guidelines (NP 58-201) and National Instrument 52-110 – Audit Committees (NI 52-110). See page 62 for details on the process followed to determine director independence. The Board continually monitors developments in corporate governance, as it relates to independence and otherwise, and notes in particular the publication of proposed instruments to replace NP 58-201

and NI 52-110 with less prescriptive standards. The Board will ensure that it will continue to meet or exceed whatever standards are adopted.

Mr. Kubera is not independent as he is President and CEO.

Mr. Flanagan is not independent as he is a director of Nexen. The Board has determined that Mr. Flanagan’s independence has not been compromised and, accordingly, the Board continues to include him in their meetings without management.

Committees (Number of Members)

	Audit ¹ (3)	Corporate Governance & Compensation (6)	Responsible Care and Public Policy (3)
Management Director – Not Independent			
Gary L. Kubera			
Outside Director – Not Independent			
Dennis G. Flanagan			
Independent Outside Directors			
Stephanie L. Felesky		√	√
Hugh A. Fergusson		√	Chair
Douglas P. Hayhurst	Chair	√	
Nicholas G. Kirton	√	√	
Thomas A. Sugalski		√	√
Lyll C. Work	√	Chair	

Note:

1. Experience of the members of the Audit Committee that indicates an understanding of the accounting principles we use to prepare our financial statements is shown in their biographies on pages 17 to 20.

MEETING ATTENDANCE

It is anticipated that all directors will attend the AGM. All of the directors were at the 2008 AGM.

In 2008, the average board and committee attendance rate was 99%. All directors attended regularly scheduled board and committee meetings held on February 18 and 19, 2009.

All directors have a standing invitation to attend all committee meetings, not just those of their own committees.

Director	Meetings Attended of Meetings Held							
	Board	Attended ¹	Audit Committee	Attended	Corporate Governance and Compensation Committee	Attended	Responsible Care® and Public Policy Committee	Attended
Stephanie L. Felesky	6 of 6	100%	n/a		4 of 4	100%	4 of 4	100%
Hugh A. Fergusson	6 of 6	100%	n/a		4 of 4	100%	4 of 4	100%
Dennis G. Flanagan	6 of 6	100%	n/a		n/a		n/a	
Douglas P. Hayhurst	6 of 6	100%	6 of 6	100%	4 of 4	100%	n/a	
Nicholas G. Kirton	6 of 6	100%	6 of 6	100%	4 of 4	100%	n/a	
Gary L. Kubera ²	6 of 6	100%	n/a		n/a		n/a	
Kevin J. Reinhart	6 of 6	100%	n/a		n/a		n/a	
Marvin F. Romanow	6 of 6	100%	n/a		n/a		n/a	
Thomas A. Sugalski ³	5 of 6	83%	n/a		n/a		4 of 4	100%
Lyll C. Work	6 of 6	100%	6 of 6	100%	4 of 4	100%	n/a	

Notes:

1. There were five regularly scheduled and one special board meeting in 2008.
2. Mr. Kubera is not a member of any Committee of the Board.
3. The director was unable to attend a meeting due to a death in his immediate family.

SESSIONS WITHOUT MANAGEMENT AND MEETINGS HELD

At each regularly scheduled meeting and certain special meetings of the board and all committees, sessions without management are held. The chair presides over these sessions and informs management of the subjects discussed and any action required to be taken. All five regular board meetings in 2008 had sessions without management.

Board/Committee	Sessions Without Management in 2008 / Meetings Held		
	Regular	Special	Overall
Board	5/5	0/1	5/6
Audit Committee	4/4	1/1	5/5
Corporate Governance and Compensation Committee	4/4	-	4/4
Responsible Care® and Public Policy Committee	4/4	-	4/4
Total	17/17	1/2	18/19

DIRECTOR COMPENSATION

The Fund provides its directors with a comprehensive compensation package consisting of annual cash retainers, meeting fees and equity based incentive in the form of DTUs. The total compensation package provides a competitive level of remuneration for the increasing responsibilities, time commitments and accountability of board members. All

elements of director compensation are reviewed regularly (currently bi-annually) for competitiveness against a peer group of industrial companies by the CGC Committee and the board. Our compensation philosophy targets the 50th percentile, to attract and retain qualified talent to serve on our board.

Summary Compensation Table

Name	Fees Earned ¹ (\$)	Share-based Awards ² (\$)	Option- based Awards (\$)	Non-Equity incentive plan compensation (\$)	Pension Value (\$) ³	All other compensation ⁴ (\$)	Total (\$)
Felesky	52,000	18,500	N/A	N/A	N/A	3,148	73,648
Fergusson	57,000	18,500	N/A	N/A	N/A	3,093	78,593
Flanagan ⁵	59,000	25,900	N/A	N/A	N/A	594	85,494
Hayhurst	63,500	18,500	N/A	N/A	N/A	3,907	85,907
Kirton	53,500	18,500	N/A	N/A	N/A	2,869	74,869
Kubera ⁶	Nil	Nil	N/A	N/A	N/A	Nil	Nil
Sugalski	44,500	18,500	N/A	N/A	N/A	9,446	72,446
Work	58,500	18,500	N/A	N/A	N/A	5,884	82,884
Reinhart	34,000	18,500	N/A	N/A	N/A	0	52,500
Romanow	34,000	18,500	N/A	N/A	N/A	0	52,500

Notes:

1. Includes all retainers and meeting fees.
2. The grant date fair value of DTUs granted on October 22, 2008 is based on the closing market price of Canexus units on the TSX on that date of \$3.70.
3. None of the directors is provided with a pension (Mr. Kubera's pension is provided to him as an executive of Canexus, not as a director).
4. Canexus reimburses directors for out-of-pocket travel expenses for attending meetings in person or by conference call.
5. Mr. Flanagan is the Board Chair of Canexus and was paid fees of \$59,000 in 2008. The total is included in this column.
6. As an executive of Canexus, Mr. Kubera is not paid any director compensation.

Retainers and Fees

Annual board and committee retainers are paid quarterly and pro-rated for partial service. The same fees are paid for attending meetings in person or by conference call.

Year	2006 \$	2007 \$	2008 \$
Board Chair Retainer	50,000	50,000	50,000
Board Member Retainer	25,000	25,000	25,000
Audit Committee Chair Retainer	10,000	10,000	10,000
Other Committee Chair Retainer	5,000	5,000	5,000
Committee Member Retainer	3,000	3,000	3,000
Board and Committee Member Fees (per meeting attended)	1,500	1,500	1,500

DTUs

The Fund has adopted a Directors' Deferred Trust Unit Compensation Plan. The timing and amounts of grants of DTUs under the DTUCP are determined by the directors, upon recommendation of the Corporate Governance and Compensation Committee. Pursuant to the DTUCP, DTUs vest immediately upon grant. Additionally, the monthly cash distributions associated with the DTUs granted will be notionally reinvested into DTUs each month and will accumulate until the date that a director ceases to be a director of the Corporation and will increase the number of Fund Units ultimately issued to the director from treasury or the cash payment to be made to a director following a change of control, as described below. The long-term incentive award will be paid only after a director leaves the Board or in the event of a change of control of the Fund or a sale of all or substantially all of the assets of the Fund. The exchange by Nexen of Exchangeable Units of Canexus LP into Fund Units will not constitute a change of control for the purposes of the DTUCP.

After a director ceases to be a director of the Corporation by reason of disability, death, retirement or resignation (other than a resignation as a result of or following any misconduct or fraudulent act by the director or following a change of control of the Fund), the director would receive Fund Units from the Fund equivalent to the number of DTUs acquired by the director (including all notional reinvestments into DTUs upon cash distributions, as described in the preceding paragraph). If a director ceased to be a director of the Corporation as a result of or following any misconduct or fraudulent act of the director the director would forfeit all rights to any DTUs (including the right to receive Fund Units or any cash payment equivalent). In the event of a change of control or sale of all or substantially all of the assets of the Fund, a director would, after such event, receive a lump sum cash payment equivalent to the market price, on the effective date of such event, of the Fund Units underlying DTUs granted to such director (adjusted to reflect the notional reinvestments of all cash distributions associated with such DTUs). An amendment is proposed to the Unitholders at this AGM to confirm that the directors entitled to receive DTUs under the DTUCP should include the Nexen nominated directors.

The DTUCP also includes special provisions that apply to directors who are subject to certain deferred tax compensation law in the United States. These provisions impose extra conditions on the distribution of DTUs to avoid adverse and punitive tax consequences under U.S. tax laws. The DTUCP further provides that these special provisions can be amended by the Board in its sole discretion without the approval of Unitholders or any individual director. The timing of payments under these special provisions were amended by the Board effective January 1, 2009 to comply with the requirements of Internal Revenue Code section 409A.

ADTU grant is personal to the director and is non-transferable and non-assignable. The DTUCP contains standard adjustment and anti-dilution provisions for changes in the capital structure of the Fund.

An aggregate of 200,000 Fund Units was initially reserved as available for issuance under the DTUCP. At March 4, 2009 there were 169,072 DTUs issued (including 35,240 which were notionally issued to the Nexen appointed directors), and a proposal to replenish the number of Fund Units reserved for issuance under the DTUCP is proposed for Unitholder approval at this Meeting, and will be subject to receipt of TSX approval.

The maximum number of Fund Units that may be reserved for issuance to any one director or issuable to insiders of the Fund as a whole, under the DTUCP together with any other securities based compensation arrangement, shall in each case not exceed 5% of the issued and outstanding Fund Units (on a non-diluted basis, but including the number of issued and outstanding Exchangeable Units of Canexus LP).

Unitholders may obtain a copy of the DTUCP by contacting the Corporate Secretary of the Corporation at Suite 600, 801 - 7th Avenue S.W., Calgary, Alberta, T2P 3P7 or by email at corporate.secretary@canexus.ca.

DTU Grants in 2008

Position	Grant Date	DTUs (#)	Base Price ¹ (\$)	Value of DTUs ² (\$)
Board Chair	October 22, 2008	7,000	3.70	\$25,900
Other non-executive directors	October 22, 2008	5,000	3.70	\$18,500

Notes:

1. The closing market price of Canexus units on the TSX on that date.
2. The number of DTUs multiplied by the base price.

Fund Unit Ownership Guidelines

Directors demonstrate their commitment to the Fund's success through Fund Unit ownership guidelines set in 2005, that set out that directors are expected to own or control Fund Units at least four (4) times their annual retainers by the end of the fourth year after initial appointment.

All directors surpass these guidelines.

EQUITY OWNERSHIP AND CHANGES FROM MARCH 5, 2008 TO MARCH 4, 2009

Name	March 5, 2008		March 4, 2009		Net Change		Equity at Risk ²	
	Units Owned (#)	DTUs Owned (#)	Units Owned (#)	DTUs Owned (#)	Units Owned (#)	DTUs Owned (#)	Acquisition Cost (\$)	Multiple of Annual Retainer
Felesky	32,500	10,538	37,500	17,620	5,000	7,082	289,757	11.59
Fergusson	20,000	10,538	27,500	17,620	7,500	7,082	179,706	7.19
Flanagan	35,000	17,719	79,475	28,112	44,475	10,373	443,319	8.87
Hayhurst	12,000	10,538	19,392	17,620	7,392	7,082	143,112	5.72
Kirton	17,000	10,538	22,360	17,620	5,360	7,082	168,025	6.72
Kubera ¹	70,000	Nil	130,000	Nil	60,000	Nil	812,510	N/A
Sugalski	20,000	10,538	46,000	17,620	26,000	7,082	250,373	10.01
Work	18,000	10,538	24,000	17,620	6,000	7,082	166,432	6.66
Reinhart ³	11,500	10,538	44,500	17,620	33,000	7,082	199,305	7.97
Romanow ³	117,300	10,538	134,846	17,620	17,546	7,082	829,053	33.16
Total	353,300	102,023	565,573	169,072	212,273	67,029	3,481,592	97.90

Notes:

1. Mr. Kubera does not receive DTUs as he is an officer of the Corporation. Mr. Kubera has a mandatory unitholding target (twice his annual base salary) by the end of the five year accumulation period after his appointment.
2. Equity at Risk is the acquisition cost of Fund Units owned by the directors on March 4, 2009 divided by the annual retainer.
3. The DTU balances for Messrs Reinhart and Romanow are notional balances.

Although the TUIP permits participation by the directors, they have not and do not currently participate in the TUIP.

Name	Option-Based Awards ¹				Unit-Based Awards ²	
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised In-The-Money Options	Number of Shares or Units that have not Vested ³ (#)	Market Payout Value of Unit Awards that have not Vested ³ (\$)
Felesky	N/A	N/A	N/A	N/A	N/A	N/A
Fergusson	N/A	N/A	N/A	N/A	N/A	N/A
Flanagan	N/A	N/A	N/A	N/A	N/A	N/A
Hayhurst	N/A	N/A	N/A	N/A	N/A	N/A
Kirton	N/A	N/A	N/A	N/A	N/A	N/A
Kubera	N/A	N/A	N/A	N/A	N/A	N/A
Sugalski	N/A	N/A	N/A	N/A	N/A	N/A
Work	N/A	N/A	N/A	N/A	N/A	N/A
Reinhart	N/A	N/A	N/A	N/A	N/A	N/A
Romanow	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

1. The directors do not currently participate in the TUIP.
2. The non-management directors participate in the DTUCP.
3. The DTUCP provides that all grants vest immediately.

Incentive Plan Awards – Value Vested or Earned During the Year

Name	Option-Based Awards – Value Vested During the Year ¹ (\$)	Share Based Awards – Value During the Year on Vesting ² (\$)	Non-Equity Incentive Plan Compensation – Value Earned During the Year ⁵ (\$)
Felesky	N/A	18,500	N/A
Fergusson	N/A	18,500	N/A
Flanagan	N/A	25,900	N/A
Hayhurst	N/A	18,500	N/A
Kirton	N/A	18,500	N/A
Kubera ³	N/A	Nil	N/A
Sugalski	N/A	18,500	N/A
Work	N/A	18,500	N/A
Reinhart ⁴	N/A	18,500	N/A
Romanow ⁴	N/A	18,500	N/A

Notes:

1. The directors do not currently participate in the TUIP.
2. The non-management directors participate in the DTUCP, which provides for immediate vesting on grant.
3. Mr. Kubera does not participate in the DTUCP.
4. Mr. Reinhart and Mr. Romanow have been credited with a notional balance of 5,000 DTUs, each on October 22, 2008. These grants are to be clarified by the proposed amendment to the DTUCP which would amend the DTUCP definition of “Director” to include the Nexen appointed directors. Upon approval by the Securityholders, it is the current intention to grant the amount of DTUs in their respective balances to each of the Nexen-appointed directors.
5. The directors do not participate in any non-equity incentive plan.

Audit Committee (100% independent)

The Audit Committee assists the Board to oversee accounting and financial reporting controls, audit processes and implementing the ethics policy. Audit and audit-related fees were 68.8% of the total fees the Fund paid to the independent Auditor in 2008.

AUDIT COMMITTEE REPORT

The Audit Committee is responsible for recommending to the Board the appointment (subject to unitholder approval), compensating and overseeing the independent chartered accountants (external Auditors) who are accountable to and report directly to the Committee, and understand that they must maintain an open and transparent relationship with the Committee, as representatives of the unitholders.

All members of the Audit Committee are independent and knowledgeable about our financial reporting controls, and internal and external audit processes. See the directors' biographies on pages 17 through 21 for additional information.

The Audit Committee assists the Board in overseeing internal accounting and financial reporting controls, internal and external audit processes, and implementation of the ethics policy. The Audit Committee is also assisting the Board in overseeing the conversion to International Financial Reporting Standards requirements.

Management is responsible for our internal controls and financial reporting process. The external Auditors are responsible for performing and reporting on an independent audit of our consolidated financial statements according to generally accepted auditing standards. The Audit Committee's responsibility is to monitor and oversee these processes.

Changes to Committee Membership in 2008

There have been no changes to the Committee members in 2008.

Key Activities for 2008

- Met separately with management, internal auditor and the external Auditors to review the December 31, 2008 consolidated financial statements;
- Discussed with the external Auditors matters required by Canadian regulators under Section 4741 of the General Assurance and Auditing Standards of the Canadian Institute of Chartered Accounts "Communications with Those Having Oversight Responsibility for the Financial Reporting Process".
- Discussed with the external Auditors that firm's independence;
- Based on the reviews and discussions referred to above, recommended to the Board that the audited consolidated financial statements be included in Canexus' annual report for the year ended December 31, 2008;
- Oversaw the compliance activities undertaken by management to report on the effectiveness of internal control over financial reporting as at December 31, 2008;
- Reviewed and approved the quarterly consolidated financial statements;
- Recommended changes to the ethics policy; and
- Reviewed the Fund's conversion implementation plan to address the announcement by the Canadian Accounting Standards Board on February 13, 2008 that publicly accountable enterprises will be required to prepare financial statements in accordance with the International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

Audit Partner Rotation

In compliance with applicable law, the lead audit partner of our external Auditors is replaced every five years.

External Auditor's Engagement and Fees Billed

Before Deloitte & Touche LLP, the external Auditor, is engaged by Canexus or its subsidiaries to render additional audit or non-audit services, the engagement is approved by the Committee. All audit, audit-related, tax and other services provided by Deloitte & Touche LLP since August 18, 2005 have been approved by the Committee.

The aggregate fees paid to Deloitte & Touche LLP (exclusive of GST) for the years ended December 31, 2008 and December 31, 2007 were as follows:

Fee Description	Year Ended December 31, 2008 \$	Year Ended December 31, 2007 \$
Audit ¹	253,142	201,400
Audit-related ²	29,730	20,708
Tax ³	42,824	21,266
All Other Fees ⁴	85,278	-

Notes:

1. Audit Fees is defined in section 9 of Part 1 of National Instrument 52-110 Audit Committee (NI 52-110), as the aggregate fees billed by the issuer's external Auditor in each of the last two fiscal years for audit services. Audit Fees for the years ended December 31, 2008 and December 31, 2007 include amounts billed for the review of quarterly consolidated financial statements and the audit of the annual consolidated financial statements of the Fund and Canexus LP.
2. Audit-Related Fees is defined in section 9 of Part 1 of NI 52-110, as the aggregate fees billed in each of the last two fiscal years for assurance and related services by the issuer's external Auditor that are reasonably related to the performance of the audit or review of the issuer's financial statements and are not reported under Audit Fees. Audit-Related Fees for the years ended December 31, 2008 and December 31, 2007 include amounts billed for the annual audit of the Fund's defined benefit pension plan and certain subsidiary entity financial statements.
3. Tax Fees is defined in section 9 of Part 1 of NI 52-110, as the aggregate fees billed in each of the last two fiscal years for professional services rendered by the issuer's external Auditor for tax compliance, tax advice, and tax planning. Tax Fees for the years ended December 31, 2008 and December 31, 2007 include amounts billed for the preparation of certain subsidiary entity tax returns and property tax consulting.
4. All Other Fees is defined in section 9 of Part 1 of NI 52-110, as the aggregate fees billed in each of the last two fiscal years for products and services provided by the issuer's external Auditor, other than the services reported under Audit Fees, Audit-Related Fees and Tax Fees. All Other Fees for the year ended December 31, 2008 included amounts billed for assistance with conducting a risk assessment to identify, document and rank enterprise risks relevant to the Fund's operations, conversion to International Financial Reporting Standards (IFRS) and the assessment of counterparty credit risk. All Other Fees for the year ended December 31, 2007 include amounts billed for assistance with the review, assessment and documentation of internal controls over financial reporting.

Committee Approval

The Committee is of the view that the provision of services by Deloitte & Touche LLP described in "All Other Fees" above is compatible with maintaining that firm's independence.

Based on the Committee's discussions with management and the external Auditors, the Committee recommended to the board that the audited consolidated financial statements be included in the Fund's annual report for the year ended December 31, 2008.

Submitted on behalf of the Audit Committee:

Douglas Hayhurst, Chair
 Nicholas Kirton
 Lyall Work

Corporate Governance and Compensation Committee (100% independent)

The Corporate Governance and Compensation Committee assists the Board to manage corporate governance, director selection, board committee appointments, corporate governance policies and performance evaluations; and to oversee key compensation and human resources policies, CEO and executive compensation, and executive succession and development.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE REPORT

The Corporate Governance and Compensation (CGC) Committee assists the Board to oversee implementation of our corporate governance processes, recommending nominees for director appointment and evaluating the Board, its committees and all individual directors and chairs, to ensure we implement a high level of governance practices appropriate to Canexus. The CGC Committee also assists the Board in overseeing key compensation and human resources policies, CEO and executive compensation, and executive management succession and development. The CGC Committee reports to the Board, as set out in its mandate, and the Board or independent directors give final approval to compensation matters.

All members of the CGC Committee are independent and knowledgeable about our corporate governance and compensation programs. See the directors' biographies on pages 17 through 21 for additional information.

Changes to CGC Committee Membership in 2008

Mr. Sugalski joined the CGC Committee in October 2008.

Key Governance Activities in 2008

- Recommended revisions to the corporate governance policy;
- Reviewed our position on current governance issues, including the trust unit incentive plan;
- Recommended changes to committee memberships in light of Mr. Sugalski becoming independent as of August 18, 2008;
- Recommended updated mandates for the Board, individual directors and all Board committees;
- Recommended new and updated questions in the Board performance evaluation based on comments received the previous year.

Corporate Governance Practices

Our governance practices are reported in the table in Schedule "A" (page 52) which sets out our compliance in regard to National Instrument 58-101 – Disclosure of Corporate Governance Practices.

The Board and Committees

The CGC Committee reviews Board and committee memberships annually, considering director independence and the skills and preferences of the directors. The Board is comprised of 10 directors (two of whom are nominated by Nexen pursuant to the Governance Agreement), which is large enough to permit a diversity of views and run the committees, without being so large as to detract from effectiveness. The CGC Committee's review of board experience indicates that the current skills mix is appropriate.

Key Compensation Activities in 2008

- Recommended compensation programs for base salary, annual cash and long-term incentives;
- Recommended salaries, bonuses and grants of Options to the executives;
- Assessed CEO performance on short-term and long-term corporate goals and objectives and recommended CEO compensation, which was approved by the independent directors of the Board;
- Reviewed the CEO's annual objectives and our executive management succession and development plans;
- Evaluated and approved organizational changes and officer appointments;
- Approved special recognition awards for key business initiatives; and
- Recommended director compensation, including DTU grants.

Outside Consultant

The CGC Committee engaged Hugessen Consulting Inc. to provide a confidential report and technical analysis of market data on the CEO's compensation, in light of Canexus' operations and compensation programs. The report included competitive information from a list of peer companies recommended by Hugessen. The decisions of the CGC Committee are their responsibility and may reflect factors other than the information and recommendations provided by Hugessen and management.

Hugessen did not provide any compensation consulting services to management in 2008. We participated in compensation surveys in Canada and international locations and purchased select published results.

Management must obtain CGC Committee approval before retaining Hugessen for any compensation consulting work.

Committee Approval

The CGC Committee has reviewed and discussed with management the corporate governance and compensation disclosure in this document, including the information in Schedule “A” - Corporate Governance Disclosures, in the Board section on pages 15 through 27, in the Compensation Discussion and Analysis section on pages 35 through 39, and in the Executive Compensation section on pages 40 through 51, and has recommended to the Board that it be included in this Circular.

Submitted on behalf of the Corporate Governance and Compensation Committee:

Lyll Work, Chair
Stephanie Felesky
Hugh Fergusson
Douglas Hayhurst
Nicholas Kirton

Responsible Care® and Public Policy Committee (100% Independent)

The Responsible Care® and Public Policy (RCPP) Committee assists the board to oversee Canexus' health, safety, environment and corporate responsibility systems.

RESPONSIBLE CARE® AND PUBLIC POLICY COMMITTEE REPORT

The Responsible Care® and Public Policy Committee assists the board in overseeing the implementation of programs for the management of Responsible Care®, health, safety, environment and corporate responsibility. The RCPP Committee encourages, assists and counsels management in maintaining and improving performance.

All members of the RCPP Committee are independent and knowledgeable about our corporate Responsible Care®, health, safety, environmental, product stewardship and corporate responsibility programs. See the directors' biographies on pages 17 through 20 for additional information.

Changes to Committee Membership in 2008

There were no changes to the Committee's members in 2008.

Key Activities in 2008

- Met regularly with management to review overall RCPP performance and statistics;
- Reviewed the Responsible Care® report;
- Regularly reviewed RCPP related risk management and audit activities;
- Received regular detailed security reviews;
- Reviewed process safety management audits and recommendations;
- Received regular transportation safety reviews;
- Oversaw the launch and implementation of Canexus' Mission Zero safety initiative; and
- Visited Brazil plant.

Special Presentations

The RCPP Committee also receives presentations from time to time on various topics so that members are aware of emerging issues and trends. In 2008 issues emphasized included:

- Process safety management and learnings from BP;
- Groundwater analysis at Canexus' Brazilian plant in Espirito Santo State, Brazil; and
- Transportation issues affecting toxic inhalant hazard (TIH) substances, including chlorine.

The RCPP Committee oversees the Fund's commitment to corporate responsibility. The Fund continues to be a recognized industry leader in Responsible Care®. Details on the Fund's current activities will be set out in the 2008 Responsible Care® and Corporate Responsibility report that will be available later this year.

The RCPP Committee regularly discusses reports from groundwater and environmental monitoring at its North American and Brazilian sites with management.

External Recognition and Verification

The Fund was recognized in 2008 for its RCPP performance as follows:

- Awarded the Grand Slam Award presented by the American Association of Railroads/Bureau of Explosives for shippers who achieve zero Non Accident Releases (NARS) with at least four Class 1 North American Railroad safe shipping awards. Canexus was one of only two shippers in North America who achieved this prestigious award for 2007 with five Class 1 Railroad awards;
- Doug Parker, Canexus' Brandon Safety/Security Coordinator, is named to the Board of Directors of Safer Communities in Canada;
- Canexus Brazil achieved 7 years without an employee recordable incident; and
- Canexus Bruderheim and Brandon plants achieved 3 years without an environmental incident.

Submitted on behalf of the Responsible Care® and Public Policy Committee:

Hugh Fergusson, Chair
Stephanie Felesky
Thomas Sugalski

COMPENSATION DISCUSSION AND ANALYSIS

- **Description of objective and subjective performance measures and the board's discretionary assessment of executive performance against those measures (see page 38)**
- **Chart added to describe the compensation approval process (see page 36)**
- **Additional peer group information and disclosure of publicly-traded peers (see page 37)**

Compensation Objectives

Our annual reviews target fixed salaried compensation for executives at the 50th percentile.

See page 35 for details.

Key Elements

Key elements of our compensation are:

- base salaries and variable annual cash incentives in the short-term, and
- Option grants under the TUIP to key employees as long-term incentives.

See page 35 for details.

Annual Cash Incentives

Annual incentives provide cash compensation tied to achieving business objectives within a one-year period. The bonus factor for 2008 was 149%.

See page 37 for details.

Unitholdings Guidelines

All executives demonstrate their commitment to the Fund by holding Fund Units equaling a multiple of their annual salary within five years of appointment. The CEO, Gary Kubera, is required to hold Fund Units at a cost of two times his annual salary. The other executives are required to hold Fund Units at a cost equal to their annual salary.

See page 46 for details.

Long-Term Incentives

Employees' interests are aligned with the interests of the Fund's Unitholders through the TUIP, for key employees. Fund Units reserved for issue under the trust unit incentive plan are 5% of our outstanding Fund Units. No Fund Units were issued upon exercise of Options under this plan in 2008.

See page 39 for details.

Benefit and Pension Plans

Canexus supports the health and well-being of its employees and encourages employee retirement savings.

Executives participate in the same plans as employees at the same location. The supplemental retirement benefits of the executive benefit plan are provided to executive participants who earn a retirement benefit greater than the statutory limits.

See page 46 for details.

COMPENSATION DISCUSSION AND ANALYSIS

March 4, 2009

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COMPENSATION DISCUSSION AND ANALYSIS

COMPENSATION PHILOSOPHY

Our policies and practices for executive compensation are linked to both short-term and long-term strategic business objectives. Our executives' variable compensation is based on the Fund's performance and individual performance factors, with the weighting determined by the scope of their responsibilities and ability to influence performance. The overall goal is to target fixed salaried compensation for our executives at the 50th percentile as compared with compensation levels of peer companies and variable incentive compensation based on individual performance and the Fund's performance.

Our philosophy is to compensate executives in a manner to attract and retain talented leadership focused on managing the Fund's operations, finances and assets, through two components:

- base salary, at a level competitive with our peers,
- variable incentive compensation, which consists of an annual cash incentive bonus based on individual and the Fund's performance and a TUIP grant of Options and Bonus Rights which is exercisable over three years.

Individual performance and personal contributions are considered in determining the amount of variable annual incentive compensation awards. In determining TUIP grants, in addition to these elements, awards reflect succession and retention priorities. The objective and subjective performance measures used to evaluate individual performance are aligned with financial and non-financial goals and Unitholder interests.

COMPENSATION OBJECTIVES

The Fund's compensation program includes three components: base salary, annual cash incentive and long-term incentive. At least once each year we assess the competitiveness of these individual components and the overall compensation. Our goal in regard to cash compensation is to reward employees at or near the 50th percentile as compared to our peers. Our goal in regard to TUIP Option grants is to ensure such equity based long-term compensation tracks financial performance while reinforcing the Fund's attraction and retention imperatives.

Key Elements of Compensation

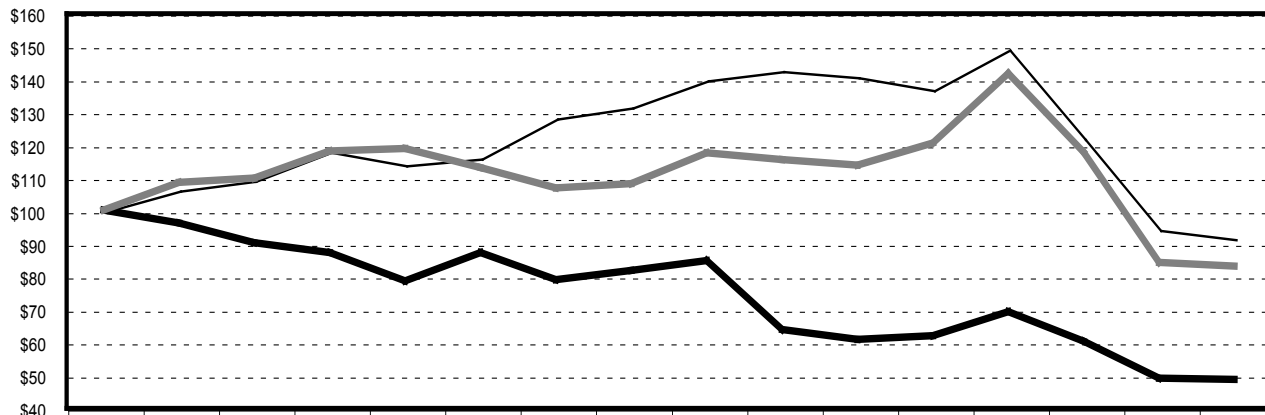
Element	Component	Form	Performance Period
Base salary	Fixed	Cash	1 year
Annual cash incentives	Variable	Cash	1 year
Long-term incentive	Variable	Options & Bonus Rights	Greater than 1 year

Target Weightings

Because the Fund's compensation programs are designed to meet both performance and competitiveness objectives, actual compensation weighting will vary from year to year. In general, the Fund's compensation programs are designed to provide a significant component of executive compensation in the form of at-risk pay to ensure alignment with Unitholders. Base salary provides a competitive foundation considering both internal equity and external market data. Annual cash incentives reflect short-term performance of the Fund as well as individual contribution. Long-term incentive compensation is intended to reward the Fund's unit price performance. The actual mix between the compensation elements varies, depending on the executive's ability to influence short-term and long-term business results, their level and competitive local market practices.

FUND UNIT PERFORMANCE GRAPH

The Fund Units are listed and posted for trading on the TSX under the trading symbol "CUS.UN". The following line graph and table assume a \$100 investment on August 18, 2005 (the date of completion of the Fund's initial public offering), and compare the change in the cumulative total return on the Fund Units over the period from August 18, 2005 to December 31, 2008, with the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Income Trust Index (assuming reinvestment of distributions) over the same period:



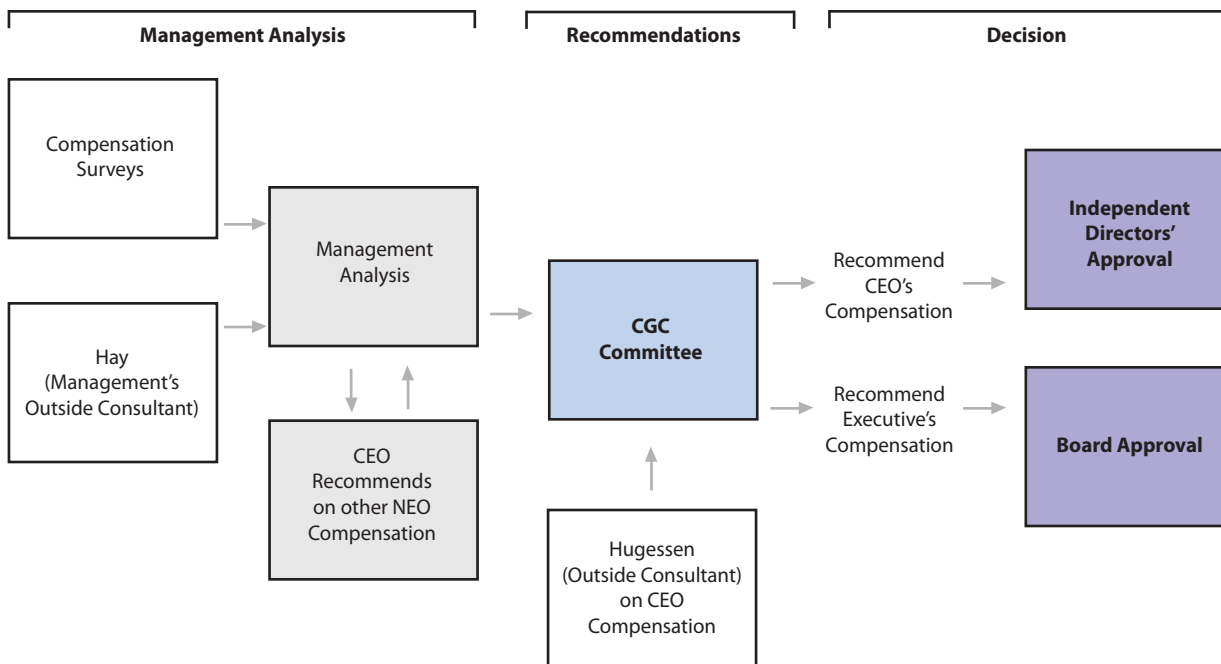
	2005/08/18	2005/09	2005/12	2006/03	2006/06	2006/09	2006/12	2007/03	2007/06	2007/09	2007/12	2008/03	2008/06	2008/09	2008/12	2009/01
Canexus Income Fund	100.00	96.00	90.06	86.90	78.46	87.04	78.78	81.62	84.58	63.63	60.62	61.73	68.93	60.11	48.74	48.51
S&P/TSX Composite Index	100.00	106.24	109.28	118.00	113.86	116.05	128.14	131.48	139.74	142.52	140.74	136.74	149.17	122.00	94.29	91.50
S&P/TSX Income Trust Index	100.00	108.26	109.69	117.82	118.68	112.88	106.57	107.87	117.31	115.32	113.62	120.32	141.45	117.52	83.98	82.95

— Canexus Income Fund — S&P/TSX Composite Index — S&P/TSX Income Trust Index

Total Unitholder Return Comparison Index (August 18, 2005 to December 31, 2008)

The trend in executive compensation closely follows its design objectives. Annual cash incentives closely mirror the Fund's performance results for the related periods. In 2007, cash incentives were relatively low while in 2008 they exhibit the Fund's strong financial performance. Long-term incentives issued to date are out-of-the money replicating the Fund's unit price performance since inception.

COMPENSATION APPROVAL PROCESS



The CGC Committee reviews the various compensation elements both individually and in total to ensure they align with the program objectives.

BASE SALARIES

A framework of job levels based on internal comparability and external market data is used to determine base salaries, considering the individual's current and sustained performance, skills and potential.

ANNUAL CASH INCENTIVES

The program provides competitive bonus compensation that reflects the Fund's overall performance and that of the individual, and provides cash compensation that is at-risk and dependent upon the achievement of specific business and operating objectives within one year.

Benchmark Review (CEO)

In assessing the relative positioning of the CEO, the CGC Committee retains the services of its own independent executive compensation consultant, Hugessen, to provide external market data and commentary.

Two peer groups (Canadian and U.S.) are considered in evaluation of the CEO's compensation, which are chosen by the market sector (i.e. chemicals), revenue size, market capitalization and whether the peer companies have foreign activities, because Canexus has substantial operations in Brazil. Given the similar positions across the industry, the surveys effectively represent competitive pay levels.

The composition of our peer groups is reviewed annually by Hugessen and the CGC Committee for continued relevance. In 2008, executive peer groups included the following publicly traded companies:

Intertape Polymer Group Inc.
 Canam Group Inc.
 Chemtrade Logistics Income Fund
 Winpak Ltd.
 SKF Pulp Fund
 Stella-Jones Inc.
 IPL Inc.
 NEO Materials Technologies Inc

The U.S. peer group included the following publicly traded companies:

GenTeck, Inc.
 Innophos Holdings, Inc.
 LSB Industries, Inc.
 Quaker Chemical Corporation
 ICO, Inc.
 Penford Corporation
 Calgon Carbon Corporation
 Omnova Solutions Inc.

Market Data (Other NEO's)

In determining the Fund's other executives' base salary, annual cash and long-term incentives, the CGC Committee considers recommendations prepared by management. The analysis includes market data for similar positions prepared by Hay Group Limited (Hay) and information on prior year annual cash and long-term incentives. For several years, market data for this analysis has referenced representative Canadian publicly traded stand-alone industrial enterprises and the U.S. chemical industry.

The CGC Committee then makes recommendations on all executive payments and grants to the board or independent directors for approval. Typically, this process begins in the fall and concludes with total compensation being approved the following February.

The CGC Committee reviews all programs to ensure we continue to attract and retain the high-performing employees needed to achieve our business objectives, while demonstrating long-term fiscal responsibility to Unitholders. The decisions made by the CGC Committee are the responsibility of that Committee and may reflect factors and considerations other than the information and recommendations provided by the independent consultant.

2008 Annual Incentive Measures

The Board, at the recommendation of the CGC Committee, approves the factor that determines the cash pool available for annual cash incentives after reviewing objective and subjective performance measures. The corporate factor may range from 0 to 200%. The corporate factors used were 110% in 2006, 67% in 2007 and 149% in 2008. The factor is determined by the Board after a thorough review of the Fund's financial results and non-financial criteria, including Responsible Care performance, distributable cash, gross margins, SG&A spending and specific goals related to key strategic initiatives.

2008 Objective Performance Measures (60%)

Measure	Target	Result	Results versus Target
1. Responsible Care (10%)	Better than industry performance metrics	RIR = 1.69	1.69 vs. 1.55 CCPA RIR ¹
2. Distributable Cash (50%)	Exceed target cash distributions by 5%	\$83.2 million	Exceeded budget by 53%

Note:

1. Industry performance based on Canadian Chemical Producers Association RIR for employees and contractors (target not met).

2008 Subjective Performance Measures (40%)

The CGC Committee subjectively considers business metrics commonly used in the chemicals industry. They include, among other things, production volumes, safety and environmental incidents, transportation incidents, and strategic projects (Brandon, North Vancouver Technology Conversion Project, Brazil growth projects). The CGC Committee also assesses costs, including business development, manufacturing and operating, and administrative. The business metrics are assessed against objectives in light of the Fund's external environment and current business circumstances, including key projects and initiatives critical to the Fund's success. The CGC Committee also considers management's assessment of the Fund's performance and progress against the strategic plan. The CGC Committee exercises its discretion in assessing overall performance and may increase or decrease the total cash available for these awards, and may take into consideration additional factors. In 2008, the CGC Committee considered that our financial results were strong and we were successful in achieving certain other business objectives, including the start-up of Brandon Phase 7 Expansion, the approval of the North Vancouver Conversion Project, expansion of the Brazil plant capacity, and product pricing.

The cash pool available for annual incentives is then allocated to employees and executives based on individual target levels and performance. The targets for individual awards rise as job responsibilities increase so that the ratio of at-risk versus fixed compensation is higher for increased level of responsibilities. Individual NEO target levels and their individual and corporate performance weightings, used in the determination of their individual awards, are identified in the following table.

2008 Annual Incentive Targets Percentage of Salary¹ and Performance Weighting

Position	Minimum	Target	Maximum	Actual (\$)	Fund Performance ²	Individual Performance
Gary Kubera	0%	50%	100%	340,438	100%	0%
Rich McLellan	0%	35%	70%	160,000	80%	20%
Brian Bourgeois	0%	35%	70%	157,125	60%	40%
Pericles dos Santos	0%	30%	60%	146,875	60%	40%
Diane Pettie	0%	25%	50%	75,000	80%	20%

Note:

1. Reflects percentage of base salary on December 31, 2008.
2. Fund Performance means how the business has performed overall, not a reference to the unit price.

LONG-TERM INCENTIVES

The TUIP provides key employees with a long-term incentive to continue high performance, demonstrate commitment to the Fund and align their interests with those of Fund Unitholders. As the Fund Unit price rises, grants increase in value. TUIP Options and Bonus Rights are granted to officers and employees whose actions can most directly impact our business results.

In determining the number of Options to grant each year, the CGC Committee considers the program’s dilutive impact on issued Fund Units, and market information on options and other forms of long-term incentives. Market information also determines the extent to which employees at different levels participate in the program. Management and the CGC Committee have considered alternative long-term incentive programs used by our peers, including full-value plans such as restricted share units and performance-based unit options. At this time, the TUIP continues to best meet the Fund’s objectives, considering competitive position, retention value, tax effectiveness for both employees and the Fund, and the Fund Unitholders.

2008 TUI Plan Exercises

Total Exercised	Total Cancelled (Percent)
0	454,700 (13.65%)

TUIP OPTIONS

The Fund adopted the TUIP pursuant to which Options to acquire Fund Units may be granted to the directors, officers and employees of the Corporation and other subsidiaries of the Fund as the directors of the Corporation determine. Under the TUIP, at the time that Options are granted, corresponding Bonus Rights may also be granted to the Option holder. These Bonus Rights may be redeemed on or after the date of exercise of the corresponding Options to receive additional Fund Units. Currently the directors participate in the directors’ DTUCP and do not participate in the TUIP.

The TUIP provides that at all times 5% of the issued and outstanding Fund Units (on a non-diluted basis, but including the Exchangeable Units) at the relevant time are reserved and available for issuance upon the exercise of Options and redemptions of Bonus Rights. The 5% maximum is an “evergreen” provision: the number of Fund Units equivalent to the number of Options (and Bonus Rights) that had been exercised, terminated, cancelled or expired would be automatically re-reserved for issuance under the TUIP and available for future issuances.

The maximum number of Fund Units that may be reserved for issuance to any one person or issuable to insiders of the Fund as a whole, upon the exercise of Options and the redemption of Bonus Rights under the TUIP, together with any other securities based compensation arrangement (currently only the directors’ DTUCP) shall in each case not exceed 5% of the issued and outstanding Fund Units (on a non-diluted basis, but including the number of issued and outstanding Exchangeable Units).

The exercise price of the Options at the time of grant must be no less than the weighted average trading price of the Fund Units on the TSX on the five trading days immediately preceding the date on which the Options were granted.

Under the TUIP, the directors have the power to determine

when an Option or a Bonus Right will expire and the time or times when Options and corresponding Bonus Rights will vest and become exercisable or redeemable. The TUIP states that the period during which an Option is exercisable and the corresponding Bonus Right may be redeemed shall end no more than five years from the date of grant of the Option. Although not prescribed in the TUIP, the directors provide for gradual vesting periods for each grant of Options and Bonus Rights, with 34% of the Options and Bonus Rights vesting on the date that is one year after the date of grant, 33% vesting on the second anniversary of the date of grant and the final 33% vesting on the third anniversary of the date of grant.

An Option and a Bonus Right are personal to the grantee and are non-transferable and non-assignable. The TUIP does not provide for or contemplate the provision of financial assistance to facilitate the exercise of Options and the issuance of Fund Units. If the employment or appointment of a holder of Options ceases, then the Options and Bonus Rights terminate and may not be exercised or redeemed after the earliest of the expiry date or the date that is:

- (a) 18 months after termination of active employment with the Fund or any of its direct or indirect subsidiaries by reason of death, permanent disability or retirement from active employment;
- (b) the date of termination for just cause;
- (c) 90 days after termination for reasons other than (a) or (b) above.

The TUIP also includes special provisions that apply to Option holders who are subject to certain deferred compensation tax laws in the United States in order to avoid adverse and punitive consequences under U.S. tax laws, which were amended by the Board effective January 1, 2009 to comply with Internal Revenue Code section 409A. These provisions impose extra conditions on the redemption of Bonus Units and substantially limit the periods when Bonus Rights may be redeemed. The TUIP provides that these special provisions can be amended by the Board in its sole discretion without the approval of Securityholders or individual Option holders.

The TUIP (and any proposed future amendments to the TUIP) is subject to such future approvals of the Securityholders and applicable stock exchanges as may be required by the terms of the TUIP or such stock exchanges from time to time. As required by the TSX, as a result of implementing an “evergreen” 5% maximum number of Fund Units reserved for issuance under the TUIP, approval of all unallocated Options and Bonus Rights under the Incentive Plan must be sought by the Fund every three years from the Board and the Securityholders.

EXECUTIVE COMPENSATION

NAMED EXECUTIVE OFFICERS

There are no direct officers of the Fund. Instead, the Fund is managed by the Corporation and the Corporation's directors and officers. Our named executive officers (executives or NEO's) are the CEO, CFO and the next three highest paid officers for the year ended December 31, 2008. See the Summary Compensation Table on page 42 for details.

Gary L. Kubera

President and Chief Executive Officer

Houston, Texas, USA

Gary Kubera was appointed President of Nexen Chemicals in March 2005. He joined Nexen Chemicals in 2002, first as the Director of Sales and subsequently as the Vice President, Marketing and Business Development. Prior to his employment with Nexen Chemicals, he worked in sales, marketing, business development and regional and global general management for a number of chemicals-related enterprises, including as Vice President for Global Core Business of SC Johnson's Polymer division from 2000 to 2001 and a variety of positions with McWhorter Technologies Inc. He also serves as a director on the Chlorine Chemistry Division of the American Chemistry Council and is the current Chairman of the Alliance for Environmental Technology.

Gary graduated from Ithaca College with a Bachelor of Arts in Chemistry in 1982 and from the University of Chicago with a Masters of Business Administration, majoring in Finance, in 1988.

Richard T. McLellan

Senior Vice President, Finance and Chief Financial Officer

Calgary, Alberta, Canada

Prior to joining Nexen Chemicals in April, 2005, Rich McLellan held several senior positions within Nexen including Controller within Nexen's International Division, Vice President of Finance in Yemen, and most recently Vice President of Business Development for the International Division. Prior to 1996, he was a partner with Arthur Andersen & Co.

Rich graduated from the University of Saskatchewan with a Bachelor of Commerce in 1981 and is a Chartered Accountant.

Brian P. Bourgeois

Vice President, Sales and Marketing

Houston, Texas, USA

Brian Bourgeois joined Nexen Chemicals in 2004 and was appointed Vice President Sales and Marketing of the Fund in September 2005, shortly after the Fund's Initial Public Offering. Prior to joining Nexen Chemicals, he worked for PPG Industries, Chemicals Division as Director of Sales & Marketing Chlor-alkali, as well as for Iron Age Corporation as Vice President National Accounts.

Brian graduated from Tulane University with a Bachelor of Science degree in Chemical Engineering in 1975.

Pércles dos Santos

Managing Director, South America

Sao Paulo, Brazil

Pércles dos Santos joined Nexen Chemicals in 2002 as Managing Director, Nexen Quimica do Brasil Ltda. and in August 2005 was appointed Managing Director, South America, of Canexus Limited. He is responsible for leading our Brazilian sodium chlorate and chlor-alkali businesses. Prior to joining Nexen Chemicals, he worked for 20 years for Monsanto Company in various assignments including Director of Competitive Strategy and Director of Manufacturing Operations. He serves as Canexus' representative on the Brazilian Association of Chlor-alkali producers.

Pércles graduated from Mackenzie University in Sao Paulo, Brazil with a Bachelor of Science, Chemical Engineer in 1980 and completed the Executive Development Program at the Kellogg Graduate School of Management, Northwestern University, Illinois in 1995.

Diane J. Pettie

**Vice President, General Counsel and
Corporate Secretary**

Calgary, Alberta, Canada

Diane Pettie joined Canexus as Vice President, General Counsel and Corporate Secretary on January 9, 2006. She is responsible for leading the legal and corporate secretarial areas of Canexus. Prior to joining Canexus, Ms. Pettie held several senior legal positions with energy trading companies, including Sempra Energy Trading Corp., Mirant Canada Energy Marketing, Ltd., Pan-Alberta Gas Ltd. and TransCanada PipeLines and practised with the law firm now known as Borden Ladner Gervais LLP.

Diane graduated from University of Alberta in Edmonton, Alberta with a Bachelor of Laws in 1977 and was called to the Alberta Bar in 1978.

GENERAL INFORMATION

Other Officers of the Corporation

Karen D. W. Bost	Vice President, Corporate Services
Angelo (Andy) Lacara, Jr.	Vice President, Manufacturing
Kevin A. Meaney	Vice President, Technology and Engineering

Compensation Exchange Rate

Unless otherwise noted, the exchange rate used to convert US dollars to Canadian dollars is the 2008 average rate of \$1.0475. The exchange rate used to convert Brazilian Reis to Canadian dollars is the 2008 average rate of \$0.5875. Unless otherwise noted, all figures are in Canadian dollars.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the total compensation paid to the President and Chief Executive Officer, the Senior Vice President, Finance and Chief Financial Officer, and the other NEOs, for the year ended December 31, 2008. All dollar amounts in the table are expressed in Canadian dollars.

Name and Principal Position	Year	Salary ¹ (\$)	Unit-Based Awards (\$)	Option-Based Awards ² (\$)	Non-Equity Incentive Plan Compensation		Pension Value ^{3,4,5} (\$)	All Other Compensation ⁶ (\$)	Total Compensation (\$)
					Annual Incentive Plans ¹ (\$)	Long-Term Incentive Plans (\$)			
GARY L. KUBERA President and CEO	2008	412,561	N/A	84,387	340,438	N/A	80,226	37,067	954,679
RICHARD T. MCLELLAN Sr. VP, Finance and CFO	2008	255,269	N/A	55,035	160,000	N/A	44,000	32,057	546,361
BRIAN P. BOURGEOIS VP, Sales and Marketing	2008	199,086	N/A	33,021	157,125	N/A	35,165	19,441	443,838
PÉRICLES DOS SANTOS Managing Director, SA	2008	366,982	N/A	7,338	146,875	N/A	34,777	50,863	606,835
DIANE J. PETTIE VP, General Counsel and Corporate Secretary	2008	201,538	N/A	25,683	75,000	N/A	40,000	30,052	372,273

Notes:

1. The Canexus Annual Incentive Plan payment is based on performance in the reporting year and paid in the following year.
2. The grant date fair value of the Option-based awards reflects the number of Fund Units in the grant multiplied by the Black Scholes factor at such date (October 22, 2008). This value was used as Black Scholes is the most common methodology, and differs from the amount determined in accordance with Section 3870 of the CICA Handbook and reflected as unit compensation expense in our financial statements. For discussion of the assumptions and methodologies used to calculate the amounts above, please see page 44.
3. Mrs. Pettie and Mr. McLellan participate in the Canadian defined benefit pension plan.
4. Mr. Kubera and Mr. Bourgeois participate in US qualified and non-qualified retirement plans.
5. Mr. dos Santos participates in a Brazilian defined contribution pension plan.
6. More detailed information regarding All Other Compensation - Perquisites is found in 'All Other Compensation - Perquisites' Table below.

ALL OTHER COMPENSATION

The total value of perquisites provided to any executive is noted below. In certain cases, the value achieved at least 10% of the executive's total annual salary plus bonus in 2008, or exceeded \$50,000 (in the case of the Brazilian-based NEO).

All Other Compensation - Perquisites

Name	Salary \$	Car Allowance & or Expenses \$	Savings Plan \$	Post Retirement Benefits \$	Other Perquisites \$	Total All Other Compensation \$
Kubera	412,562	15,084	0	5,866	16,126	37,067
McLellan	255,269	19,200	11,757	0	1,100	32,057
Bourgeois	199,086	13,575	0	5,866	0	19,441
dos Santos	366,982	34,966	0	0	15,897	50,863
Pettie	201,538	19,200	10,852	0	0	30,052

Notes:

1. Mrs. Pettie and Mr. McLellan participate in an employee savings plan available to all Canadian employees.
2. Post retirement benefits for specific U.S. employees, including Mr. Kubera and Mr. Bourgeois, were instituted at the Nexen divestiture.

Changes in Compensation Arrangements in 2008

The compensation paid to executives in 2008 is consistent with our philosophy and objectives of targeting fixed compensation at or near the 50th percentile as detailed on page 35. Variable compensation links business results and the executives' performance, consistent with our pay-for-performance philosophy. The increase in the executives' annual cash incentives in 2008 reflects the board's assessment of our relative level of success on certain business objectives.

Changes to U.S. employment agreements, U.S. pension plans and the U.S. retiree health supplement program in 2008 for Canexus' U.S.-based executives were made to comply with changes to Internal Revenue Code section 409A.

Changes in Pension Obligations

The Pension Value Tables on pages 48 - 49 show the year-to-year change in pension obligations. The value reflects the employer service cost, plus any changes in obligations resulting from compensation increases over actuarial assumptions. Actual compensation changes may vary from the assumed rate of compensation increase and will vary for each executive from year to year. These values differ from the pension value reported on page 42, which discloses estimated values of annual pension benefits earned to date, as well as at age 60 (the earliest unreduced retirement age).

PRESIDENT AND CEO COMPENSATION AND 2008 GOALS

Competitive compensation information for our President and CEO is determined based on the independent compensation consulting firm, Hugessen, and assessments of the Canadian and U.S. peer comparator groups referred to on page 37, which compare similar positions in chemicals and industrial companies. Target base salary plus incentive bonus is competitive within the 50th percentile range of the peer reference comparator group. CEO compensation is approved by the independent directors of the Board after reviewing and discussing the recommendation from the CGC Committee of the Board. In arriving at its recommendations, the CGC Committee reviews the Hugessen assessment, the performance of the Corporation and the CEO and the data from the Canadian and U.S. peer reference comparator groups. In February 2009, the CGC Committee accepted a voluntary recommendation from the President & CEO, Gary Kubera, that any 2009 salary adjustment be deferred to a later review based on the performance of the Fund. Based on the Board's assessment of Mr. Kubera's achievement of objectives, and their positive assessment of his contribution to continued Unitholder value growth and strategic plan execution in 2008, he was awarded an annual cash incentive of \$340,438, which is his target bonus times 168.8%. Specifically, Mr. Kubera's 2008 goals were to:

- maintain better than industry performance, to lead and implement a Responsible Care® revitalization plan and complete world class benchmarking in respect of Responsible Care®;
- exceed distributable cash target (based on plan assumptions) by 5%;
- achieve key milestones for the Technology Conversion Project at North Vancouver;
- Complete Brandon Phase 7 startup, and debottlenecking analysis;
- Acquire additional customer contracts served from the Beauharnois facility and implement upgrades to that facility; and
- Complete assessment of growth and expansion opportunities in South America, including resource evaluation and review with the Board.

OTHER NEO COMPENSATION

The CEO's compensation determination process is described on page 43. For other NEO's, competitive information is determined based on the annual evaluation using Hay job evaluation methodology and Hay's subsequent assessment of market competitiveness based on similar positions among the established reference group. Target total cash compensation (base salary plus incentive bonus) is competitive at a target of the 50th percentile range of the relevant Hay comparators. The other NEO's compensation is reviewed and approved by the Board of directors after reviewing and discussing the recommendation from the CGC Committee. In arriving at its recommendations, the CGC Committee reviews the recommendations of the President and CEO, the performance of the NEO relative to the corporate performance factor and the individual performance factor described on page 38, and the Hay comparator data.

In February 2009, the CGC Committee accepted a voluntary recommendation from Management that any 2009 salary adjustment for the NEO's (and senior management) be deferred to a later review based on the performance of the Fund.

The annual cash incentive awards for the year 2008 which were approved by the Board in February 2009, based on the Fund's results for the 2008 and the individual contribution of each of the NEOs were as set out in the following table:

Incentive Plan Awards – Value Vested or Earned During the Year

Name	Option-Based Awards – Value Vested During the Year ¹	Share-Based Awards – Value During the Year on Vesting	Non-Equity Incentive Plan Compensation – Value Earned During the Year
	(\$)	(\$)	(\$)
Kubera	0	N/A	340,438
McLellan	0	N/A	160,000
Bourgeois ²	0	N/A	157,125
dos Santos	0	N/A	146,875
Pettie	0	N/A	75,000

Notes:

1. Represent the value of the Options outstanding which actually vested during the year 2008, calculated using Black Scholes formula.
2. The annual cash incentive awarded to Mr. Bourgeois is in excess of the maximum target percentage identified on page 38 in recognition of his outstanding achievements in 2008.

TRUST UNIT INCENTIVE TABLES

To value TUIP grants, Canexus uses the Black-Scholes pricing model, which is a generally accepted method for measuring this type of long-term incentive. The actual value realized on exercises may be higher or lower depending on the Canexus unit price at the time of exercise.

TUIP Granted in 2008

Name	Grant Date	TUIP Granted (#)	Exercise Price ¹ (\$)	Expiry Date	TUIP Value ²
Kubera	October 22, 2008	115,000	3.12	October 21, 2013	84,387
McLellan	October 22, 2008	75,000	3.12	October 21, 2013	55,035
Bourgeois	October 22, 2008	45,000	3.12	October 21, 2013	33,021
dos Santos	October 22, 2008	10,000	3.12	October 21, 2013	7,338
Pettie	October 22, 2008	35,000	3.12	October 21, 2013	25,683

Notes:

1. Reflects the average of five trading days preceding grant date.
2. Reflects the estimated fair value of the TUIPs as at October 22, 2008 using the Black Scholes pricing model.

Outstanding Units-Based Awards and Option-Based Awards

Name	Option-Based Awards			Unit-Based Awards		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$) ¹	Option Expiration Date	Value of Unexercised In-The-Money Options (\$)	Number of Shares or Units that have not Vested (#)	Market Payout Value of Unit Awards that have not Vested (\$)
Kubera	140,000	10.00	Aug 17, 2010	0	0	0
	110,000	7.82	Oct 23, 2011	0	36,300	30,129
	130,000	4.89	Oct 31, 2012	0	85,800	49,335
	115,000	3.12	Oct 21, 2013	0	115,000	84,387
McLellan	53,000	10.00	Aug 17, 2010	0	0	0
	70,000	7.82	Oct 23, 2011	0	23,100	19,173
	85,000	4.89	Oct 31, 2012	0	56,100	11,574
	75,000	3.12	Oct 21, 2013	0	75,000	55,035
Bourgeois	25,000	10.00	Aug 17, 2010	0	0	0
	30,000	7.82	Oct 23, 2011	0	9,900	8,217
	50,000	4.89	Oct 31, 2012	0	33,000	18,975
	45,000	3.12	Oct 21, 2013	0	45,000	33,021
dos Santos	25,000	10.00	Aug 17, 2010	0	0	0
	20,000	7.82	Oct 23, 2011	0	6,600	5,478
	20,000	4.89	Oct 31, 2012	0	13,200	7,590
	10,000	3.12	Oct 21, 2013	0	10,000	7,338
Pettie	20,000	8.84	Jan 8, 2011	0	6,600	6,468
	25,000	7.82	Oct 23, 2011	0	8,250	6,848
	35,000	4.89	Oct 31, 2012	0	23,100	13,283
	35,000	3.12	Oct 21, 2013	0	35,000	25,683

Note:

- Each Option awarded above also has an attached Bonus Right. 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 Fund Unit underlying an Option from the date of grant of the Option, effectively reducing the exercise price associated with total outstanding Options and Bonus Rights.

EQUITY OWNERSHIP AND CHANGES IN 2008

According to our unit ownership guidelines, within five years of appointment, Mr. Kubera is required to hold two times his annual salary, and the other executives, one times their annual salary, based on the acquisition cost of the Fund Units.

	December 31, 2007	December 31, 2008	Net Changes	Acquisition Cost ¹	Multiple of Salary ²
Name	Units	Units	Units	(\$)	
Kubera	60,000	130,000	70,000	812,510	1.97
McLellan	30,037	30,406	369	284,858	1.12
Bourgeois	12,700	17,700	5,000	143,489	0.72
dos Santos	0	10,000	10,000	30,402	0.08
Pettie	15,493	26,307	10,814	147,616	0.73

Notes:

1. Acquisition Cost is the market value paid for the units at the time the executive acquired them.
2. Reflects the acquisition cost, divided by the executive's 2008 base salary amount shown on page 42.

BENEFIT AND PENSION PLANS

Canexus' benefit and pension plans support the health and well-being of our employees, and encourage employee retirement savings. The plans are reviewed periodically to ensure they remain competitive and continue to meet our objectives. Market survey data is reviewed to ensure the plans provide benefits which are geared to the 50th percentile of plans within our peer group of companies. Executives participate in the same plans provided to all employees at the same location.

Disclosure in this document is specific to the plans in the locations in which the executives participate.

Health and Welfare Benefits

Our benefit plans are designed to assist employees and their dependents in matters related to health and well-being and provide a measure of financial security relative to certain life events (disability, death or retirement).

Employee Savings Plan

In the employee savings plan, all eligible Canadian employees may contribute, through payroll deduction, a percentage of their base salary to purchase Canexus units, mutual fund securities or a combination of both. Canexus matches employee contributions up to 6% of base salary, depending on the investment option and how long the employee has participated in the plan. Canexus contributions are invested in Canexus units purchased on the open market and vest immediately. All contributions may be allocated to registered or non-registered accounts. Employees may vote the Canexus units they hold in their employee savings plan.

The employee savings plan in the US is intended to qualify under Section 401(k) and 501(a) of the Internal Revenue Code. Canexus' matching contribution, of up to 6% of eligible compensation, is provided in cash, which vests immediately.

Defined Benefit Pension Plan (Canada)

Prior to September 1, 2006 for non-union employees and prior to September 1, 2007 for unionized employees, Canadian employees of Canexus were entitled to elect, upon hire, to participate in either the defined contribution pension plan or the defined benefit plan, both of which are registered under the Income Tax Act and the local provincial authority. Effective January 1, 2008, the defined benefit plan is closed to all new employees. All new hires must participate in the defined contribution plan. The two Canadian NEO's participated in the defined benefit pension plan in 2008. The defined benefit plan features:

- participant contributions at 3% of their regular gross earnings (up to an annual plan maximum);
- retirement benefits at 1.8% (1.7% for years prior to 2005) of their average earnings for the 36 highest-paid consecutive months during the ten years before retirement, multiplied by the years of credited service;
- integration with Canada Pension Plan (CPP) to provide a maximum offset of one-half of the current CPP benefit, pro-rated for years of credited service over 35;
- benefits on retirement that are generally paid monthly for the life of the retiree, subject to payment elections; and
- an unreduced pension as early as age 60. Members who attain age 55 with ten years of service may retire with a 4% per year reduction for each year the pension commences prior to age 60.

Plan participants may increase their defined benefit accrual formula on a go forward basis, from 1.8% to 2%. Employees who choose this option must contribute an additional 2% of pensionable earnings up to an allowable maximum under the Canadian Income Tax Act. The maximum employee contribution allowed under the defined benefit pension plan in 2008 was \$11,200.

The normal form of benefit paid from these plans is a joint life and survivor benefit with a five-year guarantee. It is payable for the participant's lifetime and provides the spouse with a survivor benefit of 66^{2/3}% of the monthly payment. If the participant dies before receiving 60 monthly payments, the five-year guarantee allows the surviving spouse to receive the balance of the 60 monthly payments first and then the reduced survivor pension of 66^{2/3}%.

Pension payments after December 31, 1992 will be indexed at an amount not greater than 5% and not less than the greater of:

- 75% of the increase in the Canadian Consumer Price Index, less 1%; and
- 25% of the increase in the Canadian Consumer Price Index.

Executive Benefit Plan (Canada)

The executive benefit plan is available to all Canadian employees, and provides supplemental retirement benefits for participants who have earned a retirement benefit in excess of the statutory limits, which varies by employees' pension elections. This allows employees to accrue a pension that is aligned with their earnings level and is competitive within our market. Under this plan, benefits upon termination or retirement are payable as a lump sum cash distribution which is increased by 15% to reflect the accelerated treatment of income tax.

Pension Benefit Security

The pension expense for this supplemental plan is accounted for annually. Benefits are paid from the Fund's cash flows and reduce the related pension liability. As liabilities under this plan are not funded outside of the Fund, a level of protection is provided to participants through a letter of credit. The letter of credit is intended to make participants secured creditors for the total value of the Fund's unfunded pension obligation.

Pension Benefit Obligation

At December 31, 2008, as indicated in the notes to our financial statements, the supplemental pension plan's obligation including future salary increases for the executive benefit plan was \$893,000.

The projected benefit obligation is an accounting based on value of the contractual entitlements that will change over time. The method used to determine this estimate

will not be identical to those used by others and, as a result, the estimate may not be directly comparable across companies. The key assumptions used for the projected benefit obligation were:

- a discount rate of 5.25% per year, as at December 31, 2007 and a discount rate of 6.5% per year as at December 31, 2008;
- a long-term compensation rate increase of 4% per year; and
- an assumed rate of inflation of 3% per year.

Mr. McLellan and Mrs. Pettie are members of the Corporation's Defined Benefit Pension Plan and Executive Benefit Plan.

Estimated Pension Benefit (Canada)

Defined Benefit Plans

Name	Number of Years Credited Service ¹	Annual Lifetime Benefits Payable		Accrued Obligations at December 31, 2007 (\$)	2008 Compensatory Change (\$)	2008 Non-compensatory Change (\$)	Accrued Obligation at December 31, 2008 (\$)
		At year end ² (\$)	At age 65 ³ (\$)				
McLellan	12.08	49,629	115,839	574,000	44,000	(73,000)	545,000
Pettie	2.67	9,986	53,362	85,000	40,000	(9,000)	116,000

Notes:

- In respect of post 2004 credited service: Mr. McLellan participated in the 1.8% accrual formula for all years. Mrs. Pettie participated in the 2% accrual formula for all years.
- Accrued pension to December 31, 2008 payable at normal retirement age of 65 based on final average earnings, CPP and Defined Benefit pensionable service as at December 31, 2008. An unreduced pension is payable as early as age 60.
- Amounts payable on retirement at age 65, assumes continued service accrual to age 65 based on current accrual rates and that the final average earnings and estimated CPP, at age 65, remain unchanged from December 31, 2008.

Comments:

- The Accrued Obligation is based on management's best estimate assumptions. The assumptions are consistent with the assumptions used to determine accounting information as at December 31, 2008 for retirement plans disclosed in Canexus' financial statements.
- The compensatory change includes the employer service cost for the year and any adjustments to the accrued obligation as a result of salary other than expected.
- The non-compensatory change reflects all other changes in accrued obligations that are not included in the compensatory changes.

Defined Contribution Plans (U.S.)

All US employees participate in a defined contribution plan which is a qualified retirement plan. Canexus makes a profit sharing contribution equal to 6% of eligible compensation up to the social security wage base and 11.5% of eligible compensation that exceeds the social security taxable wage base to a maximum of \$20,840 for 2008. In addition, a matching contribution equal to 100% of employee contributions, to a maximum of 6% is also available under the plan. The profit sharing contributions vest after 2 years of employment while the matching contributions vest immediately. Investment decisions are made by the employee from a variety of mutual funds. This plan is intended to be an Employee Retirement Income Security Act (ERISA) 404(c) plan. Two NEO's (Messrs. Kubera and Bourgeois) participated in the defined contribution pension plan for US employees in 2008.

Non-Qualified Restoration Plan

Both Messrs Kubera and Bourgeois participate in a non-qualified Restoration Plan. This supplemental plan is available to a designated group of management employees, and is an unfunded arrangement that provides deferred compensation benefits to participants who have earned a retirement benefit in excess of the statutory limits. The returns in this plan reflect the returns on the investments selected by the employees. The plan complies with Section 409A of the Internal Revenue Code.

Under the terms of the plan, a maximum of 50% of the base salary and 100% of annual cash incentives may be deferred. Elections for distributions of benefits are entered into upon the date of plan participation. Any changes to such elections must be in compliance with Section 409A of the Internal Revenue Code. Participants invest their plan assets from among an available suite of investment funds and are able to re-allocate at any time. During 2008, there were no distributions of assets.

The following table represents the value of accumulated pension assets, along with employer contributions, within the respective qualified and non-qualified plans. Under these plans, there are no market or preferential earnings provisions.

Estimated Pension Benefit (U.S)

Name	Accumulated value at start of year (\$)	Compensatory (\$)	Non-compensatory (\$)	Accumulated value at year end (\$)
Kubera	\$475,392	\$80,226	\$2,151	\$557,769
Bourgeois	\$344,611	\$35,165	(1,326)	\$378,449

Note:

- The exchange rate used to convert US dollars to Canadian dollars at the beginning of the year is the December 31, 2007 rate of \$0.9881. The exchange rate used to convert US dollars to Canadian dollars during the year is the 2008 average rate for the year of \$1.0475. The exchange rate used to convert US dollars to Canadian dollars at the end of the year is the December 31, 2008 rate of \$1.2246.

Defined Contribution Plans (Brazil)

All Brazil employees may participate in a private pension plan linked to the Aracruz Social Security Foundation (ARUS), which is regulated by a federal institution, if they meet the earnings threshold for participation of \$1,270 (R\$2,163) per month. Mr. Dos Santos participates in the ARUS pension plan.

Canexus makes a matching contribution of 4.66% in the basic plan. In addition, employees may make further voluntary contributions regardless of earnings. Under the basic plan partial vesting occurs after five years of contribution with full vesting achieved upon ten years of contribution. Vesting is immediate under the voluntary plan.

The amount of the retirement benefit depends exclusively on the funds accumulated. Investment decisions are not made by the employee.

The following table represents the value of accumulated pension assets, along with employer contributions, within the Brazilian pension plan. The plan provides a basic core contribution along with a voluntary supplemental component. Mr. dos Santos participates in the basic and voluntary plans (under the voluntary plan, Mr. dos Santos contributes 6% pay with a 100% match by the Corporation).

Estimated Pension Benefit (Brazil)

Name	Accumulated value at start of year (\$)	Compensatory (\$)	Non-compensatory (\$)	Accumulated value at year end (\$)
Dos Santos	421,768	34,777	488	456,993

Note:

- The exchange rate used to convert Brazilian Reals to Canadian dollars at the beginning of the year is the December 31, 2007 rate of \$0.5578. The exchange rate used to convert Brazilian Reals to Canadian dollars during the year is the 2008 average rate for the year of \$0.5578. The exchange rate used to convert Brazilian Reals to Canadian dollars at the end of the year is the December 31, 2008 rate of \$0.5240.

EMPLOYMENT AGREEMENTS AND TERMINATION ARRANGEMENTS

The Corporation has entered into employment agreements with Mr. Kubera, the President and Chief Executive Officer, Mr. McLellan, Sr. Vice President, Finance and Chief Financial Officer, Mr. Bourgeois, Vice President Sales and Marketing, Mr. dos Santos, Managing Director, South America, and Mrs. Pettie, Vice President General Counsel and Corporate Secretary.

None of the employment agreements provide incremental benefits in regard to resignation or retirement. If the Corporation terminates an employment agreement at any time other than for cause, it will become obligated to pay to the affected executive a payment equal to: base salary, bonus at target, car allowance, employer benefit and pension contributions, employer savings plan contributions, they would have enjoyed during the severance period, and in addition, an executive outplacement counselling allowance.

The severance periods for the NEOs under the employment agreements are:

NEO	Severance Period (months)
Kubera	24
McLellan	18
Bourgeois	12
dos Santos	6
Pettie	12

Change of Control Agreements

Canexus has entered into change of control agreements with Messrs. Kubera and McLellan. The agreements were effective August 18, 2005 and Mr. Kubera's was amended December 31, 2008 to ensure compliance with Internal Revenue Code section 409A. We recognize that these executives are critical to ongoing business. Therefore, it is vital we work to retain the executives, protect them from employment interruption caused by change of control and treat them in a fair and equitable manner. Each year, the CGC Committee reviews the estimated payment upon a change of control including the termination value of pension benefits due under the Defined Benefit Pension Plan and Executive Benefit Plan.

Under these agreements, a change of control includes the occurrence of (a) the purchase or acquisition of any Fund Units or Exchangeable Units by a Securityholder which results in such Securityholder (alone or with others) owning more than 50% of the votes attached to all outstanding Fund Units and Exchangeable Units, (b) the liquidation, dissolution or winding up of the Fund, (c) the sale, lease or other disposition of all or substantially all of the assets of the Fund, (d) amalgamation, arrangement or merger of the Fund with another corporation resulting in a change in the majority of the Board, or (e) a meeting of the Securityholders resulting in a change on the majority of the Board. The agreements for each of Mr. Kubera and Mr. McLellan also provide for the payment of the salary benefits and bonus payments, and executive outplacement, if the executive terminates his employment with the Corporation within 180 days following a change of control of the Fund for "good reason" as defined in the agreements, including a consequential re-assignment or reduction in salary of the executive, inconsistent duties, reduced salary, relocation, changes in the incentive plans of the Fund, or discontinuance of employee benefits or perquisites. The exchange by Nexen of Exchangeable Units into Fund Units or the conversion by the Fund from an income trust to a different corporate structure will not constitute a change of control for the purposes of these agreements. Generally, a 'change of control' is any event that results in a person or group exercising effective control of the Fund, and would include divestiture by Nexen of its interest in the Fund.

The following table outlines the estimated incremental payments each of the executives would be entitled to had a change of control occurred on December 31, 2008. Under the agreement, bonuses would be paid at target for the full severance period. A benefit uplift, equal to 25% of base salary, would be provided in lieu of benefits and pension, and an additional 6% of base salary would be provided in lieu of employee savings plan benefit. In addition, the agreement provides a payment for other employee benefits, including car allowance and career transition services.

Estimated Incremental Payment on Change of Control

Name	Severance Period ¹ (# of months)	Base Salary (\$)	Bonus Target Value (\$)	Benefits Uplift (\$)	Other Employee Benefits (\$)	Additional Lump Sum Value of Pension ² (\$)	Accelerated TUIP Option Value ³ (\$)	Total Incremental Obligation (\$)
Kubera	24	942,942	471,471	235,735	104,090	N/A	N/A	1,700,238
McLellan	18	385,500	134,925	96,375	61,930	N/A	N/A	678,730

Notes:

- Includes severance for resignation within 180 days of a change of control and with "good reason".
- The exchange rate used to convert US dollars to Canadian dollars in the table is the December 31, 2008 rate of \$1.2246.
- Calculations are based on actual salaries as of December 31, 2008.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth, as of December 31, 2008, the number of Fund Units (being the only current equity securities of the Fund) which are authorized for issuance pursuant to equity compensation plans. The only compensation plans of the Fund under which Fund Units are authorized for issuance are the TUIP, as described above under “TUIP Options”, and the directors’ DTUCP, described on page 25 under “DTUs”. Both of these plans are deemed to have been approved by the Fund’s Unitholders as they were described in detail in the Fund’s initial public offering prospectus dated August 10, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding Options, warrants and rights ¹	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by securityholders	3,676,225	\$5.85	784,193
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	3,676,225	\$5.85	784,193

Note:

1. Represents the weighted-average exercise price for Options only as there is no exercise price payable in respect of the DTUs and there is no exercise price payable in respect of the Fund Units issuable upon redemption of Bonus Rights.



The contents and sending of this circular have been approved by the Board.

(signed) “Diane J. Pettie”
Vice President, General Counsel and Corporate Secretary

SCHEDULE "A": Corporate Governance Disclosure

**NATIONAL INSTRUMENT 58-101
CORPORATE GOVERNANCE DISCLOSURE**

GOVERNANCE DISCLOSURE REQUIREMENT**1. Board of Directors****(a) Disclose the identity of directors who are independent.**

The six Board members who are independent pursuant to our Categorical Standards for Director Independence are identified in their respective biographies on pages 17 - 21.

(b) Disclose the identity of directors who are not independent, and describe the basis for that determination.

The four Board members who are not independent pursuant to our Categorical Standards for Director Independence and the basis for that determination are set out on page 22. Our Categorical Standards for Director Independence, attached as Schedule "C", specifically require analysis of the nature and significance of relationships between the directors and Canexus in order to determine independence.

(c) Disclose whether or not a majority of the directors are independent.

Six of the eight nominees proposed by Management for election to the Board are independent under our Categorical Standards for Director Independence and the remaining two directors consist of the President and Chief Executive Officer and an individual who is also a director of Nexen. The Board is comprised of ten directors; two of the directors are appointed by Nexen pursuant to the Governance Agreement.

(d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the other director and the other issuer.

All directorships with other public entities for each of the Board members are set out in the biographies on pages 17 - 21.

(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held during the preceding 12 months. If the independent directors do not hold such meetings, describe what the Board does to facilitate open and candid discussion among its independent directors.

The independent directors of the Board and the Board Committees meet without Management at every regularly scheduled meeting. Board Committees meet with external consultants and internal personnel, without Management, when they see fit. From January 1, 2008 to December 31, 2008, the number of meetings held without Management is five and details are set out in the table on page 23.

All independent directors have an opportunity, through membership on one or more of the fully-independent Board Committees (Audit; and Corporate Governance and Compensation) to participate in discussions without Management and the non-independent directors.

(f) Disclose whether or not the chair of the Board is an independent director, disclose the identity of the independent chair, and describe his or her role and responsibilities. If the Board does not have a chair that is independent, describe what the Board does to provide leadership for its independent directors.

Mr. Flanagan, the Board Chair, is not independent under our Categorical Standards for Director Independence because he is a director of Nexen. If all other factors remain the same, Mr. Flanagan would become independent once Nexen no longer has controlling interest in the Fund. His responsibilities are set out in the Board Chair Position Description, which is available on our website. The description specifically addresses governance, corporate social responsibility, leadership, Board and Unitholder meetings, Board and management relationships, director recruitment, retention, evaluation, orientation and education. Meetings of the independent directors are chaired by Mr. Lyall Work, Chair of the CGC Committee.

- (g) **Disclose the attendance record of each director for all Board meetings held since the beginning of the issuer's most recently completed financial year.**

The attendance of each director for all Board meetings held in 2008 is reported in a table on page 23.

2. Board Mandate

Disclose the text of the Board's written mandate.

The Board Mandate is included in Schedule "D".

3. Position Descriptions

- (a) **Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee.**

The Position Descriptions for the Board Chair and each individual Committee Chair are available on our website. The descriptions specifically address Board and committee governance; corporate social responsibility; leadership; ethics; Board, committee, and Unitholder meetings; Board, committee, and management relationships, committee reporting; director recruitment and retention; evaluations; orientation and education; and advisors and resources.

- (b) **Disclose whether or not the Board and CEO have developed a written position description for the CEO.**

The CEO Position Description is available on our website. The description addresses leadership, community, corporate social responsibility, ethics and integrity, governance, disclosure, strategic planning, business management, risk management, organizational effectiveness, succession and CEO performance.

4. Orientation and Continuing Education

- (a) **Briefly describe what measures the Board takes to orient new members regarding**

- (i) **the role of the Board, its committees and its directors,**

The Corporation has established an orientation program for new directors, which includes: information on the role of the Board and each of its Committees; company and industry information; and, the contribution individual directors are expected to make. As part of its mandate, the Corporate Governance and Compensation Committee is responsible for developing and implementing the orientation for all Board members.

- (ii) **the nature and operation of the issuer's business.**

The orientation includes specific information on operations, the strategic plan, risk and risk management, governance, integrity and corporate values, and at least one plant site visit.

- (b) **Briefly describe what measures, if any, the Board takes to provide continuing education for its directors.**

As part of its mandate, the Corporate Governance and Compensation Committee is responsible for developing and implementing the ongoing education program for all Board members. Presentations are made to the Board at all regularly scheduled meetings to educate and keep them informed of changes within Canexus and in regulatory and industry requirements and standards. Specific information is provided and discussed on risks, commodity pricing, supply and demand and the current business and commercial environment.

Trips to various operating sites are also arranged for directors as part of continuing education.

The Corporate Governance and Compensation Committee reviews information on available educational opportunities and ensures directors are aware of those opportunities. The Corporation pays for director education and for membership in the Institute of Corporate Directors.

5. Ethical Business Conduct

- (a) **Disclose whether or not the Board has adopted a written code for its directors, officers and employees. If the Board has adopted a written code:**
- (i) **disclose how a person or company may obtain a copy of the written code;**
 - (ii) **describe how the Board monitors compliance with its code; and**
 - (iii) **provide a cross-reference to any material change reports(s) filed within the preceding 12 months that pertains to any conduct of a director or executive officer that constitutes a departure from the code.**

Our Ethics Policy, adopted by the Board, is described on page 6 of this Circular and a copy is available on our website or by request to the Corporate Secretary as set out on page 6.

The Board, through the Audit Committee, receives reports on compliance with the Ethics Policy.

From January 1, 2008 to December 31, 2008 the Board did not grant any waiver of the Ethics Policy in favor of a director or executive officer. Accordingly, no material change report has been required or filed within the preceding 12 months.

- (b) **Describe any steps the Board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.**

Individual directors indicate a material interest in any transaction that the Corporation is considering. The Board ensures that directors who have a material interest in a transaction or agreement do not participate in discussion and voting on the matter at Board meetings.

- (c) **Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.**

The Board encourages and promotes a culture of ethical business conduct and the Board Mandate addresses corporate responsibility, ethics and integrity.

The Audit Committee Mandate also speaks to ethics, and the Ethics Policy and its compliance programs. The Committee receives a compliance report at every regularly scheduled meeting setting out issues under the Ethics Policy reported through the Integrity Helpline or other means.

6. Nomination of Directors

(a) Describe the process by which the Board identifies new candidates for Board nomination.

The Corporate Governance and Compensation Committee has the responsibility for the identification of new candidates for recommendation to the Board.

The Corporate Governance and Compensation Committee has established an evaluation process for its directors that evaluates the various skills and areas of expertise determined to be essential to ensure appropriate strategic direction.

(b) Disclose whether or not the Board has a nominating committee composed entirely of independent directors.

The Corporate Governance and Compensation Committee is responsible for the evaluation of the current directors and the nomination of new directors. The Committee is comprised of six directors, all of whom have been affirmatively determined by the Board to be independent pursuant to the Categorical Standards for Director Independence.

(c) If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

The Corporate Governance and Compensation Committee Mandate describes the responsibilities, powers and operation of the Committee and is available on our website. The Mandate addresses governance leadership, ethics policy, governance documents and disclosure, Board and committee evaluations, director nominations, Fund Unit ownership policies, director orientation and education, committee meetings and reporting activities to the Board, and advisors and resources. A report on the activities of the Committee begins on page 30.

7. Compensation

(a) Describe the process by which the Board determines the compensation for your company's directors and officers.

The Board has appointed a Corporate Governance and Compensation Committee with responsibility for recommending compensation for the Corporation's directors and officers to the Board. CEO compensation is reviewed by the Committee and recommended to the independent directors of the Board for approval.

(b) Disclose whether or not the Board has a compensation committee composed entirely of independent directors.

The Corporate Governance and Compensation Committee is comprised of six directors, all of whom have been affirmatively determined by the Board to be independent pursuant to the Categorical Standards for Director Independence.

(c) If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.

The Corporate Governance and Compensation Committee Mandate describes the responsibilities, powers, and operation of the Corporate Governance and Compensation Committee and is available on our website. The Mandate addresses compensation and human resources leadership, CEO goals, objectives and performance, director, Board Chair, CEO and overall compensation programs, succession and development, committee meetings and reporting activities to the Board, committee governance, and advisors and resources. A report on the activities of the Corporate Governance and Compensation Committee begins on page 30.

- (d) **If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors or officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.**

The Corporate Governance and Compensation Committee retained Hugessen as its compensation consultant to assist in determining compensation for the CEO.

8. Other Board Committees

If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

There is one additional standing Board Committee, the Responsible Care® and Public Policy (RCPP) Committee, whose Mandate describes the responsibilities, powers and operation of the Committee and is available on our website. The Mandate addresses responsible care and public policy leadership, performance, public policy responsibility, compliance, risk management, committee meetings and reporting activities to the Board, committee governance, and advisors and resources.

9. Board Assessments

Disclose whether or not the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments.

The Corporate Governance and Compensation Committee has developed an effective and comprehensive evaluation process. The process includes an evaluation of the performance and effectiveness of the Board, Board Committees, the Board Chair and Committee Chairs and consists of: individual director self-evaluations; individual director independence; individual director and overall Board skills; and, individual director financial literacy.

SCHEDULE "B": Corporate Governance Policy

Policies & Procedures
Corporate Governance Policy

Policy Number:	C102	Prepared by:	Corporate Secretary Chief Executive Officer;
Approved:	August 9, 2005		
Revised and Approved:	December 8, 2006 October 30, 2007 July 23, 2008	Approved by:	Corporate Governance and Compensation Committee; Board of Directors

Canexus Limited is a wholly-owned subsidiary of Canexus Income Fund and is responsible to administer the Fund and its subsidiaries. As a result, the Executive Officers of the Corporation will be responsible to manage the business and affairs of the Fund and its subsidiaries within the strategic direction approved by the Board of Directors.

1.0 POLICY

The Fund is committed to transparency and responsible corporate governance practices. The Corporate Governance Policy is a framework for the way in which corporate governance is carried out within the Fund. We believe that these practices benefit all of our stakeholders and must be maintained as an essential part of our operations. The Fund will review this policy annually to ensure that it provides for a high level of corporate governance.

2.0 DEFINITIONS

Board

The Board of Directors of Canexus Limited.

Audit Committee

The Audit Committee of the Board of Directors of Canexus Limited.

Canexus

Any of the Canexus Income Fund subsidiaries, including Canexus Limited, administrator of Canexus Income Fund.

Fund

Canexus Income Fund.

3.0 THE BOARD

Duties and Responsibilities

The Board is responsible for the stewardship of the Fund and its subsidiaries, providing independent, effective leadership to supervise the management of the business and affairs of the Fund and its subsidiaries and to grow voting interest holder value responsibly and in a sustainable manner.

The Board annually reviews and confirms or updates its Mandate which sets out the duties and responsibilities of the Board. The Board Mandate will be publicly disclosed.

Independence from Management

The Board meets without management at every regularly scheduled meeting.

Overall Independence

The Board meets without management and without non-independent Directors at every regularly scheduled meeting.

Size of Board and Selection Process

As required by the Corporation's constating documents, the Board consists of between one and 17 directors at all times. Subject to the Governance Agreement and the Corporation's articles, Directors (other than those nominated by Nexen Inc. (Nexen) pursuant to the Governance Agreement) are elected by the Fund's voting interest holders each year at the annual meeting (AGM). The Board may from time to time appoint additional directors between AGMs, who will serve until the next AGM.

All candidates for election or appointment to the Board, other than those Directors nominated or appointed by Nexen under the Governance Agreement, will initially be reviewed and recommended by the Corporate Governance and Compensation Committee (CGC Committee).

4.0 DIRECTORS

Duties and Responsibilities

Each individual Director of the Corporation will contribute actively and collectively to the effective governance of the Fund. The Board annually reviews and confirms or updates the Individual Director Mandate which sets out the duties and responsibilities of individual Directors. The Individual Director Mandate will be publicly disclosed.

Independence

The Board annually reviews and confirms or updates the Categorical Standards for Director Independence (Categorical Standards). The Categorical Standards set out the requirements for determining independence of Directors and members of the Audit Committee. The Categorical Standards will be publicly disclosed.

The Board annually, and when circumstances require, reviews and makes a determination on the independence of each Director in light of the Categorical Standards and applicable law. The independence determinations will be disclosed publicly.

Attendance

Directors will strive for attendance at all Board and Board Committee meetings. The Fund will publicly disclose the Director attendance record annually.

Orientation

The Fund has established and maintains an in-depth orientation program for new directors which includes: information on the role of the Board and each of its Committees; company and industry information; and, the contribution individual directors are expected to make. Each new Director receives a binder with up-to-date information on the Fund's corporate and organizational structure, recent filings and financial information, governance documents and important policies and procedures. Each new Director will attend an orientation session detailing the values and strategy of the Fund and reviewing its operations, internal structure and processes. As well, regardless of which Committees a new Director is on or will be appointed to, each new Director will be invited to attend a full set of Committee meetings.

Continuing Education

Presentations are made regularly to the Board and Committees to educate and keep them informed of changes within the Fund and in legal, regulatory and industry requirements and standards. Special presentations on operations and issues of particular business units are provided to all Directors from time to time. Trips to various operating sites are also arranged for Directors. The Corporate Governance and Compensation ("CGC") Committee reviews information on available external educational opportunities and ensures Directors are aware of the opportunities. The Fund pays tuition and expenses for Directors to attend relevant external education sessions. The Fund will pay for membership dues for each of the Directors in an appropriate organization that provides relevant publications and educational opportunities.

Performance Evaluation

Every Director participates in the annual performance evaluation review. The review consists of a questionnaire and an interview process. The responses to the questionnaire, which explores the performance of the Board as a whole and of all Board Committees, are submitted to the Chair of the CGC Committee for analysis. A personal self evaluation of individual directors and their performance and skills is also conducted annually. A report on the performance of the

Board as a whole, and of all Board committees, is provided to the Board Chair who then holds one-on-one interviews with the Directors. The results of the questionnaire and the interviews are presented to the Board Chair and the whole CGC Committee. The CGC Committee then reports to the Board and recommends any changes or further actions to address issues that were identified.

Compensation

The Fund reviews the compensation of Directors, the Board Chair and the Committee Chairs regularly. The CGC Committee makes recommendations to the Board with respect to compensation of Directors, the Board Chair and Committee Chairs. All compensation paid to Directors will be publicly disclosed.

Equity-Based Compensation

Directors who are not Officers of the Corporation are not eligible to receive trust unit options. They do receive alternate equity-based compensation, currently deferred trust unit compensation. All equity-based compensation granted to Directors will be publicly disclosed.

Retirement

The retirement age for Directors is 75, but performance evaluation is also considered annually. Directors who are 75 years of age will not be eligible to stand for election at the next AGM. Directors who turn 75 during their term are eligible to finish out that term.

Term Limit

The Corporation has not set a term limit for its Directors. While term limits ensure fresh viewpoints on the Board, they also cause a company to lose the valuable contributions of those directors who best understand the business of the company and the challenges it faces. As an alternative to strict term limits, annual performance evaluations are conducted and the Corporation has a retirement age policy.

5.0 BOARD COMMITTEES

Independence from Management

Board Committees meet without management at each regularly scheduled meeting.

A Director who is an Officer of the Corporation will not be a member of any Board Committee.

Committees

The Fund is required to have an audit committee, a compensation committee, and a nominating/corporate governance committee. The Corporation has an Audit Committee and a Corporate Governance and Compensation Committee to meet these requirements. The Board has also authorized a Responsible Care and Public Policy Committee. The Board may also authorize other committees, as it feels are appropriate.

The **Audit Committee** assists the Board in overseeing (i) the integrity of annual and quarterly financial statements to be provided to voting interest holders and regulatory bodies; (ii) compliance with accounting and finance based legal and regulatory requirements; (iii) the external auditor's qualifications, independence and compensation, and communicating with the external auditor; (iv) the system of internal accounting and financial reporting controls that Management has established; and, (v) performance of the internal and external audit process and of the external auditor. The Committee will also have the responsibility to assist the Board in fulfilling their financial oversight responsibilities with respect to (i) financial policies and strategies including capital structure; (ii) financial risk management practices; and, (iii) transactions or circumstances which could materially affect the financial profile of the Fund or Canexus Limited Partnership.

The **Corporate Governance and Compensation Committee** assists the Board in overseeing (i) the development and implementation of principles and systems for the management of corporate governance; (ii) identifying qualified candidates and recommending nominees for Director and Board Committee appointments; (iii) evaluations of the Board, Board Committees, the Board Chair and Committee Chairs; (iv) implementation and effectiveness of the Ethics Policy and the compliance programs under the Ethics Policy; (v) key compensation and human resources policies; (vi) CEO objectives, performance reviews and compensation; (vii) executive Management compensation; (viii) executive Management succession and development; and, (ix) reviewing executive compensation disclosure before its release.

The **Responsible Care and Public Policy Committee** assists the Board in overseeing the development and implementation of systems and programs for the management of health, safety, environment and social responsibility.

Mandates

Each current Board Committee has developed a Mandate, setting out its duties and responsibilities, which has been approved by the Board. All Board Committee Mandates are reviewed annually by the CGC Committee and the relevant Board Committee. Any changes to Board Committee Mandates will be approved by the Board. All Board Committee Mandates will be publicly disclosed.

Member Independence

All members of the Audit Committee and the CGC Committee will be independent pursuant to the Corporation's Categorical Standards and applicable law. A majority of the members of the Responsible Care and Public Policy Committee will be independent pursuant to the Corporation's Categorical Standards and applicable law. The Board annually reviews and makes a determination on the independence of each of the members of the Committees in light of the Categorical Standards and applicable law. Independence of all Committee members will publicly disclosed.

Audit Committee Financial Literacy

All members of the Audit Committee will be financially literate as defined under applicable law. The Board annually reviews financial literacy.

Reporting

The Board receives reports from the Board Committees at each regular meeting. The Board Committees also report to other Board Committees from time to time, as required.

6.0 BOARD, BOARD COMMITTEES AND INDIVIDUAL DIRECTORS

Advisors

The Board and all Board Committees will have the authority to engage independent advisors, at the Fund's expense, to assist them in carrying out their responsibilities. Individual Directors may engage independent advisors at the Fund's expense in appropriate circumstances and with the approval of the CGC Committee.

i. CHAIRS

Duties and Responsibilities of the Chairs

The Board has adopted and maintains and annually reviews and updates or confirms the Position Descriptions for the Board Chair and the Committee Chairs which set out the duties and responsibilities of the Chairs. The Positions Descriptions for the Board and Committee Chairs will be publicly disclosed.

Term Guidelines for Chairs

The Board has determined that the Board Chair and Committee Chairs will serve for a term of no more than five years unless, after review by the CGC Committee, it is decided that circumstances exist that make continuity of leadership desirable at the time.

7.0 OFFICERS

Duties and Responsibilities of the Chief Executive Officer (CEO)

The Board has adopted and regularly reviews and updates or confirms the CEO Position Description which sets out the duties and responsibilities of the CEO. The CEO Position Description will be publicly disclosed.

The Board also reviews and approves Annual Objectives for the CEO. The independent Directors, with recommendations from the CGC Committee, annually approve CEO compensation in light of the achievement of the Annual Objectives.

Duties and Responsibilities of Other Officers

The Board has adopted and regularly reviews and updates or confirms Position Descriptions which set out the duties and responsibilities for each of the Chief Financial Officer (CFO) and the Corporate Secretary. The CFO and Corporate Secretary Position Descriptions will be publicly disclosed.

Succession Planning

The CGC Committee reviews and reports to the Board annually on the succession plan for the Corporation's CEO and senior management.

8.0 DIRECTORS AND OFFICERS**Unit Ownership**

The Board regularly reviews its guidelines for unit holdings of Directors and Officers. The guidelines will be publicly disclosed.

Loans

The Corporation will not make any loans to its Directors or Officers.

9.0 ETHICS POLICY

The CGC Committee, the Audit Committee and the Board annually review and update or confirm the Ethics Policy applicable to all directors, officers and employees. The Board, through the CGC Committee, receives regular reports on compliance with the Ethics Policy. The Ethics Policy will be publicly disclosed on SEDAR and the Fund's website. Any waivers of or changes to the Ethics Policy will be approved by the Board and will be appropriately disclosed.

The Ethics Policy contains provisions for the submission of complaints by employees and others with respect to financial reporting, internal accounting and audit matters. The Ethics Policy includes protection from retaliation for employees who submit complaints in good faith.

10.0 DISCLOSURE**Compensation Consultant/Advisor**

If a compensation consultant or advisor has been retained to assist in determining compensation for any of the Directors or Officers, Canexus will disclose: the identity of the consultant or advisor; the mandate for which they were retained; and the nature of any other work the consultant or advisor was retained by Canexus to perform.

Annual Governance Reporting

The Fund will annually publicly disclose its governance practices in compliance with relevant Canadian laws and rules.

Ongoing Governance Disclosure

The Fund will publicly disclose its Corporate Governance Policy; Categorical Standards; Mandates of the Board, Individual Directors and all Board Committees; Position Descriptions for the Board Chair, Committee Chairs, CEO, CFO and Corporate Secretary; its Ethics Policy; and, the External Communications Policy, as referred to in this Corporate Governance Policy.

The Fund will publicly disclose any waivers of any of the provisions of or any changes to any one of its Corporate Governance Policy; Categorical Standards; Mandates of the Board, Individual Directors and all Board Committees; Position Descriptions for the Board Chair, Committee Chairs, CEO, CFO and Corporate Secretary; its Ethics Policy; and, the External Communications Policy, as referred to in this Corporate Governance Policy.

Access to Disclosures

As required by law, certain information is included in the Fund's annual Proxy Circular or its Annual Information Form.

CATEGORICAL STANDARDS FOR DIRECTOR INDEPENDENCE (THE "CATEGORICAL STANDARDS")

General Information

The independence of all directors of Canexus Limited (the "Company") will be reviewed at least annually by the Board in light of the specific requirements set out below and these Categorical Standards are the basis for the independence determinations that will be made public in the Management Information Circular of Canexus Income Fund (the "Fund"), prior to directors standing for election or re-election to the Board. Directors who meet the specific requirements of these Categorical Standards will be considered independent.

Directors who do not meet these standards for independence also make valuable contributions to the Board and to the Company by reason of their knowledge and experience.

These Categorical Standards meet or exceed the requirements set out in the applicable provisions of National Instrument 58-101 — Disclosure of Corporate Governance Practices, National Policy 58-201 — Corporate Governance Guidelines and Multilateral Instrument 52-110 Audit Committees. These Categorical Standards may be amended from time to time by the Board and will be amended when necessary to comply with regulatory requirements. The current Categorical Standards will be disclosed annually.

Definitions

An "Affiliate" of a specified person (which includes a corporate entity or partnership) is a person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the specified person.

"Control" means the power to direct the management and policies of another person or company by virtue of the ownership or direction of voting securities of another person or company or by a written agreement.

"Immediate Family Member" includes an individual's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the individual's home.

"Executive Officer" means a chair, vice chair, president, any vice president in charge of a principal business unit, division or function (such as sales, administration, production or finance) of a business enterprise, and any other officer or person who performs a policy-making function for such a business enterprise. Officers of subsidiaries of a business enterprise will be deemed to be officers of the parent business enterprise if they perform policy-making functions for the parent business enterprise. The term Executive Officer specifically excludes a director, including a chair or vice chair of a board of any corporation, where that person is not otherwise an Executive Officer as defined above.

"Spouse or Child" means an individual's spouse, minor child or stepchild, or child or stepchild who shares the individual's home.

Independence of Directors

- (a) To be considered independent, the Board must affirmatively determine that a director does not have any direct or indirect material relationship with the Fund⁽¹⁾ or Nexen⁽²⁾. A material relationship is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment. In this regard, the Categorical Standards set out in item (b) below have been established to determine when a director of the Company is independent.
- (b) Without limiting paragraph (a), director will not be independent if:

- (i) the director is, or has been within the last three years, an employee or Executive Officer of the Fund or Nexen, or an Immediate Family Member of the director is, or has been within the last three years, an Executive Officer of the Fund or Nexen;
- (ii) the director has received, or an Immediate Family Member of the director who is currently employed as an Executive Officer of the Fund or Nexen has received, during any twelve-month period within the last three years, more than Cdn. \$75,000 in direct compensation from the Fund or Nexen, other than director and committee fees and fixed pension or other forms of fixed compensation under a retirement plan for prior service (provided such compensation is not contingent in any way on continued service);
- (iii) (A) the director or the director's Spouse or Child is a current partner of a firm that is the internal or external auditor of the Fund or Nexen; (B) the director is a current employee of such a firm; (C) the director has a Spouse or Child who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or the director's Spouse or Child was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the audit of the Fund or Nexen within that time; or ⁽³⁾
- (iv) the director or an Immediate Family Member of the director is, or has been within the last three years, employed as an Executive Officer of another entity where any of the present Executive Officers of the Fund or Nexen at the same time serves or served on that entity's compensation committee (or its equivalent).

Loans to Directors

The Company will not make or arrange any personal loans or extensions of credit to directors.

Committee Members

All members of the Audit Committee and the Corporate Governance and Compensation Committee shall be independent pursuant to these Categorical Standards. A majority of the members of the Responsible Care and Public Policy Committee of the Board shall be independent pursuant to these Categorical Standards. Members of the Company's Audit Committee will also be required to meet the additional criteria set out below to be considered independent for the purposes of membership on the Audit Committee.

Audit Committee Members

In addition to satisfying the specific requirements set out above, directors who are members of the Company's Audit Committee will not be considered independent for purposes of membership on the Audit Committee if:

- the Audit Committee member is an Affiliate⁽⁴⁾ of the Fund or any subsidiary of the Fund, apart from his or her capacity as a member of the Board or of any other committee of the Board;
- the Audit Committee member or a Spouse or Child of the Audit Committee member accepts any consulting, advisory or other compensatory fee from the Fund or any subsidiary of the Fund, apart from in his or her capacity as a member of the Board or of any other committee of the Board, or as a part-time chair or vice-chair of the Board or any Board committee, and other fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service (provided such compensation is not contingent in any way on continued service); or
- the Audit Committee member is a partner, member, an officer such as a managing director occupying a comparable position, or an Executive Officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing the services) of a consulting, legal, accounting, investment banking or financial advisory services firm which provides services to the Fund or any subsidiary of the Fund for fees, regardless of whether the Audit Committee member personally provided the services for which the fees are paid.

- (1) In this section, entitled “Independence of Directors”, the term “Fund” includes any parent or subsidiary, including the Company, in a consolidated group with the Fund.
- (2) The provisions in this section, entitled “Independence of Directors” apply to Nexen only so long as Nexen “controls” the Fund.
- (3) A partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including defined compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
- (4) While a facts-based analysis is required to determine whether an Audit Committee member is an Affiliate, a person who is a director, but not an Executive Officer or employee, of a shareholder owning 10% or more of any class of voting securities of the Fund is independent for Audit Committee purposes.

BOARD MANDATE

Canexus Limited (the "Corporation") is a wholly-owned subsidiary of Canexus Income Fund (the "Fund") (collectively, "Canexus") and is responsible to administer the Fund and its subsidiaries. As a result, the Executive Officers of the Corporation are responsible to manage the business and affairs of the Fund and its subsidiaries within the strategic direction approved by the Board of Directors of the Corporation (the "Board").

The Board has the oversight responsibility and specific duties described below. In addition, individual Directors have the responsibility and specific duties set out in the Individual Director Mandate and any other Mandate or Position Description that applies to them.

Composition

The Board will be composed of between one and 17 directors, as determined by the Board and subject to the terms of the Governance Agreement.

A majority of the Corporation's directors will be independent, pursuant to the Categorical Standards, at all times when Nexen Inc. ("Nexen") holds an interest in the Fund, unless, while Nexen holds, directly or indirectly, not less than a 50% interest in the Fund, Nexen exercises its right to appoint additional directors such that a majority of the directors are nominees of Nexen. When Nexen no longer holds an interest in the Fund, at least two-thirds of the directors of the Corporation will be independent, pursuant to the Categorical Standards adopted by the Board and applicable law.

All Board members will have the skills and abilities appropriate to their appointment as directors. It is recognized that the right mix of experiences and competencies will ensure that the Board will carry out its duties and responsibilities in the most effective manner.

Except as set out in the By-Laws and the Governance Agreement, Board members will be elected at the annual meeting of the Fund's voting securityholders each year and will serve until their successors are duly elected.

Responsibility

The Board is responsible for the stewardship of the Fund and the Fund's strategy, providing independent, effective leadership to supervise the management of the Fund's business and affairs to grow voting securityholder value responsibly and in a sustainable manner.

Specific Duties

The Board will:

Leadership

1. Provide leadership and vision to supervise the management of the Fund in the best interests of its voting securityholders.
2. Provide leadership in the development of the mission, vision, principles, values, Strategic Plan and Annual Operating Plan of the Fund, in conjunction with the Chief Executive Officer (the "CEO").

Strategy

3. Approve the development of strategic direction.

4. Adopt a strategic planning process and, at least annually, approve a Strategic Plan for the Fund to maximize voting securityholder value that takes into account, among other things, the opportunities and risks of the Fund's business.
5. Monitor the Fund's performance in light of the approved Strategic Plan.

CEO

6. Select, appoint, evaluate and, if necessary, terminate the CEO.
7. Receive and approve recommendations on appropriate or required CEO competencies and skills from the Corporate Governance and Compensation Committee (CGC Committee).
8. Annually, approve or develop corporate objectives that are consistent with the Ethics Policy that the CEO is responsible for meeting, and annually assess the CEO against the preceding year's corporate objectives.

Succession and Compensation

9. Approve the development of the succession plan for senior management, which includes appointment, development training, if necessary, and performance monitoring.
10. With the advice of the CGC Committee, approve the compensation of senior Management and approve appropriate compensation programs for the Fund's employees.

Corporate Social Responsibility, Ethics and Integrity

11. Provide leadership to the Fund in support of its commitment to corporate responsibility.
12. Foster ethical and responsible decision making by Management.
13. Set the ethical tone for the Fund and its Management.
14. Take all reasonable steps to satisfy itself of the integrity of the CEO and Management and satisfy itself that the CEO and Management create a culture of integrity throughout the organization.
15. At the recommendation of the CGC Committee, approve the Fund's Ethics Policy.
16. Monitor compliance with the Fund's Ethics Policy and grant and disclose, or decline, any waivers of the Ethics Policy for officers and directors.
17. With the CGC Committee and / or the Audit Committee and the Board Chair, respond to potential conflict of interest situations.

Governance

18. With the CGC Committee, develop the Fund's approach to corporate governance, including the Corporate Governance Policy.
19. Once or more annually, as the CGC Committee decides, receive for consideration that Committee's evaluation and any recommended changes, together with the evaluation and any further recommended changes of another Board Committee, if relevant, to each of the following:
 - ii. Corporate Governance Policy;
 - iii. Categorical Standards for Director Independence;
 - iv. Board Mandate;
 - v. Individual Director Mandate;

- vi. Chair of the Board Position Description;
 - vii. Audit Committee Mandate;
 - viii. Audit Committee Chair Position Description;
 - ix. Corporate Governance and Compensation Committee Mandate;
 - x. Corporate Governance and Compensation Committee Chair Position Description;
 - xi. Responsible Care® and Public Policy Committee Mandate;
 - xii. Responsible Care® and Public Policy Committee Chair Position Description;
 - xiii. CEO Position Description;
 - xiv. Chief Financial Officer Position Description;
 - xv. Corporate Secretary Position Description;
 - xvi. External Communications Policy; and
 - xvii. Ethics Policy
20. With the CGC Committee, ensure that the Fund's governance practices and policies are appropriately disclosed.
21. At the recommendation of the CGC Committee, annually determine those individual Directors to be designated as independent under the Categorical Standards and ensure appropriate disclosures are made.
22. At the recommendation of the CGC Committee, annually determine those individual Directors on the Audit Committee possessing "financial literacy" under applicable law and ensure appropriate disclosures are made.

Communications, Disclosure and Compliance

23. Adopt an External Communications Policy for the Fund which addresses disclosure matters.
24. Periodically assess and be satisfied with the adequacy of procedures in place for the review of public disclosure of financial information extracted or derived from the applicable financial statements (other than the annual and quarterly required filings) for the Fund and, as required, Canexus Limited Partnership.
25. Ensure policies and procedures are in place to ensure the Fund's compliance with applicable law, including timely disclosure of relevant corporate information and regulatory reporting.
26. Establish and disclose a process to permit stakeholders to directly contact the independent Directors as a group.

Board Chair

27. Annually appoint the Chair of the Board.

Committees

28. Appoint an Audit Committee composed of at least three members, all of whom are independent directors, with the responsibility to assist the Board in fulfilling its audit oversight responsibilities with respect to (i) the integrity of annual and quarterly financial statements to be provided to voting securityholders and regulatory bodies; (ii) compliance with accounting and finance based legal and regulatory requirements; (iii) the external auditor's qualifications, independence and compensation, and communicating with the external auditor; (iv) the system of internal accounting and financial reporting controls that Management has established; and, (v) performance of the internal and external audit process and of the external auditor. The Committee will also have the responsibility to assist the Board in fulfilling their financial oversight responsibilities with respect to (i) financial policies and strategies including capital structure; (ii) financial risk management practices; and, (iii) transactions or circumstances which could materially affect the financial profile of the Fund or Canexus Limited Partnership.
29. Appoint a Corporate Governance and Compensation Committee composed of all independent directors with the responsibility to assist the Board in fulfilling its governance oversight responsibilities with respect to (i) the

development and implementation of principles and systems for the management of corporate governance; (ii) identifying qualified candidates and recommending nominees for Director and Board Committee appointments; (iii) evaluations of the Board, Board Committees, the Board Chair and Committee Chairs; and, (iv) implementation and effectiveness of the Ethics Policy and the compliance programs under the Ethics Policy. The Committee will also have the responsibility to assist the Board in fulfilling its compensation oversight responsibilities with respect to (i) key compensation and human resources policies; (ii) CEO objectives, performance reviews and compensation; (iii) executive Management compensation; (iv) executive Management succession and development; and, (v) reviewing executive compensation disclosure before its release.

30. In the Board's discretion, appoint a Responsible Care® and Public Policy Committee, composed of a majority of independent directors, with the responsibility to assist the Board in fulfilling its oversight responsibilities with respect to (i) the development and implementation of systems and programs for the management of health, safety, environment and social responsibility; (ii) environmental risk management practices; and (iii) the Fund's activities and commitments to social responsibility.
31. In the Board's discretion, appoint any other Board Committees that the Board decides are needed and delegate to those Board Committees any appropriate powers of the Board.
32. In the Board's discretion, annually appoint the Chair of each Board Committee.

Delegations and Approval Authorities

33. Annually delegate approval authorities to the CEO and review and revise them as appropriate.
34. Consider and, in the Board's discretion, approve financial commitments in excess of delegated approval authorities.
35. Require the Audit Committee to recommend to the Board for consideration the quarterly results, financial statements, MD&A and earnings related news releases prior to filing them with or furnishing them to the applicable securities regulators and prior to any public announcement of financial results for the periods covered.
36. Require the Audit Committee to recommend to the Board for consideration and, in the Board's discretion, approve the monthly distributions for the quarter, subject to the requirements in the resolutions.
37. Require the Audit Committee to annually review the Corporation's pension plans and report to the Board as required.
38. Consider and, in the Board's discretion, approve any matters recommended by the Board Committees.
39. Consider and, in the Board's discretion, approve any matters proposed by Management.

Annual Operating Plan

40. At least annually, approve an Annual Operating Plan for the Fund including business plans, operational requirements, organizational structure, staffing and budgets, which support the Strategic Plan.
41. Monitor the Fund's performance in light of the approved Annual Operating Plan.

Risk Management

42. Ensure policies and procedures are in place to: identify the Fund's principal business risks and opportunities; address what risks are acceptable to the Fund; and, ensure that appropriate systems are in place to manage the risks.
43. Ensure policies and procedures designed to maintain the integrity of the Fund's disclosure controls and procedures are in place.

44. As required by applicable law, ensure policies and procedures designed to maintain the integrity of the Fund's internal controls over financial reporting and management information systems are in place.
45. Ensure policies and procedures designed to maintain appropriate auditing and accounting principles and practices are in place.
46. Ensure policies and procedures designed to maintain appropriate safety, environment and social responsibility principles and practices are in place.

Orientation / Education

47. With the CGC Committee, oversee the development and implementation of the Director orientation program covering the role of the Board and its Committees, the contribution individual Directors are expected to make and the nature and operation of the Fund's business.
48. With the CGC Committee, oversee the development and implementation of the ongoing Director education program designed to maintain and enhance skills and abilities of the Directors and to ensure their knowledge and understanding of the Fund's business remains current.

Board Performance

49. Oversee the process of the CGC Committee's annual evaluation of the performance and effectiveness of the Board, Board Committees, the Board Chair and Committee Chairs, in light of the applicable Mandates and Position Descriptions.
50. Participate in an annual evaluation of Board performance by the CGC Committee.
51. Receive and consider a report and recommendations from the CGC Committee on the results of the annual evaluation of the performance and effectiveness of the Board, Board Committees, the Board Chair and Committee Chairs.

Board Meetings

52. Meet at least four times annually and as many additional times as needed to carry out its duties effectively. The Board may, on occasion and in appropriate circumstances, hold a meeting by telephone conference call.
53. Meet in separate: (i) non-management; and, (ii) independent Director only in camera sessions at each regularly scheduled meeting.
54. Meet in separate, non-management and / or independent Director only closed sessions with any internal personnel or outside advisors, as needed or appropriate.

Advisors / Resources

55. Retain, oversee, compensate and terminate independent advisors to assist the Board in its activities.
56. Receive adequate funding for independent advisors and ordinary administrative expenses that are needed or appropriate for the Board to carry out its duties.

Other

57. In order to honor the spirit and intent of applicable law as it evolves, the authority to make minor technical amendments to this Mandate has been delegated to the Corporate Secretary, who will report any amendments to the CGC Committee at its next meeting.
58. Once or more annually, as the CGC Committee decides, this Mandate will be fully evaluated and updates recommended to the Board for consideration.

GLOSSARY OF TERMS

AGM or Meeting – annual and special meeting of Securityholders

AMEX – American Exchange

AOP – annual operating plan

Audit Committee – the Audit Committee of the Corporation

Auditors – Deloitte & Touche LLP

Beneficial Unitholder – a Unitholder that holds Fund Units in the name of a nominee, that is, the share certificate was deposited with a bank, trust company, securities broker, trustee or other nominee, also called a non-registered Unitholder

Board – the board of directors of the Corporation

Bonus Right – the right, under the TUIP, to receive a notional accumulation on an Option equivalent to monthly cash distribution, exercisable after the Option is exercised

Broadridge – the proxy solicitation company, Broadridge

Canexus LP – Canexus Limited Partnership

Categorical Standards – categorical standards for director independence adopted by the Fund, as set out in Schedule “C” to this Circular

CEO – chief executive officer

CFO – chief financial officer

CGC Committee – Corporate Governance and Compensation Committee of the Corporation

Circular – the management information circular, dated March 4, 2009

Computershare – Computershare Trust Company of Canada

Corporation – Canexus Limited, administrator of Canexus Income Fund and general partner of Canexus Limited Partnership

DTUs – deferred Fund Units

DTUCP – directors’ deferred trust unit compensation plan

Exchangeable Unit – an exchangeable limited partnership unit of Canexus LP which is exchangeable on a 1:1 basis for a Fund Unit, with special voting rights

Final Average Earnings – average base salary for the 36 highest paid consecutive months during the ten years before retirement; plus annual cash incentive payments at the lesser of target bonus or actual bonus paid, averaged over the final three years of participation

Financial statements – the 2008 annual audited financial statements for the Fund and Canexus LP

Fund – Canexus Income Fund

Fund Unit – a trust unit of the Fund

Governance Agreement – The Governance Agreement dated August 18, 2005 among the Fund, Nexen, the Corporation, Canexus Commercial Trust, Canexus LP and Computershare

Hugessen – the independent consultant to the Compensation Committee, Hugessen Consulting Inc.

ICD – Institute of Corporate Directors

MD&A – management’s discussion and analysis

NEO’s – our five named executive officers including the CEO and the CFO

Nexen – Nexen Inc.

Notice – the notice of our Securityholder meeting to be held on Thursday April 23, 2009

NYSE – New York Stock Exchange

Options – Fund Unit Options

Registered Unitholder – a Unitholder that holds Fund Units in his or her own name and has a unit certificate

Responsible Care – a system of safety, health and environmental management adopted by the chemical industry

RCPP Committee – Responsible Care and Public Policy Committee, the Committee responsible to oversee health, safety, environment and corporate responsibility

RIR – Recordable Injury Rate

Securityholder – a Unitholder or a holder of securities that may be exchanged for Fund Units

SEDAR – the System for Electronic Document Analysis and Retrieval maintained by the Canadian Securities Administrators

TSX – Toronto Stock Exchange

TSX-V – TSX Venture Exchange

TUIP – Trust Unit Incentive Plan

Unitholder – a holder of Fund Units in Canexus Income Fund

